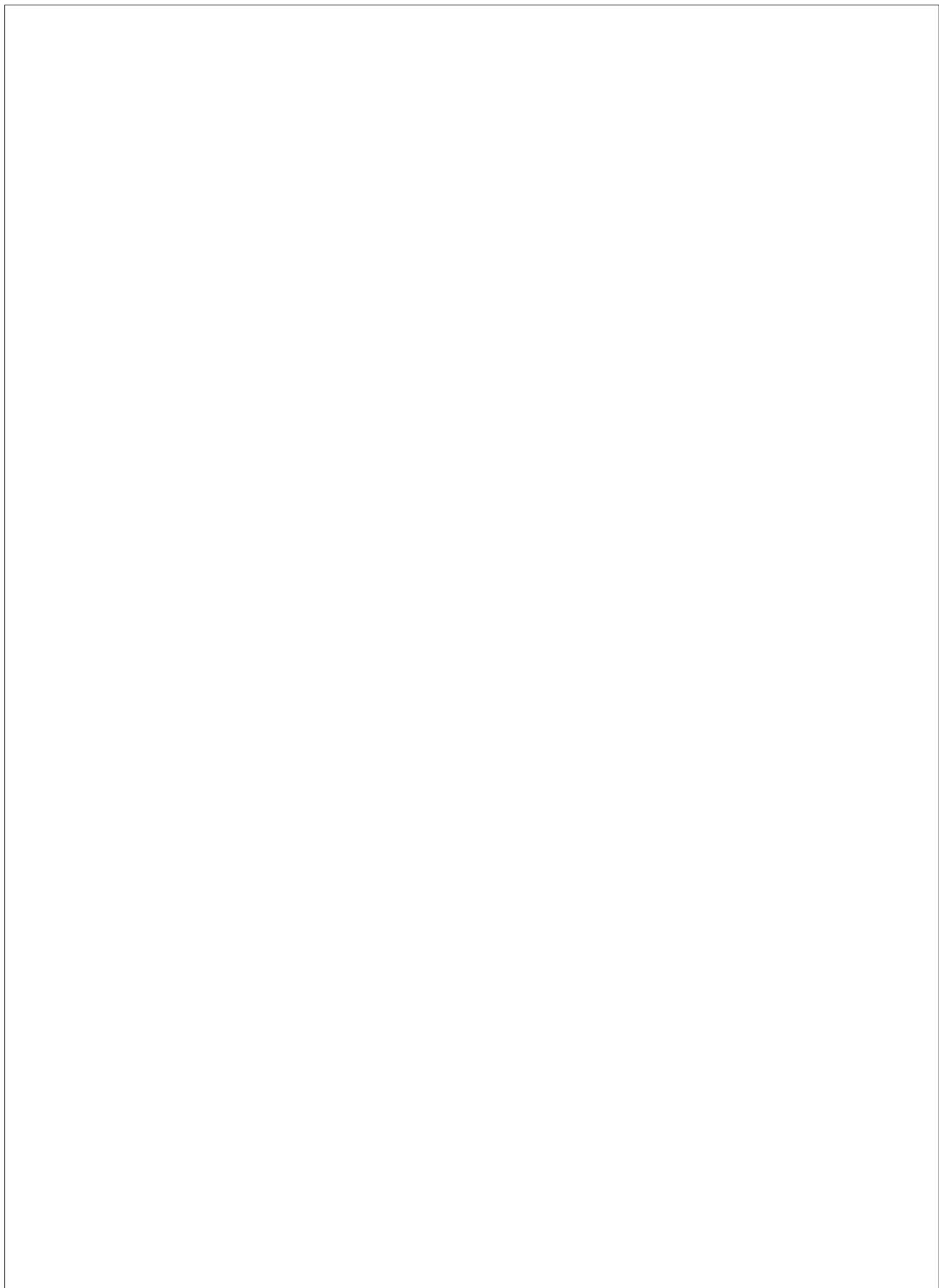




# Annual Report 2010

فوشحالی بینک لمیٹڈ  
khushhalibanklimited

| prosperity on all accounts |





## and the journey continues...

With more than two and a half million microfinance relationships, a comprehensive network of branches across the rural and urban divides of Pakistan, new banking products and

services and above all the happiness and joy of all those individuals who are living a better life because of our promise of spreading prosperity, today we believe we have been successful

in moving close to our destination. But for us, it is not the end. In fact, it is just the beginning. We still have to go a long way till we fulfill our promise of prosperity on all accounts.

## 11<sup>th</sup> Annual Report



## Prologue

Initialized in 2000, Khushhalibank was established as a part of the Government of Islamic Republic of Pakistan's Poverty Reduction Strategy and its Microfinance Sector Development Program. With its headquarters in Islamabad, Khushhalibank operates under the supervision of the State Bank of Pakistan and fifteen commercial banks as shareholders.



## A decade of prosperity

Starting its journey in 2000, Khushhalibank celebrated its tenth anniversary in August 2010. Poised to reduce poverty and uplift the status of low-income populace by catalyzing the environment for microfinance banking in the country, Khushhalibank has been successful in bringing a positive change in the lives of millions. These ten years have clearly witnessed the unprecedented impact of micro loans and allied financial products and services in opening up new opportunities for low-income households to access financial services for enhancing their incomes and securing a better future for their families.

With over two and a half million loans serviced across Pakistan, Khushhalibank has truly fulfilled its promise of ensuring 'prosperity on all accounts' and is fully geared to continue with the same spirit in the years ahead.



## **Vision**

To be a premier financial institution within the microfinance industry.



## Recognizing the spirit of entrepreneurship

The development of microfinance sector in the country is simply unimaginable without appreciating the contribution and spirit of individuals who exhibit courage against odds and make their dream of being financially independent a reality, with their desire to rise and determination to achieve. It is also because of these creative and skilful individuals that today the microfinance sector in Pakistan is witnessing growth.

Khushhalibank, endeavours to encourage such micro and small entrepreneurs of Pakistan through participation at competitive forums and one such opportunity was the 7<sup>th</sup> CITI-PPAF Awards that took place in Islamabad. Khushhalibank's clients won the highest number of awards during the contest. Sajan a client of Mithi Branch was declared as the regional winner of the Awards from Sindh province. His loan officer Jhaman Das was also awarded a prize for his efforts in reaching out to such enterprising entrepreneurs. On the regional level in runners up category, two more clients of Khushhalibank, Kalsoom Bibi from Rawalpindi Branch and Muhammad Azeem from Gawadar Branch won the prizes, and their loan officers Adeel Shehzad and Khadim Hussain were also awarded in recognition of their efforts.

These encouraging steps make more people recognize the importance of microfinance and as a result they start believing in themselves and take the initiative of bringing a positive change in their life by becoming financially independent and economically stable through establishing small yet successful enterprises. A role model for their communities.



## Mission

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

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





## Restoring businesses, rebuilding lives

Khushhalibank is not just about providing micro-loans to individuals belonging to low-income segment of society. It's also not only about providing complete range of financial services to those who are unbanked. It's about a promise of reforming lives; rebuilding communities and reshaping futures by collective yet focused efforts leading to a poverty free and financially independent society.

The Business Revitalization Program is yet another step in the same direction. This program has been designed to provide immediate assistance to businesses affected by terrorism, natural disaster or calamity. Funded by the United States Agency for International Development, the Program provides grants to traders/business owners to compensate for the loss of business. So far, grants have been disbursed to the traders of Bolton Market who lost their businesses during the riots of December 28, 2009 in Karachi, and the people of Hunza Nagar District who suffered damages by the devastating Atta'abad lake landslide of January 4, 2010.

This is part of a commitment made by United States Agency for International Development and Khushhalibank to revitalize businesses and restore livelihoods with the support of local communities and associations.



## Values

- Empower
- Excel
- Ethics



## Building a home grown pool of talent

Khushhalibank celebrated induction of 100<sup>th</sup> batch of trainee officers, coinciding with the Bank's 10<sup>th</sup> anniversary. Right from the outset, the Bank has pursued a transparent and merit based recruitment and selection policy. The strategy has been to provide job opportunities to local quality graduates drawn from territories contiguous to our branch operations and build a pool of "Home Grown Talent". It is by virtue of this strategy that today from functional leadership positions, through middle management and down to grass root level, the vast majority of employees are home grown. They are attuned to microfinance business culture and have a better pulse of microfinance customer. During the last 10 years, the Bank has grown in terms of clients and business, supported by a robust structure and delivery platform. To keep up with these developments, it is essential to have a regular stream of staff at the entry level to recoup the requirement emerging from growth and replacements.



# Annual Report 2010

# Contents

<b>Corporate Information</b>	<b>01</b>
<b>President's Review</b>	<b>02</b>
<b>Directors' Report to the Shareholders 2010</b>	<b>04</b>
<b>Auditors' Report to the Members</b>	<b>06</b>
<b>Balance Sheet as at December 31, 2010</b>	<b>07</b>
<b>Profit and Loss Account for the year ended December 31, 2010</b>	<b>08</b>
<b>Cash Flow Statement for the year ended December 31, 2010</b>	<b>09</b>
<b>Statement of Changes in Equity for the year ended December 31, 2010</b>	<b>10</b>
<b>Notes to the Financial Statements for the year ended December 31, 2010</b>	<b>11</b>
<b>Branch Network</b>	<b>39</b>



## Corporate Information

### Board of Directors

#### President

Muhammad Ghalib Nishtar

#### Directors

Zakir Mahmood  
M. R. Mehkari  
M. U. A. Usmani  
Rashid Akhtar Chughtai  
Atif Aslam Bajwa  
M. Ghalib Nishtar

#### Audit Committee

M. R. Mehkari  
M. U. A. Usmani  
Rashid Akhtar Chughtai

#### Company Secretary

Saleem Akhtar Bhatti

#### Share Registrar

Central Depository Company of Pakistan Ltd.  
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  
Web: [www.cdcpakistan.com](http://www.cdcpakistan.com)

### Auditors

A. F. Ferguson & Co.  
Chartered Accountants  
3rd Floor, PIA Building  
49-West, Eagle Plaza, Fazlul Haq Road  
Blue Area, Islamabad.

Tel: +92-51-227 3457-60  
Fax: +92-51-227 7924  
E-mail: [ferguson@nayatel.pk](mailto:ferguson@nayatel.pk)

### Legal Advisors

Samdani & Qureshi  
32-A, Street 38  
Main Nazimuddin Road  
Sector F-10/4, Islamabad.

Tel: +92-51-211 1595-8  
Fax: +92-51-210 8011  
E-mail: [fqureshi@samdaniqureshi.com](mailto:fqureshi@samdaniqureshi.com)

### Tax Consultants

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants  
75-West, Eagle Plaza, Fazlul Haq Road  
Blue Area, Islamabad.

Tel: +92-51-287 0290-92  
Fax: +92-51-287 0293  
Web: [www.ey.com/pk](http://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: +92-51-924 5120, web: [www.khushhalibank.com.pk](http://www.khushhalibank.com.pk)

# President's Review

## Background

Microfinance continues to evolve across the globe as a major supplier of financial services to low income households and has achieved a significant milestone of reaching nearly 100 million clients over the last two decades.

Simultaneously, with the passage of time the microfinance Industry continues to move on a maturity curve gradually making a transition from a donor driven development oriented Intervention towards commercialization and mainstreaming into the formal financial system. The emergence of regulated microfinance banking Institutions that are providing not just micro credit but a full range of financial services is an important development. The Institutional mechanisms need to be supervised by a regulatory framework aligned with market mechanisms that provide sustainable options for growth and competition for the future.

Pakistan's microfinance Industry has progressed well over the past decade driven under a conducive policy environment of the Government of Pakistan and the regulatory & supervisory framework of the central bank that encourages and supports commercial microfinance while promoting private sector participation and institutional diversity.

The State Bank of Pakistan Strategic Framework for Sustainable Microfinance in Pakistan 2010-15 provides a road map for the development of microfinance in the country and promotes market based financial services that meet the diverse needs of the poor and low income segments with a strategic focus on the following elements:

- Improving the quality of growth through promoting inclusive financial services with up scaling credit operations.
- Promoting innovation to achieve rapid scale and reduce operating costs.
- Promoting organizational development through effective governance and professional management at strategic, middle and operational levels.
- Improving sector discipline through consumer protection policies, financial literacy programs and exploring options to bring non-regulated Micro Finance Institutions under a minimum regulatory cover.

The Microfinance sector has reached a level of 2 million borrowers but is over the past two years witnessing a slowdown in micro credit growth while pursuing a more balanced expansion in terms of depositors and Insurance policy holders as an outcome of strategic changes introduced by respective Institutions in response to evolving regulatory environment.

Khushhalibank remains the largest player amongst the

microfinance banks in Pakistan.

The Institutional reforms undertaken at Khushhalibank over the last three years or more have aligned the bank well with the policy framework within the country.

The year in review witnessed a number of new Initiatives that include acquisition of a core banking system, diversification of funding to commercial sources & commencement of deposit mobilization drive for retail deposits as well as pursuing avenues for generation of fee based services

However, a major challenge in the year was the floods of August last year that affected our portfolio in our primary business areas in south Punjab, Sindh and parts of KP. This has had an impact on revenues and profitability as compared to our plans but the impact has been mitigated to a large extent by close coordination efforts with the affected clients and rescheduling of portfolios during 2010. The overhang of the situation is expected to continue into the next year.

