



Annual Report

2011

11th Annual Report



Vision

To be a premier financial institution within the microfinance industry.

Mission

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

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



Values

- Empower
- Excel
- Ethics



One Promise

In eleven years, since its inception in year 2000, Khushhalbank has extended more than two and a half million micro-loans to Pakistanis with the primary aim of supporting and rebuilding ordinary lives by creating the right combination of circumstances through skill and infrastructure development, community empowerment, independence and enterprise. This proves that common people are given an advantage which is unique and it is helping them in reaching their full potential.

Which is why, Khushhalbank is more than a bank. It's a promise, a promise to opportunity.

Corporate Governance

Khushhalbank is governed by a seven member public-private-sector board including Chief Executive Officers of leading Commercial Banks in Pakistan to provide strategic direction and oversight.

Management sub-committees include Business Steering Committee, Risk Management Committee, ALCO and Operations Committee besides the Audit Committee of the Board that inevitably contribute towards establishing a robust, customer centric operating environment.





Strengthening Agriculture for Rural Development

Access to financial services in the rural areas is vital to the growth and development of the country, where farmers despite being capable of producing good returns on investment are unable to do so due to their small scale of production, owing to lack of adequate capital.

Considering its importance, Khushhalibank has focused on the rural markets and has consequently developed a large customer base within the agricultural sector. Majority of Khushhalibank's branches have a rural outlook where agriculture and livestock loans are provided to small farmers for cultivation and raising livestock.

The bank has cumulatively serviced since inception more than two million rural clients across the country.

Our Team

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

Khushhalbank success is an outcome of a committed management team that manages to steer business, provide operational support and maintain an adequate internal control environment. The team comprising majority young men and women graduates from the leading Universities of Pakistan play a key role in the consistent growth of the bank.





South Asia Micro-Savings Initiative

Khushhalibank partners with the Bill & Melinda Gates Foundation and ShoreBank International as part of the South Asia Micro-Savings Initiative.

The initiative, which is funded by the Gates Foundation and executed by ShoreBank International, envisages improving access to financial services, building financial assets for the poor, and alleviating poverty in India, Pakistan and Bangladesh by partnering with four local financial institutions and strengthening their capacity to reach the poor in the region.

With the funds from the initiative, Khushhalibank was able to improve its infrastructure and human capacity to deliver savings products more effectively, more profitably and at a scale that reaches a large number of un-served poor.

A Recognition of Entrepreneurship at Citi-PPAF Awards

The 7th Citi-PPAF Micro Entrepreneurship Awards held in Islamabad witnessed success for Khushhalibank's clients by receiving the highest number of awards at the ceremony.

Sajan, a client of Mithi Branch, was declared the Regional Winner from Sindh Province.

Two more clients Kalsoom Bibi from Rawalpindi and Muhammad Azeem from Gawadar also won the prizes in the runner-up category.

The winners' success illustrates the growing scope of entrepreneurship in Pakistan and how microfinance industry is supporting entrepreneurs in their efforts to boost the region's economic future.





Energy Conservation through Efficiency

Energy is a critical political and economic issue in Pakistan.

The frequent power interruptions not only lead to economic disruption but also trigger production inefficiencies which result in lower economic output. While increasing energy output is an expensive and time consuming task, we can always try reducing our dependence on energy by switching to energy efficient alternatives.

Agricultural tube well pump sets are the lifeline of agriculture in Pakistan. However, these pump sets are generally quite inefficient and can be replaced with more efficient ones that consume at least 20% lesser energy for the same output.

Khushhalibank has signed a Cooperative Agreement on Tube Well Efficiency Project with United States Agency for International Development (USAID) for funding the replacement of tube well pumps. The program will increase access of Pakistani citizens to water and power in the near term through specific actions that include replacement of up to 11,000 energy-inefficient tube well pump sets. The program is executed by International Resources Group.

Khushhalibank-USAID Scholarship Program A Success Story

Khushhalibank collaborated with the USAID to work towards education promotion in the marginalized areas of Pakistan by awarding a significant number of scholarships every year to the capable and deserving students who couldn't afford it otherwise at leading Universities of Pakistan.

One such recipient was Karrar Hussain Jaffar, who ventured out from a small town of Mariabad near Quetta.

It was the Khushhalibank-USAID scholarship that supported Karrar Hussain to enter the Lahore University of Management Sciences' National Outreach Program. He worked hard during this training period and managed to get very impressive SAT scores despite his formidable struggle with the English language.

His hard work and determination culminated in graduating from LUMS on the Dean's honor list and after graduation he decided to pursue further education and got a Fulbright scholarship to study at the Harvard University in Boston, United States of America.





Global Partnership for Remittances

Foreign remittances are an important source of sustenance for thousands of families living in Pakistan; hence timely transfer of funds from abroad not only helps support livelihoods of millions of families, but also plays a significant role in boosting the economic activity in the country.

Khushhalibank is the first microfinance institution of Pakistan to introduce the cross border inbound remittance service by making a commercial agreement with Western Union, thereby facilitating a large segment of rural population to receive money from overseas through Khushhalibank's network of branches across Pakistan.

Another Milestone Achieved-Recognition by the Microcredit Summit Campaign (MSC)

The Microcredit Summit Campaign Report is the largest and most comprehensive annual report on the outreach of microfinance to the poor and very poor.

The report shares details on a new initiative by MSC which is designed to recognize institutions from the globe that are committed to the economic uplifting of the people. Under this very initiative the MSC ranks Khushhalibank, as one of the biggest microfinance entities of the region having served over two and a half million relationships.

The ranking reflects the bank's firm resolve to empower the people of Pakistan at the grassroots level by giving them financial services access for self-employment.





Supporting Innovation & Entrepreneurship

Khushhalibank strongly believes that innovation and entrepreneurship not only create more opportunities for businesses in Pakistan, but also help in meeting the future economic challenges. To inculcate the spirit of entrepreneurial innovation in the young generation, Khushhalibank partnered with the National University of Sciences and Technology (NUST) in a nationwide business plan competition, titled 'The Prime Minister's Entrepreneurial Challenge Discover; Prosperity through Entrepreneurship'.

'Discover' was one of a kind event, which served as a platform to showcase the business acumen of students from across 40 universities. Participating students were given six months to prepare and submit a viable business plan, in line with the Pakistani economy, and having the potential to be a successful business model. The top three winning teams were given cash prizes, while the top five teams were awarded six months of free space and incubation services at Technology Incubation Center, NUST.

TIECON 2011-Prosperity through Entrepreneurship

Khushhalbank in its dedicated efforts for the advancement of entrepreneurship in the country sponsored, The Indus Entrepreneurs (TiE) Pakistan's annual conference, TiECON 2011, which attracted over 1200 delegates comprising of entrepreneurs, investors and business school students. The conclave witnessed the finest of country's business elite and Pakistan's investing community participating as panelists and speakers along with the presence of a large number of media professionals.

This year's conclave with the theme -"Bounce Back!" declared the resolve of a country ready to pull itself out of its challenges and redefine its fortunes. The veteran entrepreneurs who participated in the event highlighted the stories of iconic businessmen and investors and their rise to success despite all the political and economic instability in the country. The summit represented a spectacular display of networking and business opportunities for entrepreneurs along with revitalizing and thought provoking inputs of keynote speakers from the industry.





LADIESFUND® Khushhalibank 'IDOL' Award 2011

Khushhalibank jointly with the Dawood Global Foundation recognizes and celebrates the success of Pakistani women by sponsoring the 4th LADIESFUND® Awards.

LADIESFUND® Awards are given each year to those Pakistani women who perform outstandingly in their respective fields.

Late Arfa Karim Randhawa, the world's youngest Microsoft Certified Professional from Pakistan, was honored with LADIESFUND® Khushhalibank Idol Award in the 4th Ladies Fund Awards 2012 ceremony held in Karachi.

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Corporate Information

Board of Directors

Qamar Hussain
Chairman

Muhammad Ghalib Nishtar
President

Zakir Mahmood
Director

M. R. Mehkari
Director

M. U. A. Usmani
Director

Rashid Akhtar Chughtai
Director

Audit Committee

M. R. Mehkari
Chairman

M. U. A. Usmani
Member

Rashid Akhtar Chughtai
Member

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 Shakra-e-Faisal, Karachi - 74400.

