

Annual Report 2013

Vision

To be premier microfinance bank providing services to micro enterprises and low-income households across Pakistan.

Mission

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

Values

- ▶ Empower
- ▶ Excel
- ▶ Ethics



Corporate Governance

The Board comprises seven members including leading commercial bankers, fund managers and microfinance experts from across the globe. This autonomous, private-sector board governs Khushhalibank's policies and provides guidance to the management in establishing a robust, customer-centric platform in accordance with the highest international standards.



Management

Success of Khushhalibank is outcome of a committed management team that steers business, provides operational support and maintains an adequate internal control environment. Khushhalibank's team strives to provide access to financial services to the largely un-banked segments of market through the largest microfinance network in Pakistan.



Investing in the Future Generation

Pak Turk Sponsorship

With an aim to empower talented and deserving students in pursuing their academic careers, Khushhalibank continues its assistance. Under this program Khushhalibank supports the students of Pak Turk International Schools & Colleges being run under the auspices of Pak Turk International Cag Educational Foundation – an International Turkish non-government educational organization.

Students with limited means have been provided with scholarship throughout the year 2013. These students kept up with their outstanding academic and social achievement befitting our trust in them.



Supporting Skill Enhancement

The Hunar Foundation Sponsorship

Khushhalibank continues to support the vision of the Hunar Foundation to achieve a skilled Pakistan by sponsoring 5 more students at HAK Technical Institute, Tando Allahyar for the academic year 2014. This training provides them the opportunity to acquire skills in various technical specialties like refrigeration, air conditioning, electrical installation, mechanical fitting, plant maintenance fabrication, welding and plumbing followed by a six-month internship in the local industry. The donation allows THF to expand its programs and services for coming years and helps transform more lives every year.



Women Empowerment

Khushhalibank Idol Award

Khushhalibank Idol Award is bestowed every year to support the initiative of the LADIES FUND to recognize the struggles of those women who manage to elevate their status in society as the Women of Substance.

This year the Award was won by Anita Zafar and Akbari Begum (posthumously) because of their extraordinary valour in administrating polio vaccines to help support their family at the cost of their lives. The families of these two women received the Award.

Such awards are an inspiration for those women whose achievements are yet to be acknowledged. Khushhalibank proudly supports such initiatives which mark the Bank's resolve in giving back to the community.



Creating Opportunities for the Un-Banked

CITI-PPAF Entrepreneurship Awards

The Annual Citi - PPAF Micro Entrepreneurship Awards highlight and acknowledge the performance of the Microfinance sector. It appreciates the work of borrowers who are able to bring a significant change to their lives after receiving microfinance loans. It also serves as a role model for others in their respective communities. The event is attended by a large number of people from the microfinance sector and from all cross sections of society. The 2013 National Runner up and the Regional Runner up awards were won by two of the Khushhalibank's clients, Bache Singh from Mithi, Sindh and Huzoor Bukhsh from Balochistan.

The award winners acknowledged Khushhalibank's financial support and Business counseling through which they are now a role model for entrepreneurs all over Pakistan.



Nurturing Entrepreneurial Talent

Our Clients

Khushhalibank, through its group-lending methodology develops an environment for decision-making, collective management, conflict resolution, gender balanced access to microfinance services and participation in development at the grass root level. Irshad Bibi, a resident of Bahawalpur is one of the 108,603 female clients being served by Khushhalibank. Well known and respected for her pottery work and beautifully painted pitchers in the area, Irshad's work is not only appreciated at the town level but dealers from main Bahawalpur City are buyers of her products. She is a role model for other women who have the potential to use their skills to improve their livelihood and break the circle of poverty.

"Deciding to start a business was easy, but arranging initial financial resources for purchasing equipment and raw material was the real challenge for me", Irshad remembers the plight. Regretted by various relatives for provisioning of loan, she took advice from an elder of her village about any bank providing such facility. It is a daunting task for a woman with no formal education to approach a Bank as loan processes are usually cumbersome. However, she was delighted that Khushhalibank in her area not only accepted her loan request but also provided her up to date entrepreneurship counseling throughout the process of setting up the business.





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Corporate Information

Board of Directors

Rayomond H. Kotwal
Chairman/Director

Ghalib Nishtar
President /Director

Zakir Mehmood
Director

Syed Javed
Director

Lisa Gayle Thomas
Director

Geert Peetermans
Director

Peter Kooi
Director

Board Committees

Audit Committee:

Geert Peetermans	Chair
Rayomond H. Kotwal	Member
Lisa Gayle Thomas	Member
Aamir Shakoor Khan	Secretary

Risk Management Committee

Syed Javed	Chair
Geert Peetermans	Member
Peter Kooi	Member
Lubna Azam Tiwana	Secretary

Human Resource and Compensation Committee

Lisa Gayle Thomas	Chair
Syed Javed	Member
Peter Kooi	Member
Wajid Ali	Secretary

Chief Financial Officer

Saleem Akhtar Bhatti

Company Secretary & Legal Counsel

Sarah Anjum

Share Registrar

Central Depository Company of Pakistan
CDC House, 99-B, Block 'B', S.M.C.H.S.,
Main Shahra-e-Faisal, Karachi - 74400.
Tel: +92 21 111 111 500
Fax: +92 21 343 26031
Internet: www.cdcpakistan.com

Auditors

A. F. Ferguson & Co.
Chartered Accountants
3rd Floor, PIA Building
49 Blue Area, Fazal-ul-Haq Road
Islamabad
Tel: +92 51 227 3457-60
Fax: +92 51 227 7924
E-mail: ferguson@nayatel.pk

Legal Advisors

Samdani & Qureshi
32-A, Street 38
Main Nazimuddin Road
Sector F-10/4 Islamabad.
Tel: +92 51 211 1595-8
Fax: +92 51 210 8011
E-mail: fqureshi@samdaniqureshi.com

Tax Advisors

Ernst & Young Ford Rhodes Sidat Hyder & Co.
Chartered Accounts
Eagle Plaza, 75-West
Fazlul Haq Road
Blue Area, Islamabad
Tel: +92 51 287 0290-92
Fax: +92 51 287 0293
Internet: www.ey.com/pk

Head Office

94 West, Fourth Floor,
Jinnah Avenue, Blue Area,
PO Box 3111
Islamabad - Pakistan.
Tel: +92 51 111 092 092
Fax: +92 51 920 6080
Internet: www.khushhalibank.com.pk

President's Report 2013

Overview

Pakistan's microfinance landscape continues to evolve with greater diversity amongst the players in the market, innovation in terms of products, services and delivery channels, partnership marketing and a beginning of market segmentation and sector level sustainability.

From 2008 onward the sector grew steadily until recently when a new investors segment representing cellular network operators entered the market for branchless banking and alternative delivery channels. This combined with entry of some new players and acquisition of existing players set the pace for a more competitive environment.

New initiatives at the sector level witnessed the national roll out of the Micro Finance-Credit Information Bureau which captures the information for both bank & non-bank Microfinance Institutions and initiatives for financial literacy, consumer protection and transparency within the sector.

The growth in terms of outreach in 2013 was positive, led by aggregation of retail deposits and the year under review carries on with the same trends set last year with the value of savings increasing 38% in 2013 and number of savers going up 24% for the sector. Combined credit outreach of the sector increased to 2.83 million active borrowers while gross loan portfolio rose by about 36% to PKR 52 billion from PKR 38.2 billion in 2012.

The year under review reinforced KBL as the leading MFB in Pakistan with a dominant market share. KBL's performance in servicing a wide and diverse customer base across the country and financial performance is not just an evidence of KBL's premiership but a clear sign of the growing microfinance sector in Pakistan.

The regulatory environment continues to be supportive providing a greater space to the Microfinance Bank's to transcend into the microenterprise segment of the market which despite being a public policy priority has been neglected by the financial sector at large. While this brings new challenges, there are opportunities as well and Khushhalibank as part of its transformation strategy is well positioned backed by better understanding of market dynamics, experienced management, profitability trend and positive liquidity & leverage.

Performance Review: 2013

Khushhalibank achieved a profit after tax of Rs 363 million, which is 116% higher than last year of Rs 168 million. The increase in profit results from growth in balance sheet, improved non fund income and recovery of previously recognized bad debts.

Administrative expenses amount to PKR 1.5 billion which is

15% higher than last year. This increase was largely contributed by over 20% increase in employee's related costs as a consequence of a more competitive environment leading to market alignments and over 100% increase in bank charges owing to introduction of alternative delivery channels for KB's loan recovery and deposits. However, savings were visible in IT operations as well as deferral of ATM related costs, optimization of transport fleet resulting in lower vehicle running and maintenance costs, curtailment of printing, stationery and advertisement expenses due to vigilant monitoring.

Khushhalibank's balance sheet grew by 33% over December 2012 to PKR 13.2 and asset portfolio by 53% to PKR 8.9 billion in 2013 over PKR 5.8 billion in 2012. In pursuit of portfolio diversification, the new secured product launched in 2012 continued to grow in 2013 and secured portfolio stands at 24% (2012: 12%) as a percentage of total loan portfolio. Portfolio quality indicators show improvement vis-à-vis prior year as portfolio at risk exceeding 30 days stands at 0.8% (2012: 1.4%) of the total loan portfolio and net write-off was 0.9% (2012: 1.1%) at the year-end 2013. The growth in asset portfolio was primarily funded through retail deposits which increased to Rs 7.1 billion at the year-end 2013 as against Rs 4.0 billion in 2012.

Credit Rating

During the year, JCR-VIS Credit Rating Company Limited reaffirmed the entity rating of KBL at "A/A-1" (Single A/A-One) while the outlook has been revised to "Positive" from "stable" in the previous year.

Future Outlook

Khushhalibank seeks to leverage its strengths that include a strong geographic presence and the depth of outreach, extensive experience and insight into the bottom of the pyramid markets by transitioning to a commercially oriented Micro, Small & Medium Enterprise Bank.

While the bank continues to promote and build upon its core activities, key change initiatives which have been prioritized to drive the transformation program include the introduction of a new large loan product, expanding deposit base with a better product mix, the introduction of alternative delivery channels and process reengineering for greater productivity and efficiency.

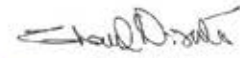
Khushhalibank has moved from strength to strength in the last decade and has established a deep rooted relationship and bond with its customers. The increased franchise value in the niche market is expected to help Khushhalibank expand its business initiatives for growth and profitability to the institution and

President's Report 2013

prosperity to the client.

With optimism and hope for what lies ahead, I would like to thank our valued customers for their continued support and trust and on behalf of the management and the board assure our continuous efforts to provide better services and value to our customers.

I would like to acknowledge and appreciate the effort of a committed management team and thank the members of the Board for their stewardship and valuable contributions over the year.



Ghalib Nishtar
President

Highlights - 2013

		2013	2012	Change
Investments	PKR M	1,039	1,044	-0.5%
Gross Advances	PKR M	8,859	5,806	52.6%
NPLs	%	0.8%	1.1%	-28.5%
NPLs Coverage	%	147.2%	138.8%	6.0%
Advances - Net	PKR M	8,757	5,717	53.2%
Operating fixed assets	PKR M	275	313	-12.1%
Total Assets	PKR M	13,290	9,954	33.5%
Deposits	PKR M	7,133	4,041	76.5%
Borrowings	PKR M	2,746	3,010	-8.8%
Equity	PKR M	2,752	2,473	11.3%
Net Mark-up/interest income	PKR M	1,663	1,146	45.1%
Provision against NPLs	PKR M	169	285	-40.7%
Total non mark-up/ non interest income	PKR M	584	585	-0.2%
Total non-mark-up/ non interest expense	PKR M	1,540	1,327	16.1%
Profit Before Taxation	PKR M	538	120	348.3%
Profit After Taxation	PKR M	363	168	116.1%

Five years at a glance: 2009 - 2013

Indicator		2013	2012	2011	2010	2009
Outreach						
Active Clients	Number	674,061	458,612	352,692	325,523	329,421
Active Borrowers	Number	409,010	364,138	352,962	325,523	329,421
Gross Advances	PKR M	8,859	5,806	4,274	3,722	3,360
Deposits	PKR M	7,133	4,041	1,677	1,000	190
Financial Performance						
Total Revenue	PKR M	2,677	1,926	1,542	1,471	1,318
Operating Profit/(Loss)	PKR M	350	(39)	(46)	70	(19)
Net Profit After Tax	PKR M	538	168	152	174	246
Return On Assets (ROA) *	%	1.8%	-0.5%	-0.8%	0.8%	-0.4%
Return on Equity (ROE) **	%	8.0%	-2.0%	-2.7%	2.6%	-1.3%
Operational Self Sufficiency (OSS)	%	114.8%	97.9%	97.1%	105.0%	98.6%
Financial Self Sufficiency (FSS)	%	107.8%	79.7%	68.8%	79.4%	70.8%
Productivity						
Borrowers per Staff	Number	178	154	163	150	165
Saver per Staff	Number	294	194	163	95	37
Personnel Allocation Ratio	%	30.9%	29.8%	31.8%	35.3%	32.3%
Risk						
Portfolio at Risk > 30	%	0.8%	1.1%	4.40%	3.90%	1.40%
Portfolio at Risk > 90	%	0.3%	0.4%	2.50%	0.90%	0.70%

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

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

President's Report 2013

Review of Five Years Performance

In this section, key performance areas are briefly commented upon.

Outreach

Khushhalibank's main focus continues to remain on increasing access and outreach for the financial inclusion of the un-served populace of the country. The bank has increased its network to 110 branches (2012: 106), comprehensively covering the geographic spread of the country. The bank has grown its active borrower base by 24% over the past five year, servicing 409,010 active borrowers at the year-end 2013 (2012: 364,138). Supporting the drive of financial inclusion the bank increased its active depositor base from 205,962 depositors in 2009 to 674,061 active depositors in 2013.

Total Assets

The bank increased its asset footing from Rs 6.6 billion in 2009 to Rs 13.3 billion as of December 31, 2013. On a cumulative basis, the bank's asset base grew by 102% over the past five years. The main contributor to the growth remain KB's strong loan portfolio standing at Rs 8.9 billion as of December 31, 2013 against Rs 3.6 billion as of December 31, 2009.

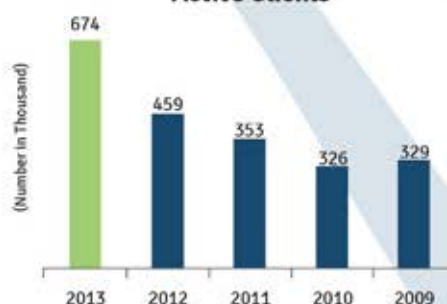
Advances

The core business line of KB grew from strength to strength in the last five years. From a loan portfolio base of Rs 3.6 billion in 2009, it grew to Rs 8.9 billion by December 31, 2013. KB's prime group lending product grew by 30% YoY to Rs 6.7 billion. Secured lending product representing 24% of the bank's GLP, grew by over 200% in the year 2013, giving the well-deserved boost to the total portfolio base. Along with the traditional products the bank introduced value chain financing and other products to attain a diversified product mix and strategically shifting the focus from purely micro/ group lending activities to a more financial inclusion based business, serving both rural/urban markets and group/individual customers alike.