Restructuring of our distribution network with closure of branches in low potential areas and opening of new branches in potential areas was pursued during the year while focusing on strengthening our internal control environment which reflected improvement in terms of internal & external reviews.

## Business performance Indicators

We recorded a profit before tax of PKR 188 million for the year 2010 which is lower than last year's of PKR 252 million primarily as a result of fall in non-core grant Income from PKR 250 million to PKR 98 million.

The bank continues to pursue a sustainable growth strategy with reliance on core business reducing grants/subsidies and the overall sustainability indicators reflect improvement from 99% last year to 105% in 2010.

The devastating floods of August 2010 affected a large part of the branches and business in some of the most potential areas of the country, and correspondingly suppressed growth in portfolio and revenues. However, a comprehensive risk mitigation mechanism is in place to monitor and address the situation and was successful in curtailing the impact to a large extent in 2010 and efforts will continue in the next year as well.

The conversion of branches to full service banking continues as per plan while simultaneously moving onto a new core banking platform providing capability to develop new products & services and pursue new business avenues. This is supplemented by strengthening of our business faculties resulting in upsurge in retail deposits that will provide funding at competitive costs for future growth and profitability.



The comparative indicators for the past four years are as follows:

Indicator		2010	2009	*2008	2007
<b>Outreach</b>					
Active Borrowers	Number	325,523	329,421	312,851	283,965
Number of Savers	Number	205,962	74,995	3,477	-
GLP	PKR	3,722,152,797	3,630,204,658	3,093,335,635	2,652,915,785
Amount of Savings	PKR	1,000,328,625	190,032,590	18,168,500	-
<b>Financial Performance</b>					
Total Revenue	PKR	1,471,489,809	1,318,331,158	1,013,196,990	813,828,031
Operating Profit/(Loss)	PKR	69,654,034	(19,115,438)	(329,628,857)	(196,574,221)
Net Profit/(Loss)	PKR	188,138,462	252,004,780	60,911,974	156,306,062
Average ROA	%	0.8%	-0.4%	-4.9%	-3.9%
Average ROE	%	2.6%	-1.3%	-17.9%	-14.8%
Operational Self Sufficiency (OSS)	%	105.0%	98.6%	75.5%	80.5%
Financial Self Sufficiency (FSS)	%	70.0%	70.8%	57.9%	57.5%
<b>Efficiency</b>					
Operating Expense/GLP	%	28.0%	29.3%	31.6%	31.9%
Personnel Expense/GLP	%	13.7%	14.0%	13.3%	14.1%
<b>Productivity</b>					
Borrowers per Staff	Number	150	165	156	152
Savers per Staff	Number	95	37	2	-
Personnel Allocation Ratio	%	35.3%	32.3%	33.1%	39.9%
<b>Risk</b>					
Portfolio at Risk > 30	%	3.9%	1.4%	2.2%	1.5%
Portfolio at Risk > 90	%	0.9%	0.7%	1.1%	0.7%

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

### Credit ratings

JCR-VIS Credit Rating Company Limited has upgraded Khushhalibank's entity ratings for medium to long term to "A" and short term to "A-1".

### Future outlook

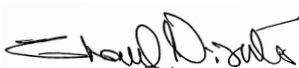
While the market is expected to remain challenging in the short to medium term the bank will continue to progress on a sustained growth path. Key initiatives planned in the next twelve months include the following:

1. Expanding access to commercial sources of funding through whole sale and retail funds.
2. Completion of conversion of branches onto an Integrated banking application thus providing the capability to avail expanded opportunities for business in terms of assets, liabilities and remittances.

3. Identification of low cost alternate delivery channel.
4. Completion of the process for strategic Investment from the private sector.

A well functioning governance structure, efficient operations complete with robust internal controls and the ability to maintain growth and sustainability will ensure success for the future.

I wish to acknowledge the support of all stakeholders that include our shareholders, regulator, management & clients.



M. Ghalib Nishtar  
President

## Directors' Report to the Shareholders: 2010

On behalf of the Board of Directors, I am pleased to present the audited financial statements and Auditors' Report thereon, for the year ended December 31, 2010.

### Corporate Reporting Framework

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

1. The financial statements prepared by the management of the Bank presents a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
2. Proper books of accounts of the company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements.
4. The company has followed international accounting standards(as applicable in Pakistan) in the preparation of accounts and there is no departure from the said standards.
5. As a continuous process, efforts are made to effectively implement the internal control system. The issues identified during the review process are rectified through appropriate corrective actions thereby further strengthening the internal control environment.
6. There are no doubts about the Bank's ability to continue as a going concern.
7. The Board has constituted Audit Committee comprising of non - executive members which has defined terms of reference. Risk Management policy framework has also been approved by the Board. The Board has met four times during the year.

The Auditors' Report is annexed to the financial statements.

### CGAP Compliant Reporting

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

The Bank in its financial statements as at December 31, 2010, has complied with the above stated two sets of guidelines. The CGAP disclosures and ratios are presented in addition to the requirements of SBP BSD circular 11 dated December 30, 2003.

### Performance Review

The Bank continues to maintain its position as a largest microfinance bank in Pakistan.

The Bank posted a profit before tax of PKR 188m as against profit of PKR 252m last year.

The decline in profits result as dependency on non-core banking activities continues to fall and grant income has reduced to PKR98m (2009: PKR 250m). Also; interest income remained suppressed due to impact of non-performing portfolio of flood affected branches. The Bank has prudently enhanced the level of general provision from 1.5% to 2% of the outstanding loan portfolio in order to cater for any probable loan losses.

However; the Bank is pursuing a sustainable growth strategy as approved by the Board of Directors reducing dependence on grant and subsidies. Consequently; the Operational Self Sufficiency (OSS) indicator together with stable outreach target remained the key business objective during the year. The Bank's OSS (without taking into account grants and cost subsidies) has improved to 105% at the year end as operating profit increased to PKR90m (2009: PKR1m).

In pursuance of the Bank's strategy of generating low cost funding for business growth and expansion; the Bank has accelerated liability drive initially within forty full service banking outlets which has helped to scale up its deposit base to nearly PKR1b (2009: PKR 190m) at the year end.

Conversely; the Bank's advances portfolio was maintained at PKR 3.62b (2009: PKR3.56b) as growth of portfolio was curtailed due to devastation of floods in July 2010.

The results of operations under review are presented below;

	2010 Rupees	2009 Rupees
<b>PROFIT AFTER TAXATION</b>	<b>174,160,834</b>	<b>245,640,267</b>
Unappropriated profit brought forward	209,041,695	61,657,534
Profit available for appropriation	383,202,529	307,297,801
<b>APPROPRIATIONS:</b>		
Transfer to :		
Statutory Reserve	34,832,167	49,128,053
Microfinance Social Development Fund	17,416,083	24,264,627
Depositors' Protection Fund	8,708,042	12,282,013
Risk Mitigation Fund	8,708,042	12,282,013
	69,664,334	98,256,106
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>	<b>313,538,195</b>	<b>209,041,695</b>

## Pattern of Shareholding

The Pattern of shareholding of the Bank as at December 31, 2010 as required under section 236 of the Companies Ordinance 1984 is as follows:

### Shareholding

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

### Categories of Shareholders

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

### Shareholders holding above 10% of voting shares

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

### Credit Ratings

JCR-VIS Credit Rating Company Limited has upgraded Khushhalibank's entity ratings for medium to long term to "A" and short term to "A-1".

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

### Earning Per Share

Basic earning per share has been disclosed under note 30 of the financial statements.

### Capital Adequacy

As of December 31, 2010 the Bank's capital adequacy ratio (CAR) measure at 44% (2009:41%) as against the mandatory requirement of 15% under the Prudential Regulations (PR) for Microfinance Banks.

### Auditors

The present auditors of the company A. F. Ferguson & Co, Chartered Accountants retire and being eligible,

offered themselves for re-appointment in the forthcoming Annual General Meeting. The Board of Directors on the suggestion of the Audit Committee recommends A. F. Ferguson & Co, Chartered Accountants for the appointment of next term.

### Appreciation and Acknowledgement

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



Chairman  
March 4, 2011

## Auditors' Report to the Members

We have audited the annexed balance sheet of Khushhali Bank Limited (the Bank) as at December 31, 2010 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Microfinance Institutions Ordinance, 2001 and Companies Ordinance, 1984 and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, 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, 2010 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance 1980 (xvii of 1980).

Islamabad:  
March 04, 2011



A. F. Ferguson & Co.  
Chartered Accountants  
Name of the audit engagement partner: Kalimuddin Ghauri

## Balance Sheet as at December 31, 2010

ASSETS	Note	2010 Rupees	2009 Rupees
Cash and balances with SBP and NBP	6	163,112,013	79,179,713
Balances with other Banks/ NBFIs/ MFBs	7	581,414,297	485,843,594
Lending to financial institutions	8	811,921,784	399,459,544
Investments - net of provisions	9	1,252,790,066	976,273,697
Advances - net of provisions	10	3,621,410,320	3,555,947,451
Operating fixed assets	11	168,718,686	185,678,434
Other assets	12	639,305,273	905,396,669
<b>Total Assets</b>		<b>7,238,672,439</b>	<b>6,587,779,102</b>
<b>LIABILITIES</b>			
Deposits and other accounts	13	1,000,328,625	190,032,590
Borrowings	14	3,862,294,792	4,158,660,916
Other liabilities	15	156,765,219	162,165,256
<b>Total Liabilities</b>		<b>5,019,388,636</b>	<b>4,510,858,762</b>
<b>NET ASSETS</b>		<b>2,219,283,803</b>	<b>2,076,920,340</b>
<b>REPRESENTED BY:</b>			
Share capital	16	1,705,000,000	1,705,000,000
Statutory reserve	5.11	144,603,560	109,771,393
Capital reserve	5.12	24,255,224	24,255,224
Reserve for contingencies	5.14	28,385,353	28,385,353
Unappropriated profit		313,538,195	209,041,695
		2,215,782,332	2,076,453,665
(Deficit) on revaluation of assets	17	(8,704,489)	(15,452,370)
Deferred grants	18	12,205,960	15,919,045
<b>Total Capital</b>		<b>2,219,283,803</b>	<b>2,076,920,340</b>
<b>MEMORANDUM/ OFF BALANCE SHEET ITEMS</b>	19		

The annexed notes from 1 to 39 form an integral part of these financial statements.

  
PRESIDENT

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

## Profit and Loss Account for the year ended December 31, 2010

	Note	2010 Rupees	2009 Rupees
Mark-up/ return/ interest earned	20	1,221,037,366	1,082,724,962
Mark-up/ return/ interest expensed	21	260,551,582	256,875,073
Net mark-up/ interest income		960,485,784	825,849,889
Provision against non-performing loans, advances and other assets	10.5,12	113,064,596	96,240,514
Bad debts written off directly	10.6	-	-
		113,064,596	96,240,514
Net mark-up/ interest income after provisions		847,421,188	729,609,375
<b>NON MARK-UP/ NON INTEREST INCOME</b>			
Fee, commission and brokerage income	22	176,725,475	190,177,731
Other income	23	192,211,396	316,548,683
Total non mark-up/ non interest income		368,936,871	506,726,414
		1,216,358,059	1,236,335,789
<b>NON MARK-UP/ NON INTEREST EXPENSES</b>			
Administrative expenses	24	1,024,433,828	979,051,054
Other charges	25	3,785,769	5,279,955
Total non-mark-up/ non interest expense		1,028,219,597	984,331,009
<b>PROFIT BEFORE TAXATION</b>			
Taxation - Current	26.2	188,138,462	252,004,780
		13,977,628	6,364,513
<b>PROFIT AFTER TAXATION</b>			
Unappropriated profit brought forward		174,160,834	245,640,267
Profit available for appropriation		209,041,695	61,657,534
		383,202,529	307,297,801
<b>APPROPRIATIONS:</b>			
<b>Transfer to:</b>			
Statutory Reserve	5.11	34,832,167	49,128,053
Microfinance Social Development Fund	5.15	17,416,083	24,564,027
Depositors' Protection Fund	5.15	8,708,042	12,282,013
Risk Mitigation Fund	5.15	8,708,042	12,282,013
		69,664,334	98,256,106
<b>UNAPPROPRIATED PROFIT CARRIED FORWARD</b>			
		<b>313,538,195</b>	<b>209,041,695</b>
<b>EARNINGS PER SHARE</b>			
	<b>30</b>	<b>1.02</b>	<b>1.44</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

  
PRESIDENT

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

## Cash Flow Statement for the year ended December 31, 2010

	Note	2010 Rupees	2009 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		188,138,462	252,004,780
Adjustments for:			
Depreciation and amortization		67,604,939	66,533,313
Amortization of deferred grant		(6,463,085)	(17,952,685)
Amortization of premium on investments held to maturity		7,784,612	516,999
Provision against non-performing advances		112,205,012	95,280,967
Gain on sale of investments		-	(312,667)
Gain on sale of operating fixed assets		(20,180,369)	(20,661,163)
Interest on investments and deposit accounts		(194,489,341)	(258,233,601)
Grant income		(1,450,974)	(35,651,257)
Financial charges		265,266,890	263,108,534
Provision against other assets		859,584	959,547
Provision for gratuity		26,676,167	26,215,725
		257,813,435	119,803,712
		445,951,897	371,808,492
(Increase)/decrease in operating assets			
Lending to financial institutions		(412,462,240)	(399,459,544)
Advances		(177,667,881)	(638,291,681)
Other assets (excluding advance taxation)		232,096,947	(209,988,887)
		(358,033,174)	(1,247,740,112)
Increase/(decrease) in operating liabilities			
Deposits and other accounts		810,296,035	171,864,090
Other liabilities		(52,110,554)	(15,029,265)
		400,152,307	(1,090,905,287)
Cash flow from operations		846,104,204	(719,096,795)
Interest received		216,794,085	264,686,431
Income taxes paid		2,627,872	(2,485,819)
Financial charges paid		(254,108,505)	(268,556,077)
Gratuity paid		(25,675,439)	(24,122,909)
Net cash flow from operating activities		785,742,217	(749,575,169)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investments made during the year		(1,484,696,300)	(1,636,593,100)
Investments encashed during the year		1,198,354,800	1,856,099,600
Purchase of operating fixed assets		(52,085,563)	(97,903,636)
Sale proceeds against fixed assets		21,620,743	23,940,181
Net cash flow from investing activities		(316,806,320)	145,543,045
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Borrowings from financial institutions		67,363,356	(106,072,360)
Repayment of Government of Pakistan Loan		(363,729,480)	(363,729,480)
Grant from SBI SA Micro Savings		2,750,000	-
Grant from United State Agency for International Development (USAID)		4,183,230	28,070,416
Net cash used in financing activities			(289,432,894)
Net increase/(decrease) in cash and cash equivalents		179,503,003	(1,045,763,548)
Cash and cash equivalents at beginning of the year		565,023,307	1,610,786,855
<b>Cash and cash equivalents at end of the year</b>	<b>27</b>	<b>744,526,310</b>	<b>565,023,307</b>

The annexed notes from 1 to 39 form an integral part of these financial statements.