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Fax: +92-21-343 26031
Web: www.cdcPakistan.com

Registered / Head Office

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

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: www.pwc.com/pk

Legal Advisors

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

Tel: +92-51-211 1595-8
Fax: +92-51-210 8011
E-mail: fqureshi@samdaniqureshi.com

Tax Advisors

Ernst & Young Ford Rhodes Sidat Hyder
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

President's Report: 2011

Overview

Microfinance has grown enormously over the past two decades and is now well established as a major supplier of financial services to millions of low income people across the emerging world.

The way forward continues to be commercially driven Microfinance.

While Pakistan was late in recognizing the importance of Microfinance and established its policy and regulatory frameworks only in the year 2000, it has been successful in emerging as a market leader within a relatively short span of time. The Economist Intelligence Unit (EIU) Global Microfinance Business Environment Report 2011 ranks Pakistan amongst the top 3 countries along with Peru and Bolivia.

The favorable business environment ranking by EIU in the backdrop of crisis in microfinance in the region have positioned Pakistan favorably and we will witness a number of new entrants through acquisitions and buy outs in the sector.

While the microfinance industry in Pakistan continues to grow steadily towards stability but there are challenges in terms of economic slow down, energy crises and the impact of floods of 2010 and excessive monsoons of 2011 particularly having adversely affected rural microfinance institutions.

The total size of the microfinance sector in Pakistan remains modest in terms of global standards with combined assets of under US\$ 0.5b, 2.0m borrowers and about 1.0m depositors but the entrance of new players with strong equity holdings and innovative business models, the pace of growth is likely to pick up in the medium term.

Khushhalibank Limited (KBL) has emerged as a clear leader in 2011 with a market share of 21% and regulated microfinance banks as a group continue to dominate the microfinance landscape.

These developments will have a positive bearing for the

bank in times to come since it is well positioned to grow and expand and has attracted positive interest from large domestic and international investors to replace the existing shareholding at the conclusion of the due diligence process undertaken last year.

The market presents opportunities given the size of the un-tapped potential but the economic challenges are likely to persist and institutions with strong ownership structure, efficient distribution channels and a stable retail deposit base are likely to succeed in the future.

Innovation and technology will create new opportunities for the financially excluded and both commercial banks and microfinance institutions can leverage upon these opportunities successfully.

Performance Review: 2011

I am pleased to share with you that the year 2011 closed on a positive note and Khushhalibank established its market leadership as the largest microfinance Institution in the country.

We were successful in overcoming the impact of the devastating floods of the previous year to a great extent through the relentless efforts of our front-end teams and the resilience of our clients since we were the most affected given our large rural presence across Pakistan.

The floods suppressed our earnings and profitability for the year but single minded focus to pursue assigned tasks enabled us to maintain our business growth over previous year while managing our transition to full service banking and deposit mobilization.

Implementation of our core banking application critical to deposit mobilization remained on track with 62 branches converted successfully that enabled the launch of new products and services.

The agreement with Western Union for inward remittances, the very first for a microfinance bank was a

welcome addition to our fee based service income.

sustainability.

The highlights of the year include our ability to access greater commercial funding both at the retail and wholesale level thereby improving our financial

The Global Microfinance Summit Campaign Report 2011 recognized Khushhalbank amongst the biggest microfinance organizations in the Region.

The comparative indicators for the past four years are stated below:

Indicator		2011	2010	2009	*2008
Outreach					
Active Borrowers	Number	352,962	325,523	329,421	312,851
Number of savers	Number	301,239	205,962	74,995	3,477
GLP	PKR	4,273,802,377	3,722,152,797	3,630,204,658	3,093,335,635
Amount of savings	PKR	1,677,010,488	1,000,328,625	190,032,590	18,168,500
Financial Performance					
Total Revenue	PKR	1,541,858,474	1,471,489,809	1,318,331,158	1,013,196,990
Operating (Loss)/Profit	PKR	(46,478,052)	69,654,034	(19,115,438)	(329,628,857)
Net Profit after Tax	PKR	151,564,228	174,160,834	245,640,267	60,911,974
Return on Assets (ROA) **	%	-0.8%	0.8%	-0.4%	-4.9%
Return on Equity (ROE) ***	%	-2.7%	2.6%	-1.3%	-17.9%
Operational Self Sufficiency (OSS)	%	97.1%	105.0%	98.6%	75.5%
financial Self Sufficiency (FSS)	%	68.8%	79.4%	70.8%	57.9%
Efficiency					
Operating Expense over GLP	%	28.1%	28.0%	29.3%	31.6%
Personnel Expense over GLP	%	13.8%	13.7%	14.0%	13.3%
Productivity					
Borrowers per Staff	Number	163	150	165	156
Savers per Staff	Number	139	95	37	2
Personnel Allocation Ratio	%	31.8%	35.3%	32.3%	33.1%
Risk					
Portfolio at Risk > 30	%	4.4%	3.9%	1.4%	2.2%
Portfolio at Risk > 90	%	2.5%	0.9%	0.7%	1.1%

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

** In accordance with the CGAP; ROA calculations are net operating income less taxes divided by average assets during the year.

*** In accordance with the CGAP; ROE calculations are net operating income less taxes divided by average equity for the year.

Operating result

The Bank posted a profit before tax of PKR 96m as against profit of PKR 188m last year.

The profit of the year was suppressed primarily due to;

- I. The devastating floods of 2010 which affected our portfolio in primary business areas of south Punjab, Sindh and parts of KPK had an impact on revenues and profitability as compared to last year. However; the impact was

mitigated to a large extent by close coordination efforts with the affected clients and rescheduling of portfolios during 2011.

During August/September 2011, the province of Sindh was significantly affected by heavy rains of monsoon which also affected our asset portfolio.

The overall PL impact of loan losses in 2011 amounts to PKR 137m (2010: PKR 54m) which included impact of provision enhancement for possible losses

on rain affected portfolio of PKR 25m.

- II. Inflationary impact on administrative cost due to upgrading 62 micro credit branches to full service operations as a result of which these costs increased to PKR1,120m (2010: PKR1,024m).

While the Bank is pursuing a sustainable growth strategy as approved by the Board. However; due to the extra-ordinary suppression of income due to natural calamity; the Bank's Operational Self Sufficiency (without taking into account grants and cost subsidies) of 97% was lower than 105% of last year.

Earning Assets

The Bank's earning assets primarily comprising of advances portfolio was PKR 4.3b as against last year of PKR 3.7b which reflects growth of nearly 16%.

The growth of our portfolio was achieved;

- 1) by adoption of risk mitigation strategy in consultation with the Board for flood affected portfolio of last year whereby rescheduling was allowed till 31 December, 2011 as encouraged by the State Bank of Pakistan;
- 2) expansion of our portfolio in non-flood affected territories / branches.

Considering, the uncertainty associated with the portfolio and assessment of default in the outstanding portfolio of flood and rain affected areas an additional provision of PKR 25m has been provided as a general provision in the year end accounts.

Interest Revenue

The interest revenue of PKR 1,092m was up by nearly 6% over the last year. The growth in revenue was lower in comparison with growth rate of loan portfolio due to higher default of flood affected portfolio.

Return on Investment

Return on investment in Treasury Bills, Pakistan Investment Bonds and placements/balances with financial institutions at PKR 216m (2010: PKR 194m) improved by nearly 11% beside servicing two bi-annual

principal installments of ADB loan along with interest amounting to nearly PKR 600m.

As a result of acceleration of liability drive within sixty two full service banking outlets; deposit base has increased to nearly PKR 1.7b (2010: PKR 1b) thus reflecting 70% growth in deposit base.

Mark-up/Return/Interest Expensed

Interest on borrowing of ADB credit line decreased by nearly 3% over the last year as repayment of two ADB loan installments. However interest cost of commercial funding of PKR 200m from Soneri Bank; PKR 184m from PPAF and mark up due to Depositors; increased to PKR 66m as against PKR 34m of last year.

The overall cost of fund ratio improved from 5.66% to 5.44% this year which was in line with the funding strategy of the Bank that aims at replacing low cost ADB funds with the combination of retail and whole sale deposit so as to maintain its overall cost of fund ratio.