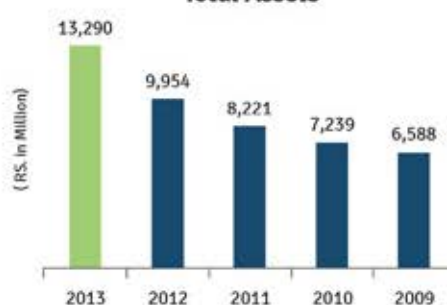
Deposit

After launching first saving product in 2008, the bank gradually increased its deposit base to Rs 7.1 billion in 2013 from Rs 190 million in 2009. KB's variety of products supported by its large network of full service branches was able to accelerate the liability drive started in 2008. The customer base today includes individuals, corporate bodies, funds and various financial institutions.

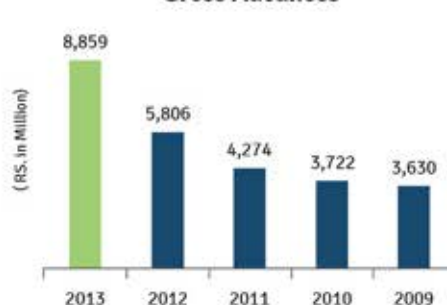
Active Clients



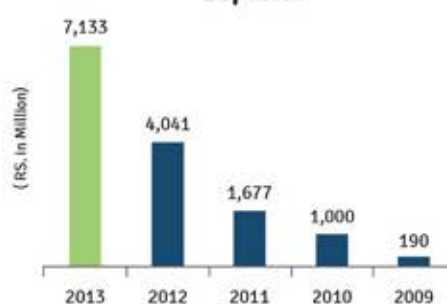
Total Assets



Gross Advances

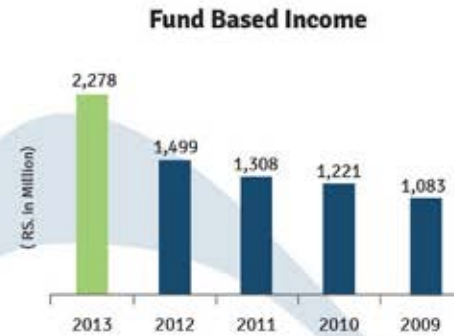


Deposits



Fund Based Income

Markup from loan portfolio remains the major fund based income stream of the bank. Introduction of new products, revision in base line rates and steady growth in the portfolio resulted in reciprocal growth in markup income. From Rs 1 billion markup revenue in 2009 the bank earned Rs 2.3 billion in markup revenue.



Non-Markup Income

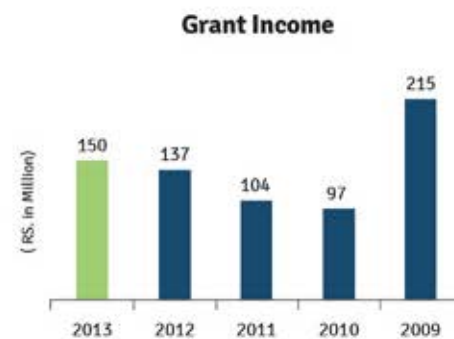
Fee & Commission

Comprising of microcredit loan procession fee, commission and other charges on account servicing, this income stream is a vital part of KB's revenue pool. Loan processing fee represents 97% of the Fee & Commission income followed by other banking services which represent 3% of the aggregate amount.



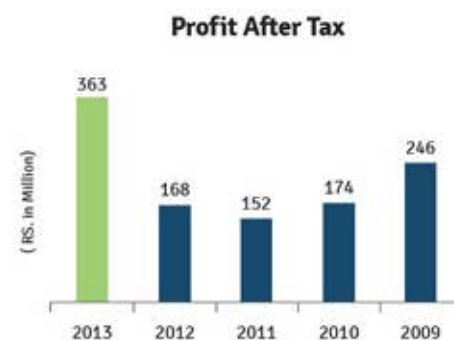
Grant & Subsidies

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



Profit After Tax

The bank has been producing steady profit over the years. Profitability trends were largely affected by the strategy shift to a self-sustained business, pursued by the bank after closure of the Asian Development Bank Program. The decline in grants and subsidies was countered by increased portfolio and services, with efficient and economic use of resources. The result of this synchronization is KB's profit of Rs 363 million for the year 2013 a 48% increase over the past five year.



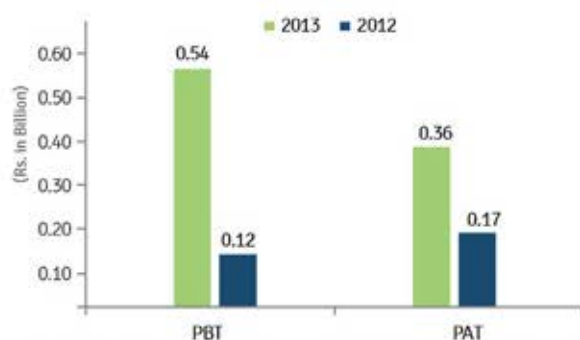
Directors' Report to the Shareholders: 2013

On behalf of the Board of Directors, I am pleased to present the Annual Report of Khushhali Bank Limited (KBL or the Bank) for the year ended December 31, 2013.

Financial Highlights

Khushhali bank continues to lead the microfinance sector with a market share (active borrowers) of 19%. Khushhali bank achieved a profit after tax of Rs 363 million which is more than double of last year's profit of Rs 168 million. The return on average assets increased from 1.8% in 2012 to 3.1% in 2013 and return on equity improved from 7.0% to 13.9%.

Khushhali bank's pre-tax profit of Rs 538 million increased over four-fold from last year's profit of Rs 120 million. The increase in profit was a result of growth in balance sheet, improved non-fund income and lower provisions.



Resulting from improved product pricing, the bank's yield on earning assets improved by 2.4% over 2012; whereas cost of funds also increased by 1.2%, owing to the increase in minimum PLS savings rate and a higher proposition of term deposit as the Bank moved towards developing a stable deposit base. Consequently, the net interest margin in 2013 was up by 1.2% over 2012. Enhanced spread along with the balance sheet growth helped improve net interest income to Rs 1.7 billion, an increase of 45% over 2012.

Non-interest income comprising of fee and commission income increased from Rs 246 million in 2012 to Rs 325 million in 2013, an increase of 32% due to growth in the loan portfolio. Other income reduced by 24% to Rs 259 million as bad debts recoveries declined by Rs 107 million against 2012.

Provision against advances reduced to Rs 169 million in 2013 from Rs 285 million in 2012. Last year's provision included Rs 85 million on account of rescheduled portfolio affected by the rains in the province of Sindh in 2010.

Cost Management

Administrative expenses increased by Rs 0.2 billion to Rs 1.5 billion in 2013, an increase of 15% YOY. The main contributor to the increase in administrative expenses is employee related costs, which increased by Rs 141 million due to rationalization

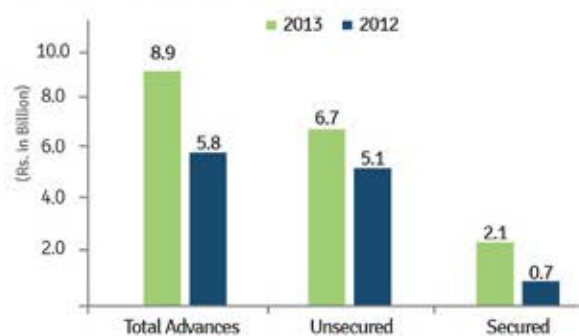
of employee pay scales and benefits, annual performance review and sales staff incentives directly attributable to higher business acquisition. Beside this, overheads increase of Rs 59 million were mainly impacted by increased energy costs, 4 new branches, provision of enhanced security for branches and the impact of IT infrastructure upgrade.

Balance Sheet

Khushhali bank grew its balance sheet by 33% YOY. Total assets increased to Rs 13.3 billion in 2013 against Rs 10.0 billion in 2012.



The Loan portfolio grew by 52% to Rs 8.9 billion in 2013 from Rs 5.8 billion in 2012. The Bank continues expansion of its secured portfolio to diversify the loan book and better risk management of the loan portfolio. Consequently, the secured loan portfolio of Rs 2.1 billion represents 24% of Khushhali bank gross loan portfolio as against 12% last year. Also, Khushhali bank continued to provide its core group lending product to the rural and urban markets by adopting a two tiered strategy whereby loan size average was increased in the performing branches and group lending was temporarily suspended in branches which were affected by last year's floods.



The growth of loan portfolio was primarily funded through retail deposits which swelled to Rs 7.1 billion at the end of 2013 over Rs 4.0 billion in 2012. In addition, the Bank also shed its borrowings

and repaid Rs 100 million to Soneri Bank Limited and contractual obligation of Rs 363 million to Asian Development Bank (ADB).



Capital Adequacy Ratio

As of December 31, 2013 the Bank's capital adequacy ratio (CAR) is measured at 29% against 34% last year. The Bank's CAR was well ahead of the mandatory requirement of 15% as per the Prudential Regulations (PR) for Microfinance Banks.

Statement of Corporate Governance

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

1. The financial statements prepared by the management of the Bank present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

The results of operations under review are presented below;

	2013 Rupees	2012 Rupees
Profit After Tax	363,198,006	167,941,158
Re-measurement loss employment benefit obligation	(13,221,104)	-
Un-appropriated profit brought forward	525,770,167	404,476,730
Transfer from reserve for contingencies	8,385,353	20,000,000
Tax impact on surplus on revaluation of assets	-	528,743
Profit available for appropriation	884,132,422	592,946,631
Appropriations		
Transfer to:		
Statutory reserve	72,639,601	33,588,232
Microfinance Social Development Fund	36,319,801	16,794,116
Depositors' Protection Fund	18,159,900	8,397,058
Risk Mitigation Fund	18,159,900	8,397,058
	145,279,202	67,176,464
Un-appropriated Profit Carried Forward	738,853,220	525,770,167

Credit Rating

During the year, JCR-VIS Credit Rating Company re-affirmed Khushhalibank's entity rating for medium to long term as "A" and short term as "A-1" with Positive outlook.

4. The Bank has followed international accounting standards, as applicable to Banks in Pakistan, in the preparation of the accounts without any departure there-from.
5. The system of internal control in the Bank is sound in design, and is effectively implemented and monitored.
6. There are no significant doubts about the Bank's ability to continue as a going concern.
7. The Board has appointed the following three Committees with defined Terms of Reference:
 - Board Audit Committee - BAC
 - Board Human Resources & Compensation Committee - BHRCC
 - Board Risk Management Committee - BRMC

Meetings of the Board Committees

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

Name of Director	Designation and Name of Committee	BAC	BHRCC	BRMC
Mr. Raymond Kotwal	Director/Member BAC	4	-	-
Mr. Syed Javed	Director/Member BHRCC & Chair BRMC	-	4	4
Ms. Lisa Thomas	Director/Member BAC & Chair BHRCC	4	4	-
Mr. Geert Peetermans	Director/Chair BAC & Member BRMC	4	-	4
Mr. Erik Peter Geurts*	Director/Member BRMC & BHRCC	-	1	1
Mr. Peter Kooi**	Director/Member BRMC & BHRCC	-	2	2
Mr. Ghalib Nishtar	President and CEO	-	4	4

* Mr Erik Peter Geurts resigned as a Director with effect from March 15, 2013

** Mr Peter kool was appointed as a Director with effect from July 12, 2013

Meetings of the Board

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

Name of Existing Director	Designation	Meeting attended	Eligibility
Mr. Rayomond Kotwal	Chairman	4	4
Mr. Syed Javed	Director	4	4
Ms. Lisa Thomas	Director	4	4
Mr. Geert Peetermans	Director	4	4
Mr. Erik Peter Geurts	Director	1	1
Mr. Peter Kooi	Director	2	2
Mr Zakir Mahmood	Director	0	4
Mr. Ghalib Nishtar	President and CEO	4	4

Change in Directors

Mr Erik Peter Geurts resigned from the Board with effect from March 15, 2013. To fill the casual vacancy arising from the resignation of Mr Erik Peter Geurts the Board has appointed Mr Peter Kooi as Director on March 15, 2013 subject to the approval of SBP which was received on July 12, 2013.

The Board would like to place on record its appreciation to Mr Erik Peter Geurts for his contribution and services.

CGAP Compliant Reporting

The Consultative Group to Assist the Poor (CGAP), a consortium of international public and private development agencies housed at the World Bank, has issued two guidelines to enhance transparent reporting for microfinance institutions i.e. Disclosure Guidelines for Financial Reporting and Definitions of Selected Financial Terms, Ratios and Adjustments.

The Bank in its financial statements as on December 31, 2013 has complied with the above stated guidelines. The CGAP disclosures and ratios are presented in addition to the requirements of SBP BSD circular 11 dated December 30, 2003.

Pattern of Shareholding

The Pattern of shareholding of the Bank as at December 31, 2013 as required under section 236 of the Companies Ordinance 1984 is as follows;

No of Shareholders	From	To	Total Shares Held
2	1	5,000,000	5,500,000
2	5,000,001	20,000,000	30,165,033
3	20,000,001	35,000,000	84,206,439
1	35,000,001	65,000,000	50,628,528
8			170,500,000

Categories of Shareholders

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

Shareholders holding above 10% of voting shares are

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


Auditors

The present auditors of the Bank A.F.Ferguson and Co, Chartered Accountants retire and in pursuance of the Microfinance Institutions Ordinance 2001 become ineligible for re-appointment having completed a term of five years.

The Board of Directors, on the recommendations of the Board Audit Committee recommends BDO Ebrahim & Co Chartered Accountants as auditors of the bank for the next year in place of A.F.Ferguson and Co, Chartered Accountants.

Appreciation and Acknowledgement

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



Rayomond H. Kotwal

Chairman

February 21, 2014

Auditors' Report To The Members



We have audited the annexed balance sheet of Khushhali Bank Limited (the Bank) as at December 31, 2013 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a. In our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance 1984,
- b. In our opinion:
 - i) The balance sheet, profit and loss account and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the requirements of Microfinance Institution Ordinance, 2001 and Companies Ordinance, 1984 and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied except for changes as state in the note 5.9 with which we concur;
 - ii) The expenditure incurred during the year was the purposed of the Bank's business, and
 - iii) The business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank.