  
PRESIDENT

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR

## Statement of Changes in Equity for the year ended December 31, 2010

	Share Capital	Statutory Reserve	Capital Reserve	Reserve for Contingencies	Unappropriated Profit	Total
			Rupees			Rupees
Balance as at December 31, 2008	1,705,000,000	60,643,340	24,255,224	28,385,353	61,657,534	1,879,941,451
Profit for the year after taxation	-	-	-	-	245,640,267	245,640,267
Transfer to:						
Statutory Reserve	-	49,128,053	-	-	(49,128,053)	-
Microfinance Social Development Fund	-	-	-	-	(24,564,027)	(24,564,027)
Risk Mitigation Fund	-	-	-	-	(12,282,013)	(12,282,013)
Depositors' Protection Fund	-	-	-	-	(12,282,013)	(12,282,013)
Balance as at December 31, 2009	1,705,000,000	109,771,393	24,255,224	28,385,353	209,041,695	2,076,453,665
Profit for the year after taxation	-	-	-	-	174,160,834	174,160,834
Transfer to:						
Statutory Reserve	-	34,832,167	-	-	(34,832,167)	-
Microfinance Social Development Fund	-	-	-	-	(17,416,083)	(17,416,083)
Risk Mitigation Fund	-	-	-	-	(8,708,042)	(8,708,042)
Depositors' Protection Fund	-	-	-	-	(8,708,042)	(8,708,042)
Balance as at December 31, 2010	<b>1,705,000,000</b>	<b>144,603,560</b>	<b>24,255,224</b>	<b>28,385,353</b>	<b>313,538,195</b>	<b>2,215,782,332</b>

The annexed notes 1 to 39 form an integral part of these financial statements.

  
PRESIDENT

  
CHAIRMAN

  
DIRECTOR

  
DIRECTOR



## Notes to the Financial Statements for the year ended December 31, 2010

### 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 year 2008, the Government of Pakistan (GoP) signed Improving Access to Financial Service Program (IAFSP) with Asian Development Bank. In pursuance of the requirements of IAFSP, all microfinance institutions in Pakistan including KB need to operate under Microfinance Institutions Ordinance, 2001.

Consequently, SBP prepared a conversion structure for KB which was agreed by the Ministry of Finance GoP. SBP vide its letter dated November 15, 2007 advised KB to proceed with conversion process which primarily required KB's registration with the Securities and Exchange Commission of Pakistan (SECP). Accordingly, an application for incorporation of Khushhali Bank Limited (the Bank) was submitted to SECP on February 15, 2008. Subsequently SECP on February 28, 2008 issued Certificate of Incorporation of the Bank under the Companies Ordinance, 1984.

SBP vide its letter dated March 18, 2008, under section 47 of the Khushhali Bank Ordinance, 2000 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 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. Accordingly, the first financial statements of the Bank were prepared for nine months period ended on December 31, 2008.

The Bank's registered office and principal place of business is situated at 94-West Jinnah Avenue, Blue Area, Islamabad. The Bank has 109 branches in operation as at December 31, 2010 (December 31, 2009: 107 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.

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 Standards, amendments and interpretations effective in 2010 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but they are not relevant to the Bank's operations.

IFRS 1	First-time adoption of International Financial Reporting Standards
IFRS 2	Share-based payment
IFRS 3	Business combinations
IFRS 4	Insurance contracts

IFRS 5	Non-current assets held for sale and discontinued operations
IFRS 6	Exploration for and evaluation of mineral resources
IFRS 8	Operating segments
IAS 11	Construction contracts
IAS 23	Borrowing costs
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 29	Financial reporting in hyperinflationary environments
IAS 31	Interest in joint ventures
IAS 34	Interim financial reporting
IAS 41	Agriculture
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities
IFRIC 2	Members' shares in co-operative entities and similar instruments
IFRIC 5	Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment
IFRIC 7	Applying restatement approach under IAS 29 Financial reporting in hyperinflationary economies
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim financial reporting and impairment
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 18	Transfer of assets from customers

### 3.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the bank

Certain minor amendments in following International Accounting Standards (IASs) have been introduced through IASB's annual improvements published in May 2010.

		Effective for periods beginning on or after
IFRS 7	Financial instruments: Disclosures - <i>Amendments resulting from May 2010 annual improvements to IFRSs</i>	January 1, 2011
IFRS 7	Financial instruments: Disclosures - <i>Amendments enhancing disclosures about transfers of financial assets</i>	July 1, 2010
IFRS 9	Financial Instruments – <i>Classification and measurement of financial instruments</i>	January 1, 2013
IAS 1	Presentation of financial statements - <i>Amendments resulting from April 2009 annual improvements to IFRSs</i>	January 1, 2011
IAS 12	Income taxes - <i>Limited scope amendment (recovery of underlying assets)</i>	January 1, 2012
IAS 24	Related party disclosures – <i>Revised definition of related parties</i>	January 1, 2011
IFRIC 14	IAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction - <i>November 2009 Amendments with respect to voluntary prepaid contributions</i>	January 1, 2011

### 3.3 Amendments and interpretations to existing standards which are not yet effective and not relevant to the bank's operations

Certain amendments were made in the following International Accounting Standards (IASs) through IASB's annual improvements published in May 2010.

		Effective for periods beginning on or after
IFRS 1	First-time adoption of International Financial Reporting Standards - <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
IFRS 1	First-time adoption of International Financial Reporting Standards - <i>Amendments resulting from May 2010 Annual Improvements to IFRSs</i>	January 1, 2011

		Effective for periods beginning on or after
IFRS 1	First-time adoption of International Financial Reporting Standards - <i>Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'</i>	July 1, 2010
IFRS 1	First-time adoption of International Financial Reporting Standards - <i>Additional exemption for entities ceasing to suffer from severe hyperinflation</i>	July 1, 2010
IFRS 3	Business combinations - <i>Amendments resulting from May 2010 Annual Improvements to IFRSs</i>	July 1, 2010
IAS 27	Consolidated and separate financial statements - <i>Amendments resulting from May 2010 Annual Improvements to IFRSs</i>	July 1, 2010
IAS 32	Financial instruments: Presentation - <i>Amendments relating to classification of rights issues</i>	February 1, 2010
IAS 34	Interim financial reporting - <i>Amendments resulting from May 2010 Annual Improvements to IFRSs</i>	January 1, 2011
IFRIC 13	Customer loyalty programmes - <i>Amendments resulting from May 2010 Annual Improvements to IFRSs</i>	January 1, 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2010

#### 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 5.25.

#### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury banks, balances with other banks and call money lending.

##### 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 as mark-up/return expensed and earned, as the case may be. 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 kept in "Surplus/ (deficit) on revaluation of assets" and is shown in the balance sheet below equity. The surplus / (deficit) arising on these investments is taken to the profit and loss account, when actually 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**  
These are advances in arrears for 30 days or more but less than 60 days.
- b) **Substandard**  
These are advances in arrears for 60 days or more but less than 90 days.
- c) **Doubtful**  
These are advances in arrears for 90 days or more but less than 180 days.
- d) **Loss**  
These are advances in arrears for 180 days or more.

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

In accordance with the Prudential Regulations (the Regulations) for Microfinance Banks issued by SBP, the Bank maintains specific provision for potential loan losses for all non-performing advances as follows:

OAEM:	Nil
Substandard:	25% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without to a Court of Law
Doubtful:	50% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without to a Court of Law
Loss:	100% of outstanding principal net of cash collaterals and gold (ornaments and bullion) realizable without to a Court of Law

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

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

In 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 the State Bank of Pakistan's prudential regulation 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

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

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

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

### 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 11.2.1 to the financial statements. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is recognized in profit and loss account as incurred.

## 5.6 Impairment

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

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

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

## 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 Taxation

### Current

Current tax is the tax payable on the taxable income for the year, using tax rates enacted or substantively

enacted at the reporting date, taking into account tax credits, rebates and tax losses, if any, and any adjustment to tax payable in respect of previous years.

Deferred

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

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

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

### **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 accounting policy for post retirement benefit- gratuity is described below:

Post retirement benefit

The Bank operates an approved gratuity scheme for all eligible employees completing the minimum qualifying period of service as specified by the employee rules. Provision is made annually to cover obligations under the scheme in accordance with the actuarial recommendations. Relevant details are given in note 15.1 to the financial statements.

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

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

### **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 Regulations, the Bank is required to maintain a statutory reserve to which an appropriation equivalent to 20% of the profit after tax is made till such time the reserve fund equals the paid up capital of the Bank. However, thereafter, the contribution is reduced to 5% of the profit after tax.

### **5.12 Capital reserve**

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

### **5.13 Cash reserve and liquidity**

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. In addition to the cash reserve it also maintains liquidity equivalent to at least 10% of its time and demand liabilities in the form of liquid assets i.e. cash, gold and unencumbered approved securities.

### **5.14 Reserve for contingencies**

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

### 5.15 Contributions

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

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

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

### 5.16 Grants

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

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

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

### 5.17 Revenue recognition

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

Mark-up/ return on investments is recognised on time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, those premiums/ discounts are 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 are included in profit and loss account currently.

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

### 5.18 Borrowing costs

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

### 5.19 Operating leases

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

### 5.20 Financial instruments

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

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

### 5.21 Impairment – Financial Assets

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

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

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

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

### 5.22 Off-setting

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

### 5.23 Foreign currencies

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

### 5.24 Provisions

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

### 5.25 Use of Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The Bank uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. 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 was exercised in application of accounting policies are as follows:

- a) classification of investments.
- b) provision against advances.
- c) useful life of operating fixed assets.
- d) income taxes.
- e) staff retirement benefits.



	Note	2010 Rupees	2009 Rupees
<b>6. CASH AND BALANCES WITH SBP AND NBP</b>			
Cash in hand			
Local currency		65,899,409	40,731,544
Balances with State Bank of Pakistan (SBP) in:			
Local currency current accounts	6.1	73,741,966	23,518,667
Balances with National Bank of Pakistan (NBP) in:			
Local currency current accounts		21,023,219	8,195,956
Local currency deposit accounts	6.2	2,447,419	6,733,546
		23,470,638	14,929,502
		<u>163,112,013</u>	<u>79,179,713</u>

**6.1** This represents balance maintained with SBP to meet the requirement of maintaining minimum balance equivalent to 5% (2009: 5%) of the Bank's time and demand liabilities in accordance with regulation 6A of the Regulations.

**6.2** This represent balances held across the network for the purpose of lending to borrowers and recoveries from customers, which carry an interest rate of 5% (2009: 5%) per annum.

	Note	2010 Rupees	2009 Rupees
<b>7. BALANCES WITH OTHER BANKS/ NBFIs/ MFBs</b>			
In Pakistan			
Local currency current accounts		424,870,487	131,775,147
Local currency deposit accounts	7.1	156,543,810	340,617,687
Foreign currency current account		-	13,450,760
		<u>581,414,297</u>	<u>485,843,594</u>

**7.1** This represent balances held across the network for the purpose of lending to borrowers and recoveries from customers, which carry interest rates ranging from 5% to 10.55% (2009: 5% to 11%) per annum. This also includes Term Deposit Receipts amounting to Rs. Nil (2009 : Rs. 300 million) with local commercial banks carrying interest rates ranging Nil (2009:12.25% to 13.25%) per annum with maturity Nil (2009: up to one month).