Operating Cost

Staff cost increased by nearly 9% over the last year which accommodated both;

- 1) increase in staff strength;
- 2) annual performance review of staff.

Other Operating expenses (net) of PKR 569m increased by nearly 9% over the last year due to inflationary impact particularly on account of rent and rates, utilities etc and impact of servicing 62 full service outlets as against 40 of last year.

Other Income

Other income was PKR 183m as against PKR 193m of last year. The decline was mainly on account of recovery of bad debts of PKR 37M (2010: PKR 58m) as last year losses in KPK portfolio was compensated by the Government of Pakistan to the tune of PKR 38m.

Taxation

The Bank continues to leverage tax holiday of five years on the profit of MFB introduced by Federal Board of Revenue.

However; in compliance with the amendments in taxation law; the Bank has provided minimum tax on its turnover at the rate of 1.0% which amounts to nearly PKR 15m.

The Bank has also recognized deferred tax of PKR 70m during the year as a result of timing differences which are expected to reverse in foreseeable period.

Liquidity and Funding

The Bank's assets portfolio is financed from the funding pool primarily consisting of ADB complete draw down of credit line and gradually increasing deposit base. The cash reserve has serviced two bi-annual principal installments of ADB credit line last year amounting to nearly PKR 364m and growth of its assets portfolio by PKR 552m.

The cash outflows were matched with;

- 1) growth of deposit base with incremental impact of PKR 700m;
- 2) financing from PPAF of PKR 184m.

The Bank's cash and cash equivalent has increased by nearly 41% over the last year and its CAR at 40% was well ahead of the statutory level of 15%.

The Bank will continue to target liquidity needs from a combination of wholesale and retail deposit for its growth. In this context;

Additionally, credit line arrangement of around PKR 500m has been arranged with commercial/funding institutions on competitive terms.

The Bank has accelerated conversion of its micro-credit operations into Full Service Banking which has helped scale up its deposit base to nearly PKR1.7b at the YE.

Return on Assets (ROA)

The ROA is measured at -0.8% at the year-end as against 0.8% of last year due to reasons explained above.

Return on Equity (ROE)

ROE is measured at -2.7% as against 2.6% last year due to reasons explained above.

Credit Rating

JCR-VIS Credit rating Company has upgraded Khushhalbank entity rating for medium to long term to "A" and short term to "A-1".

Future Outlook

This year we plan to complete our core banking Implementation across the network and would be able to launch new products and services besides investing in alternate delivery channels to bring efficiency in terms of our service and convenience to our customers.

The expression of Interest for sale of shares to a strategic Investor floated last year received a positive response and on the completion of due diligence by short listed potential investors the bidding concluded successfully in February 2012. A consortium led by United Bank Limited and four European/American social microfinance funds were declared successful. We expect the process of investment to complete in 2012.

I am confident that our initiatives over the past three years have put the bank on a solid foundation for the future to pursue greater business opportunities for growth and profitability.

I wish to acknowledge the support of all stakeholders that include the Shareholders, Board, Regulator, Management and Clients.



M. Ghalib Nishtar
President

March 16, 2012

Directors' Report to the Shareholders: 2011

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, 2011.

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 development agencies housed at the World Bank; has issued two guidelines to enhance transparent reporting for microfinance institutions i.e. disclosure guidelines for

financial reporting and definitions of selected financial terms, ratios and adjustments.

The Bank in its financial statements as at December 31, 2011, 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

Khushhalibank Limited (KB or KBL) has emerged as a clear leader in 2011 with a market share of 22% and regulated microfinance banks as a group continue to dominate the microfinance landscape.

The Bank posted a profit before tax of PKR 96m as against profit of PKR 188m last year.

The profit of the year was suppressed primarily due to;

- I. The devastating floods of 2010 which affected our portfolio in primary business areas of south Punjab, Sindh and parts of KPK had an impact on revenues and profitability as compared to last year. However; the impact was mitigated to a large extent by close coordination efforts with the affected clients and rescheduling of portfolios during 2011.

During August/September 2011, the province of Sindh was significantly affected by heavy rains of monsoon which also affected our asset portfolio. The overall PL impact of loan losses in 2011 amounts to PKR 137m (2010: PKR 54m) which included impact of provision enhancement for possible losses on rain affected portfolio of PKR 25m.
- II. Inflationary impact on administrative cost due to upgrading 62 micro credit branches to full service operations as a result of which these costs increased to PKR 1,120m (2010: PKR 1,024m).

While the Bank is pursuing a sustainable growth strategy as approved by the Board. However; due to the extra-ordinary suppression of income due to natural calamity; the Bank's Operational Self Sufficiency (without taking into account grants and cost subsidies) of 97% was lower than 105% of last year.

The Bank's earning assets comprising of advances portfolio was PKR 4.3b as against last year of PKR 3.7b which reflects growth of nearly 16%.

Also; in pursuance of the strategy of generating low cost funding for business growth and expansion; the Bank has accelerated liability drive by converting sixty two branches into full service banking outlets which has helped increase its deposit base to nearly PKR 1.7b (2010: PKR 1.0b) at the year end.

As a result of above; the Bank's total asset have increased to PKR 8.2b (2010: PKR 7.2b) thus posting growth of around 14%.

The results of operations under review are

Pattern of Shareholding

The Pattern of shareholding of the Bank as at December 31, 2011 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
15			170,500,000

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
Total Shares	140,000,000

Credit Rating

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

Earning Per Share

Basic earning per share has been disclosed under note 31 of the financial statements.

Capital Adequacy

As of December 31, 2011 the Bank's capital adequacy ratio (CAR) measure at 40% (2010:44%) 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 and Co, Chartered Accountants retire and being eligible,

presented below;

	2011 Rupees	2010 Rupees
PROFIT AFTER TAXATION	151,564,228	174,160,834
Unappropriated profit brought forward	313,538,195	209,041,695
Profit available for appropriation	465,102,423	383,202,529
APPROPRIATIONS:		
Transfer to:		
- Statutory reserve	30,312,846	34,832,167
- Microfinance Social Development Fund	15,156,425	17,416,083
- Depositors' Protection Fund	7,578,211	8,708,042
- Risk Mitigation Fund	7,578,211	8,708,042
	60,625,693	69,664,334
UNAPPROPRIATED PROFIT CARRIED FORWARD	404,476,730	313,538,195

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 and 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 16, 2012

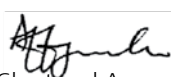
Auditors' Report to the Members

We have audited the annexed balance sheet of Khushhali Bank Limited (the Bank) as at December 31, 2011 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 the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) In our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984;
- b) in our opinion -
 - i) the balance sheet 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, 2011 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (xviii of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.



Chartered Accountants

Islamabad: March 16, 2012

Name of the audit engagement partner: Kalimuddin Ghauri

A.F. Ferguson & Co., Chartered Accountants, a member firm of the pwc network
PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad - 44000, Pakistan.
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Balance Sheet as at December 31, 2011

	Note	2011 Rupees	2010 Rupees
ASSETS			
Cash and balances with SBP and NBP	6	232,404,452	163,112,013
Balances with other Banks/ NBFIs/ MFBs	7	817,280,992	581,414,297
Lending to financial institutions	8	1,138,028,622	811,921,784
Investments - net of provisions	9	944,757,075	1,252,790,066
Advances - net of provisions	10	4,167,113,455	3,621,410,320
Operating fixed assets	11	197,494,669	168,718,686
Other assets	12	654,404,692	639,305,273
Deferred tax asset	13	69,996,068	-
Total Assets		8,221,480,025	7,238,672,439
LIABILITIES			
Deposits	14	1,677,010,488	1,000,328,625
Borrowings	15	3,957,627,416	3,862,294,792
Other liabilities	16	221,062,240	156,765,219
Total Liabilities		5,855,700,144	5,019,388,636
NET ASSETS		2,365,779,881	2,219,283,803
REPRESENTED BY:			
Share capital	17	1,705,000,000	1,705,000,000
Statutory reserve	5.11	174,916,406	144,603,560
Capital reserve	5.12	24,255,224	24,255,224
Reserve for contingencies	5.14	28,385,353	28,385,353
Unappropriated profit		404,476,730	313,538,195
		2,337,033,713	2,215,782,332
Surplus/ (deficit) on revaluation of assets	18	1,510,695	(8,704,489)
Deferred grants	19	27,235,473	12,205,960
Total Capital		2,365,779,881	2,219,283,803
MEMORANDUM / OFF BALANCE SHEET ITEMS	20		

The annexed notes from 1 to 40 form an integral part of these financial statements.