- c. In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Microfinance Institutions Ordinance, 2001 and Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2013 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and
- d. In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance 1980 (xviii of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Chartered Accountants
Islamabad: February 21, 2014
Engagement Partner : S. Haider Abbas

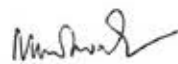
Balance Sheet as at December 31, 2013

	Note	2013 Rupees	2012 Rupees
ASSETS			
Cash and balances with SBP and NBP	6	617,891,684	482,695,280
Balances with other Banks/ NBFIs/ MFBs	7	311,548,449	792,784,243
Lending to financial institutions	8	942,371,214	590,014,893
Investments	9	1,038,900,528	1,043,516,062
Advances - net of provisions	10	8,756,895,434	5,717,031,631
Operating fixed assets	11	275,183,756	312,592,222
Other assets	12	1,247,439,984	888,289,322
Deferred tax asset	13	99,425,493	126,692,458
Total Assets		13,289,656,542	9,953,616,111
LIABILITIES			
Deposits	14	7,132,919,239	4,040,646,992
Borrowings	15	2,746,106,352	3,009,835,832
Other liabilities	16	651,752,959	414,105,182
Total Liabilities		10,530,778,550	7,464,588,006
NET ASSETS		2,758,877,992	2,489,028,105
REPRESENTED BY:			
Share capital	17	1,705,000,000	1,705,000,000
Statutory reserve	5.11	281,144,239	208,504,638
Capital reserve	5.12	24,255,224	24,255,224
Reserve for contingencies	18	-	8,385,353
Unappropriated profit		738,853,220	525,770,167
		2,749,252,683	2,471,915,382
Surplus on revaluation of investments	19	3,235,008	1,161,785
Deferred grants	20	6,390,301	15,950,938
Total Capital		2,758,877,992	2,489,028,105
MEMORANDUM / OFF BALANCE SHEET ITEMS	21		

The annexed notes from 1 to 42 form an integral part of these financial statements.



PRESIDENT



CHAIRMAN



DIRECTOR

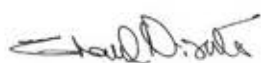


DIRECTOR


Profit and Loss Account for the year ended December 31, 2013

	Note	2013 Rupees	2012 Rupees
Mark-up/ return/ interest earned	22	2,278,272,669	1,499,355,808
Mark-up/ return/ interest expensed	23	615,348,050	353,449,395
Net mark-up/ interest income		1,662,924,619	1,145,906,413
Provision against non-performing advances	10.4	169,122,689	284,731,315
Net mark-up/ interest income after provisions		1,493,801,930	861,175,098
NON MARK-UP/ NON INTEREST INCOME			
Fee, commission and brokerage income	24	325,012,217	245,820,437
Other income	25	258,881,703	339,503,588
Total non mark-up/ non interest income		583,893,920	585,324,025
NON MARK-UP/ NON INTEREST EXPENSES			
Administrative expenses	26	1,522,833,781	1,320,129,789
Other provisions	12	5,596,560	2,680,709
Other charges	27	11,313,441	3,903,042
Total non-mark-up/ non interest expense		1,539,743,782	1,326,713,540
PROFIT BEFORE TAXATION		537,952,068	119,785,583
TAXATION			
Current		141,717,168	8,637,649
Deferred		33,036,894	(56,793,224)
	28	174,754,062	(48,155,575)
PROFIT AFTER TAXATION		363,198,006	167,941,158
Unappropriated profit brought forward		525,770,167	404,476,730
Profit available for appropriation		888,968,173	572,417,888
APPROPRIATIONS:			
Transfer to:			
Statutory reserve	5.11	72,639,601	33,588,232
Microfinance Social Development Fund	5.14	36,319,801	16,794,116
Depositors' Protection Fund	5.14	18,159,900	8,397,058
Risk Mitigation Fund	5.14	18,159,900	8,397,058
		145,279,202	67,176,464
UNAPPROPRIATED PROFIT		743,688,971	505,241,424
EARNINGS PER SHARE - BASIC AND DILUTED		1.70	0.79

The annexed notes from 1 to 42 form an integral part of these financial statements.



PRESIDENT



CHAIRMAN



DIRECTOR



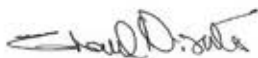
DIRECTOR

Statement of Comprehensive Income for the year ended December 31, 2013

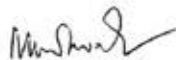
	2013 Rupees	2012 Rupees
Profit for the year	363,198,006	167,941,158
Other comprehensive income - net of tax		
Items that will not be reclassified to profit and loss		
Remeasurement loss on post employment benefit obligation	(20,031,976)	-
Tax credit relating to remeasurement loss on post employment benefit obligation	6,810,872	-
	(13,221,104)	-
Items that may be subsequently reclassified to profit and loss	-	-
Total comprehensive income for the year	349,976,902	167,941,158

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

The annexed notes from 1 to 42 form an integral part of these financial statements



PRESIDENT



CHAIRMAN



DIRECTOR



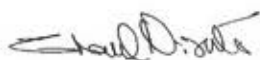
DIRECTOR

Cash Flow Statement for the Year Ended December 31, 2013

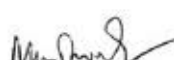
Note	2013 Rupees	2012 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	537,952,068	119,785,583
Adjustments for:		
Depreciation and amortization	101,883,405	77,505,934
Amortization of deferred grant	(9,560,637)	(11,284,535)
Provision against non-performing advances	169,122,689	284,731,315
Gain on disposal of operating fixed assets	(28,264,086)	(10,386,821)
Write-off of operating fixed assets	-	541,963
Markup on advances	(2,138,787,593)	(1,289,974,152)
Interest on investments and deposit accounts	(139,485,076)	(209,381,656)
Indirect cost charged to USAID	(7,235,212)	(10,772,063)
Interest expense on borrowings and deposits	615,348,050	353,449,395
Provision against other assets	5,596,560	2,680,709
Charge for defined benefit plan	46,759,090	28,343,261
	<u>(1,384,622,810)</u>	<u>(784,546,650)</u>
	(846,670,742)	(664,761,067)
(Increase)/ decrease in operating assets		
Advances	(3,208,986,492)	(1,834,649,491)
Other assets	17,103,014	(143,443,532)
Increase/ (decrease) in operating liabilities		
Deposits	3,092,272,247	2,363,636,504
Other liabilities	8,930,927	46,955,438
	<u>(90,680,304)</u>	<u>432,498,919</u>
Cash flow from operations	(937,351,046)	(232,262,148)
Markup received on advances	1,738,879,770	1,181,737,467
Interest received on investments and deposit accounts	144,363,894	220,428,061
Indirect cost received from USAID	13,683,163	5,558,291
Interest paid on borrowings and deposits	(607,162,077)	(235,218,741)
Contributions to defined benefit plan	(40,811,130)	(34,074,643)
Income taxes paid	(13,075,010)	(3,033,880)
	<u>1,235,878,610</u>	<u>1,135,396,555</u>
Net cash generated from/ (used in) operating activities	298,527,564	903,134,407
CASH FLOW FROM INVESTING ACTIVITIES		
(Investments in)/ encashments of available for sale securities - net	7,729,700	(98,482,320)
Purchase of operating fixed assets	(67,429,578)	(191,841,157)
Sale proceeds against disposal of operating fixed assets	31,218,725	12,761,004
Net cash (outflow)/ inflow from investing activities	(28,481,153)	(277,562,473)
CASH FLOW FROM FINANCING ACTIVITIES		
Borrowings/ (repayments) during the year - net	(263,729,480)	(947,791,584)
Net increase in cash and cash equivalents	6,316,931	(322,219,650)
Cash and cash equivalents at beginning of the year	1,865,494,416	2,187,714,066
Cash and cash equivalents at end of the year	<u>1,871,811,347</u>	<u>1,865,494,416</u>

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The annexed notes from 1 to 42 form an integral part of these financial statements.



PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Statement of Changes in Equity for the year ended December 31, 2013

Note	Share capital	Statutory reserve	Capital reserve	Reserve for contingencies	Unappropriated profit	Total
	Rupees					Rupees
Balance as at December 31, 2011	1,705,000,000	174,916,406	24,255,224	28,385,353	404,476,730	2,337,033,713
Total comprehensive income for the year						
Profit for the year	-	-	-	-	167,941,158	167,941,158
Other comprehensive income	-	-	-	-	-	-
Transferred from reserve for contingencies to unappropriated profit	-	-	-	(20,000,000)	20,000,000	-
Transfer to:						
Statutory reserve	-	33,588,232	-	-	(33,588,232)	-
Microfinance Social Development Fund	-	-	-	-	(16,794,116)	(16,794,116)
Risk Mitigation Fund	-	-	-	-	(8,397,058)	(8,397,058)
Depositor's Protection Fund	-	-	-	-	(8,397,058)	(8,397,058)
Prior year tax impact on surplus on revaluation of assets	-	-	-	-	528,743	528,743
Balance as at December 31, 2012	1,705,000,000	208,504,638	24,255,224	8,385,353	525,770,167	2,471,915,382
Total comprehensive income for the year						
Profit for the year	-	-	-	-	363,198,006	363,198,006
Other comprehensive income	-	-	-	-	(13,221,104)	(13,221,104)
Transferred from reserve for contingencies to unappropriated profit	-	-	-	(8,385,353)	(8,385,353)	-
Transfer to:						
Statutory reserve	-	72,639,601	-	-	(72,639,601)	-
Microfinance Social Development Fund	-	-	-	-	(36,319,801)	(36,319,801)
Risk Mitigation Fund	-	-	-	-	(18,159,900)	(18,159,900)
Depositor's Protection Fund	-	-	-	-	(18,159,900)	(18,159,900)
Balance as at December 31, 2013	1,705,000,000	281,144,239	24,255,224	-	738,853,220	2,749,252,683

The annexed notes from 1 to 42 form an integral part of these financial statements.


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Notes to the Financial Statements for the year ended December 31, 2013

1. STATUS AND NATURE OF BUSINESS

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

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

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

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

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

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

The Bank's registered office and principal place of business is situated at 94-West Jinnah Avenue, Blue Area, Islamabad. The Bank had 110 branches in operation as at December 31, 2013 (December 31, 2012: 106 branches) and is licensed to operate nationwide.

2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of format prescribed by the SBP Banking Supervision Department (BSD) Circular number 11 dated December 30, 2003. Additional disclosures have been presented in compliance with Microfinance Consensus Guidelines issued by Consultative Group to Assist the Poor (CGAP) July, 2003.

3. STATEMENT OF COMPLIANCE

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

SBP has clarified that International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property" are not applicable to the Bank. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements.

3.1 New and Amended Standards and Interpretations

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

The Bank has adopted the following new and amended IFRS, which became effective during the year, however the adaptation of these standards and amendments did not have any material effect on the financial statement.

Standard or Interpretation		Effective date (Annual years beginning on or after)
IFRS 1	First-time adoption of international financial reporting standards	January 1, 2013
IFRS 7	Financial Instruments – Disclosures	January 1, 2013
IFRS 10	Consolidated Financial Statements	January 1, 2013
IFRS 11	Joint Arrangements	January 1, 2013
IFRS 12	Disclosure of Interest in Other Entities	January 1, 2013
IFRS 13	Fair value measurement	January 1, 2013
IAS 1	Presentation of Financial Statements	January 1, 2013
IAS 16	Property, Plant and Equipment	January 1, 2013
IAS 19	Employee benefits (Revised)	January 1, 2013
IAS 27	Separate financial statements (Revised)	January 1, 2013
IAS 28	Investments in associates and joint ventures (Revised)	January 1, 2013
IAS 32	Financial Instruments: Presentation	January 1, 2013
IAS 34	Interim Financial Reporting	January 1, 2013

(b) New standards, amendments and interpretations issued but not yet effective and not early adopted by the Bank

Standard or Interpretation		Effective date (Annual years beginning on or after)
IFRS 7	Financial Instrument: Disclosures	January 1, 2015
IFRS 9	Financial Instruments	January 1, 2015
IFRS 10	Consolidated Financial Statements	January 1, 2014
IFRS 12	Disclosure of Interest in Other Entities	January 1, 2014
IAS 27	Separate financial statements (Revised)	January 1, 2014
IAS 32	Financial Instruments: Presentation	January 1, 2014
IAS 36	Impairment of Assets	January 1, 2014
IAS 39	Financial Instruments : Recognition and Measurement	January 1, 2014
IFRIC 21	Levies	January 1, 2014

The management anticipates that, the adaption of the above standards, amendments and interpretations in future years, will have no material impact on the Bank's financial statements.

4. BASIS OF MEASUREMENT

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

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the use of certain accounting estimates and judgments in application of accounting policies. The area involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.27.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

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

5.2 Sale and repurchase agreements

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

5.3 Investments

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

Investments are classified as follows:

Held for trading investments

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

Available for sale investments

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

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

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

Held to maturity investments

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

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

5.4 Advances

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

- a) **Other Assets Especially Mentioned (OAEM)**
Advances in arrears for 30 days or more but less than 60 days.
- b) **Substandard**
Advances in arrears for 60 days or more but less than 90 days.
- c) **Doubtful**
Advances in arrears for 90 days or more but less than 180 days.
- d) **Loss**
Advances in arrears for 90 days or more but less than 180 days.

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

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

OAEM:	Nil
Substandard:	25%
Doubtful:	50%
Loss:	100%

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

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

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

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

5.5 Operating fixed assets

Capital work in progress

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

Property and equipment

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

Depreciation is charged on the straight line basis at rates specified in note 11.2 to the financial statements, so as to write off the cost of assets over their estimated useful lives. Full month's depreciation is charged in the month of capitalization and no depreciation is charged in the month of disposal.

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

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

Intangible assets

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

Intangible assets comprise of computer software and related applications. Intangible assets are amortized over their estimated useful lives at rate specified in note 11.3.1 to the financial statements. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is recognized in profit and loss account as incurred.

5.6 Impairment of non-financial assets

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

5.7 Deposits

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

5.8 Current and deferred income tax

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

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

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

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

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

5.9 Employee benefits

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

The Bank operates an approved funded gratuity scheme for all eligible employees completing the minimum qualifying period of one year of service. In accordance with the gratuity scheme eligible salary constitutes the basic salary for the service up till July 26, 2004 and gross salary for service thereafter which is paid to the employees on the basis of period in service. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of defined obligation is determined by discounting the estimated market yield on Government bonds and have terms to maturity approximating to the terms of the related liability.

Consequent to the revision of International Accounting Standard on Employee Benefits (IAS 19) which is effective for financial periods beginning on or after January 1, 2013, the Bank has changed its accounting policy on recording unrecognized actuarial gains / losses (component of re-measurement gains / losses) on employees' retirement benefit plans. As per the new policy, the re-measurement gains and losses are recorded immediately in Statement of Other Comprehensive Income (SOC) and past service costs are recognized in profit and loss account in the year in which they arise.

Previously, actuarial gain and losses in excess of ten percent (10%) of the present value of the defined benefit obligation were recorded over the expected average future working lives of the employees participating in the scheme and past service costs were recognized on a straight line basis over the average period until the benefits become vested.

The impact of this change is not material to the financial statements of the Bank and therefore the change has been applied prospectively.

5.10 Mark-up bearing borrowings

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

5.11 Statutory reserve

In compliance with the requirements of Regulation 7, the Bank is required to maintain a statutory reserve to which an appropriation equivalent to 20% of the profit after tax is made till such time the reserve fund equals the paid up capital of the Bank. However, thereafter, the contribution is reduced to 5% of the profit after tax.