	Note	2010 Rupees	2009 Rupees
<b>8. LENDING TO FINANCIAL INSTITUTIONS</b>			
Repurchase agreement lending (reverse repo)	8.1	811,921,784	399,459,544
Clean lending	8.2	100,000,000	100,000,000
Less: Provision for impairment		100,000,000	100,000,000
		<u>-</u>	<u>-</u>
		<u>811,921,784</u>	<u>399,459,544</u>

**8.1** This represents reverse repo at the rate of 12.50% and 12.70% per annum (2009: 12.10%) maturing on January 3, 2011 and January 5, 2011 (2009: January 4, 2010).

8.1.1 Securities held as collateral against lending to financial institutions

	2010 Rupees			2009 Rupees		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Market Treasury Bills (T-Bills)	824,000,000	-	824,000,000	412,000,000	-	412,000,000

- 8.2** This represents amount placed with Innovative Housing Finance Limited (IHFL) formerly, Crescent Standard Investment Bank Limited. The amount was initially given as a clean lending and was being rolled over on maturity dates due to liquidity problems of IHFL. On June 30, 2007, the Bank entered into an agreement with IHFL 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 is repayable by IHFL in 10 equal biannual installments, starting from December 31, 2009. IHFL is 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 instalment, IHFL defaulted its first payment due to liquidity problems. Moreover, the Bank has fully provided the investment as advised by SBP. The Securities and Exchange Commission of Pakistan has superseded the Board of Directors of IHFL in January 2010 and appointed its administrator to revive the IHFL.

	Note	2010 Rupees	2009 Rupees
<b>9. INVESTMENTS - NET OF PROVISIONS</b>			
<b>Federal Government Securities</b>			
<b>Available for sale securities</b>			
Market Treasury Bills (T-Bills)	9.1	895,493,800	609,152,300
Add: (Deficit) / Surplus on revaluation of available for sale securities	9.2	(534,059)	1,506,460
		<u>894,959,741</u>	<u>610,658,760</u>
<b>Held to maturity investments</b>			
Pakistan Investment Bonds (PIBs)	9.3	357,830,325	365,614,937
		<u>1,252,790,066</u>	<u>976,273,697</u>

- 9.1** This represents T-Bills purchased for the year ranging from 82 days to 364 days (2009: 182 days to 364 days) having yield interest ranging from 12.10% to 13.35% (2009: 12.15% to 13.25%) per annum. T-Bills amounting to Rs. Nil (2009: Rs. 167 million) are given as collateral against borrowings (note - 14.3).
- 9.2** In compliance with the requirements of the Regulations, available for sale investments have been valued on mark-to market basis and the resulting (deficit) / surplus is kept in a separate account and is shown below the shareholders' equity in the balance sheet.
- 9.3** This represents 10 year PIBs with maturity in 2011 having yield interest ranging from 12% to 13% (2009: 12% to 13%) per annum, receivable on semi-annual basis. Market value of held to maturity PIBs at year end was Rs. 338 million (2009: Rs. 334 million). PIBs amounting to Rs. 202 million (2009: Nil) are given as collateral against borrowings (note - 14.3)

## 10. ADVANCES - NET OF PROVISIONS

Loan type	Note	2010		2009	
		No. of loans outstanding	Amount outstanding Rupees	No. of loans outstanding	Amount outstanding Rupees
Micro credit	10.1	325,523	3,722,152,797	329,421	3,630,204,658
Less: Provisions held					
Specific provision	10.2	9,820	(28,004,701)	9,661	(18,646,565)
General provision	10.3	324,112	(72,737,776)	328,281	(55,610,642)
			<u>(100,742,477)</u>		<u>(74,257,207)</u>
Advances - net of provisions			<u>3,621,410,320</u>		<u>3,555,947,451</u>

- 10.1** This includes 784 rescheduled micro credit advances having aggregate value of Rs.11.22 million (2009: Nil) related to flood affected branches.

**10.2** This includes provision of Rs. 0.86 million (2009: Nil) against micro credit advances rescheduled during the year, related to flood affected branches, in accordance with SBP's circular number MFD 4 dated November 2, 2010.

**10.3** General provision is maintained at the rate of 2% of micro credit advances net of specific provision. The rate has been increased for the current year from 1.5% to 2% approximately, to prudently manage credit risk related to micro credit advances of flood affected branches.

#### 10.4 Particulars of non-performing advances

Advances include Rs. 146.02 million (2009: Rs. 50.33 million) which, as detailed below, have been placed under non-performing status.

Category of classification	2010			2009		
	Amount outstanding	Provisions required Rupees	Provisions held	Amount outstanding	Provisions required Rupees	Provisions held
OAEM	83,702,027	-	-	13,885,048	-	-
Sub-Standard	28,735,564	7,183,891	7,183,891	10,831,936	2,707,984	2,707,984
Doubtful	25,515,694	12,757,847	12,757,847	19,355,982	9,677,991	9,677,991
Loss	8,062,963	8,062,963	8,062,963	6,260,590	6,260,590	6,260,590
<b>Total</b>	<b>146,016,248</b>	<b>28,004,701</b>	<b>28,004,701</b>	<b>50,333,556</b>	<b>18,646,565</b>	<b>18,646,565</b>

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

	2010			2009		
	Specific	General Rupees	Total	Specific	General Rupees	Total
Balance at beginning of the year	18,646,565	55,610,642	74,257,207	29,440,470	50,958,428	80,398,898
Charge for the year	95,077,878	17,127,134	112,205,012	90,628,753	4,652,214	95,280,967
Amounts written off	(85,719,742)	-	(85,719,742)	(101,422,658)	-	(101,422,658)
Balance at end of the year	<u>28,004,701</u>	<u>72,737,776</u>	<u>100,742,477</u>	<u>18,646,565</u>	<u>55,610,642</u>	<u>74,257,207</u>

#### 10.6 Particulars of write offs

	2010 Rupees	2009 Rupees
Against provisions	85,719,742	101,422,658
Directly charged to profit and loss account	-	-
	<u>85,719,742</u>	<u>101,422,658</u>

#### 10.7 Portfolio quality report

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

Normal Loans	2010		2009	
	Amount Rupees	Portfolio at Risk	Amount Rupees	Portfolio at Risk
Current	3,490,737,750	-	3,562,624,254	-
1 - 29 days late	83,711,428	2.25%	17,246,848	0.48%
30 - 59 days late	77,618,714	2.09%	13,885,048	0.38%
60 - 89 days late	25,282,496	0.68%	10,831,936	0.30%
90 - 179 days late	25,515,694	0.69%	19,355,982	0.53%
More than 179 days late	8,062,963	0.22%	6,260,590	0.17%
	<u>3,710,929,045</u>	<u>5.93%</u>	<u>3,630,204,658</u>	<u>1.86%</u>

Rescheduled Loans	2010		2009	
	Amount Rupees	Portfolio at Risk	Amount Rupees	Portfolio at Risk
Current	25,000	-	-	-
1 - 29 days late	1,662,371	0.04%	-	-
30 - 59 days late	6,083,313	0.16%	-	-
60 - 89 days late	3,453,068	0.09%	-	-
90 - 179 days late	-	-	-	-
More than 179 days late	-	-	-	-
	<u>11,223,752</u>	<u>0.29%</u>	<u>-</u>	<u>-</u>

### 10.8 Current recovery ratio

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

Period	Current Recovery Ratio	
	2010	2009
1st quarter	136.7%	138.8%
2nd quarter	132.9%	143.3%
3rd quarter	126.6%	133.9%
4th quarter	138.0%	162.9%
January - December	133.6%	144.7%

Annual loss rate for the year is 0% (2009: 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

10.8.1 Current recovery ratios are calculated and reported on a quarterly basis. These ratios are prepared and presented using the portfolio indicators reports prepared by the management. The numerator of this ratio is total cash payments of principal and service charge received during the reporting period. The denominator is the total loans falling due during the period along with the payments in arrears at the start of the period including service charge.

### 10.9 Loan loss allowance

	2010				2009			
	Outstanding loan portfolio (principal)		Allowance for loan loss		Outstanding loan portfolio (principal)		Allowance for loan loss	
	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees
<b>Normal loans</b>								
Current	93.8%	3,490,737,750	-	-	98.1%	3,562,624,254	-	-
1 - 29 days late	2.2%	83,711,428	-	-	0.5%	17,246,848	-	-
30 - 59 days late	2.1%	77,618,714	-	-	0.4%	13,885,048	-	-
60 - 89 days late	0.7%	25,282,496	22.6%	6,320,624	0.3%	10,831,936	14.5%	2,707,984
90 - 179 days late	0.7%	25,515,694	45.6%	12,757,847	0.5%	19,355,982	51.9%	9,677,991
More than 179 days late	0.2%	8,062,963	28.8%	8,062,963	0.2%	6,260,590	33.6%	6,260,590
<b>Renegotiated loans</b>								
Current	0.0%	25,000	-	-	-	-	-	-
1 - 29 days late	0.0%	1,662,371	-	-	-	-	-	-
30 - 59 days late	0.2%	6,083,313	-	-	-	-	-	-
60 - 89 days late	0.1%	3,453,068	3.0%	863,267	-	-	-	-
90 - 179 days late	-	-	-	-	-	-	-	-
More than 179 days late	-	-	-	-	-	-	-	-
	<u>100%</u>	<u>3,722,152,797</u>	<u>100%</u>	<u>28,004,701</u>	<u>100%</u>	<u>3,630,204,658</u>	<u>100%</u>	<u>18,646,565</u>

11. OPERATING FIXED ASSETS	Note	2010 Rupees	2009 Rupees
Property and equipment	11.1	161,974,964	175,718,576
Intangible assets	11.2	6,743,722	9,959,858
		<u>168,718,686</u>	<u>185,678,434</u>

### 11.1 Property and equipment

	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
<b>Cost</b>					
	Rupees				
Opening Cost	77,373,884	82,714,634	70,437,567	307,366,957	537,893,042
Additions during the year	20,425,398	27,200,567	43,492,406	2,494	91,120,865
Disposals during the year	(4,080,720)	(5,957,596)	(2,629,495)	(37,478,664)	(50,146,475)
Balance as at December 31, 2009	<u>93,718,562</u>	<u>103,957,605</u>	<u>111,300,478</u>	<u>269,890,787</u>	<u>578,867,432</u>
Balance as at January 1, 2010	93,718,562	103,957,605	111,300,478	269,890,787	578,867,432
Additions during the year	17,011,568	17,109,779	12,657,199	1,905,610	48,684,156
Disposals during the year	(2,810,484)	(2,942,287)	(2,914,095)	(37,810,982)	(46,477,848)
Balance as at December 31, 2010	<u>107,919,646</u>	<u>118,125,097</u>	<u>121,043,582</u>	<u>233,985,415</u>	<u>581,073,740</u>
<b>Depreciation</b>					
Opening accumulated depreciation	23,246,820	47,101,537	48,616,910	269,139,908	388,105,175
Depreciation charge for the year	8,434,104	15,223,770	15,926,772	22,328,984	61,913,630
Disposals during the year	(2,063,941)	(5,443,201)	(2,576,579)	(36,786,228)	(46,869,949)
Balance as at December 31, 2009	<u>29,616,983</u>	<u>56,882,106</u>	<u>61,967,103</u>	<u>254,682,664</u>	<u>403,148,856</u>
Balance as at January 1, 2010	29,616,983	56,882,106	61,967,103	254,682,664	403,148,856
Depreciation charge for the year	10,102,958	15,768,552	25,260,314	9,855,572	60,987,396
Disposals during the year	(1,604,379)	(2,743,547)	(2,912,316)	(37,777,234)	(45,037,476)
Balance as at December 31, 2010	<u>38,115,562</u>	<u>69,907,111</u>	<u>84,315,101</u>	<u>226,761,002</u>	<u>419,098,776</u>
<b>Carrying value</b>					
2009	64,101,579	47,075,499	49,333,375	15,208,123	175,718,576
2010	<u>69,804,084</u>	<u>48,217,986</u>	<u>36,728,481</u>	<u>7,224,413</u>	<u>161,974,964</u>
<b>Rates of depreciation per annum</b>	10%	20%	33.33%	25%	

11.1.1 Depreciation for the year includes Rs. 6.46 million (2009 : Rs. 17.95 million) being the depreciation charged on assets acquired as grant, as explained in detail in note 18.1 and 23.1 to the financial statements.

11.1.2 The gross carrying amount of fully depreciated property and equipment that are still in use is Rs. 282.47 million (2009: Rs. 263.57 million).