PRESIDENT


CHAIRMAN


DIRECTOR


DIRECTOR

Profit and Loss Account for the year ended December 31, 2011

	Note	2011 Rupees	2010 Rupees
Mark-up/ return/ interest earned	21	1,308,321,715	1,221,037,366
Mark-up/ return/ interest expensed	22	285,787,879	260,551,582
Net mark-up/ interest income		1,022,533,836	960,485,784
Provision against non-performing loans, advances and other assets	10.5, 12	180,814,895	113,064,596
Bad debts written off directly	10.6	-	-
		180,814,895	113,064,596
Net mark-up/ interest income after provisions		841,718,941	847,421,188
NON MARK-UP/ NON INTEREST INCOME			
Fee, commission and brokerage income	23	192,949,378	176,725,475
Other income	24	183,326,000	192,211,396
Total non mark-up/ non interest income		376,275,378	368,936,871
		1,217,994,319	1,216,358,059
NON MARK-UP/ NON INTEREST EXPENSES			
Administrative expenses	25	1,119,802,541	1,024,433,828
Other charges	26	1,931,211	3,785,769
Total non-mark-up/ non interest expense		1,121,733,752	1,028,219,597
PROFIT BEFORE TAXATION		96,260,567	188,138,462
TAXATION			
Minimum tax	27.1	14,692,407	13,977,628
Deferred tax	27	(69,996,068)	-
		(55,303,661)	13,977,628
PROFIT AFTER TAXATION		151,564,228	174,160,834
Unappropriated profit brought forward		313,538,195	209,041,695
Profit available for appropriation		465,102,423	383,202,529
APPROPRIATIONS:			
Transfer to:			
Statutory reserve	5.11	30,312,846	34,832,167
Microfinance Social Development Fund	5.15	15,156,425	17,416,083
Depositors' Protection Fund	5.15	7,578,211	8,708,042
Risk Mitigation Fund	5.15	7,578,211	8,708,042
		60,625,693	69,664,334
UNAPPROPRIATED PROFIT CARRIED FORWARD		404,476,730	313,538,195
EARNINGS PER SHARE	31	0.89	1.02

The annexed notes from 1 to 40 form an integral part of these financial statements.


PRESIDENT


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Cash Flow Statement for the year ended December 31, 2011

	Note	2011 Rupees	2010 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		96,260,567	188,138,462
Adjustments for:			
Depreciation and amortization		74,722,244	67,604,939
Amortization of deferred grant		(7,704,824)	(6,463,085)
Amortization of premium on investments held to maturity		7,830,325	7,784,612
Provision against non-performing advances		173,765,436	112,205,012
Gain on sale of operating fixed assets		(34,164,461)	(20,180,369)
Interest on investments and deposit accounts		(216,469,004)	(194,489,341)
Reimbursement of cost share from United State Agency for International Development (USAID)		(3,044,334)	(1,450,974)
Financial charges		293,067,855	265,266,890
Provision against other assets		7,049,459	859,584
Provision for gratuity		28,346,711	26,676,167
		323,399,407	257,813,435
		419,659,974	445,951,897
(Increase)/ decrease in operating assets			
Lending to financial institutions		(326,106,838)	(412,462,240)
Advances		(719,468,571)	(177,667,881)
Other assets (excluding advance taxation)		(23,914,796)	232,096,947
		(1,069,490,205)	(358,033,174)
Increase/ (decrease) in operating liabilities			
Deposits and other accounts		676,681,863	810,296,035
Other liabilities		33,734,935	(52,110,554)
		(359,073,407)	400,152,307
Cash flow from operations		60,586,567	846,104,204
Interest received		199,568,086	216,794,085
Income taxes paid		(3,067,607)	2,627,872
Financial charges paid		(276,641,741)	(254,108,505)
Gratuity paid		(27,187,922)	(25,675,439)
Net cash flow from operating activities		(46,742,617)	785,742,217
CASH FLOW FROM INVESTING ACTIVITIES			
Investments made during the year		(2,209,331,980)	(1,484,696,300)
Investments encashed during the year		2,511,579,400	1,198,354,800
Purchase of operating fixed assets		(105,236,739)	(52,085,563)
Sale proceeds against fixed assets		35,902,973	21,620,743
Net cash flow from investing activities		232,913,654	(316,806,320)
CASH FLOW FROM FINANCING ACTIVITIES			
Borrowings from financial institutions		459,062,104	67,363,356
Repayment of Government of Pakistan Loan		(363,729,480)	(363,729,480)
Grant from SBI SA Micro Savings		22,734,337	2,750,000
Grant from USAID		921,136	4,183,230
Net cash used in financing activities		118,988,097	(289,432,894)
Net increase in cash and cash equivalents		305,159,134	179,503,003
Cash and cash equivalents at beginning of the year		744,526,310	565,023,307
Cash and cash equivalents at end of the year	28	1,049,685,444	744,526,310

The annexed notes from 1 to 40 form an integral part of these financial statements.


PRESIDENT


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Statement of Changes in Equity for the year ended December 31, 2011

	Share Capital	Statutory Reserve	Capital Reserve	Reserve for Contingencies	Unappropriated Profit	Total
						Rupees
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	1,705,000,000	144,603,560	24,255,224	28,385,353	313,538,195	2,215,782,332
Profit for the year after taxation	-	-	-	-	151,564,228	151,564,228
Transfer to:						
Statutory Reserve	-	30,312,846	-	-	(30,312,846)	-
Microfinance Social Development Fund	-	-	-	-	(15,156,425)	(15,156,425)
Risk Mitigation Fund	-	-	-	-	(7,578,211)	(7,578,211)
Depositors' Protection Fund	-	-	-	-	(7,578,211)	(7,578,211)
Balance as at December 31, 2011	1,705,000,000	174,916,406	24,255,224	28,385,353	404,476,730	2,337,033,713

The annexed notes from 1 to 40 form an integral part of these financial statements.


PRESIDENT


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DIRECTOR

Notes to the Financial Statements for the year ended December 31, 2011

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, 2011 (December 31, 2010: 109 branches) and is licensed to operate nationwide.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

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

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 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2011 that would be expected to have a material impact on the Bank.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted

IAS 19, 'Employee benefits' was amended in June 2011. The impact on the Bank will be as follows: to eliminate the corridor approach and recognize all actuarial gains and losses in profit and loss as they occur; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/(asset). The Bank is yet to assess the full impact of the amendments.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. However, the Bank is exempt from the adoption of IAS 39 and consequently IFRS 9 as well.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Bank is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Bank is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2012

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

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 5.26.

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

In addition, minimum 1% 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 Regulations is not changed due to such rescheduling. The accrued markup till the date of rescheduling is received prior to such rescheduling.

5.5 Operating fixed assets

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 of non-financial assets

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

5.7 Deposits

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

5.8 Current and deferred income tax

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

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will

be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

5.9 Employee benefits

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of the Bank. The 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 16.1 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 deposits 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 Leases

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

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

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

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

5.23 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

5.24 Provisions

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

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

5.25 Exceptional items

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

5.26 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	2011 Rupees	2010 Rupees
6. CASH AND BALANCES WITH SBP AND NBP			
Cash in hand			
Local currency		148,030,385	65,899,409
Balances with State Bank of Pakistan (SBP) in:			
Local currency current accounts	6.1	82,254,869	73,741,966
Balances with National Bank of Pakistan (NBP) in:			
Local currency current accounts		1,337,172	21,023,219
Local currency deposit accounts	6.2	782,026	2,447,419
		2,119,198	23,470,638
		<u>232,404,452</u>	<u>163,112,013</u>

6.1 This represents balance maintained with SBP to meet the requirement of maintaining minimum balance equivalent to 5% (2010: 5%) of the Bank's time and demand deposits 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% (2010: 5%) per annum.