5.12 Capital reserve

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

5.13 Reserve for contingencies

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

5.14 Contributions

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

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

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

5.15 Cash reserve

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

5.16 Statutory liquidity requirement

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

5.17 Grants

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

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

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

5.18 Revenue recognition

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

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

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

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

5.19 Borrowing costs

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

5.20 Leases

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

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

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

5.21 Financial instruments

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

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

Financial assets

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

Financial liabilities

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

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

5.22 Impairment – financial assets

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

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

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

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

5.23 Off-setting

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

5.24 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

5.25 Provisions

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

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

5.26 Exceptional items

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

5.27 Critical accounting estimates and judgments

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

a) Operating fixed assets

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

b) Provision for income taxes

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

c) Staff retirement benefits

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

d) Classification of investments

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

e) Provision against advances

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

f) Provision and contingent liabilities

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

	Note	2013 Rupees	2012 Rupees
6. CASH AND BALANCES WITH SBP AND NBP			
Cash in hand			
Local currency		372,773,152	330,400,374
Balances with State Bank of Pakistan (SBP) in:			
Local currency current accounts	6.1	243,218,245	149,504,618
Balances with National Bank of Pakistan (NBP) in:			
Local currency current accounts		904,357	1,282,266
Local currency deposit accounts	6.2	995,930	1,508,022
		1,900,287	2,790,288
		<u>617,891,684</u>	<u>482,695,280</u>

6.1 This represents balance held with SBP to meet the requirement of maintaining minimum balance equivalent to 5% (2012: 5%) of the Bank's time and demand deposits with a tenure of less than one year, in accordance with regulation 6A of the Regulations.

6.2 This represents balances held in savings accounts carrying interest at the rate of 6% (2012: 6%) per annum.

	Note	2013 Rupees	2012 Rupees
7. BALANCES WITH OTHER BANKS/ NBFIS/ MFBS			
In Pakistan			
Local currency current accounts		277,708,189	289,945,166
Local currency deposit accounts	7.1	33,840,260	502,839,077
		<u>311,548,449</u>	<u>792,784,243</u>

7.1 This represents balances held in savings accounts carrying interest at rates ranging from 6% to 8% (2012: 6% to 8.5%) per annum and Term Deposit Receipts (TDRs) amounting to nil (2012: Rs 200 million carried interest at the rate of 9.65% per annum).

	Note	2013 Rupees	2012 Rupees
8. LENDING TO FINANCIAL INSTITUTIONS			
Repurchase agreement lending (reverse repo)	8.1	942,371,214	590,014,893
Clean lending	8.2	100,000,000	100,000,000
Provision for impairment		(100,000,000)	(100,000,000)
		-	-
		<u>942,371,214</u>	<u>590,014,893</u>

8.1 This represents reverse repo carrying interest at rates ranging from 9.85% to 10.20% (2012: 6.5% to 9.2%) per annum maturing by January 10, 2014 (2012: by January 4, 2013).

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

	2013			2012		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees			Rupees		
Market Treasury Bills (T-Bills)	951,000,000	-	951,000,000	609,000,000	-	609,000,000

- 8.2** This represents amount placed with Innovative Investment Bank Limited - IIBL (formerly Innovative Housing Finance Limited (IHFL) and Crescent Standard Investment Bank Limited). The amount was initially given as a clean lending and then rolled over on maturity dates due to liquidity problems of IIBL. On June 30, 2007, the Bank entered into an agreement with IIBL under which the principal amount was restructured for a period of seven years, with two years grace period, from the date of the agreement. Pursuant to the agreement, the principal was repayable by IIBL in 10 equal biannual installments, starting from December 31, 2009. IIBL was also required to pay markup on quarterly basis at the rate of 5% per annum calculated on the outstanding principal after the expiry of the grace period. On the due date of the first installment, IIBL defaulted its payment due to liquidity problems. IIBL was unable to meet equity requirements as per NBFC's Regulations 2008 after which the SECP filed its winding up petition in the Honorable Lahore High Court (LHC). The LHC appointed official liquidator of IIBL which has undertaken the process of liquidation and distribution of the assets in accordance with the law. The Bank is carrying full provision against this on the advice of SBP.

9. INVESTMENTS

	Note	2013 Rupees	2012 Rupees
Available for sale securities			
Federal Government securities			
Market Treasury Bills (T-Bills)	9.1	833,999,000	1,041,728,700
Other investments			
Mutual funds	9.2	200,000,000	-
		<u>1,033,999,000</u>	<u>1,041,728,700</u>
Net surplus on revaluation of available for sale securities	9.3	4,901,528	1,787,362
		<u>1,038,900,528</u>	<u>1,043,516,062</u>

- 9.1** This represents T-bills ranging from 84 days to 364 days (2012: 84 days to 364 days) carrying interest at rates ranging from 9.34% to 9.82% (2012: 9.13% to 11.59%) per annum.

- 9.2** This represents units held in UBL Liquidity Plus Fund and NAFA Money Market Fund as tabulated below:

	UBL Liquidity Plus Fund	NAFA Money Market Fund
Units purchased	996,143	9,984,424
Bonus units	46,434	131,407
Units held at year end	<u>1,042,577</u>	<u>10,115,831</u>
Purchase price per unit	100.3872	10.0156
Market price per unit at year end	100.5746	10.0096

- 9.3** In accordance with Regulation 12C, available for sale securities have been valued on mark-to-market basis and the resulting surplus/ (deficit) is kept in a separate account titled 'surplus on revaluation of investments' and is shown below the shareholders' equity in the balance sheet.

10. ADVANCES - NET OF PROVISIONS

Loan type	Note	2013		2012	
		Number of loans outstanding	Amount outstanding Rupees	Number of loans outstanding	Amount outstanding Rupees
Micro credit					
Secured		30,782	2,149,053,379	8,642	671,892,456
Unsecured	10.1	378,228	6,692,638,835	355,496	5,133,683,086
		409,010	8,841,692,214	364,138	5,805,575,542
Less: Provisions held					
Specific provision	10.2	4,608	(19,806,589)	5,424	(17,223,387)
General provision		377,687	(82,703,240)	354,305	(71,320,524)
			<u>(102,509,829)</u>		<u>(88,543,911)</u>
Microcredit advances - net of provisions			8,739,182,385		5,717,031,631
Staff loans - secured	10.9	220	17,713,049	-	-
Advances - net of provision		<u>409,230</u>	<u>8,756,895,434</u>	<u>364,138</u>	<u>5,717,031,631</u>

10.1 This includes rescheduled micro credit advances having aggregate amount of Rs 0.29 million (2012: Rs 18.45 million) related to branches affected from flood/ rain.

10.2 General provision is maintained at the rate of 1.23% of micro credit advances other than those secured against gold and cash collaterals net of specific provision. This includes provision amounting to Rs 15.51 million (2012: Rs 20 million) against unsecured micro credit advances in addition to the minimum requirements of Prudential Regulations to prudently manage credit risk of the Bank.

10.3 Particulars of non-performing advances

Advances include Rs 69.65 million (2012: Rs 63.79 million) which, as detailed below, have been placed under non-performing status.

Category of classification	2013			2012		
	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
	Rupees			Rupees		
OAEM	31,785,867	-	-	32,590,100	-	-
Sub-standard	12,982,261	2,913,170	2,913,170	10,849,525	2,712,381	2,712,381
Doubtful	15,429,442	7,439,658	7,439,658	11,675,339	5,837,669	5,837,669
Loss	9,453,761	9,453,761	9,453,761	8,673,337	8,673,337	8,673,337
	69,651,331	19,806,589	19,806,589	63,788,301	17,223,387	17,223,387

10.4 Particulars of provisions against non-performing advances

	2013			2012		
	Specific	General	Total	Specific	General	Total
	Rupees			Rupees		
Balance at beginning of the year	17,223,387	71,320,524	88,543,911	21,718,887	84,970,035	106,688,922
Provision charge for the year	157,739,973	11,382,716	169,122,689	298,380,826	(13,649,511)	284,731,315
Advances written off against provision	(155,156,771)	-	(155,156,771)	(302,876,326)	-	(302,876,326)
Balance at end of the year	19,806,589	82,703,240	102,509,829	17,223,387	71,320,524	88,543,911

10.5 Particulars of write offs

	2013 Rupees	2012 Rupees
Against provisions		
Related to rescheduled advances	11,694,184	124,567,731
Related to other classified advances	143,462,587	178,308,596
	<u>155,156,771</u>	<u>302,876,326</u>

10.6 Portfolio quality report

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

	2013		2012	
	Amount Rupees	Portfolio at Risk	Amount Rupees	Portfolio at Risk
Normal Loans				
Current	8,742,432,436	-	5,689,957,819	-
1 - 29 days late	29,309,947	0.33%	36,332,706	0.63%
30 - 59 days late	31,785,867	0.36%	30,683,010	0.53%
60 - 89 days late	12,982,261	0.15%	10,157,244	0.17%
90 - 179 days late	15,429,442	0.17%	11,334,161	0.20%
More than 179 days late	9,453,761	0.11%	8,663,337	0.15%
	8,841,393,714	1.12%	5,787,128,277	1.68%

	2013		2012	
	Amount Rupees	Portfolio at Risk	Amount Rupees	Portfolio at Risk
Rescheduled loans				
Current	236,855	-	11,068,052	-
1 - 29 days late	61,645	0.00%	4,428,664	0.08%
30 - 59 days late	-	0.00%	1,907,082	0.03%
60 - 89 days late	-	0.00%	692,289	0.01%
90 - 179 days late	-	0.00%	341,178	0.01%
More than 179 days late	-	0.00%	10,000	0.00%
	298,500	0.00%	18,447,265	0.13%
Total	8,841,692,214	1.12%	5,805,575,542	1.81%

10.7 Current Recovery Ratio

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

	Current Recovery Ratio	
	2013	2012
1st quarter	126.1%	122.1%
2nd quarter	138.3%	121.8%
3rd quarter	154.9%	158.8%
4th quarter	107.7%	141.6%
January - December	121.0%	131.2%

Annual loss rate for the year is 0% (2012: 0%) computed using the following formula. The actual loss rate is below 0% due to early repayments of principal outstanding.

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

where:

ALR is the annual loss rate

CR is the collection rate in decimal form

T is the loan term expressed in years

10.8 Loan loss allowance

	2013				2012			
	Outstanding loan portfolio		Allowance for loan loss		Outstanding loan portfolio		Allowance for loan loss	
	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees
Normal loans								
Current	98.9%	8,742,432,436	-	-	98.0%	5,689,957,819	-	-
1 - 29 days late	0.3%	29,309,947	-	-	0.6%	36,332,706	-	-
30 - 59 days late	0.4%	31,785,867	-	-	0.5%	30,683,010	-	-
60 - 89 days late	0.1%	12,982,261	14.7%	2,913,170	0.2%	10,157,244	14.7%	2,539,308
90 - 179 days late	0.2%	15,429,442	37.6%	7,439,658	0.2%	11,334,161	32.9%	5,667,080
More than 179 days late	0.1%	9,453,761	47.7%	9,453,761	0.2%	8,663,337	50.3%	8,663,337
Rescheduled loans								
Current	0.0%	236,855	-	-	0.2%	11,068,052	-	-
1 - 29 days late	0.0%	61,645	-	-	0.1%	4,428,664	-	-
30 - 59 days late	0.0%	-	-	-	0.0%	1,907,082	-	-
60 - 89 days late	0.0%	-	-	-	0.0%	692,289	1.0%	173,073
90 - 179 days late	0.0%	-	-	-	0.0%	341,178	1.0%	170,589
More than 179 days late	0.0%	-	-	-	0.0%	10,000	0.1%	10,000
	100%	8,841,692,214	100%	19,806,589	100%	5,805,575,542	100%	17,223,387

10.9 This represents general purpose loans to employees of the Bank carrying interest at the rate of 10% (2012: nil) per annum. These loans are secured against employees' accrued terminal benefits.

11. OPERATING FIXED ASSETS

	Note	2013 Rupees	2012 Rupees
Capital work-in-progress	11.1	15,849,803	13,150,924
Property and equipment	11.2	217,139,064	233,472,549
Intangible assets	11.3	42,194,889	65,968,749
		<u>275,183,756</u>	<u>312,592,222</u>

11.1 Capital work-in-progress

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

11.2 Property and equipment

	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
Cost					
Rupees					
Balance as at January 1, 2012	121,981,810	139,133,142	144,585,863	181,361,832	587,062,647
Additions	36,852,950	47,738,358	38,635,801	5,524,210	128,751,319
Disposals	(2,624,168)	(741,693)	(5,656,490)	(14,255,434)	(23,277,785)
Write-off	(900,998)	(1,063,206)	-	-	(1,964,204)
Balance as at December 31, 2012	<u>155,309,594</u>	<u>185,066,601</u>	<u>177,565,174</u>	<u>172,630,608</u>	<u>690,571,977</u>
Balance as at January 1, 2013	155,309,594	185,066,601	177,565,174	172,630,608	690,571,977
Additions	8,831,465	25,167,240	8,735,421	18,612,319	61,346,445
Disposals	(3,397,662)	(15,166,168)	(4,323,756)	(40,486,779)	(63,374,365)
Balance as at December 31, 2013	<u>160,743,397</u>	<u>195,067,673</u>	<u>181,976,839</u>	<u>150,756,148</u>	<u>688,544,057</u>
Depreciation					
Balance as at January 1, 2012	47,753,346	82,807,527	102,850,444	179,206,407	412,617,724
Depreciation charge	13,447,760	22,822,958	27,943,604	2,593,225	66,807,547
Disposals	(1,350,663)	(716,865)	(5,656,332)	(13,179,742)	(20,903,602)
Write-off	(460,850)	(961,391)	-	-	(1,422,241)
Balance as at December 31, 2012	<u>59,389,593</u>	<u>103,952,229</u>	<u>125,137,716</u>	<u>168,619,890</u>	<u>457,099,428</u>
Balance as at January 1, 2013	59,389,593	103,952,229	125,137,716	168,619,890	457,099,428
Depreciation charge	14,893,613	28,973,212	26,360,421	4,498,045	74,725,291
Disposals	(2,078,095)	(14,650,887)	(4,320,785)	(39,369,959)	(60,419,726)
Balance as at December 31, 2013	<u>72,205,111</u>	<u>118,274,554</u>	<u>147,177,352</u>	<u>133,747,976</u>	<u>471,404,993</u>
Carrying value					
2012	95,920,001	81,114,372	52,427,458	4,010,718	233,472,549
2013	<u>88,538,286</u>	<u>76,793,119</u>	<u>34,799,487</u>	<u>17,008,172</u>	<u>217,139,064</u>
Rates of depreciation per annum					
	10.00%	20.00%	33.33%	25.00%	

11.2.1 Cost for the assets as at December 31, 2013 includes Rs 88.28 million (2012: Rs 109.70 million) in respect of assets acquired from grant received.

11.2.2 The cost of fully depreciated property and equipment that are still in use is Rs 280.29 million (2012: Rs 318.32 million).

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

Particulars	Cost	Book Value	Sale Proceed	Mode of disposal	Particulars of purchaser
Rupees					
Vehicle	1,290,802	1,048,777	1,048,777	sale	Mr. Niaz Hingoro (Ex employee)

11.3 Intangible assets

	2013 Rupees	2012 Rupees
Computer software		
Cost		
Balance at beginning of the year	104,720,156	51,102,766
Additions	3,384,254	53,617,390
Balance at end of the year	<u>108,104,410</u>	<u>104,720,156</u>
Amortization		
Balance at beginning of the year	(38,751,407)	(28,053,020)
Amortization charge	(27,158,114)	(10,698,387)
Balance at end of the year	<u>(65,909,521)</u>	<u>(38,751,407)</u>
Carrying amount	<u>42,194,889</u>	<u>65,968,749</u>

- 11.3.1** Amortization is charged on straight line basis @ 33.33 % per annum, starting from the month the asset is available for use.
- 11.3.2** Cost of the intangibles as at December 31, 2013 includes Rs 25.48 million (2012: Rs 25.48 million) in respect of assets acquired from grant received.
- 11.3.3** The cost of fully amortized intangible assets that are still in use is Rs 25.27 million (2012: Rs 25.27 million).