11.1.3 Details of fixed assets 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 Rupees	Sale Proceed	Mode of disposal	Particulars of purchaser / (insurer)
Toyota Hilux	2,267,450	1	925,000	Auction	Mr. Muhammad Shahid
Toyota Hilux	2,267,450	1	970,000	Auction	Mr. Aurangzeb Khan
Toyota Hilux	2,267,450	1	845,000	Auction	Mr. Dil Sheeraz Khan
Honda Civic VTI Oriol	1,128,610	21,392	805,000	Auction	Mr. Sheikh Muhammad Ali

<b>11.2 Intangible assets</b>	<b>2010</b>	<b>2009</b>
<b>Computer software</b>	<b>Rupees</b>	<b>Rupees</b>
<b>Cost</b>		
Balance as at the beginning of the year	20,292,022	14,717,092
Additions during the year	3,401,407	6,782,771
Disposals during the year	-	(1,207,841)
Balance as at the end of the year	23,693,429	20,292,022
<b>Amortization</b>		
Balance as at the beginning of the year	(10,332,164)	(6,917,830)
Charge for the year	(6,617,543)	(4,619,683)
Disposals during the year	-	1,205,349
Balance as at the end of the year	(16,949,707)	(10,332,164)
<b>Carrying value</b>	<u>6,743,722</u>	<u>9,959,858</u>

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

11.2.2 The gross carrying amount of fully amortized intangible assets that are still in use is Rs. 4.4 million (2009: Rs.4.05 million)

<b>12. OTHER ASSETS</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>Rupees</b>	<b>Rupees</b>
Mark-up accrued		366,295,282	312,774,716
Less: suspended markup on non-performing advances		(21,154,747)	(6,643,527)
		<u>345,140,535</u>	<u>306,131,189</u>
Interest receivable on investments and bank deposits		20,250,167	42,554,911
Loans and advances - unsecured, considered good			
Employees		79,885,179	64,442,211
Suppliers		18,758,987	8,985,953
		98,644,166	73,428,164
Deposits		2,040,895	743,345
Prepayments		49,855,825	43,788,073
Advance taxation - net of provision		23,959,387	40,564,887
Receivable from Microfinance Social Development Fund	23.2	79,843,051	150,035,943
Receivable from Emergency Livelihood Restoration Fund for:			
Equity support	12.1	-	162,621,000
Operational cost support	23.3	-	56,010,853
Community group formation	23.3	-	18,519,600
		-	237,151,453
Receivable from USAID	23.1	3,106,585	5,838,841
Insurance claims receivable		4,761,709	3,294,143
Receivable from SBP	12.2	8,701,146	-
Other receivables		4,045,440	3,341,143
		<u>640,348,906</u>	<u>906,872,092</u>
Less: provisions held against classified other assets			
Opening provision		1,475,423	6,033,916
Provision for the year		859,584	959,547
Receivables written off against provision		(1,291,374)	(5,518,040)
		1,043,633	1,475,423
		<u>639,305,273</u>	<u>905,396,669</u>

- 12.1** This represents amount paid on behalf of Emergency Livelihood Restoration Programme (ELRP) launched by GoP during February 2006. The objective of ELRP was to revive local economies and reduce dependence on relief to affected households of October 8, 2005 earthquake. For the purposes of ELRP, Earthquake Livelihood Restoration Fund (ELRF) was established by SBP and the Bank was designated as implementing agency which utilized its organizational structure, personnel etc and collaborated with service providers for immediate outreach to the earthquake affected households.

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

The ELRP completed its tenure on July 31, 2009 and the Bank has received final claim from SBP in May 2010.

- 12.2** This represents amount to be reimbursed by SBP, vide SMEFD circular No. 11 of 2010, in pursuance of Prime Minister's announcement of fiscal relief Package to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA and subsequent release of budgetary allocation by the Ministry of Finance, Government of Pakistan on account of interest /mark-up rate differential.

13. DEPOSITS AND OTHER ACCOUNTS	Note	2010		2009	
		No of Accounts	Amount Rupees	No of Accounts	Amount Rupees
Fixed deposits	13.2	2,043	197,594,000	644	56,610,000
Current accounts		203,919	802,734,625	74,351	133,422,590
		<u>205,962</u>	<u>1,000,328,625</u>	<u>74,995</u>	<u>190,032,590</u>

#### 13.1 Particulars of deposits by ownership

Individual depositors	205,936	963,878,408	74,995	190,032,590
Institutional depositors	26	36,450,217	-	-
	<u>205,962</u>	<u>1,000,328,625</u>	<u>74,995</u>	<u>190,032,590</u>

- 13.2** This represent term deposits having tenure of 1 to 12 months carrying interest rates ranging from 6% to 11% per annum (2009: 6% to 10%).

14. BORROWINGS	Note	2010 Rupees	2009 Rupees
<b>Unsecured</b>			
Borrowing from banks/ financial institutions outside Pakistan	14.1	3,637,294,792	4,001,024,272
Borrowings from banks/ financial institutions in Pakistan	14.2	25,000,000	-
<b>Secured</b>			
Borrowing from banks/financial institutions in Pakistan	14.3	<u>200,000,000</u>	<u>157,636,644</u>
		<u>3,862,294,792</u>	<u>4,158,660,916</u>

- 14.1** This represent 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. By February 2006, the Bank utilized SDR 52.51 million against total credit line amounting to SDR 52.57 million under the aforesaid loan agreement.

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 PKR, determined as of the respective dates of the withdrawal, while the GoP shall bear the foreign exchange risk.

The interest is being paid on bi-annual basis charged at the rate equal to weighted average cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interest rates used for the two bi-annual payments during the year were determined to be 5.88% and 5.97% (2009: 6.02% and 6.11%) per annum.

**14.2** This represent interbank money market borrowings carrying interest rates of 14% (2009: Nil) per annum repayable on January 6, 2011.

**14.3** This represent interbank money market borrowings for two years carrying interest rate ranging from 13.96% to 14.77% (2009: 12.25%) per annum and are repayable in two equal installments in the last year i.e. on July 2011 and January 2012 (2009: January 21, 2010). These borrowings are secured against PIBs amounting to Rs.202 million and charge over current assets, receivables, book debt for Rs. 100 million (2009: Secured against T Bills amounting to Rs. 167 million ).

<b>14.4 Quarterly average borrowing</b>	<b>2010 Rupees</b>	<b>2009 Rupees</b>
An analysis of monthly average borrowings for the four quarters is as under,		
1st Quarter	4,201,024,272	4,364,753,752
2nd Quarter	4,079,781,112	4,243,510,592
3rd Quarter	4,019,159,532	4,182,889,012
4th Quarter	3,906,249,705	4,114,191,400

**14.5 Loan repayment schedule**

Loan principal at year end	3,862,294,792	4,158,660,916
Average during the year (quarterly)	4,051,553,655	4,226,336,189
Annual interest expense	255,047,492	254,146,064

**15. OTHER LIABILITIES**

	<b>Note</b>	<b>2010 Rupees</b>	<b>2009 Rupees</b>
Interest payable on borrowings		49,919,534	41,243,341
Interest payable on deposits		2,761,793	560,364
Accrued expenses		31,874,175	38,487,813
Bills payable		504,920	-
Payable to defined benefit plan - gratuity	15.1	3,299,391	2,298,663
Contribution payable to Microfinance Social Development Fund		17,416,083	24,564,027
Contribution payable to Risk Mitigation Fund		8,708,042	12,282,013
Contribution payable to Depositors' Protection Fund		8,708,042	12,282,013
Payable to service providers		6,942,000	7,524,000
Payable to suppliers		17,192,370	9,681,624
Provision for Workers Welfare Fund		3,762,769	5,142,955
Other payables		5,676,100	8,098,443
		<u>156,765,219</u>	<u>162,165,256</u>

**15.1 Payable to defined benefit plan - gratuity**

Disclosures related to Employees Gratuity Fund are given below:

i) Amounts recognised in the balance sheet		
Present value of defined benefit obligations		118,869,107
Fair value of plan assets		(119,117,075)
Deficit		(247,968)
Unrecognized actuarial gain/(loss)		3,547,359
Net liability		<u>3,299,391</u>
		<u>95,792,693</u>
		<u>(92,704,801)</u>
		<u>3,087,892</u>
		<u>(789,229)</u>
		<u>2,298,663</u>



ii) Amounts recognized in the profit and loss account		
Current service cost	26,305,620	25,493,682
Interest cost	11,495,123	10,724,216
Expected return on plan assets	(11,124,576)	(10,002,173)
	<u>26,676,167</u>	<u>26,215,725</u>
iii) Changes in present value of defined benefit obligation		
Opening defined benefit obligation	95,792,693	71,494,772
Expense for the year	37,800,743	36,217,898
Benefits paid during the year	(11,653,939)	(7,669,535)
Actuarial (gain)/loss	(3,070,390)	(4,250,442)
Closing defined benefit obligation	<u>118,869,107</u>	<u>95,792,693</u>
iv) Changes in fair value of plan assets		
Opening fair value of plan assets	92,704,801	66,681,152
Expected return on plan assets	11,124,576	10,002,173
Contributions paid during the year	25,675,439	24,122,909
Benefit paid during the year	(11,653,939)	(7,669,535)
Actuarial gain/(loss) on plan assets	1,266,198	(431,898)
Closing fair value of plan assets	<u>119,117,075</u>	<u>92,704,801</u>
v) Actual return on plan assets		
Expected return on plan assets	11,124,576	10,002,173
Actuarial loss/(gain) on plan assets	1,266,198	(431,898)
	<u>12,390,774</u>	<u>9,570,275</u>
vi) Major categories of plan assets		
Investments in T-Bills	117,098,000	89,491,500
Accrued interest	992,496	1,582,208
Cash at bank	1,026,579	1,631,093
	<u>119,117,075</u>	<u>92,704,801</u>
vii) The latest actuarial valuation was carried out at December 31, 2010. The significant assumptions used for actuarial valuation are as follows:		
	<b>2010</b>	<b>2009</b>
Discount rate	13%	12%
Expected rate of increase in salaries	12%	13%
Mortality rate	EFU 1961-66	EFU 1961-66
Average expected remaining working life of employees	11 years	11 years
viii) Amounts for the current and previous year	<b>Rupees</b>	<b>Rupees</b>
Present value of defined benefit obligation	(118,869,107)	(95,792,693)
Fair value of plan assets	119,117,075	92,704,801
Deficit/surplus	247,968	(3,087,892)
Experience adjustments on plan liabilities	3,070,390	4,250,442
Experience adjustments on plan assets	1,266,198	(431,898)
ix) Expected contribution of the Company to the defined benefit gratuity fund for the year ending December 31, 2011 is Rs. 28,346,711.		

## 16. SHARE CAPITAL

### 16.1 Authorized Capital

2010 Number	2009 Number	Note	2010 Rupees	2009 Rupees
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs.10 each	<u>6,000,000,000</u>	<u>6,000,000,000</u>

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

<u>170,500,000</u>	<u>170,500,000</u>	Ordinary shares of Rs.10 each fully paid for consideration other than cash	16.2.1 <u>1,705,000,000</u>	<u>1,705,000,000</u>
--------------------	--------------------	--	-----------------------------	----------------------

16.2.1 This represents ordinary shares allotted to shareholders of the Bank in accordance with the scheme of conversion. These ordinary shares were previously issued by KB against cash consideration.

	Note	2010 Rupees	2009 Rupees
16.2.2 The shareholders of the Bank are as follow:			
National Bank of Pakistan		400,000,000	400,000,000
Habib Bank Limited		300,000,000	300,000,000
MCB Bank Limited		300,000,000	300,000,000
United Bank Limited		200,000,000	200,000,000
Allied Bank Limited		200,000,000	200,000,000
Standard Chartered Bank (Pakistan) Limited		80,000,000	80,000,000
Askari Bank Limited		50,000,000	50,000,000
Citibank N.A		50,000,000	50,000,000
Bank Al Habib Limited		30,000,000	30,000,000
Soneri Bank Limited		25,000,000	25,000,000
Habib Metropolitan Bank Limited		25,000,000	25,000,000
The Royal Bank of Scotland		15,000,000	15,000,000
KASB Bank Limited		10,000,000	10,000,000
Silk Bank Limited		10,000,000	10,000,000
Mybank Limited		10,000,000	10,000,000
		<u>1,705,000,000</u>	<u>1,705,000,000</u>

## 17. (DEFICIT) ON REVALUATION OF ASSETS

### Federal Government securities

(Deficit) / surplus on revaluation of available for sale securities		(534,059)	1,506,460
Unamortized loss on reclassification of available for sale securities to held to maturity	17.1	(8,170,430)	(16,958,830)
		<u>(8,704,489)</u>	<u>(15,452,370)</u>

17.1 This represents unamortised balance of revaluation loss of reclassified held to maturity (PIB) investments. Accordingly, revaluation loss at reclassification date, April 1, 2008, amounting to Rs. 34 million is being amortised over the remaining life of PIBs using effective interest method.

	Note	2010 Rupees	2009 Rupees
<b>18. DEFERRED GRANTS</b>			
Grant from GoP	18.1	251,589,232	251,589,232
Less: Grant amortized upto March 31, 2008		(229,033,917)	(229,033,917)
for nine months ended December 31, 2008		(13,264,640)	(13,264,640)
for the year 2009		(6,004,178)	(6,004,178)
for the year 2010		(1,590,387)	-
		1,696,110	3,286,497
Grant from USAID	23.1	98,374,901	98,374,901
Less: Grant amortized upto March 31, 2008		(57,990,871)	(57,990,871)
for nine months ended December 31, 2008		(15,802,975)	(15,802,975)
for the year 2009		(11,948,507)	(11,948,507)
for the year 2010		(4,872,698)	-
		7,759,850	12,632,548
Grant from SBI SA Micro Savings	18.2	2,750,000	-
		12,205,960	15,919,045

**18.1** 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 has completed its tenure on June 30, 2007. The Bank has received reimbursements from SBP for all pending claims.

**18.2** On September 24, 2010 the Bank entered into a two year grant agreement with Shore Bank International Ltd. (SBI) to improve the capacity of the Bank for delivering saving products more effectively, profitably and at an enhanced scale. SBI shall provide financial assistance of US\$ 300 thousands in the form of grant to the Bank, in order to procure and implement an interim banking application from Sidat Hyder Morshed Associates (SHMA) named Bank Essential (BE).