	Note	2011 Rupees	2010 Rupees
7. BALANCES WITH OTHER BANKS/ NBFIs/ MFBs			
In Pakistan			
Local currency current accounts		338,649,337	424,870,487
Local currency deposit accounts	7.1	478,631,655	156,543,810
		<u>817,280,992</u>	<u>581,414,297</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 11% (2010: 5% to 10.55%) per annum. This also includes Term Deposit Receipts amounting to Rs 300 million (2010: Rs Nil) with local commercial bank carrying interest rate of 12.45% (2010: Nil) per annum with maturity on January 23, 2012 (2010: Nil).

	Note	2011 Rupees	2010 Rupees
8. LENDING TO FINANCIAL INSTITUTIONS			
Repurchase agreement lending (reverse repo)	8.1	1,138,028,622	811,921,784
Clean lending	8.2	100,000,000	100,000,000
Less: Provision for impairment		100,000,000	100,000,000
		-	-
		<u>1,138,028,622</u>	<u>811,921,784</u>

8.1 This represents reverse repo at the rates of 11.45% to 11.80% per annum (2010: 12.50% and 12.70%) maturing by January 12, 2012 (2010: by January 5, 2011).

8.1.1 Securities held as collateral against lending to financial institutions

	2011			2010		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees			Rupees		
Market Treasury Bills (T-Bills)	1,211,000,000	-	1,211,000,000	824,000,000	-	824,000,000

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 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. Furthermore, the SECP has filed winding up petition before Lahore High Court and decision is still pending.

	Note	2011 Rupees	2010 Rupees
9. INVESTMENTS - NET OF PROVISIONS			
Federal Government securities			
Available for sale securities			
Market Treasury Bills (T-Bills)	9.1	943,246,380	895,493,800
Add: surplus / (deficit) on revaluation of available for sale securities	9.2	<u>1,510,695</u>	<u>(534,059)</u>
		944,757,075	894,959,741
Held to maturity investments			
Pakistan Investment Bonds (PIBs)		-	357,830,325
		<u>944,757,075</u>	<u>1,252,790,066</u>

9.1 This represents T-Bills purchased for the year ranging from 84 days to 364 days (2010: 82 days to 364 days) having yield interest ranging from 11.76% to 13.64% (2010: 12.10% to 13.35%) per annum. T-Bills amounting to Rs 413 million (2010: Rs. Nil) are given as collateral against borrowings (notes - 15.2.1 and 15.2.4).

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 surplus / (deficit) is kept in a separate account and is shown below the shareholders' equity in the balance sheet.

10. ADVANCES - NET OF PROVISIONS

Loan type	Note	2011		2010	
		Number of loans outstanding	Amount outstanding Rupees	Number of loans outstanding	Amount outstanding Rupees
Micro credit	10.1	352,962	4,273,802,377	325,523	3,722,152,797
Less: Provisions held					
Specific provision	10.2	6,589	(21,718,887)	9,820	(28,004,701)
General provision	10.3	335,425	(84,970,035)	324,112	(72,737,776)
			(106,688,922)		(100,742,477)
Advances - net of provisions			4,167,113,455		3,621,410,320

10.1 This includes 7,813 and 1,573 (2010: 784 and Nil) rescheduled micro credit advances having aggregate value of Rs. 97.03 million and Rs. 22.2 million (2010: Rs. 11.22 million and Nil) related to branches affected from flood of September 2010 and rain of September 2011 respectively.

10.2 This includes provision of Rs. 11.31 million (2010 Rs. 0.86 million) 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 1% of micro credit advances net of specific provision. The rate has been increased for the current year from 1% to 2% approximately, to prudently manage credit risk related to micro credit advances of flood and rain affected branches.

10.4 Particulars of non-performing advances

Advances include Rs. 104.29 million (2010: Rs. 146.02 million) which, as detailed below, have been placed under non-performing status.

Category of classification	2011			2010		
	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
		Rupees			Rupees	
OAEM	55,569,665	-	-	83,702,027	-	-
Sub-standard	26,539,588	6,634,897	6,634,897	28,735,564	7,183,891	7,183,891
Doubtful	14,291,850	7,145,925	7,145,925	25,515,694	12,757,847	12,757,847
Loss	93,586,433	93,586,433	93,586,433	8,062,963	8,062,963	8,062,963
	189,987,536	107,367,255	107,367,255	146,016,248	28,004,701	28,004,701
Rescheduled loans	(85,693,868)	(85,648,368)	(85,648,368)	-	-	-
Total	104,293,668	21,718,887	21,718,887	146,016,248	28,004,701	28,004,701

10.5 Particulars of provisions against non-performing advances

	2011			2010		
	Specific	General	Total	Specific	General	Total
		Rupees			Rupees	
Balance at beginning of the year	28,004,701	72,737,776	100,742,477	18,646,565	55,610,642	74,257,207
Provision charge	161,533,177	12,232,259	173,765,436	95,077,878	17,127,134	112,205,012
Amounts written off	(167,818,991)	-	(167,818,991)	(85,719,742)	-	(85,719,742)
Balance at end of the year	21,718,887	84,970,035	106,688,922	28,004,701	72,737,776	100,742,477

10.6 Particulars of write offs

	2011 Rupees	2010 Rupees
Against provisions		
Related to rescheduled loans	11,283,750	-
Related to normal classified loans	156,535,241	85,719,742
Directly charged to profit and loss account	-	-
	<u>167,818,991</u>	<u>85,719,742</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 installment of principal that is due but unpaid, beginning with the earliest such installment. The number of days of delay is based on the due date of the earliest loan installment that has not been fully paid. The Bank does not add late payment surcharge/ penalty on overdue advances into principal.

Normal Loans	2011		2010	
	Amount Rupees	Portfolio at Risk	Amount Rupees	Portfolio at Risk
Current	4,021,284,235	0.00%	3,490,737,750	-
1 - 29 days late	62,530,606	1.46%	83,711,428	2.25%
30 - 59 days late	55,569,665	1.30%	77,618,714	2.09%
60 - 89 days late	26,539,588	0.62%	25,282,496	0.68%
90 - 179 days late	14,200,850	0.33%	25,515,694	0.69%
More than 179 days late	7,983,565	0.19%	8,062,963	0.22%
	<u>4,188,108,509</u>	<u>3.90%</u>	<u>3,710,929,045</u>	<u>5.93%</u>
Rescheduled Loans				
Current	-	-	25,000	-
1 - 29 days late	-	0.00%	1,662,371	0.04%
30 - 59 days late	-	0.00%	6,083,313	0.16%
60 - 89 days late	-	0.00%	3,453,068	0.09%
90 - 179 days late	91,000	0.00%	-	-
More than 179 days late	85,602,868	2.00%	-	-
	<u>85,693,868</u>	<u>2.00%</u>	<u>11,223,752</u>	<u>0.29%</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	
	2011	2010
1st quarter	110.5%	136.7%
2nd quarter	128.8%	132.9%
3rd quarter	126.2%	126.6%
4th quarter	135.9%	138.0%
	<u>125.4%</u>	<u>133.6%</u>

Annual loss rate for the year is 0% (2010: 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 year along with the payments in arrears at the start of the period including service charge.