	Note	2013 Rupees	2012 Rupees
12. OTHER ASSETS			
Mark-up accrued		899,387,927	498,559,503
Suspended markup on non-performing advances		(12,187,907)	(11,267,306)
		<u>887,200,020</u>	<u>487,292,197</u>
Interest receivable on investments and deposit accounts		21,225,863	26,104,681
Loans and advances - unsecured			
Employees		70,675,025	73,979,206
Suppliers		2,383,598	1,859,990
		73,058,623	75,839,196
Deposits		1,997,290	1,951,240
Prepayments		78,097,607	70,840,543
Advance taxation - net		-	6,730,818
Receivable from USAID		3,995,604	10,443,555
Receivable from Microfinance Social Development Fund		119,295,593	193,581,856
Insurance claims receivable		6,369,491	6,535,046
Sales tax / federal excise duty receivable	12.1	52,815,692	6,592,178
Other receivables		17,182,280	12,167,294
		<u>1,261,238,063</u>	<u>898,078,604</u>
Provisions against doubtful receivables			
Balance at the beginning of the year		9,789,282	8,093,893
Provision charge for the year		5,596,560	2,680,709
Receivables written off against provision		(1,587,763)	(985,320)
Balance at the end of the year		13,798,079	9,789,282
		<u>1,247,439,984</u>	<u>888,289,322</u>

- 12.1** As explained in note 21.1, this includes Federal Excise Duty of Rs 34.27 million paid under protest to the taxation authorities.

	2013 Rupees	2012 Rupees
13. DEFERRED TAX ASSET		
Deferred tax assets arising on account of temporary differences in:		
Operating fixed assets	12,587,767	18,356,520
Provision against advances and other assets	39,544,689	34,416,617
Provision against lending to financial institutions	34,000,000	35,000,000
Remeasurement of post employment benefit obligation	6,810,872	-
Unused tax credits	-	39,544,898
Unused tax losses	8,148,685	-
	<u>101,092,013</u>	<u>127,318,035</u>
Deferred tax liability arising on account of temporary differences in:		
Surplus on revaluation of assets	(1,666,520)	(625,577)
	<u>99,425,493</u>	<u>126,692,458</u>

	2013 Rupees	2012 Rupees
13.1 Reconciliation of deferred tax		
Balance at the beginning of the year	126,692,458	69,996,068
(Reversal)/charge for the year in respect of:		
Operating fixed assets	(5,768,753)	17,339,969
Provision against advances and other assets	5,128,072	(91,643)
Provision against lending to financial institutions	(1,000,000)	-
Unused tax credits	(39,544,898)	39,544,898
Unused tax losses	8,148,685	-
Charge to profit and loss account	(33,036,894)	56,793,224
Charge to equity	(1,040,943)	(96,834)
Charge to other comprehensive income	6,810,872	-
Balance at the end of the year	<u>99,425,493</u>	<u>126,692,458</u>

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

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

14. DEPOSITS	Note	2013		2012	
		No. of accounts	Amount Rupees	No. of accounts	Amount Rupees
Fixed deposits	14.2	2,924	2,640,674,258	2,089	1,589,697,100
Saving deposits	14.3	17,127	2,661,417,108	7,831	758,618,217
Current deposits		654,010	1,830,827,873	448,692	1,692,331,675
		<u>674,061</u>	<u>7,132,919,239</u>	<u>458,612</u>	<u>4,040,646,992</u>

14.1 Particulars of deposits by ownership

Individual depositors	672,898	4,457,879,071	457,617	3,041,945,911
Institutional depositors				
Corporation/ firms	1,154	1,876,541,485	989	696,408,536
Banks/ financial institutions	9	798,498,683	6	302,292,545
	<u>674,061</u>	<u>7,132,919,239</u>	<u>458,612</u>	<u>4,040,646,992</u>

14.2 This represents term deposits having tenure of 1 to 36 months (2012: 1 to 36 months) carrying interest at rates ranging from 6.00% to 14.00% (2012: 6.00% to 14.00%) per annum. This includes fixed deposits amounting to Rs 19.685 million (2012: Rs 7.625 million) on which lien is marked against advances to borrowers.

14.3 This represents savings accounts carrying interest at rates ranging from 6.00% to 10.85% (2012: 6.00% to 10.00%) per annum.

15. BORROWINGS	Note	2013 Rupees	2012 Rupees
Unsecured			
Borrowings from financial institutions outside Pakistan	15.1	2,546,106,352	2,909,835,832
Secured			
Borrowings from financial institutions in Pakistan	15.2	200,000,000	100,000,000
		<u>2,746,106,352</u>	<u>3,009,835,832</u>

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

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

The interest is being paid on bi-annual basis charged at the rate equal to weighted average cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interests rates used for the bi-annual payment during the year were determined to be 6.28% and 6.45% (2012: 6.29% and 6.47%) per annum.

15.2	Note	2013 Rupees	2012 Rupees
Borrowings from financial institutions in Pakistan:			
Pakistan Poverty Alleviation Fund (PPAF)	15.2.1	200,000,000	-
Soneri Bank Term Finance Certificate 2	15.2.2	-	100,000,000
		<u>200,000,000</u>	<u>100,000,000</u>

- 15.2.1** This represents borrowings from Pakistan Poverty Alleviation Fund (PPAF) carrying interest rate ranging 8.06% to 10.56% (2012: nil) per annum. PPAF extended Rs 1,500 million financing facility, hypothecated against receivables created out of financing from PPAF. The Bank is liable to repay the principal amount to PPAF in 5 equal quarterly installments after the expiry of one year as grace period. The Bank has drawn Rs 200 million up to December 31, 2013.

- 15.2.2** This represented interbank money market borrowing for three years carrying interest at rates ranging from 10.81% to 11.11% (2012: 13.70% to 13.75%) per annum and was repayable in four equal installments in the years 2013 and 2014. This borrowing was secured against 40% partial Micro Credit Guarantee Facility (MCGF) by SBP, charge over current assets of Rs 100 million and an undertaking to utilize funds for microfinance activities. The Bank repaid this borrowing on August 25, 2013 as a full and final settlement. Further, the Bank has unavailed financing facility from Soneri Bank amounting to Rs 300 million as at year end.

15.3	Quarterly average borrowing	Note	2013 Rupees	2012 Rupees
	1st Quarter		3,009,835,832	4,007,895,710
	2nd Quarter		2,988,425,940	3,866,772,270
	3rd Quarter		2,905,762,663	3,525,566,976
	4th Quarter		2,806,727,932	3,192,794,624
15.4	Loan repayment schedule			
	Balance at the beginning of the year		3,009,835,832	3,957,627,416
	Availed during the year		7,764,661,711	934,858,500
	Repayments during the year		(8,028,391,191)	(1,882,650,084)
	Balance at the end of the year		<u>2,746,106,352</u>	<u>3,009,835,832</u>

16. OTHER LIABILITIES

Interest payable on borrowings		29,600,078	135,242,933
Interest payable on deposits		166,780,827	52,951,999
Accrued expenses		102,286,544	46,351,777
Bills payable		24,296,276	27,758,462
Payable to/ (receivable from) defined benefit plan - gratuity	16.1	24,706,735	(1,273,201)
Contribution payable to			
Microfinance Social Development Fund		36,319,801	16,794,116
Risk Mitigation Fund		18,159,900	8,397,058
Depositors' Protection Fund		18,159,900	8,397,058
Taxes payable		121,911,340	-
Payable to service providers		9,053,200	7,759,700
Payable to suppliers		57,552,471	81,915,525
Provision for workers welfare fund		18,842,733	8,083,692
Withholding tax payable		1,915,230	580,270
Other payables		22,167,924	21,145,793
		<u>651,752,959</u>	<u>414,105,182</u>

16.1 Payable to defined benefit plan - gratuity

	2013 Rupees	2012 Rupees		
Disclosures related to employees gratuity fund are given below:				
a) Amounts recognized in the balance sheet				
Present value of defined benefit obligation	197,631,664	162,305,721		
Fair value of plan assets	(172,924,929)	(171,442,120)		
Deficit / (surplus)	24,706,735	(9,136,399)		
Unrecognized actuarial gains	-	7,863,198		
Balance sheet liability / (asset)	<u>24,706,735</u>	<u>(1,273,201)</u>		
b) Movement in net liability				
Opening net liability	(1,273,201)	4,458,181		
Net expense recognized in profit or loss	46,759,090	28,343,261		
Remeasurement losses recognized in OCI	20,031,976	-		
Contributions	(40,811,130)	(34,074,643)		
Closing net liability	<u>24,706,735</u>	<u>(1,273,201)</u>		
c) Changes in present value of defined benefit obligation				
Opening defined benefit obligation	162,305,721	138,970,494		
Current service cost	32,604,862	29,294,001		
Past service cost	15,159,232	-		
Interest expense	17,853,629	17,371,312		
Benefits paid	(54,511,130)	(27,537,893)		
Remeasurements - experience losses	24,219,350	4,207,807		
Closing defined benefit obligation	<u>197,631,664</u>	<u>162,305,721</u>		
d) Changes in fair value of plan assets				
Opening fair value of plan assets	171,442,120	146,576,414		
Interest income	18,858,633	18,322,052		
Contributions	40,811,130	34,074,643		
Benefits paid	(54,511,130)	(27,537,893)		
Remeasurements - return on plan assets, excluding interest income	(3,675,824)	6,904		
Closing fair value of plan assets	<u>172,924,929</u>	<u>171,442,120</u>		
e) Amounts recognized in the profit and loss account				
Current service cost	32,604,862	29,294,001		
Past service cost	15,159,232	-		
Interest cost on defined benefit obligation	17,853,629	17,371,312		
Interest income on plan assets	(18,858,633)	(18,322,052)		
	<u>46,759,090</u>	<u>28,343,261</u>		
f) Amounts recognized in other comprehensive income				
Opening unrecognized actuarial gains recognized during the year	(7,863,198)	-		
Remeasurement losses for the year				
Experience adjustments in present value of defined benefit obligation	24,219,350	-		
Return on plan assets, excluding interest income	3,675,824	-		
	27,895,174	-		
	<u>20,031,976</u>	<u>-</u>		
g) Major categories of plan assets				
	2013	2012		
	Rupees	Percentage	Rupees	Percentage
Investments in T-Bills	171,823,670	99.36%	116,816,470	68.14%
Accrued interest	994,566	0.58%	3,417,290	1.99%
Cash at bank	106,693	0.06%	51,208,360	29.87%
	<u>172,924,929</u>	<u>100.00%</u>	<u>171,442,120</u>	<u>100.00%</u>

- h. The latest actuarial valuation was carried out as at December 31, 2013. The significant assumptions used for actuarial valuation are as follows:

	2013	2012
Discount rate - per annum	13.00%	11.00%
Salary increase rate - per annum	12.00%	10.00%
Mortality rate	SLIC 2001-05	EFU 1961-66

- i) Sensitivity analysis

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumptions	Decrease in assumptions
		Rupees	
Discount rate	1%	(19,846,476)	23,998,760
Salary rate increase	1%	23,998,760	(20,171,425)

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

The average duration of the defined benefit obligation is 11 years.

- j) Expected contribution of the Bank to the defined benefit gratuity fund for the year ending December 31, 2014 will be Rs 41.30 million.

17. SHARE CAPITAL

17.1 Authorized capital

2013 Number	2012 Number		Note	2013 Rupees	2012 Rupees
600,000,000	600,000,000	Ordinary shares of Rs 10 each		6,000,000,000	6,000,000,000

17.2 Issued, subscribed and paid-up capital

170,500,000	170,500,000	Ordinary shares of Rs 10 each fully paid for consideration other than cash	17.2.1	1,705,000,000	1,705,000,000
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17.2.1 The Shareholders of the Bank are as Follows:

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

18. RESERVE FOR CONTINGENCIES

Purpose of this reserve is described in note 5.13 to these financial statements. An amount of Rs 8.385 million (2012: Rs 20 million) has been transferred during the year from reserve for contingencies to unappropriated profit to prudently manage credit risk of the Bank.

	Note	2013 Rupees	2012 Rupees
19. SURPLUS ON REVALUATION OF INVESTMENTS			
Federal Government securities			
Surplus on revaluation of available for sale securities		4,901,528	1,787,362
Deferred tax on surplus		<u>(1,666,520)</u>	<u>(625,577)</u>
		<u>3,235,008</u>	<u>1,161,785</u>
20. DEFERRED GRANTS			
Grant from GoP	20.1	251,589,232	251,589,232
Accumulated amortization			
At the beginning of year		(250,923,195)	(250,558,812)
Amortization for the year		(323,525)	(364,383)
At the end of the year		<u>(251,246,720)</u>	<u>(250,923,195)</u>
		342,512	666,037
Grant from USAID	20.2	98,374,901	98,374,901
Accumulated amortization			
At the beginning of year		(96,540,054)	(94,114,690)
Amortization for the year		(742,324)	(2,425,364)
At the end of the year		<u>(97,282,378)</u>	<u>(96,540,054)</u>
		1,092,523	1,834,847
Grant from Shore Bank International	20.3	25,484,337	25,484,337
Accumulated amortization			
At the beginning of year		(12,034,283)	(3,539,495)
Amortization for the year		(8,494,788)	(8,494,788)
At the end of the year		<u>(20,529,071)</u>	<u>(12,034,283)</u>
		4,955,266	13,450,054
		<u>6,390,301</u>	<u>15,950,938</u>

20.1 This represents grant from GoP for assets acquired for institutional strengthening of the Bank, under the Subsidiary Loan and Grant Agreement (SLGA) entered with GoP in pursuance of Loan Agreement (Special Operations) - Microfinance Sector Development Project (MSDP), Loan #1806 between ADB and Islamic Republic of Pakistan. MSDP completed its tenure on June 30, 2007.

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

20.3 On September 24, 2010, the Bank entered into a two year grant agreement with Shore Bank International (SBI) to improve the capacity of the Bank for delivering saving products more effectively, profitably and at an enhanced scale. SBI provided financial assistance of USD 300,000 in the form of grant to the Bank, in order to procure and implement an banking application named Bank Essential (BE).

21. MEMORANDUM/ OFF BALANCE SHEET ITEMS

21.1 CONTIGENCIES:

For the period January 2008 to December 2010, the taxation authorities issued an order to charge FED amounting to Rs 65.231 million on grants received by the Bank and non-withholding of sales tax on taxable purchases from suppliers not registered in Large Taxpayers Unit (LTU). In this respect a civil petition filed by the Bank is currently pending with the Honourable Supreme Court of Pakistan, against the order of the Honourable Islamabad High court wherein the Bank's appeal was dismissed in limine. Related to this matter, payment of Rs 34.226 million under protest is carried as receivable from taxation authorities as reflected in note 12.1 to the financial statements.