Accordingly, an amount of Rs. 2.75 million (2009: Nil) was reimbursed by SBI to the Bank based on payments made to SHMA for the banking application.

## 19. MEMORANDUM/ OFF BALANCE SHEET ITEMS

**19.1** There are no contingent liabilities at the year end (2009: Nil).

**19.2** Commitments for capital expenditure amounting to Rs. 17.79 million (2009: Rs. 23.15 million) are outstanding as at December 31, 2010.

**19.3** Commitments for 12,545 micro credit advances amounting to Rs. 188.64 million (2009: Nil) are outstanding as at December 31, 2010, which are approved but not disbursed.

## 20. MARK-UP/ RETURN/INTEREST EARNED

	Note	2010 Rupees	2009 Rupees
Mark-up on advances		1,041,059,245	822,763,226
(Less)/Add: Suspended markup on non-performing advances		(14,511,220)	1,728,135
		1,026,548,025	824,491,361
Interest on investment in Government Securities		105,971,830	132,895,624
Interest on deposit accounts/placements with other banks/financial institutions/mutual funds		88,517,511	125,337,977
		1,221,037,366	1,082,724,962

<b>21. MARK-UP/ RETURN/ INTEREST EXPENSED</b>	<b>Note</b>	<b>2010 Rupees</b>	<b>2009 Rupees</b>
Interest on borrowings from:			
Asian Development Bank		226,358,123	253,564,091
Financial institutions		28,689,369	2,641,022
Deposits		5,504,090	669,960
		<u>260,551,582</u>	<u>256,875,073</u>
<b>22. FEE, COMMISSION AND BROKERAGE INCOME</b>			
Account opening fee		7,344,000	3,091,400
Micro-credit application processing fee		167,835,740	185,759,800
Other commission		1,545,735	1,326,531
		<u>176,725,475</u>	<u>190,177,731</u>
<b>23. OTHER INCOME</b>			
Amortization of deferred grants	18	6,463,085	17,952,685
Re-imbursment of cost share- USAID project	23.1	1,450,974	35,651,257
Re-imbursment from MSDF	23.2	90,390,000	98,148,000
Grant/subsidies from ELRF	23.3	-	98,707,113
Gain on disposal of fixed assets		20,180,369	20,661,163
Others	23.4	73,726,968	45,428,465
		<u>192,211,396</u>	<u>316,548,683</u>

**23.1** On September 30, 2003, the Bank entered into an agreement with USAID, for developing non-bankable territories for financial services in Sindh and Baluchistan. Subsequently in September 2005, the scope of the grant was expanded to include seven FATA territories, whereby USAID revised its contribution from US Dollar 7.042 million to US Dollar 11.052 million while the total project cost was revised from US Dollar 9.371 million to US Dollar 14.142 million. Sindh and Baluchistan project period ended on September 30, 2008 while FATA project period ended on September 30, 2009. The cost share of USAID project was reimbursable to the Bank on monthly basis.

On February 6, 2010, the Bank entered into another agreement with USAID under the title of "Business Revitalization Program" for an aggregate value of US\$ 13 million. The program supported affected of two disasters; i.e. the incidents of; Bolton market which occurred on December 28, 2009 whereby shops were set ablaze in vandalism, in reaction to suicide attack on the major Ashura mourning procession on M.A Jinnah Road - Karachi and the second on January 4, 2010, whereby a devastating landslide created a lake on the Hunza River in Northern Pakistan.

Under the subject agreement; the Bank was appointed as an executing agency for disbursement of grant money to the affected of above referred disasters and was entitled to recover direct and indirect implementation cost of the Program under the provisions of the agreement.

Accordingly an amount of Rs. 3.36 million (2009: Nil) was liquidated by the Bank under the agreement from USAID during the year.

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

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

The Programme completed its tenure on July 31, 2009 and the Bank has received final claim from SBP in May 2010.

**23.4** This includes an amount of Rs. 57.68 million (2009: Rs 37.69 million) received during the year against previously recognized bad debts.

<b>24. ADMINISTRATIVE EXPENSES</b>	<b>Note</b>	<b>2010 Rupees</b>	<b>2009 Rupees</b>
Salaries, wages and benefits		477,703,343	444,414,808
Charge for defined benefit plan	15.1	26,676,167	26,215,725
Contract/ seconded staff expenses		91,141,104	88,783,006
Consultancies		5,817,252	3,942,708
Recruitment and development		5,422,322	1,517,257
Training		10,999,127	13,215,977
Rent and rates		85,660,851	72,126,774
Insurance		20,809,926	20,534,477
Utilities		35,865,862	27,011,076
Legal and professional charges		1,156,093	1,443,424
Communication		37,733,795	34,639,484
Repairs and maintenance		15,116,625	12,694,790
Printing, stationery and office supplies		34,527,966	43,274,752
Advertisement		16,884,993	10,601,618
Auditors' remuneration	24.1	1,000,000	1,625,000
Depreciation	11.1	60,987,396	61,913,630
Amortization	11.2	6,617,543	4,619,683
Vehicles up keep and maintenance		52,169,251	54,479,730
Traveling and conveyance		14,050,419	12,592,669
Meetings and conferences		14,247,868	13,647,891
Security charges		1,970,614	739,915
Bank charges		4,715,308	6,233,461
Newspapers and subscriptions		1,638,999	1,312,963
Programme cost - USAID		-	20,500,750
Miscellaneous		1,521,004	969,486
		<u>1,024,433,828</u>	<u>979,051,054</u>
<b>24.1 Auditors' remuneration</b>			
Annual audit fee		850,000	750,000
Special certifications		-	600,000
Out-of-pocket expenses		150,000	275,000
		<u>1,000,000</u>	<u>1,625,000</u>
<b>25. OTHER CHARGES</b>			
Penalty imposed by SBP	25.1	23,000	137,000
Workers Welfare Fund		3,762,769	5,142,955
		<u>3,785,769</u>	<u>5,279,955</u>

**25.1** This represents penalty imposed by the SBP on account of late intimation of the branch closure.

## **26. TAXATION**

**26.1** With effect from July 1, 2007, pursuant to Clause (66- XVIII) of part I of Second Schedule to the Income Tax Ordinance, 2001, the Bank's income is exempt from tax for five years provided that no dividend is paid to the shareholders and profits are retained for the objectives of the Bank. Accordingly, the Bank has opted for the tax holiday pursuant to the provisions of the aforementioned clause.

**26.2** During the year the Bank has provided minimum tax at the rate of 1% (2009: 0.5%) of its turnover as per requirements of Section 113 of Income Tax Ordinance, 2001.

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

	<b>2010</b> <b>Rupees</b>	<b>2009</b> <b>Rupees</b>
<b>27. CASH AND CASH EQUIVALENTS</b>		
Cash and balances with SBP and NBP	163,112,013	79,179,713
Balances with other banks	581,414,297	485,843,594
	<u>744,526,310</u>	<u>565,023,307</u>
<b>28. NUMBER OF EMPLOYEES</b>	<b>2010</b>	<b>2009</b>
Credit sales staff		
Permanent	764	647
Banking / support staff		
Permanent	629	574
Contractual	770	781
	<u>1,399</u>	<u>1,355</u>
Total number of employees at the end of the year	<u>2,163</u>	<u>2,002</u>
<b>29. NUMBER OF BRANCHES</b>		
Total branches at beginning of the year	107	114
Add: Opened during the year / period	11	-
Less: Closed / merged during the year	9	7
Total branches at the end of the year	<u>109</u>	<u>107</u>
<b>30. EARNINGS PER SHARE</b>		
Profit for the year after tax (Rupees)	174,160,834	245,640,267
Shares outstanding during the year (Numbers)	170,500,000	170,500,000
Earnings per share- basic and diluted (Rupees)	<u>1.02</u>	<u>1.44</u>

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

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

	<b>2010</b>			<b>2009</b>		
	<b>President</b>	<b>Directors</b>	<b>Executives</b>	<b>President</b>	<b>Directors</b>	<b>Executives</b>
	<b>Rupees</b>			<b>Rupees</b>		
Managerial remuneration	2,763,876	-	38,346,594	2,763,876	-	33,852,424
Charge for defined benefit plan/Gratuity	331,071	-	4,667,752	347,858	-	4,270,802
Rent and house maintenance	1,243,740	-	17,255,992	1,243,740	-	15,233,608
Utilities	276,384	-	3,834,686	276,384	-	3,385,271
Medical	17,279	-	3,455,080	50,777	-	3,320,202
Conveyance	286,323	-	11,925,606	245,349	-	9,519,368
Bonus	-	-	3,688,841	-	-	1,577,751
Others	-	66,660	681,516	-	47,960	292,875
Total	<u>4,918,673</u>	<u>66,660</u>	<u>83,856,067</u>	<u>4,927,984</u>	<u>47,960</u>	<u>71,452,301</u>
Number of person(s)	<u>1</u>	<u>5</u>	<u>33</u>	<u>1</u>	<u>5</u>	<u>29</u>

- 31.1** The President is provided with a Bank maintained car.
- 31.2** Executives mean employees, other than the chief executive and directors, whose basic salary exceed five hundred thousand rupees in a financial year.

**32. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2010**

	TOTAL	UPTO 1 MONTH	OVER 1 MONTH UPTO 6 MONTHS	OVER 6 MONTHS UPTO 1 YEAR	OVER ONE YEAR
<b>Rupees</b>					
<b>Market rate assets</b>					
Advances	3,621,410,320	149,062,880	1,919,463,619	1,552,883,821	-
Investments	1,252,790,066	149,606,226	745,353,515	357,830,325	-
Balances with SBP and NBP - deposit accounts	2,447,419	2,447,419	-	-	-
Balances with other banks - deposit accounts	156,543,810	156,543,810	-	-	-
Lending to financial institutions	811,921,784	811,921,784	-	-	-
<b>Total market rate assets</b>	<b>5,845,113,399</b>	<b>1,269,582,119</b>	<b>2,664,817,134</b>	<b>1,910,714,146</b>	<b>-</b>
<b>Other non-earning assets</b>					
Cash in hand	65,899,409	65,899,409	-	-	-
Balances with SBP and NBP - current accounts	94,765,185	94,765,185	-	-	-
Balances with other banks - current accounts	424,870,487	424,870,487	-	-	-
Other assets	639,305,273	89,090,877	415,927,638	88,015,758	46,271,000
Operating fixed assets	168,718,686	5,474,436	27,372,180	32,846,616	103,025,454
<b>Total non-earning assets</b>	<b>1,393,559,040</b>	<b>680,100,394</b>	<b>443,299,818</b>	<b>120,862,374</b>	<b>149,296,454</b>
<b>Total assets</b>	<b>7,238,672,439</b>	<b>1,949,682,513</b>	<b>3,108,116,952</b>	<b>2,031,576,520</b>	<b>149,296,454</b>
<b>Market rate liabilities</b>					
Borrowing from ADB	3,637,294,792	-	181,864,740	181,864,740	3,273,565,312
Borrowings from financial institutions	225,000,000	25,000,000	-	100,000,000	100,000,000
<b>Total market rate liabilities</b>	<b>3,862,294,792</b>	<b>25,000,000</b>	<b>181,864,740</b>	<b>281,864,740</b>	<b>3,373,565,312</b>
<b>Other non-cost bearing liabilities</b>					
Deposits and other accounts	1,000,328,625	844,739,625	71,130,000	84,459,000	-
Other liabilities	156,765,219	66,258,177	85,354,030	5,153,012	-
<b>Total non-cost bearing liabilities</b>	<b>1,157,093,844</b>	<b>910,997,802</b>	<b>156,484,030</b>	<b>89,612,012</b>	<b>-</b>
<b>Total liabilities</b>	<b>5,019,388,636</b>	<b>935,997,802</b>	<b>338,348,770</b>	<b>371,476,752</b>	<b>3,373,565,312</b>
<b>Net assets</b>	<b>2,219,283,803</b>	<b>1,013,684,711</b>	<b>2,769,768,182</b>	<b>1,660,099,768</b>	<b>(3,224,268,858)</b>
<b>Represented by:</b>					
Share capital	1,705,000,000				
Statutory reserve	144,603,560				
Capital reserve	24,255,224				
Unappropriated profit	313,538,195				
Reserve for contingencies	28,385,353				
Deficit on revaluation of assets	(8,704,489)				
Deferred grants	12,205,960				
	<u>2,219,283,803</u>				

### 33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

#### 33.1 Interest rate risk

The Bank's exposure to interest rate risk and the effective rates on its financial assets and liabilities as at December 31, 2010 are summarized as follows:

Description	INTEREST/MARK-UP BEARING						NON INTEREST BEARING		Total	Effective Interest Rate
	Rupees						Rupees			
	Maturity upto one year	Maturity after one year & upto two years	Maturity after two years & upto three years	Maturity after three years & upto four years	Maturity after four years & upto five years	Maturity after five years	Sub Total	Total		
<b>Financial assets:</b>										
Cash and balances in current and other accounts	-	-	-	-	-	-	-	585,535,081	585,535,081	
Balance in deposits accounts	158,991,229	-	-	-	-	-	158,991,229	-	158,991,229	5.0 % to 10.6 %
Lending to financial institutions	811,921,784	-	-	-	-	-	811,921,784	-	811,921,784	12.5 % to 12.7 %
Investments	1,252,790,066	-	-	-	-	-	1,252,790,066	-	1,252,790,066	12.1 % to 13.4 %
Advances	3,621,410,320	-	-	-	-	-	3,621,410,320	-	3,621,410,320	29.0%
Other assets	-	-	-	-	-	-	-	565,490,061	565,490,061	-
	5,845,113,399	-	-	-	-	-	5,845,113,399	1,151,025,142	6,996,138,541	
<b>Financial liabilities:</b>										
Deposit and other accounts	197,594,000	-	-	-	-	-	197,594,000	802,734,625	1,000,328,625	6.0 % to 11.0%
Borrowings	488,729,480	463,729,480	363,729,480	363,729,480	363,729,480	1,818,647,392	3,862,294,792	156,765,219	3,862,294,792	5.9 % to 14.8%
Other liabilities	-	-	-	-	-	-	-	-	156,765,219	-
	686,323,480	463,729,480	363,729,480	363,729,480	363,729,480	1,818,647,392	4,059,888,792	959,499,844	5,019,388,636	
<b>On balance sheet gap</b>	5,158,789,919	(463,729,480)	(363,729,480)	(363,729,480)	(363,729,480)	(1,818,647,392)	1,785,224,607	191,525,298	1,976,749,905	
<b>Un recognized:</b>										
Commitments	188,644,900	-	-	-	-	-	188,644,900	17,785,875	206,430,775	
<b>Off balance sheet gap</b>	4,970,145,019	(463,729,480)	(363,729,480)	(363,729,480)	(363,729,480)	(1,818,647,392)	1,596,579,707	173,739,423	1,770,319,130	
The Bank's exposure to interest rate risk and the effective rates on its financial assets and liabilities as at December 31, 2009 are summarized as follows:										
<b>Financial assets:</b>										
Cash and balances in current and other accounts	-	-	-	-	-	-	-	217,672,074	217,672,074	
Balance in deposits accounts	347,351,233	-	-	-	-	-	347,351,233	-	347,351,233	5.0 % to 13.3 %
Lending to financial institutions	399,459,544	-	-	-	-	-	399,459,544	-	399,459,544	12.10%
Investments	610,658,760	365,614,937	-	-	-	-	976,273,697	-	976,273,697	12.2 % to 13.3 %
Advances	3,555,947,451	-	-	-	-	-	3,555,947,451	-	3,555,947,451	23.0% to 29.0%
Other assets	-	-	-	-	-	-	-	821,043,709	821,043,709	-
	4,913,416,988	365,614,937	-	-	-	-	5,279,031,925	1,038,715,783	6,317,747,708	
<b>Financial liabilities:</b>										
Deposits and other accounts	56,610,000	-	-	-	-	-	56,610,000	133,422,590	190,032,590	6.0 % to 10.0%
Borrowings	521,366,124	363,729,480	363,729,480	363,729,480	363,729,480	2,182,376,872	4,158,660,916	155,928,845	4,158,660,916	6.0 % to 12.3%
Other liabilities	-	-	-	-	-	-	-	-	155,928,845	-
	577,976,124	363,729,480	363,729,480	363,729,480	363,729,480	2,182,376,872	4,215,270,916	289,351,435	4,504,622,351	
<b>On balance sheet gap</b>	4,335,440,864	1,885,457	(363,729,480)	(363,729,480)	(363,729,480)	(2,182,376,872)	1,063,761,009	749,364,348	1,813,125,357	
<b>Un recognized:</b>										
Commitments	-	-	-	-	-	-	-	23,152,011	23,152,011	
<b>Off balance sheet gap</b>	4,335,440,864	1,885,457	(363,729,480)	(363,729,480)	(363,729,480)	(2,182,376,872)	1,063,761,009	726,212,337	1,789,973,346	



### 33.2 Market risk

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

### 33.3 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.

### 33.4 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.

### 33.5 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.

## 34. RELATED PARTY TRANSACTIONS

The Bank's related parties comprise of directors, key management personnel, shareholders and entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 16.2.2 while remuneration of key personnel is disclosed in note 31 to the financial statements. Detail of transactions with the Bank's shareholders and employee retirement benefit fund, during the year under normal commercial banking terms and balances outstanding at the year end are as follows:

	2010 Rupees	2009 Rupees
<b>Transactions with shareholder banks during the year</b>		
Profit earned on deposit accounts	7,297,240	5,131,604
Bank charges	4,392,497	6,033,619
Lending to shareholder banks	31,330,245,781	32,066,278,974
Repayment of lending	31,249,883,797	32,566,278,974
Interest income on lending	28,625,425	71,343,535
Investments in shareholder banks	1,044,000,000	1,653,000,000
Lending from shareholder banks	200,000,000	157,636,644
Repayment of lending from shareholder banks	157,636,644	263,709,004
Interest expense on lending from shareholder banks	28,670,191	2,641,020
<b>Contributions to gratuity fund</b>	14,021,500	16,453,374
<b>Balances outstanding at the year end</b>		
Bank balances with shareholder banks	548,628,193	197,990,275
TDR placements with shareholder banks	-	300,000,000
Secured /Repo Borrowings with shareholder banks	200,000,000	157,636,644
Investment in shareholder banks	419,000,000	575,000,000
Interest receivable on bank deposits with shareholder banks	408,270	224,259
Interest payable on term finance/repo borrowings from shareholder bank	14,483,070	581,973
Advances receivable from executives	17,523,554	10,284,138
Balance payable to gratuity fund	3,299,391	2,298,663

### 35. CAPITAL RISK MANAGEMENT

The Bank's objectives when managing its capital are:

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

Capital requirements applicable to the Bank are set out under Microfinance Institutions Ordinance, 2001. These requirements are put in place to ensure sufficient solvency margins. The Bank manages its capital requirement by assessing its capital structure against required capital level on regular basis. Currently the Bank has paid up capital of Rs. 1.705 billion. The minimum paid up capital requirement applicable to the Bank is Rs. 500 million. The bank has maintained capital adequacy ratio in accordance with regulation No. 4 of the Regulations which states that the Bank shall maintain capital equivalent to at least 15% of its risk-weighted assets.

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

### 36. GENERAL INFORMATION

The following information is included in these financial statements to facilitate the calculation of financial ratios presented in note 37.

	2010	2009
<b>Offices</b>		
Number of Microcredit Branches	69	67
Number of Full Service Branches	40	40
Total Branches of the Bank	<u>109</u>	<u>107</u>
<b>Human Resource</b>		
Total number of permanent staff - Credit sales	764	647
Total number of permanent staff - Banking / support	629	574
Total number of contractual staff - Banking / support	770	781
<b>Total staff strength of the Bank</b>	<u>2,163</u>	<u>2,002</u>
	<b>2010</b>	<b>2009</b>
<b>Micro-finance cases</b>	<b>Number</b>	<b>Number</b>
Number of active cases at year end	325,523	329,421
Number of loans disbursed during the year	337,163	404,580
Average number of active borrowers for the year	327,472	321,136
	<b>2010</b>	<b>2009</b>
	<b>Rupees</b>	<b>Rupees</b>
Microcredit advances receivable	3,722,152,797	3,630,204,658
Total disbursements for the year	4,541,032,800	4,980,316,240
<b>Portfolio Quality</b>		
Portfolio at risk	231,390,047	67,580,404
Portfolio written off	85,719,742	101,422,658
Loan loss reserve	100,742,477	74,257,207
	<b>2010</b>	<b>2009</b>
<b>Average loan sizes</b>	<b>Rupees</b>	<b>Rupees</b>
Average outstanding loan size	11,434	11,020
Average gross loan portfolio	3,676,178,728	3,361,770,147
<b>Information about the Bank's assets/ liabilities</b>		
Total assets	7,238,672,439	6,587,779,102
Current assets	7,023,682,753	5,996,205,935
Fixed assets	168,718,686	185,678,434
Average total assets	6,913,225,771	6,636,760,757
Current liabilities	1,645,823,324	873,563,970
KBL equity	2,207,077,843	2,061,001,295

37. FINANCIAL RATIOS	Note	2010	2009
<b>Sustainability / Profitability</b>			
Return on equity	37.1	2.61%	(1.30%)
Adjusted return on equity	37.2	(30.16%)	(28.00%)
Return on assets	37.3	0.81%	(0.38%)
Adjusted return on assets	37.4	(9.31%)	(8.30%)
Operational self sufficiency	37.5	104.97%	98.57%
Financial self sufficiency	37.6	70.03%	70.78%
Profit margin	37.7	4.73%	(1.45%)
<b>Asset / Liability Management</b>			
Current ratio	37.8	4.27	6.86
Yield on gross loan portfolio	37.9	31.67%	26.89%
Yield gap	37.10	(10.86%)	10.01%
Funding-expense ratio	37.11	7.09%	7.64%
Cost-of-funds ratio	37.12	5.66%	5.71%
<b>Portfolio Quality</b>			
Portfolio at risk	37.13		
from 1 - 29 days		2.29%	0.48%
from 30 - 59 days		2.25%	0.38%
from 60 - 89 days		0.77%	0.30%
from 90 - 179 days		0.69%	0.53%
over 179 days		0.22%	0.17%
Write-off ratio	37.14	2.33%	3.02%
Risk coverage ratio	37.15	43.54%	109.88%
<b>Efficiency / Productivity</b>			
Operating expense ratio	37.16	27.97%	29.28%
Cost per borrower (Rupees)	37.17	3,140	3,065
Personnel productivity	37.18	150	165
Loan officer productivity	37.19	426	509
Average disbursed loan size (Rupees)	37.20	13,468	12,310
Average outstanding loan size (Rupees)	37.21	11,434	11,020

- 37.1** 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.
- 37.2** Adjusted return on equity is calculated on an adjusted basis to address the effects of subsidies, inflation, provision against non-performing advances and other items that are not in the Bank's net operating income.
- 37.3** 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.
- 37.4** Adjusted return on assets is calculated on an adjusted basis to address the effects of subsidies, inflation, provision against non-performing advances and other items that are not included in the Bank's net operating income.
- 37.5** Operational self sufficiency measures how well the Bank covers its costs through operating revenues. In addition to operating expense, financial expense and loan loss provision expense is also included in the calculation.
- 37.6** 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 of its operations were unsubsidized and was funding its expansion with commercial-cost liabilities.
- 37.7** Profit margin measures the percentage of operating revenue that remains after all financial, loan loss provision and operating expenses are paid.
- 37.8** Current ratio measures how well the Bank matches the maturities of its assets and liabilities.

- 37.9** 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.
- 37.10** Yield gap compares revenue actually received in cash with revenue expected from microcredit advances.
- 37.11** 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.
- 37.12** 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.
- 37.13** 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.
- 37.14** 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.
- 37.15** 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.
- 37.16** Operating expense ratio is the most commonly used efficiency indicator for Microfinance Banks. It includes all administrative and personnel expenses.
- 37.17** Cost per borrower provides a meaningful measure of efficiency for the Bank, by determining the average cost of maintaining an active borrower.
- 37.18** Personnel productivity measures the overall productivity of total the Bank's human resources in managing clients who have an outstanding loan balance and are thereby contributing to the financial revenue of the Bank
- 37.19** Loan officer productivity measures the average case load of each loan officer.
- 37.20** Average disbursed loan size measures the average loan size that is disbursed to clients.
- 37.21** Average outstanding loan size measures the average outstanding microcredit balance by client, which may be significantly less than the average disbursed loan size.

**38. DATE OF APPROVAL**

These financial statements were approved by the Board of Directors of the Bank in their meeting held on March 04, 2011 .

**39. GENERAL**

Previous periods figures have been rearranged and reclassified wherever necessary for the purpose of comparison. Account captions as prescribed by BSD circular No. 11 dated December 30, 2003 issued by the SBP in respect of which no amounts are outstanding have not been reproduced in these financial statements.