10.9 Loan loss allowance

	2011				2010			
	Outstanding loan portfolio (principal)		Allowance for loan loss		Outstanding loan portfolio (principal)		Allowance for loan loss	
Normal loans	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees	Share of total	Rupees
Current	94.1%	4,021,284,235	-	-	93.8%	3,490,737,750	-	-
1 - 29 days late	1.5%	62,530,606	-	-	2.2%	83,711,428	-	-
30 - 59 days late	1.3%	55,569,665	-	-	2.1%	77,618,714	-	-
60 - 89 days late	0.6%	26,539,588	6.2%	6,634,897	0.7%	25,282,496	22.6%	6,320,624
90 - 179 days late	0.3%	14,200,850	6.6%	7,100,425	0.7%	25,515,694	45.6%	12,757,847
More than 179 days late	0.2%	7,983,565	7.4%	7,983,565	0.2%	8,062,963	28.8%	8,062,963
Rescheduled loans								
Current	0.0%	-	-	-	0.0%	25,000	-	-
1 - 29 days late	0.0%	-	-	-	0.0%	1,662,371	-	-
30 - 59 days late	0.0%	-	-	-	0.2%	6,083,313	-	-
60 - 89 days late	0.0%	-	-	-	0.1%	3,453,068	3.0%	863,267
90 - 179 days late	0.0%	91,000	0.0%	45,500	-	-	-	-
More than 179 days late	2.0%	85,602,868	79.8%	85,602,868	-	-	-	-
	100%	4,273,802,377	100%	107,376,255	100%	3,722,152,797	100%	28,004,701

11. OPERATING FIXED ASSETS

	Note	2011 Rupees	2010 Rupees
Property and equipment	11.1	174,444,923	161,974,964
Intangible assets	11.2	23,049,746	6,743,722
		<u>197,494,669</u>	<u>168,718,686</u>

11.1 Property and equipment

	Furniture and fixtures	Electrical and office equipment	Computer equipment	Vehicles	Total
Cost	Rupees				
Opening Cost	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>
Balance as at January 1, 2011	107,919,646	118,125,097	121,043,582	233,985,415	581,073,740
Additions during the year	17,487,314	26,442,377	33,304,094	602,617	77,827,402
Disposals during the year	(3,416,150)	(5,434,332)	(9,761,813)	(53,226,200)	(71,838,495)
Balance as at December 31, 2011	<u>121,981,810</u>	<u>139,133,142</u>	<u>144,585,863</u>	<u>181,361,832</u>	<u>587,062,647</u>
Depreciation					
Opening accumulated depreciation	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>
Balance as at January 1, 2011	38,115,562	69,907,111	84,315,101	226,761,002	419,098,776
Depreciation charge for the year	11,403,004	18,264,816	28,296,926	5,654,185	63,618,931
Disposals during the year	(1,765,220)	(5,364,400)	(9,761,583)	(53,208,780)	(70,099,983)
Balance as at December 31, 2011	<u>47,753,346</u>	<u>82,807,527</u>	<u>102,850,444</u>	<u>179,206,407</u>	<u>412,617,724</u>
Carrying value					
2010	69,804,084	48,217,986	36,728,481	7,224,413	161,974,964
2011	74,228,464	56,325,615	41,735,419	2,155,425	174,444,923
Rates of depreciation per annum	10%	20%	33.33%	25%	

11.1.2 Depreciation for the year includes Rs. 4.17 million (2010: Rs. 6.46 million) being the depreciation charged on assets acquired as grant, as explained in detail in note 19 to the financial statements.

11.1.3 The gross carrying amount of fully depreciated property and equipment that are still in use is Rs. 264.58 million (2010: Rs. 282.47 million).

11.1.4 Detail 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	Sale Proceed	Mode of disposal	Particulars of purchaser/insurer
Rupees					
Toyota Hilux 4X4 Twin Cabin	2,267,450	1	940,000	Auction	Abdulbasit
Toyota Hilux 4X4 Twin Cabin	2,276,400	1	1,200,000	Auction	M. Naeem Ashraf
Toyota Hilux 4X4 Double Cabin	2,267,450	1	1,130,000	Auction	Sohail Inayat
Toyota Hilux 4X4 Twin Cabin	2,276,400	1	1,260,000	Auction	Tahirzada
Toyota Hilux 4X4 Double Cabin	2,276,400	1	985,000	Auction	Amjad Ali
Toyota Hilux 4X4 Double Cabin	2,401,200	1	1,310,000	Auction	IGI Insurance

11.2 Intangible assets	2011 Rupees	2010 Rupees
Computer software		
Cost		
Balance as at the beginning of the year	23,693,429	20,292,022
Additions during the year	27,409,337	3,401,407
Disposals during the year	-	-
Balance as at the end of the year	51,102,766	23,693,429
Amortization		
Balance as at the beginning of the year	(16,949,707)	(10,332,164)
Charge for the year	(11,103,313)	(6,617,543)
Disposals during the year	-	-
Balance as at the end of the year	(28,053,020)	(16,949,707)
Carrying amount	23,049,746	6,743,722

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 Amortization for the year includes Rs. 3.54 million (2010: Nil) being the amortization charged on assets acquired as grant, as explained in detail in note 19.2 to the financial statements.

11.2.3 The aggregate cost of fully amortized intangible assets that are still in use is Rs. 12.97 million (2010: Rs.4.4 million)

	Note	2011 Rupees	2010 Rupees
12. OTHER ASSETS			
Mark-up accrued		400,320,112	366,295,282
Less: suspended markup on non-performing advances		<u>21,264,600</u>	<u>21,154,747</u>
		379,055,512	345,140,535
Interest receivable on investments and bank deposits		37,151,086	20,250,167
Loans and advances - unsecured, considered good			
Employees		<u>61,045,537</u>	<u>79,885,179</u>
Suppliers		<u>4,318,476</u>	<u>18,758,987</u>
		65,364,013	98,644,166
Deposits		2,273,645	2,040,895
Prepayments		57,948,022	49,855,825
Advance taxation - net		12,334,587	23,959,387
Receivable from USAID	24.1	5,229,783	3,106,585
Receivable from Microfinance Social Development Fund	24.2	85,363,050	79,843,051
Insurance claims receivable		7,325,623	4,761,709
Receivable from SBP	12.1	742,537	8,701,146
Other receivables		<u>9,710,727</u>	<u>4,045,440</u>
		662,498,585	640,348,906
Less: provisions held against classified other assets			
Opening provision		<u>1,043,633</u>	<u>1,475,423</u>
Provision charge for the year		7,049,459	859,584
Adjustments / receivables written off against provision		801	(1,291,374)
		8,093,893	1,043,633
		<u>654,404,692</u>	<u>639,305,273</u>

- 12.1** 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 Pakhtunkhawa, 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.

	2011 Rupees	2010 Rupees
13. DEFERRED TAX ASSET		
Current year		
Deferred tax assets arising on account of temporary differences in:		
Operating fixed assets	<u>1,016,551</u>	-
Provision against advances and other assets	34,508,260	-
Provision against lendings to financial institutions	35,000,000	-
	70,524,811	-
Deferred tax liability arising on account of temporary differences in:		
(Deficit) / surplus on revaluation of available for sale securities	(528,743)	-
	<u>69,996,068</u>	<u>-</u>

14. DEPOSITS	Note	2011		2010	
		No of Accounts	Amount Rupees	No of Accounts	Amount Rupees
Fixed deposits	14.2	1,152	435,154,839	2,043	197,594,000
Saving deposits	14.3	1,170	146,878,366	-	-
Current accounts		298,917	1,094,977,283	203,919	802,734,625
		<u>301,239</u>	<u>1,677,010,488</u>	<u>205,962</u>	<u>1,000,328,625</u>
14.1 Particulars of deposits by ownership					
Individual depositors		300,762	1,564,193,591	205,936	963,878,408
Institutional depositors		477	112,816,897	26	36,450,217
		<u>301,239</u>	<u>1,677,010,488</u>	<u>205,962</u>	<u>1,000,328,625</u>

14.2 This represent term deposits having tenure of 1 to 12 months carrying interest rates ranging from 6% to 13.10% per annum (2010: 6% to 11%).

14.3 This represents savings accounts carrying interest rates ranging from 5% to 8% per annum (2010: Nil).

15. BORROWINGS	Note	2011	2010
		Rupees	Rupees
Unsecured			
Borrowing from banks/ financial institutions outside Pakistan	15.1	3,273,565,312	3,637,294,792
Borrowings from banks/ financial institutions in Pakistan		-	25,000,000
Secured			
Borrowings from banks/ financial institutions in Pakistan	15.2	684,062,104	200,000,000
		<u>3,957,627,416</u>	<u>3,862,294,792</u>

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

The interest is being paid on bi-annual basis charged at the rate equal to weighted average cost of deposits during the preceding six months in the banking industry as calculated by SBP. The interest rate used for the bi-annual payment during the period was determined to be 6.07% and 6.42% (2010: 5.88% and 5.97%) per annum.