For the period January 2011 to December 2012, the Bank has also received two orders from Deputy Commissioner of Inland Revenue for non payment of FED of Rs 40.641 million on grants received by the Bank and Rs 2.778 million on non-withholding of sales tax on taxable purchases from suppliers not registered in LTU. The Bank has filed two rectification applications with DCIR. The Bank has also preferred an appeal before the CIR (Appeals) against the alleged order for 2011 which is pending for adjudication. Against the alleged order for 2012, the management intends to appeal before the CIR (Appeals) in due course.

Based on the tax counsel advice, the Bank is confident of a favourable outcome of the above cases therefore the management believes no provision is required there against.

21.2 COMMITMENTS:	Note	2013 Rupees	2012 Rupees
Capital expenditure		49,623,844	18,964,903
Advances to customers, sanctioned but not yet disbursed		<u>3,050,000</u>	<u>30,267,200</u>
22. MARK-UP/ RETURN/INTEREST EARNED			
Mark-up on advances		2,138,787,593	1,289,974,152
Interest on investment in Federal Government securities		82,249,651	107,250,807
Interest on deposit accounts/ placements with other banks/ financial institutions/ mutual funds		57,235,425	102,130,849
		<u>2,278,272,669</u>	<u>1,499,355,808</u>
23. MARK-UP/ RETURN/ INTEREST EXPENSED			
Interest on borrowings from:			
Asian Development Bank		174,769,523	200,977,079
Other financial institutions		17,991,922	49,015,212
		<u>192,761,445</u>	<u>249,992,291</u>
Interest on deposits		422,586,605	103,457,104
		<u>615,348,050</u>	<u>353,449,395</u>
24. FEE, COMMISSION AND BROKERAGE INCOME			
Micro-credit application processing fee		316,384,477	238,425,292
Other commission		8,627,740	7,395,145
		<u>325,012,217</u>	<u>245,820,437</u>
25. OTHER INCOME			
Amortization of deferred grant		9,560,637	11,284,535
Indirect cost charged to USAID	25.1	7,235,212	10,772,063
Recoveries from MSDF	25.2	140,423,400	125,223,800
Gain on disposal of fixed assets		28,264,086	10,386,821
Recoveries against advances written off		71,713,648	178,902,642
Others		1,684,720	2,933,727
		<u>258,881,703</u>	<u>339,503,588</u>

25.1 This represents indirect cost charged to USAID for Tubewell Efficiency Improvement Replacement Program (TWEIP) @ 1.755% of total direct cost (2012: 1.755% of total direct cost for TWEIP).

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

26. ADMINISTRATIVE EXPENSES	Note	2013 Rupees	2012 Rupees
Salaries, wages and benefits		667,938,241	556,389,701
Charge for defined benefit plan	16.1	46,759,090	28,343,261
Contract/ seconded staff expenses		144,984,484	133,788,713
Consultancies		6,344,179	4,069,083
Recruitment and development		5,370,482	6,425,883
Training		11,377,804	14,010,272
Rent and rates		120,022,269	109,461,432
Insurance		38,919,526	27,802,957
Utilities		59,680,071	54,933,009
Legal and professional charges		3,817,005	3,301,908
Communication		40,174,055	39,652,475
Repairs and maintenance		34,096,514	39,782,002
Printing, stationery and office supplies		52,738,350	56,391,139
Advertisement		26,708,056	22,096,670
Auditors' remuneration	26.1	1,495,000	1,300,000
Depreciation	11.2	74,725,291	66,807,547
Amortization	11.3	27,158,114	10,698,387
Vehicles up keep and maintenance		91,809,038	96,185,596
Travelling and conveyance		14,435,673	12,287,150
Meetings and conferences		16,824,719	13,652,266
Security charges		6,644,420	4,503,328
Bank charges		26,942,528	13,151,738
Newspapers and subscriptions		1,901,009	2,014,181
Property and equipment written off		-	541,963
Miscellaneous		1,967,863	2,539,128
		<u>1,522,833,781</u>	<u>1,320,129,789</u>

26.1 Auditors' remuneration

Audit fee	1,045,000	950,000
Out of pocket expenses	450,000	350,000
	<u>1,495,000</u>	<u>1,300,000</u>

26.2 Administrative expenses are net of Rs 19,356,410 (2012: Rs 15,439,762) and Rs 2,376,636 (2012: Rs 1,759,383) charged to USAID and MSDF respectively in respect of projects implemented by the Bank.

27. OTHER CHARGES

	2013 Rupees	2012 Rupees
Penalty imposed by State Bank of Pakistan	100,000	-
Workers welfare fund	10,759,041	2,395,712
Professional tax	454,400	1,507,330
	<u>11,313,441</u>	<u>3,903,042</u>

28. TAXATION

Current - for the year	141,717,168	8,637,649
Deferred - for the year	41,938,721	(2,098,820)
- for Prior year	(11,409,631)	(54,694,404)
- change in rate of tax	2,507,804	-
	<u>33,036,894</u>	<u>(56,793,224)</u>
	<u>174,754,062</u>	<u>(48,155,575)</u>

28.1 Tax charge reconciliation

	2013 Rupees	2012 Rupees
Profit before tax (Rupees)	537,952,068	119,785,583
	%	%
Applicable tax rate	34.00	35.00
Deferred tax relating to prior periods	(2.12)	(45.66)
Tax exemption on account of tax holiday	-	(27.73)
Permanent difference	0.14	(1.81)
Rate change	0.47	-
Average effective tax rate charged to income	32.49	(40.20)

28.2 The applicable income tax rate was reduced from 35% to 34% during the year on account of the changes made to the Income Tax Ordinance, 2001 in 2013.

29. CASH AND CASH EQUIVALENTS

	2013 Rupees	2012 Rupees
Cash and balances with SBP and NBP	617,891,684	482,695,280
Balances with other banks	311,548,449	792,784,243
Lending to financial institutions	942,371,214	590,014,893
	<u>1,871,811,347</u>	<u>1,865,494,416</u>

30. NUMBER OF EMPLOYEES

	2013 Number	2012 Number
Credit sales staff		
Permanent	708	705
Banking / support staff		
Permanent	732	789
Contractual	853	874
	<u>1,585</u>	<u>1,663</u>
Total number of employees at the end of the year	<u>2,293</u>	<u>2,368</u>

31. AVERAGE NUMBER OF EMPLOYEES

Credit sales staff		
Permanent	677	700
Banking / support staff		
Permanent	723	750
Contractual	821	866
	<u>1,544</u>	<u>1,616</u>
Average number of employees during the year	<u>2,221</u>	<u>2,316</u>

32. NUMBER OF BRANCHES

Total branches at beginning of the year	106	109
Opened during the year	6	-
Closed / merged during the year	(2)	(3)
Total branches at the end of the year	<u>110</u>	<u>106</u>

33. EARNINGS PER SHARE

a) Basic

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

	2013 Rupees	2012 Rupees
Profit for the year after taxation	363,198,006	167,941,158
Microfinance Social Development Fund	(36,319,801)	(16,794,116)
Depositors' Protection Fund	(18,159,900)	(8,397,058)
Risk Mitigation Fund	(18,159,900)	(8,397,058)
	(72,639,601)	(33,588,232)
Profit attributable to equity holders	<u>290,558,405</u>	<u>134,352,926</u>
Weighted average number of ordinary shares in issue during the year	170,500,000	170,500,000
Earnings per share - basic (Rupees)	1.70	0.79

(b) Diluted

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

34. REMUNERATION PAID TO PRESIDENT, DIRECTORS AND EXECUTIVES

	2013				2012			
	President	Directors	Executives		President	Directors	Executives	
			KPMs	Other			KPMs	Other
	Rupees							
Managerial remuneration	5,400,000	-	27,442,157	44,697,256	4,227,101	-	18,716,747	35,856,889
Charge for defined benefit plan / gratuity	897,455	-	4,179,745	6,599,937	304,533	-	2,074,376	4,020,604
Rent and house maintenance allowance	2,430,000	-	11,461,664	18,748,126	1,902,192	-	8,422,535	16,135,590
Utilities allowance	1,080,000	-	4,564,788	7,392,125	467,707	-	1,871,678	3,585,713
Medical allowance	540,000	-	2,634,468	4,333,342	273,363	-	1,294,258	4,255,368
Conveyance allowance	429,431	-	6,580,999	18,297,987	398,278	-	4,892,424	15,279,579
Bonus	-	-	1,314,703	1,946,472	2,000,000	-	960,553	1,613,844
Others	1,717,710	4,439,529	4,806,273	3,070,155	-	1,488,239	94,759	1,235,092
Total	<u>12,494,596</u>	<u>4,439,529</u>	<u>62,984,797</u>	<u>105,085,400</u>	<u>9,573,174</u>	<u>1,488,239</u>	<u>38,327,330</u>	<u>81,982,679</u>
Number of person(s)	1	6	11	52	1	6	7	54

34.1 The President is also provided with a Bank maintained car.

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

35. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2013

	Total	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
Rupees					
Market rate assets					
Advances	8,756,895,434	423,802,102	3,817,125,073	4,510,698,992	5,269,267
Investments	1,038,900,528	1,038,900,528	-	-	-
Other earning assets					
Balances with SBP and NBP - deposit accounts	995,930	995,930	-	-	-
Balances with other banks - deposit accounts	33,840,260	33,840,260	-	-	-
Lending to financial institutions	942,371,214	942,371,214	-	-	-
Total market rate assets	10,773,003,366	2,439,910,034	3,817,125,073	4,510,698,992	5,269,267
Other non-earning assets					
Cash in hand	372,773,152	372,773,152	-	-	-
Balances with SBP and NBP - current accounts	244,122,602	244,122,602	-	-	-
Balances with other banks - current accounts	277,708,189	277,708,189	-	-	-
Operating fixed assets	275,183,756	14,990,374	52,934,252	53,535,726	153,723,404
Other assets	1,247,439,984	72,126,024	614,357,341	505,722,322	55,234,297
Deferred tax asset	99,425,493	-	-	-	99,425,493
Total non-earning assets	2,516,653,176	981,720,341	667,291,593	559,258,048	308,383,194
Total assets	13,289,656,542	3,421,630,375	4,484,416,666	5,069,957,040	313,652,461
Market rate liabilities					
Large time deposits above Rs. 100,000	2,541,795,663	578,444,028	483,929,822	541,478,813	937,943,000
All other time deposits (including fixed rate deposits)	98,878,595	2,501,999	13,407,656	31,065,940	51,903,000
Other cost bearing deposits	2,661,417,108	2,661,417,108	-	-	-
Borrowings	2,746,106,352	-	181,864,740	221,864,740	2,342,376,872
Total market rate liabilities	8,048,197,718	3,242,363,135	679,202,218	794,409,493	3,332,222,872
Other non-cost bearing liabilities					
Deposits	1,830,827,873	1,830,827,873	-	-	-
Other liabilities	651,752,959	216,891,750	239,791,836	143,271,848	51,797,525
Total non-cost bearing liabilities	2,482,580,832	2,047,719,623	239,791,836	143,271,848	51,797,525
Total liabilities	10,530,778,550	5,290,082,758	918,994,054	937,681,341	3,384,020,397
Net assets	2,758,877,992	(1,868,452,383)	3,565,422,612	4,132,275,699	(3,070,367,936)

36. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

36.1 Interest rate risk

Description	INTEREST/MARK-UP BEARING						Sub Total	NON INTEREST BEARING	Total	Interest Rate
	Maturity up to one year	Maturity after one year & up to two years	Maturity after two years & up to three years	Maturity after three years & up to four years	Maturity after four years & up to five years	Maturity after five years		Total		

The Bank's exposure to interest rate risk and the effective rates on its financial assets and liabilities as at December 31, 2013 are summarized as follows:

Financial assets:

Cash and balances in current and other accounts	-	-	-	-	-	-	-	894,603,943	894,603,943	-
Balance in deposit accounts	34,836,190	-	-	-	-	-	34,836,190	-	34,836,190	6.00 % to 8.00 %
Lending to financial institutions	942,371,214	-	-	-	-	-	942,371,214	-	942,371,214	9.85 % to 10.20 %
Investments	1,038,900,528	-	-	-	-	-	1,038,900,528	-	1,038,900,528	9.34 % to 9.82 %
Advances	8,751,626,167	5,269,267	-	-	-	-	8,756,895,434	-	8,756,895,434	15.00% to 31.00%
Other assets	-	-	-	-	-	-	-	1,114,143,087	1,114,143,087	-
	10,767,734,099	5,269,267	-	-	-	-	10,773,003,366	2,008,747,030	12,781,750,396	-

Financial liabilities:

Deposits and other accounts	4,312,245,366	151,289,000	838,557,000	-	-	-	5,302,091,366	1,830,827,873	7,132,919,239	6.00 % to 14.00%
Borrowings	403,729,480	523,729,480	363,729,480	363,729,480	363,729,480	727,458,952	2,746,106,352	-	2,746,106,352	6.28 % to 11.11 %
Other liabilities	-	-	-	-	-	-	-	527,926,389	527,926,389	-
	4,715,974,846	675,018,480	1,202,286,480	363,729,480	363,729,480	727,458,952	8,048,197,718	2,358,754,262	10,406,951,980	-

On balance sheet gap

Un recognized: (350,007,232) 2,374,798,416

Commitments (52,673,844) (52,673,844)

Off balance sheet gap 6,051,759,253 (669,749,213) (1,202,286,480) (363,729,480) (363,729,480) (727,458,952) 2,724,805,648 (402,681,076) 2,322,124,572

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

Financial assets:

Cash and balances in current and other accounts	-	-	-	-	-	-	-	771,132,424	771,132,424	-
Balance in deposit accounts	504,347,099	-	-	-	-	-	504,347,099	-	504,347,099	6.0 % to 9.7 %
Lending to financial institutions	590,014,893	-	-	-	-	-	590,014,893	-	590,014,893	6.5 % to 9.2 %
Investments	1,043,516,062	-	-	-	-	-	1,043,516,062	-	1,043,516,062	9.1% to 11.6%
Advances	5,717,031,631	-	-	-	-	-	5,717,031,631	-	5,717,031,631	15% to 29%
Other assets	-	-	-	-	-	-	-	802,265,793	802,265,793	-
	7,854,909,685	-	-	-	-	-	7,854,909,685	1,573,398,217	9,428,307,902	-

Financial liabilities:

Deposits and other accounts	2,116,931,317	91,476,000	139,908,000	-	-	-	2,348,315,317	1,692,331,675	4,040,646,992	5.0 % to 13.1%
Borrowings	388,729,480	438,729,480	363,729,480	363,729,480	363,729,480	1,091,188,432	3,009,835,832	-	3,009,835,832	6.1 % to 15.2 %
Other liabilities	-	-	-	-	-	-	-	413,524,912	413,524,912	-
	2,505,660,797	530,205,480	503,637,480	363,729,480	363,729,480	1,091,188,432	5,358,151,149	2,105,856,587	7,464,007,736	-

On balance sheet gap

Un recognized: (532,458,370) 1,964,300,166

Commitments (49,232,103) (49,232,103)

Off balance sheet gap 5,349,248,888 (530,205,480) (503,637,480) (363,729,480) (363,729,480) (1,091,188,432) 2,496,758,536 (581,690,473) 1,915,068,063

36.2 Market risk

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

36.3 Concentration of credit risk

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

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

36.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its net funding requirements. The Bank attempts to manage this risk by having adequate credit lines in place and maintaining sufficient liquidity at branch level to meet anticipated funding requirements. As at year end, the Bank has unavailed/undrawn facilities for aggregate amount of Rs 1,600 million.