  
 \_\_\_\_\_  
**PRESIDENT**

  
 \_\_\_\_\_  
**CHAIRMAN**

  
 \_\_\_\_\_  
**DIRECTOR**

  
 \_\_\_\_\_  
**DIRECTOR**

## Branch Network

### Punjab

#### Lahore

09 Ferozpur Road, Near Muzang  
Chungi, Lahore.  
Tel: 042-7534789, Fax: 042-7534808

#### Sheikhupura

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

#### Gujrat

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

#### Kamoki

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

#### Gujranwala

Ground Floor, Chughtai Center,  
Main G.T. Road, Shaheenabad,  
Gujranwala.  
Tel: 055-9200842, Fax: 055-9200843

#### Haroonabad

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

#### Sialkot

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

#### Toba Tek Singh

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

#### Hafizabad

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

#### Pakpattan

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

#### Hasilpur

Khata No. 34/29, Plot Adjacent Honda  
Motorcycle Showroom,  
Near Bus Stand,  
Main Bahawalpur Road, Hasilpur.  
Tel: 062-2449936

#### Faisalabad

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

#### Narowal

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

#### Okara

Plot No. 4033/8, M.A. Jinnah Road,  
Okara.  
Tel: 0442-550003, Fax: 0442-550004

#### Wazirabad

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

#### Chishtian

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

#### Hassanabdal

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

#### Jhang

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

#### Kasur

Main Chowk, District Courts, Kachehri  
Road, Sultani Market, Kasur.  
Tel: 049-2773201, Fax: 049-2773202

#### Jhelum

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

#### Sargodha

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

#### Bhalwal

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

#### Shujahabad

Jalal Pur Road, Opp. KB Stand,  
Shujahabad.  
Tel: 061-4396006

#### Lodhran

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

#### Multan

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

#### Sahiwal

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

#### Fatehjang

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

#### Chakwal

Shop # MCB 4/1785, Rawalpindi Road,  
Chakwal.  
Tel: 0543-540864, Fax: 0543-540864

#### Khushab

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

#### Qadirpur Rawan

G.T. Road, Qadirpur Rawan, Distt.  
Multan.  
Tel: 061-4578668

#### Ahmedpur East

Ground Floor, Unique Plaza, KLP Road,  
Near Uch Bypass, Ahmedpur East.  
Tel: 062-2272450

#### Bahawalpur

1-B, 1st Floor, Model Town 'B', Ghalla  
Mandi Road, Bahawalpur.  
Tel: 062-2889612, Fax: 062-2731775

#### Rawalpindi

Ropyal Brothers Plaza,  
Property No. B-130, Main Murree Road,  
Chandni Chowk, Satellite Town,  
Rawalpindi.  
Tel: 051-4842548/9290930  
Fax: 051-9290562

#### Mandi Bahaudin

Farooq Plaza, Link Kachehri Road,  
Mandi Bahaudin.  
Tel: 0546-5009800, Fax: 0546-521002

#### Mianwali

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

#### Khanewal

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

#### Khanpur

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

#### Liaquatpur

3-Housing Scheme, 87-Bank Road,  
Liaquatpur.  
Tel: 068-5792599.

**Rahim Yar Khan**

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

**Dera Ghazi Khan**

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

**Khairpur Tamewali**

Main Bahawalpur Road,  
Opposite Chand Restaurant,  
Tehsil Khairpur Tamewali, District  
Bahawalpur.  
Tel: 062-2261010

**Rajanpur**

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

**Kot Addu/Muzaffargarh**

Opposite Faisal Motors,  
Near PSO Pump, Main G.T Road, Kot  
Addu.  
Tel: 066-2243952, Fax: 066-2243852

**I.J.P Road-Rawalpindi**

CB # 1, Bilal Center, I.J.P Road, Near  
British Homes Colony, Rawalpindi.  
Tel: 051-5472717

**Pasrur**

Khasra No. 480, Faisal Colony,  
Main Sialkot Pasrur Road,  
Near General Bus Stand,  
Pasrur.  
Tel: 052-6442247

**Karor Lal Essan**

Khasra No. 0289, Sewag Plaza,  
Opposite PTCL Exchange,  
Fateh Pur Road, Karor Lal Essan,  
District Leyyah.  
Tel: 0606-810505

**Taunsa Sharif**

Vohova Road, Taunsa Sharif.  
Tel: 0642-2601395, Fax: 0642-2016499

**Jampur**

Moza Tatar Wala, Indus Highway,  
Opposite Canal Rest House, Jampur.  
Tel: 604-568650-332427

**Leyyah**

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

**Bhakkar**

Plot # 155/2, Club Road, Bhakkar.  
Tel: 0453-9200087, Fax: 0453-9200088

**Pattoki**

Shop # 02, Tariq Center, Halla Road,  
Pattoki.  
Tel: 049-4421350

**Chichawatni**

Ahata No.1974, Block No.14, Street  
No.1, Fawara Chowk, Chichawatni.  
Tel: 405481415

**Burewala**

First Floor 3-C,  
Opposite Telephone Exchange, Multan  
Road, Burewala.  
Tel: 067-3354157/58

**Bahawalnagar**

Plot # 358, Jail Road, Jinnah Colony,  
Bahawalnagar.  
Tel: 063-9240115, Fax: 063-9240116

**Fazilpur**

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

**Vehari**

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

**Tibbi**

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

**Arifwala**

31-A, Chowk Purana Dakhana, Arifwala.  
Tel: 0457-830541

**Jalalpur Pirwala**

Plot # 64 /1, Al-Mahmood Shopping  
Centre, Permat Road, Tehsil Jalalpur,  
District Multan.  
Tel: 0614-212199

**Khyber Pakhtoonkhwa****Peshawar**

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

**Abbotabad**

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

**Malakand Agency**

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

**Swabi**

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

**Mardan**

CB 445/A- 2, Saddar Bazar, The Mall,  
Mardan Cantt. Mardan.  
Tel: 0937-9230445/9230447  
Fax: 0937-9230446

**Haripur**

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

**Charsada**

M G Plaza, Tangi Road, Charsada.  
Tel: 091-6515724, Fax: 091-6515489

**Dera Ismail Khan**

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

**Swat (Mingora)**

First Floor, Shahzad Plaza, Mukan Bagh,  
Saidu Sharif Road, Mingora.  
Tel: 0946-7240417, Fax: 0946-9240418

**Mansehra**

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

**Kohat**

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

**Nowshera**

Army Welfare Shop, 1st Floor, Daewoo  
Terminal, Nowshera.  
Tel: 0923-9220203

**Sindh****Karachi**

Showroom # 03, Saba Palace,  
Plot # 29-A, Block-06, P.E.C.H.S,  
Main Shahr-e-Faisal, Karachi.  
Tel: 021-34305018-21

**Baldia Town**

Plot # A3/10 (Commercial),  
Shahr-e-Waqas, Saeed Abad,  
Baldia Town, Karachi.  
Tel: 021-32811655, Fax: 021-32811655

**Hyderabad**

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

**Nashero Feroze**

National Highway, Nashero Feroze.  
Tel: 0242- 481275, Fax: 0242- 481274

**Sanghar**

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

**Badin**

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

**Nawabshah**

House No. A-306,  
Paro Hospital Road,  
Otaq Quarter, Nawabshah.  
Tel: 0244-370093, Fax: 0244-370094

**Mithi**

Shop No. 2&3, Satyani Shopping Centre,  
Main Naukot Road, Mithi,  
Distt.Tharparkar.  
Tel: 023-2262304, Fax: 023-2262305

**Mirpurkhas**

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

**Khairpur**

Near National Saving Center,  
Main Katchary Road, Khairpur.  
Tel: 0243-714064, Fax: 0243-714065

**Shikarpur**

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

**Tando Allahyar**

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

**Daherki**

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

**Thatta**

Shop # 5, Al-Shahbaz Shops,  
National Highway, Thatta.  
Tel: 0298-550783, Fax: 0298-550784

**Sukkur**

Plot Serial # 274,  
Opposite Total Petrol Pump,  
Military Road, Sukkur.  
Tel: 071-5633237-38, Fax: 071-5633240

**Larkana**

H #. 1588, Jan Mohd Jonejo Road,  
Near Jarral Shah Bukhari, Larkana.  
Tel: 0741-4044580, Fax: 0741-4044578

**Badeh**

Shop No.1-3, Mohallah Pyaro Khan  
Sariyo, Main Badeh Naseerabad Road,  
Badeh, Tehsil Dokri, District Larkana.

**Dadu**

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

**Hala**

Plot # 824, Old Main National Highway,  
Adjacent Babi-Nooh Situated at Hala.  
Tel: 022-3332350

**Rohri**

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

**Jacobabad**

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

**Ghotki**

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

**Tando Muhammad Khan**

Main Hyderabad Badin Road, Adjacent  
Bus Stop, Tando Muhammad Khan.  
Tel: 022-3342738, Fax: 022-3342833

**Pannu Aqil**

Near Eid Gah, Baiji Chowk, Pannu Aqil  
Dist Sukkur.  
Tel: 071-5692033, Fax: 071-5692062

**Wagan/Kambar**

Opposite Sui Southern Gas Company  
Limited, Kambar.  
Tel: 074-4212230, Fax: 074-4212230

**Thul**

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

**Ranipur**

Near Mazhar Model School, National  
Highway, Ranipur City, District Khairpur  
Mirs.  
Tel: 0243-730229, Fax: 0243-730230

**Ratodero**

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

**Baluchistan****Quetta**

Shop # 2, Usman Complex, Hali Road  
Quetta.  
Tel: 081-9201537  
Fax: 081-9201528

**Sibi**

80-A, Block-4, Jinnah Road,  
Sibi.  
Tel: 0831-9230059  
Fax: 0831-412949

**Nasirabad**

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

**Gawadar**

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

**Jafferabad**

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



## Azad Jammu & Kashmir

### Muzaffarabad

Raza Building, Poultry Farm Road,  
Opposite AJK University, Muzaffarabad.  
Tel: 058810-42700, Fax: 058810-42710

### Bagh

Ground Floor, Al-Noor Plaza,  
College Road, Bagh, AJK.  
Tel: 05823-920023, Fax: 05823-920024

### Rawlakot

Anmol Plaza, Opposite Firdous Clinic,  
CMH Road, Rawlakot.  
Tel: 05824-920193, Fax: 05824-443245

## Federally Administered Tribal Areas

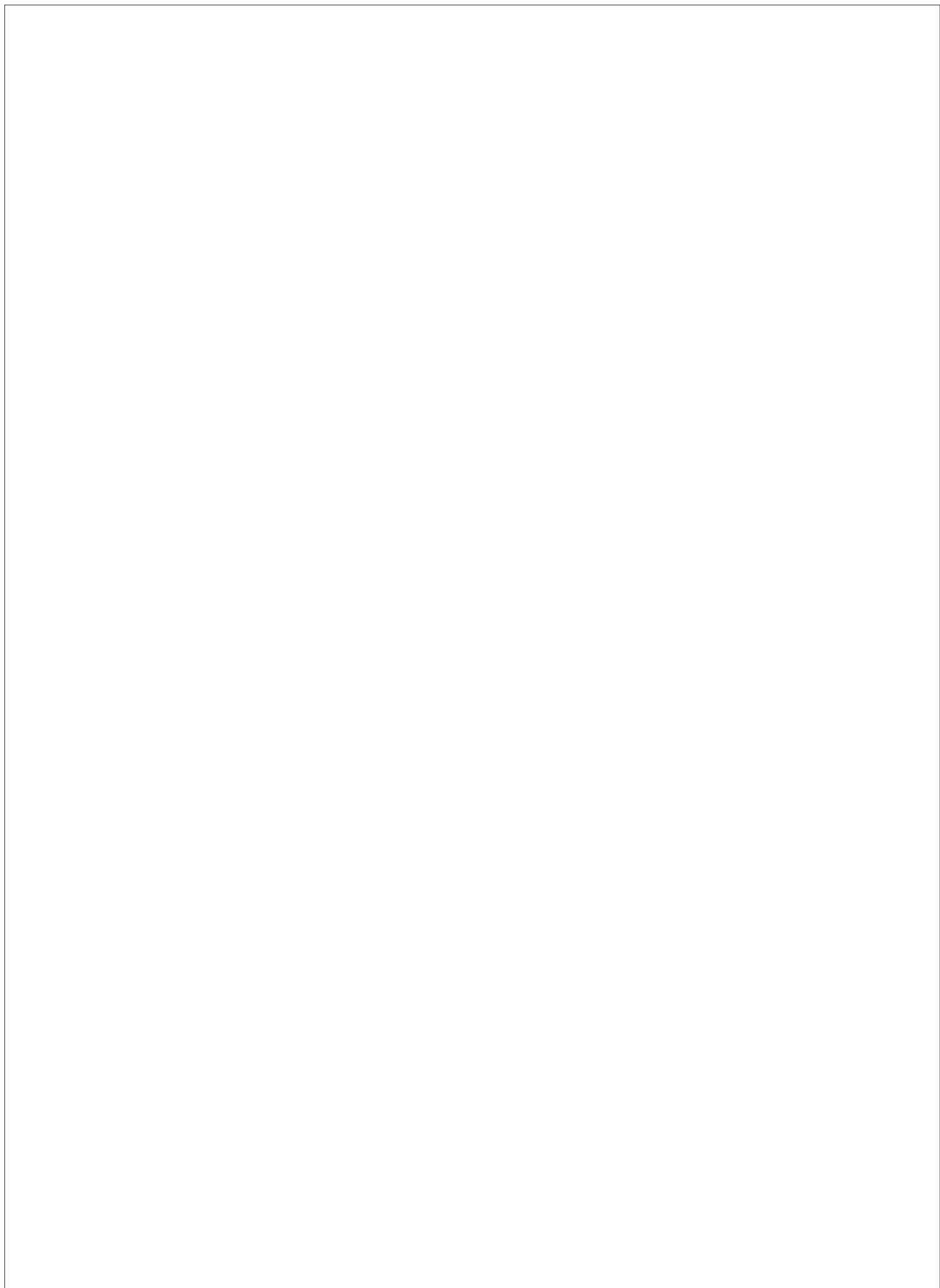
### Mohmand Agency

Haji Dilawar Market, Main Mandi Road,  
Main Bazar, Ghalnai, Mohmand Agency.  
Tel: 0924-290052  
Fax: 0924-290106

### Bajour Agency

Car Park Hotel,  
Opposite Civil Colony, Khar,  
Bajour Agency.  
Tel: 0942-221250, Fax: 0942-221110





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

Khushhali Bank Limited, 94 West, Fourth Floor, Jinnah Avenue, Blue Area, PO Box 3111, Islamabad-Pakistan.