	Note	2011 Rupees	2010 Rupees
15.2 Borrowings from banks/ financial institutions in Pakistan include:			
Soneri Bank Term Finance 1	15.2.1	100,000,000	200,000,000
Soneri Bank Term Finance 2	15.2.2	100,000,000	-
Borrowing from Pakistan Poverty Alleviation Fund (PPAF)	15.2.3	184,052,844	-
Borrowing under repurchase agreements (Repo borrowing)	15.2.4	300,009,260	-
		<u>684,062,104</u>	<u>200,000,000</u>

15.2.1 This represent interbank money market borrowings for two years carrying interest rates ranging from 15.16% to 15.24% (2010: 13.96% to 14.77%) per annum. The loan was repayable in two equal installments. First installment was repaid in July 2011 and the second is due in January 2012. These borrowings are secured against T-Bills amounting to Rs 103 million and charge over current assets, receivables and book debt for Rs 100 million (2010: Secured against PIBs amounting to Rs. 202 million and charge over current assets, receivables and book debt for Rs 100 million).

15.2.2 This represent interbank money market borrowings for three years carrying interest rate of 15.07% (2010: Nil) per annum and is repayable in four equal installments in the years 2013 and 2014. These borrowings are secured against 40% partial Micro Credit Guarantee Facility (MCGF) by SBP, charge over current assets of Rs 100 million and an undertaking to utilize funds for microfinance activities.

15.2.3 This represents loan from PPAF carrying interest rate of 13.72% (2010: Nil) repayable in October 2012. The loan is solely for on-lending purposes of microcredit to borrowers. The loan is secured against all book debts, sub loans and receivables created out of PPAF financing.

15.2.4 This represents repo borrowings from Habib Bank Limited carrying interest rate of 11.95% (2010: Nil) repayable on January 23, 2012. The borrowing is secured against T-Bills of Rs 310 million.

	2011 Rupees	2010 Rupees
15.3 Quarterly average borrowing		
An analysis of monthly average borrowings for the four quarters is as under:		
1st Quarter	3,841,461,459	4,201,024,272
2nd Quarter	3,746,362,422	4,079,781,112
3rd Quarter	3,667,051,694	4,019,159,532
4th Quarter	3,798,722,128	3,906,249,705

15.4 Loan repayment schedule

Loan principal at year end	3,957,627,416	3,862,294,792
Average during the year (quarterly)	3,763,399,426	4,051,553,655
Interest expense for the year	257,510,883	255,047,492

	Note	2011 Rupees	2010 Rupees
16. OTHER LIABILITIES			
Interest payable on borrowings		52,358,331	49,919,534
Interest payable on deposits		17,605,947	2,761,793
Accrued expenses		34,024,189	31,874,175
Bills payable		31,406,194	504,920
Payable to defined benefit plan - gratuity	16.1	4,458,181	3,299,391
Contribution payable to Microfinance Social Development Fund		15,156,425	17,416,083
Contribution payable to Risk Mitigation Fund		7,578,211	8,708,042

	2011 Rupees	2010 Rupees
Contribution payable to Depositors' Protection Fund	7,578,211	8,708,042
Taxes payable	10,133,873	880,662
Payable to service providers	4,906,000	6,942,000
Payable to suppliers	6,955,856	17,192,370
Provision for Workers Welfare Fund	5,687,980	3,762,769
Other payables	23,212,842	4,795,438
	<u>221,062,240</u>	<u>156,765,219</u>

16.1 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	138,970,494	118,869,107
Fair value of plan assets	(146,576,414)	(119,117,075)
Surplus	(7,605,920)	(247,968)
Unrecognized actuarial gain	12,064,100	3,547,359
Net liability	<u>4,458,180</u>	<u>3,299,391</u>

ii) Amounts recognized in the profit and loss account

Current service cost	28,378,947	26,305,620
Interest cost	15,452,984	11,495,123
Expected return on plan assets	(15,485,220)	(11,124,576)
	<u>28,346,711</u>	<u>26,676,167</u>

iii) Changes in present value of defined benefit obligation

Opening defined benefit obligation	118,869,107	95,792,693
Expense for the year	43,831,931	37,800,743
Benefits paid during the year	(17,126,297)	(11,653,939)
Actuarial gain	(6,604,247)	(3,070,390)
Closing defined benefit obligation	<u>138,970,494</u>	<u>118,869,107</u>

iv) Changes in fair value of plan assets

Opening fair value of plan assets	119,117,075	92,704,801
Expected return on plan assets	15,485,220	11,124,576
Contributions paid during the year	27,187,922	25,675,439
Benefit paid during the year	(17,126,297)	(11,653,939)
Actuarial gain on plan assets	1,912,494	1,266,198
Closing fair value of plan assets	<u>146,576,414</u>	<u>119,117,075</u>

v) Actual return on plan assets

Expected return on plan assets	15,485,220	11,124,576
Actuarial gain on plan assets	1,912,494	1,266,198
	<u>17,397,714</u>	<u>12,390,774</u>

vi) Major categories of plan assets

Investments in T-Bills	138,729,100	117,098,000
Accrued interest	7,720,756	992,496
Cash at bank	126,558	1,026,579
	<u>146,576,414</u>	<u>119,117,075</u>

vii) The latest actuarial valuation was carried out at December 31, 2011. The significant assumptions used for actuarial valuation are as follows:

	2011	2010
Discount rate - per annum	12.5%	13%
Expected return on plan assets - per annum	13%	13%
Expected rate of increase in salaries - per annum	12%	12%
Mortality rate	EFU 1961-66	EFU 1961-66
Average expected remaining working life of employees	11 years	11 years

	Rupees	Rupees
viii) Amounts for the current and previous year		
Present value of defined benefit obligation	(138,970,494)	(118,869,107)
Fair value of plan assets	146,576,414	119,117,075
Surplus	7,605,920	247,968
Experience adjustments on plan liabilities	6,604,247	3,070,390
Experience adjustments on plan assets	1,912,494	1,266,198

ix) Expected contribution of the Bank to the defined benefit gratuity fund for the year ending December 31, 2012 is Rs 28,343,262.

17. SHARE CAPITAL

17.1 Authorized Capital

2011 Number	2010 Number	Note	2011 Rupees	2010 Rupees
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs.10 each	<u>6,000,000,000</u>	<u>6,000,000,000</u>

17.2 Issued, subscribed and paid-up capital

<u>170,500,000</u>	<u>170,500,000</u>	Ordinary shares of Rs.10 each fully paid for consideration other than cash	17.2.1	<u>1,705,000,000</u>	<u>1,705,000,000</u>
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17.2.1 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.

17.2.2 The shareholders of the Bank are as follow:

	2011 Rupees	2010 Rupees
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
Faysal Bank Limited	15,000,000	15,000,000
KASB Bank Limited	10,000,000	10,000,000
Silk Bank Limited	10,000,000	10,000,000
Summit Bank Limited (Formerly Mybank Limited)	10,000,000	10,000,000
	<u>1,705,000,000</u>	<u>1,705,000,000</u>

		2011 Rupees	2010 Rupees
18.	SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS		
	Federal Government securities		
	Surplus/deficit on revaluation of available for sale securities	1,510,695	(534,059)
	Unamortized loss on reclassification of available for sale securities to held to maturity	-	(8,170,430)
		<u>1,510,695</u>	<u>(8,704,489)</u>
	Note	2011 Rupees	2010 Rupees
19.	DEFERRED GRANTS		
	Grant from GoP	251,589,232	251,589,232
	Less: Grant amortized		
	up to 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 ended December 31, 2009	(6,004,178)	(6,004,178)
	for the year ended December 31, 2010	(1,590,387)	(1,590,387)
	for the year ended December 31, 2011	(665,690)	-
		1,030,420	1,696,110
	Grant from USAID	98,374,901	98,374,901
	Less: Grant amortized		
	up to 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 ended December 31, 2009	(11,948,507)	(11,948,507)
	for the year ended December 31, 2010	(4,872,698)	(4,872,698)
	for the year ended December 31, 2011	(3,499,639)	-
		4,260,211	7,759,850
	Grant from SBI SA Micro Savings	25,484,337	2,750,000
	Less: Grant amortized		
	for the year ended December 31, 2011	(3,539,495)	-
		21,944,842	2,750,000
		<u>27,235,473</u>	<u>12,205,960</u>

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

19.2 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 provided financial assistance of USD 300 thousands in the form of grant to the Bank, in order to procure and implement an interim banking application from Sidat Hyder Morshed Associates (SHMA) named Bank Essential (BE) during the year.