36.5 Fair value of financial instruments

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

37. RELATED PARTY TRANSACTIONS

The Bank's related parties comprise of directors, key management personnel, shareholders, entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 17.2.1 while remuneration of directors and key management personnel is disclosed in note 34 to the financial statements. Detail of transactions during the year and balances outstanding at the year end are as follows:

	2013 Rupees	2012 Rupees
Transactions during the year		
- with shareholders		
Lending to financial institutions	13,154,122,648	15,050,331,596
Repayment of lending to financial institutions	12,886,263,679	16,210,947,975
Investments made during the year	736,065,000	551,103,300
Borrowings	2,502,874,388	299,944,876
Repayment of borrowings	2,611,322,736	599,954,136
Income		
Interest income on deposit account bank balances	2,314,559	10,480,119
Interest income on lending to financial institutions	17,478,583	19,744,514
Expenses		
Interest expense on borrowings	8,448,348	8,174,067
Bank charges	483,827	1,086,571
Branchless banking service commission	17,122,561	2,970,989
- with defined benefit plan		
Contribution to gratuity fund	40,811,130	34,074,643

	2013 Rupees	2012 Rupees
- with others		
Receipts from MSDF	290,413,713	80,116,550
Balances outstanding at the year end		
- with shareholders		
Balances with banks	105,823,690	119,054,964
Lending to financial institutions	284,949,098	-
Investments	104,856,754	-
Interest receivable on lending to financial institutions	388,455	-
Branchless Banking Services Commission Payable	1,797,636	1,053,095
Borrowings	-	100,000,000
Interest payable on borrowings	-	3,456,284
TDR placement	-	200,000,000
- with defined benefit plan		
Balance (receivable)/ payable to gratuity fund	24,706,735	(1,273,201)
- with key management personnel		
Advances - staff loans	2,401,957	-
Other assets - loans and advances to employees	10,982,207	5,526,118
Deposits	29,050	666,574
- with others		
Receivable from MSDF	119,295,593	193,581,856
Payable to MSDF	36,319,801	16,794,116

38. CAPITAL RISK MANAGEMENT

The Bank's objectives when managing its capital are:

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

Capital requirements applicable to the Bank are set out under the Regulations. These requirements are put in place to ensure sufficient solvency margins. The Bank manages its capital requirement by assessing its capital structure against required capital level on regular basis. Currently, the Bank has paid up capital of Rs 1.705 billion. The minimum paid up capital requirement applicable to the Bank is Rs 1 billion. The Bank has maintained capital adequacy ratio in accordance with Regulation No. 4 which states that the Bank shall maintain capital equivalent to at least 15% of its risk-weighted assets.

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

39. GENERAL INFORMATION

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

	2013	2012
Offices		
Number of full service branches	110	106
Micro-credit cases		
Number of active cases at year end	409,010	364,138
Number of loans disbursed during the year	450,540	392,958
Average number of active borrowers for the year	386,574	358,550
	2013 Rupees	2012 Rupees
Microcredit advances receivable - Gross	8,841,692,214	5,805,575,542
Total disbursements for the year	10,905,372,897	7,003,500,400
Portfolio Quality		
Portfolio at risk	99,022,923	104,549,671
Portfolio written off	155,156,771	302,876,326
Loan loss reserve	102,509,829	88,543,911
Average loan sizes		
Average outstanding loan size	21,617	15,943
Average gross loan portfolio	7,323,633,878	5,039,688,960
Information about the Bank's assets/ liabilities		
Total assets	13,289,656,542	9,953,616,111
Current assets	12,859,812,996	9,469,032,473
Fixed assets	275,183,756	312,592,222
Average total assets	11,621,636,327	9,087,548,068
Current liabilities	7,146,758,153	4,604,013,962
Bank's equity	2,752,487,691	2,473,077,167

40. FINANCIAL RATIOS

Sustainability/ Profitability

	Note	2013	2012
Return on equity	40.1	7.97%	(1.99%)
Adjusted return on equity	40.2	1.71%	(16.86%)
Return on assets	40.3	1.79%	(0.53%)
Adjusted return on assets	40.4	0.38%	(4.46%)
Operational self sufficiency	40.5	114.78%	97.86%
Financial self sufficiency	40.6	107.76%	79.69%
Profit margin	40.7	13.08%	(2.04%)

Asset / Liability Management

	Note	2013	2012
Current ratio	40.8	1.80	2.06
Yield on gross loan portfolio	40.9	28.18%	28.33%
Yield gap	40.10	20.25%	4.34%
Funding-expense ratio	40.11	8.39%	7.01%
Cost-of-funds ratio	40.12	7.27%	5.57%

	Note	2013	2012
Portfolio Quality			
Portfolio at risk	40.13		
from 1 - 29 days		0.33%	0.71%
from 30 - 59 days		0.36%	0.56%
from 60 - 89 days		0.15%	0.18%
from 90 - 179 days		0.17%	0.21%
over 179 days		0.11%	0.15%
Write-off ratio	40.14	2.12%	6.01%
Risk coverage ratio	40.15	103.52%	84.69%
Efficiency / Productivity			
Operating expense ratio	40.16	21.02%	26.33%
Cost per borrower (Rupees)	40.17	3,983	3,700
Personnel productivity	40.18	178	154
Loan officer productivity	40.19	578	517
Average disbursed loan size (Rupees)	40.20	24,205	17,823
Average outstanding loan size (Rupees)	40.21	21,617	15,943

- 40.1** Return on equity (RoE) calculates the rate of return on the average equity for the year. RoE calculations are net operating income less taxes divided by average equity for the year.
- 40.2** Adjusted return on equity is calculated on an adjusted basis to address the effects of subsidies, provision against non-performing advances and other items that are not in the Bank's net operating income.
- 40.3** Return on assets (RoA) measures how well the Bank uses its total assets to generate returns. RoA calculations are net operating income less taxes divided by average assets during the year.
- 40.4** Adjusted return on assets is calculated on an adjusted basis to address the effects of subsidies, provision against non-performing advances and other items that are not included in the Bank's net operating income.
- 40.5** Operational self sufficiency measures how well the Bank covers its costs through operating revenues. In addition to operating expenses, financial expenses and loan loss provision expense are also included in the calculation.
- 40.6** Financial self sufficiency measures how well the Bank covers its costs, taking into account a number of adjustments to operating revenues and expenses. The purpose of these adjustments is to model how well the Bank covers its costs if its operations were unsubsidized and was funding its expansion with commercial-cost liabilities.
- 40.7** Profit margin measures the percentage of operating revenue that remains after all financial, loan loss provision and operating expenses are paid.
- 40.8** Current ratio measures how well the Bank matches the maturities of its assets and liabilities.
- 40.9** Yield on gross loan portfolio indicates the gross loan portfolio's ability to generate cash financial revenue from interest, fees and commission. It does not include any revenues that have been accrued but not paid in cash, or any non-cash revenues in the form of post-dated cheques, seized but unsold collateral, etc.
- 40.10** Yield gap compares revenue actually received in cash with revenue expected from microcredit advances.
- 40.11** Funding-expense ratio shows the blended interest rate the Bank is paying to fund its financial assets. This ratio can be compared with yield on the gross microcredit advances to determine the interest margin.
- 40.12** Cost-of-funds ratio gives a blended interest rate for all of the Bank's funding liabilities. Funding liabilities do not include interest payable or interest on loans to finance fixed assets.
- 40.13** Portfolio at risk ratio is the most accepted measure of portfolio quality. Portfolio at risk is the outstanding amount of all loans that have one or more installments of principal past due by certain number of days. Rescheduled loans are also included in the calculation.

- 40.14** Write-off ratio represents the percentage of the Bank's microcredit advances that have been removed from the balance of the gross microcredit advances because they are unlikely to be repaid.
- 40.15** Risk coverage ratio shows how much of the portfolio at risk is covered by the Bank's provision against non-performing advances. It is an indicator of how prepared the Bank is to absorb loan losses in the worst case scenario.
- 40.16** Operating expense ratio is the most commonly used efficiency indicator for Microfinance Banks. It includes all administrative and personnel expenses.
- 40.17** Cost per borrower provides a meaningful measure of efficiency for the Bank, by determining the average cost of maintaining an active borrower.
- 40.18** Personnel productivity measures the overall productivity of total Bank's human resources in managing clients who have an outstanding loan balance and are thereby contributing to the financial revenue of the Bank.
- 40.19** Loan officer productivity measures the average case load of each loan officer.
- 40.20** Average disbursed loan size measures the average loan size that is disbursed to clients.
- 40.21** Average outstanding loan size measures the average outstanding microcredit balance by client, which may be significantly less than the average disbursed loan size.

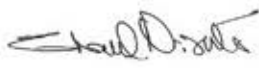
41. GENERAL

Corresponding figures have been rearranged and reclassified where necessary for more appropriate presentation of transactions and balances.

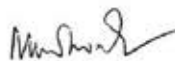
Account captions as prescribed by BSD circular No. 11 dated December 30, 2003 which have nil balances, have not been reproduced in these financial statements.

42. DATE OF APPROVAL

These financial statements were approved by the Board of Directors of the Bank in their meeting held on February 21, 2014.



PRESIDENT



CHAIRMAN



DIRECTOR



DIRECTOR

Branch Network

Punjab

Chiniot

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

Lahore

15-Shadman, Near Shadman Chowk, Jail
Road, Lahore.
Ph# 042-37582083/37530849
Fax# 042-37534808

Sheikhupura

Shop # 435 Near 32 Chowk Gujranwala
Road Sheikhupura
Ph# 056-3813566/ 056-3813568
Fax# 056-3813563

Bhalwal

Noon Sugar Mill Road , Bhalwal
Ph# 048-6642571/6642971
Fax# 048-6642571

Chakwal

Near Warid Franchise, Rawlpindi Road,
Chakwal
Ph# 0543550918
Fax# 0543540864

Faisalabad

Jimmy Plaza, Near Kinder Garton Girls
High School, Eid Gah Road, Faisalabad.
Ph# 041-2616148-6/9200780
Fax# 041-2616146

Jhang

Canal Colony Raod Near Distt. Courts
Jhang
Ph# 047-7620985/7620981
Fax# 047-7627940

Khushab

Plot # 221 Block # 4 College Chowk
Jauharabd , Distt. Khushab
Ph# 0454-722131/723131
Fax#0454722131

Kamoki

197/162 Near Shifa Eye Hospital, Main
G.T Road Kamoki
Ph# 055-6816240/41
Fax# 055-6811161

Narowal

Siddique Pura Morr Circular road
Narowal.
Ph# 0542-414267/414167
Fax# 0542-414168

Pasrur

Faisal Colony, Near Gujjar PSO Petrol
Pump, Pasrur
Ph# 0526-442247
Fax# 0526-442248

Sialkot

Small Industrial Estate, Near Alam
Chowk, Shahabpura road Sialkot
Ph# 052-3258442-1
Fax# 052-3258440-1-2

Wazirabad

Near Veterinery Hospital, Foam market
,Circular road , Wazirabad.
Ph# 055-6604692/6604694
Fax# 556609120

Rawalpindi

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

Sadiq Abad

Jamal Din Wali road, near crispy sweets
& bakers, Sadiqabad
Ph# 068-5700326
Fax# 068 5700426

Bhakkar

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

Kot Addu

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

Ahmedpur East

Near WAPDA Scarp colony, Katchery
Road, Ahmedpur East
Ph# 062-2273450
Fax# 062-2271450

Lodhran

Near Alla Iqbal Commerce College, MTN
Bahawalpur Road , Lodhran
Ph# 0608-361321
Fax# 0608-361324

Rajanpur

Kamran Market, Opposite Jamia Sheikh
Darkhasti, Indus Highway, Rajanpur.
Ph# 0604-690120 /0604-333365
Fax# 604689513

Kahrora Pacca

Union Council Bukshi Wali, Ward No. 16
/ 8, Near Railway Chowk, Lodhran Road,
Kahrora Pacca
Ph# 0608-342125-3-6
Fax# 0608-342126

Branch Network

Punjab

Dunyapur

Near Al-Mulk Hospital, Railway Road,
Dunyapur
Ph# 0608-305317/0608-304317
Fax# 0608-304317

Muzafar Garh

Old Chen One Building-Opp Bank
Alfalah-Main Multan Road-Muzafar Garh.
Ph# 662425490
Fax# 66 242 5491

Mandi Bahauddin

Shop # 5/201 Ward # 5 Near Alfatah
Masjid Mandi Bahauddin
Ph# 0546-500988/521002
Fax# 546-500981

Mianwali

Chah Gul Khanwala P.A.F Road Mianwali
Ph# 0459-231020
Fax# 0459231010

Sargodha

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

Arifwala

21-A/Block Main Muhammad Road
Karkhana bazar Arifwala Distt
Pakpattan.
Ph# 0457-835204
Fax# 0457-830202

Basirpur

Plot # 416, Main Bazar Depalpur Road,
Basirpur.
Ph# 044-4771030/4771121-22
Fax# 044-4771030

Chichawatni

Plot No. 18, 19 Main GT Road Near
Lakar Mandi Pull Chichawatni
Ph# 040-5483415/5480415
Fax# 040-5480477

Kasur

Minhas Colony, Near Khan Mahal
Cinema Main Lahore Road Kasur
Ph# 049-2773202-3
Fax# 049-2773203

Okara

Plot no.4033/8 M.A Jinnah Road Okara
Ph# 044-2550046
Fax# 044-2552246

Hassanabdal

Near Civil Hospital Main Hazara Road
Hassanabdal.
Ph# 057-2520098/2520191
Fax# 057-2520097

Fatehjang

Ground Floor,Mudassar Awan Arcade,
Rawalpindi Road,Fatehjang.
Ph# 057-2212132/2212701
Fax# 057-2212232

Mankera

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

Karor Lal Essan

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

Jalalpur Pirwala

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

Taunsa Sharif

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

Dera Ghazi Khan

Near Microwave Tower, Jam Pur Road,
DG Khan
Ph# 064-2470721,064-2470722
Fax# 064-9260535

Mian Channu

Nishtar Road Near MCB Mian Channu
Ph# 065-2660131
Fax# 065-2660132

Khanpur

Plot # 309-310, Model Town A, Near
Bank Alfalah, Katchehry Road, Khanpur
Ph# 068-5576922
Fax# 068-5576924

Rahim Yar Khan

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

Liaquatpur

87-A Scheme # 2 Bank Road Opposite
Qayyam Petroleum, Liaquat Pur
Ph# 068-5795499
Fax# 068-5792699

Branch Network

Punjab

Bahawalpur

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

Fazilpur

M. Ismaeel Plaza, Traffic Chowk Main
Indus Highway-Fazil Pur
Ph# 0604-681660-0604332196
Fax# 0604-681660

Jampur

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

Bhalwal

Noon Sugar Mill Road , Bhalwal
Ph# 048-6642571/6642971
Fax# 048-6642571

Chakwal

Near Warid Franchise, Rawlpindi Road,
Chakwal
Ph# 0543550918
Fax# 0543540864

Ali Pur

Near city police station and Bahadur
khan masjid Alipur
Ph# 066-2700873/2700872
Fax# 066-2700872

Pakpattan

Pakpattab Club Building, Club Road,
Pakpattan
Ph#45 7352477
045-7353559

Pattoki

Tariq Centre, Halla Road Pattoki
Ph# 049-4426350/4425350
Fax# 049-4423350

Sahiwal

Saeed Center, Jail Road, Sahiwal
Ph#040-4225313
Fax# 040-4220113

Toba Tek Singh

Al-Aziz Center, Shorekot Road ,
Toba Tek Singh
Ph# 046-2517512-14
Fax# 046-2154618

Minchanabad

Khata # 208, Khatoni # 208, Circular
road, near MCB bank, Minchinabad
Ph#063-2750135-136
Fax# 063-2750137

Gujrat

Shehroz Plaza Near SA Fans GT Road,
Gujrat
Ph#0533536275
Fax# 053-3510224

Hafizabad

Shop B1-185 Ghari Awan Kassoake Road
Hafizabad
Ph# 0547-541141-2
Fax# 0547-541143

Jhelum

Opposite Tableeg ul Islam High School Near
NADRA Office, Civil Line, Jhelum
Ph#0544230107/621261
Fax# 0544620267

Shujahabad

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

Tibbi

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

Leyyah

Main Choubara Road, Layyah
Ph# 0606-414704/ 5
Fax# 0606-414506

Hasilpur

Khata # 34/29, Plot Adjacent Honda
Motor Cycle Show Room Near Bus Stand
Main Bahawalpur Road, Rasoolabad
Colony, Hasilpur Distt Bahawalpur.
Ph# 062-2449935
Fax# 062-2443936

Qadirpur Rawan

Ali Building Near Twon Committee
office, G.T Road, QadirPur Rawan
Ph# 061-4578669
Fax# 61-4578668

Khairpur Tamewali

khata # 119/111, khatooni 271-276
opposite chand resturnat Tehsil
khairpur Tamewali Distt Bahawalpur
Ph# 062-2262010
Fax# 062-2262010

Vehari

Karkhana Bazar Vehari
Ph# 067-3360301
Fax# 067-3360304

Branch Network

Punjab

Chishtian

KBL Plot # 47,Block-C,Qazi Wala Road
Chishtian
Ph# 632500331
Fax# 632500332

Multan

NIPCO House, 1st Floor, Abdali Road, Multan
Ph# 614783057
Fax# 614782356

Fort Abbas

Khata # 347/351 School Bazar Near Main
Gate Ghallah Mandi Tehsil Fort Abbas Distt
Bahawalnagar
Ph# 063-2510594
Fax# 063-2510592

Khanewal

Block # 02,street# 01,RCA Chowk
Kahnewal
Ph#0 65-2551529
Fax# 065-2551528

Haroonabad

221 Main Bazar Haroon abad
Ph# 063-2510594
Fax# 063-2510592

Bahawalnagar

Plot#358 Jail Road, Jinah Colony
Bahawalnagar
Ph#063-2279054/2279055
Fax# 632279054

Burewala

3-C, opposite ptcl exchange, main
multan road burewala
Ph# 067-3354155, 067-3354159
Fax# 067-3354157

Sindh:

Karachi

Plot # 13, Commercial Area,
Gulshan-e-Iqbal,Block: 10-A, main
Rashid Minhas Road, Karachi
Ph# 021-34818323-6
Fax# 021-34818324

Badin

Survey # 33, Adjacent Abbasi Hospital,
Main DCO Chowk, Karachi Road Badin
Ph# 0297-862330
Fax# 297-810149

Mithi

Shop # 2 & 3 Satyani Shopping Center
Main Naukot Road Mithi Tharparkar
Ph# 0232-262304
Fax# 0232-262304

Rato Dero

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

Tando Allah Yar

Main Mirpurkhas Road, Adjacent Main
Eid Gah, Tando Allah Yar
Ph# 0223-892875
Fax# 0223-892874

Hala

Old National Highway, Near UBL Hala,
District Mitiari.
Ph# 0223-332350-52
Fax-0223-332352

Ghotki

Sada Bahar Shopping Center Near Bilal
Masjid Main GT Road Ghotki
Ph# 0723-600239/0723600220
Fax# 0723-600239

Daherki

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

Qambar

Opposite Sui Southern Gas Company
Limited Kambar
Ph# 0744-210072
Fax# 0744-210062

Branch Network

Sindh:

Thatha

Shop # 6, Al-Shahbaz Shops, National Highway Thatta.
Ph# 0298-550784
Fax# 0298-550784

Nawabshah

H.No A-306, Hospital Road, Otaq Quarter Nawabshah
Ph# 0244-370093
Fax# 0244-370094

Khairpur

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

Hyderabad

Shop # 2 & 3 Block 2 Defence Plaza Hyderabad.
Ph# 022-2108349
Fax# 022-2786621

Sanghar

Choudhary Corner Main Nawab Shah Road Sanghar
Ph# 0235800161
Fax# 0235800161

Ranipur

Near Mazhar Model School, National Highway Ranipur City District Khairpur Mirs.
Ph#0243-730229-0243-730226
Fax# 0243-730229

Tando Muhammad Khan:

Main Hayderabad Badin Road, Adjacent Bus Stop, Tando Muhammad Khan.
Ph# 0223-342738
Fax# 0223-342833

Mirpurkhas

Plot # 7, Survey # 862/7, Ward-A, MP Colony, Main Umar Kot Road, Mirpurkhas
Ph# 0233-873163
Fax# 0233-873163

Dadu

Opposite Govt: Pilot Girls School College Road Dadu
Ph#025-4710007
Fax# 025-4710007

Shikarpur

Sattari Building, Opposite Jahaz Chowk, Station Road, Shikarpur.
Ph# 0726-513024-23
Fax# 0726-512202

Sukkur

Military Road, Sukkur
Ph# 071-5633237
Fax# 071-5633237

Nosheroferoze

Main National Highway, Noshero Feroze
Ph#0242-481270-71
Fax# 0242-481269 z

Pano Aqil

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

Larkana

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

Badeh

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

Branch Network

Khyber Pakhtunkhawa:

Abbotabad

Ground Floor, Ali Plaza, Supply bazar,
Mansehra Road, Abbotabad.
Ph# 0992-343108/ 330871
Fax# 0992-343109

Haripur

Pankad Area,Shahrah-e-Hazara,Haripur
Ph# 0995610353/ 610181
Fax# 0995610353

Charsada

MG Plaza, Tangi Road, Charsadda.
Ph# 091-6513301-02
Fax# 091-6514589

Dadu

Opposite Govt: Pilot Girls School
College Road Dadu
Ph#025-4710007
Fax# 025-4710007

Kohat

Samand Plaza, Behzadi Chakarkot,
Bannu Road, Kohat.
Ph# 0922-522877
Fax# 0922-522876

Malakand Agency

Tahir plaza, Main Bazar, Batkhela,
Malakand Agency
Ph# 0932-415040
Fax# 0932-415039

Mardan

CB 445/A- 2, Saddar Bazar,The Mall,
Mardan Cantt. Mardan.
Ph# 0937870194-5
Fax# 937870828

Nowshera

Al-Jameel City Center,Near PSO Police
Petrol pump,Main G.T Road, Nowshera.
Ph# 0923-610158 / 0923-614558
Fax# 0923-614558

Swat (Mingora)

Ground Floor,Shahzad Plaza,Mukan
Bagh,Saidu Sharif Road,Mingora
Ph# 0946-724744/ 0946-724743
Fax# 0946-724742

Swabi

Rehman Plaza,Mardan Road,Swabi.
Ph#0938-223212-223113
Fax# 0938-224587

Peshawar:

Ground Floor,Huramaz Plaza,Tehkal
Payan, University Road Peshawar
Ph# 091-5702376/ 091-9218366
Fax# 091-5840377

Dera Ismail Khan

Al-Zaman Building, West Circular Road,
Dera Ismail Khan
Ph# 0966-711382
Fax# 0966-711382

Balouchistan:

Jafarabad

Main Quetta Road, Near Railway
Station, Jafferabad.
Ph# 0838-510034
Fax# 0838-510135

Nasirabad

Labor Chowk, Quetta Road, Dera Murad
Jamali, Naseerabad, Balouchistan.
Ph# 0838-711338-37
Fax# 0838-711338

Quetta

Usman Complex hali Road
Quetta,Opposite FC head Quarter
Ph#081-9201528/2832133
Fax# 081-2832133

Azad Kashmir:

Muzaffarabad

Raza Buliding , Poultry form road, opp
AJK University Muzaffarabad
Ph# 05822/ 920467-68
Fax-05822-920469

Rawlakot

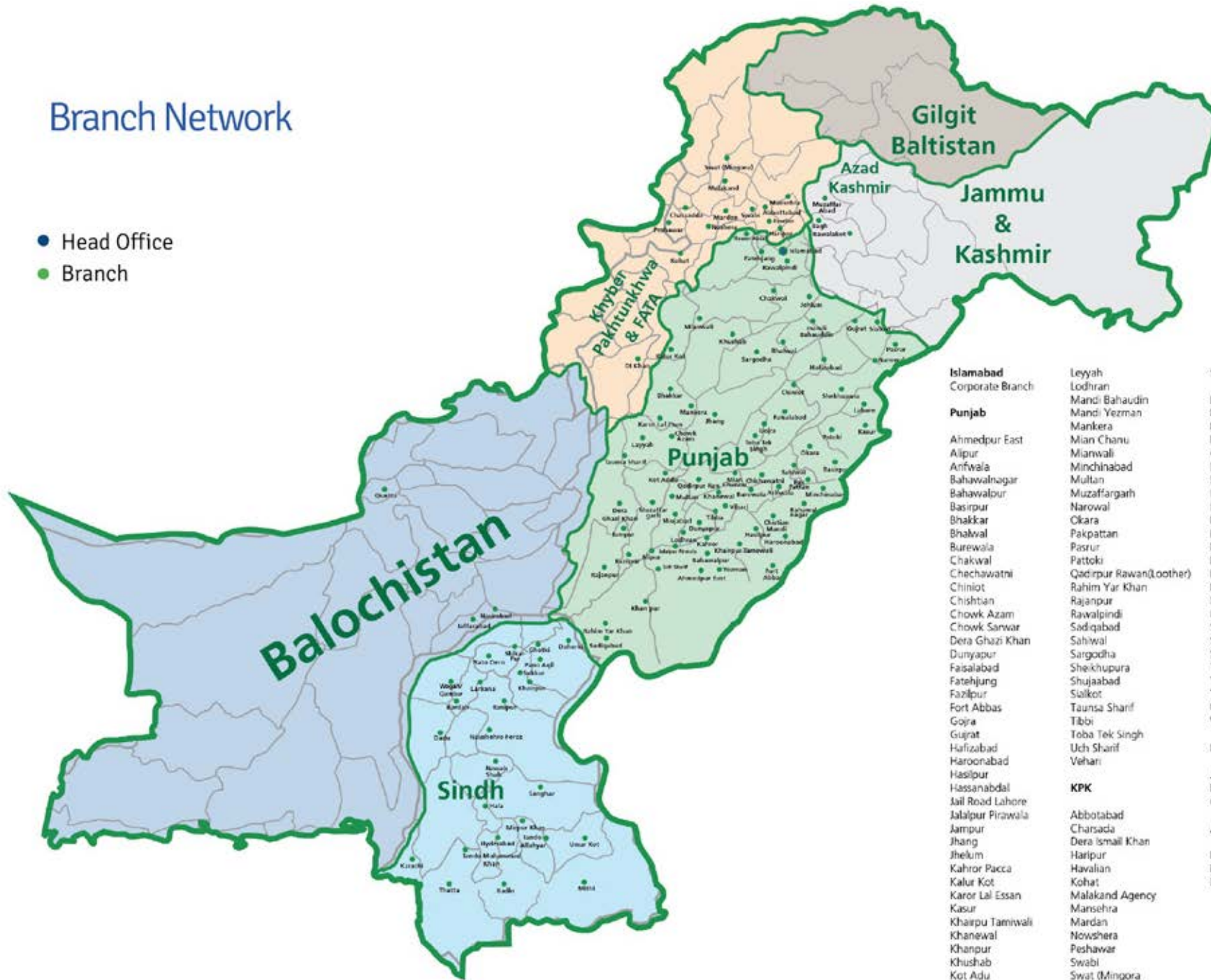
Anmol Plaza,Opp Ali Firdos
Clinic,CMH-Road,Rawalakot.
Ph# 058-24920193
Fax# 058-24920044

Bagh

Ground Floor, Al-Noor Plaza, College
Road Bagh
Ph# 05823-920158
Fax# 05823-920159

Branch Network

- Head Office
- Branch



Islamabad

Corporate Branch

Punjab

- Ahmedpur East
- Aiipur
- Anfwalla
- Bahawalnagar
- Bahawalpur
- Basirpur
- Bhakkar
- Bhakwal
- Burewala
- Chakwal
- Chachawatni
- Chiniot
- Chishtian
- Chowk Azam
- Chowk Sanwar
- Dera Ghazi Khan
- Dunyapur
- Faisalabad
- Fatehjung
- Fazilpur
- Fort Abbas
- Gojra
- Gujrat
- Harifabad
- Haroonabad
- Hasilpur
- Hassanabdal
- Jail Road Lahore
- Jalalpur Pirawala
- Jampur
- Jhang
- Jhelum
- Kahror Pacca
- Kalor Kot
- Karor Lal Essan
- Kasur
- Khairpu Tamwali
- Khanewal
- Khanpur
- Khushab
- Kot Adu

- Leyyah
- Lodhran
- Mandi Bahaudin
- Mandi Yezman
- Mankera
- Mian Chanu
- Mianwali
- Minchinabad
- Multan
- Muzaffargarh
- Narowal
- Okara
- Pakpattan
- Pasrur
- Pattoki
- Qadirpur Rawan(Lothar)
- Rahim Yar Khan
- Rajanpur
- Rawalpindi
- Sadqabad
- Sahiwal
- Sargodha
- Sheikhupura
- Shujaabad
- Sialkot
- Taunsa Sharif
- Tibbi
- Toba Tek Singh
- Uch Sharif
- Velhari

Sindh

- Badeh
- Badin
- Dadu
- Daherki
- Ghotki
- Hala
- Hyderabad
- Karachi
- Khairpur
- Larkana
- Mirpurkhas
- Mithi
- Nashero Feroze
- Nawabshah
- Panni Aqil
- Ranipur
- Ratodero
- Sanghar
- Shikarpur
- Sukkur
- Tando Allahyar
- Tando Muhammad Khan
- Thatta
- Umar kot
- Wagan/Kambar

Balochistan

- Jefferabad
- Nasirabad
- Quetta

AJK

- Bagh
- Muzaffarabad
- Rawlakot



Khushhalibank Limited

94 West, Fourth Floor, Jinnah Avenue, Blue Area
PO Box 3111, Islamabad - Pakistan
Tel: +92 (51) 111 092 092 Fax: + 92 (51) 9245120