Accordingly, an amount of Rs 22.734 million (2010: Rs 2.75 million) was reimbursed by SBI to the Bank based on payments made to SHMA for the banking application.

20. MEMORANDUM/ OFF BALANCE SHEET ITEMS

20.1 There are no contingent liabilities as at year end (2010: Nil).

20.2 Commitments for capital expenditure amounting to Rs. 11.57 million (2010: Rs. 17.79 million) are outstanding as at December 31, 2011.

21. MARK-UP/ RETURN/ INTEREST EARNED	Note	2011 Rupees	2010 Rupees
Mark-up on advances		1,091,962,564	1,041,059,245
Less: suspended markup on non-performing advances		109,853	14,511,220
		1,091,852,711	1,026,548,025
Interest on investment in Government securities		147,486,086	105,971,830
Interest on deposit accounts/ placements with other banks/ financial institutions/ mutual funds		68,982,918	88,517,511
		<u>1,308,321,715</u>	<u>1,221,037,366</u>
22. MARK-UP/ RETURN/ INTEREST EXPENSED			
Interest on borrowings from:			
Asian Development Bank		219,379,200	226,358,123
Financial institutions		38,131,683	28,689,369
Interest on deposits		28,276,996	5,504,090
		<u>285,787,879</u>	<u>260,551,582</u>
23. FEE, COMMISSION AND BROKERAGE INCOME			
Account opening fee		2,913,230	7,344,000
Micro-credit application processing fee		186,536,340	167,835,740
Other commission		3,499,808	1,545,735
		<u>192,949,378</u>	<u>176,725,475</u>
24. OTHER INCOME			
Amortization of deferred grants	19	7,704,824	6,463,085
Re-imbursment of cost share - USAID project	24.1	3,044,334	1,450,974
Re-imbursment from MSDF	24.2	95,975,000	90,390,000
Gain on disposal of fixed assets		34,164,461	20,180,369
Others	24.3	42,437,381	73,726,968
		<u>183,326,000</u>	<u>192,211,396</u>

24.1 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 Dollars 7.042 million to US Dollars 11.052 million while the total project cost was revised from US Dollars 9.371 million to US Dollars 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 Dollars 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. 2.61 million (2010: Rs. 3.36 million) was liquidated by the Bank under the

agreement from USAID during the year.

On February 25, 2011, the Bank entered into another agreement with USAID under the title of "Tubewell Efficiency Improvement Replacement Program - Phase II" for an aggregate value of US\$ 18.5 million.

Energy is a critical political and economic issue in Pakistan. In the political domain, interruptions in the power supplies have commonly lasted for 10-12 hours, and have led to riots in cities across the Country. The U.S Mission to Pakistan in addressing the broad, systemic constraints through on-going and planned programs in energy policy dialogue and reform, investment in facility upgrades, management and operational enhancements, and support for energy efficiency initiatives. The Program will increase access to power and water for citizens of Pakistan in near term through four specific actions i.e. i) repair of Tarbela Dam ii) rehabilitation of three existing thermal plants iii) restructuring of four electric distribution companies and iv) replacement of upto 11,000 energy-inefficient tube wells pumps. Only action No. iv is pertinent to the Bank under the Program. Methodology for program operations with farmers, and suppliers and installers of energy-efficient tube well pump sets suppliers was developed under Phase I of TWEIP in which approximately 1,000 farmers were identified as clients for the energy efficient pump sets.

Project implementation is currently being done by International resources Group (IRG) under USAID indefinite quantity contract (IQC).

The Bank has the role of disbursement services provider only and was entitled to recover direct and indirect implementation cost of the Program under the provisions of the agreement.

Accordingly an amount of Rs. 11.90 million (2010: Nil) was liquidated by the Bank under the agreement from USAID during the year.

- 24.2** 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.
- 24.3** This includes an amount of Rs. 37.1 million (2010: Rs 57.68 million) received during the year against previously recognized bad debts.

	Note	2011 Rupees	2010 Rupees
25. ADMINISTRATIVE EXPENSES			
Salaries, wages and benefits		523,198,655	477,703,343
Charge for defined benefit plan	16.1	28,346,711	26,676,167
Contract/ seconded staff expenses		105,956,756	91,141,104
Consultancies		1,105,545	5,817,252
Recruitment and development		2,345,426	5,422,322
Training		13,974,031	10,999,127
Rent and rates		97,217,520	85,660,851
Insurance		19,796,215	20,809,926
Utilities		42,382,153	35,865,862
Legal and professional charges		2,225,411	1,156,093
Communication		28,043,231	37,733,795
Repairs and maintenance		32,641,607	15,116,625
Printing, stationery and office supplies		45,925,316	34,527,966
Advertisement		14,562,040	16,884,993
Auditors' remuneration	25.1	1,210,000	1,000,000
Depreciation	11.1	63,618,931	60,987,396
Amortization	11.2	11,103,313	6,617,543
Vehicles up keep and maintenance		55,393,818	52,169,251
Travelling and conveyance		9,475,543	14,050,419
Meetings and conferences		8,090,700	14,247,868
Security charges		2,841,359	1,970,614
Bank charges		7,279,975	4,715,308
Newspapers and subscriptions		1,870,122	1,638,999
Miscellaneous		1,198,163	1,521,004
		<u>1,119,802,541</u>	<u>1,024,433,828</u>

	2011 Rupees	2010 Rupees
25.1 Auditors' remuneration		
Annual audit fee	880,000	850,000
Out-of-pocket expenses	330,000	150,000
	<u>1,210,000</u>	<u>1,000,000</u>
26. OTHER CHARGES		
Penalties	6,000	23,000
Workers Welfare Fund	1,925,211	3,762,769
	<u>1,931,211</u>	<u>3,785,769</u>
27. TAXATION		
Current tax:		
Current tax on profits for the year	-	-
	<u>-</u>	<u>-</u>
Deferred tax:		
Origination and reversal of current year temporary differences	(51,924,292)	-
Origination and reversal of prior year temporary differences	(18,071,776)	-
Total deferred tax	<u>(69,996,068)</u>	<u>-</u>
Income tax expense	<u>(69,996,068)</u>	<u>-</u>

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Bank as follows:

	2011 Rupees	2010 Rupees
Profit before tax	<u>96,260,567</u>	-
Tax calculated using the applicable rate	33,691,198	-
Tax effects of:		
Deferred tax relating to prior periods	(18,071,776)	-
Permanent difference arising on deferred grants	(2,696,688)	-
Permanent difference arising on penalties	2,100	-
Tax exemption on account of tax holiday	(82,920,902)	-
Tax charge recognized in profit and loss account	<u>(69,996,068)</u>	<u>-</u>

- 27.1** 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.

As required under the provisions of section 113 of the Income Tax Ordinance, 2001, minimum tax at the rate of 1% of the turnover i.e. mark-up/return/interest earned (note 21) and fee, commission and brokerage income (note 23), has been provided in the current year.

	2011 Rupees	2010 Rupees
28. CASH AND CASH EQUIVALENTS		
Cash and balances with SBP and NBP	232,404,452	163,112,013
Balances with other banks	817,280,992	581,414,297
	<u>1,049,685,444</u>	<u>744,526,310</u>

29. NUMBER OF EMPLOYEES	2011	2010
Credit sales staff		
Permanent	687	764
Banking/ support staff		
Permanent	652	629
Contractual	822	770
	1,474	1,399
Total number of employees at the end of the year	<u>2,161</u>	<u>2,163</u>

30. NUMBER OF BRANCHES		
Total branches at beginning of the year	109	107
Add: Opened during the year	6	11
Less: Closed/ merged during the year	6	9
Total branches at the end of the year	<u>109</u>	<u>109</u>

31. EARNINGS PER SHARE

(a) Basic

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

	2011	2010
Profit for the year after tax (Rupees)	151,564,228	174,160,834
Shares outstanding during the year (Numbers)	170,500,000	170,500,000
Earnings per share - basic and diluted (Rupees)	<u>0.89</u>	<u>1.02</u>

(b) Diluted

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

32. REMUNERATION OF PRESIDENT, DIRECTORS AND EXECUTIVES

	2011			2010		
	President	Directors	Executives	President	Directors	Executives
	Rupees			Rupees		
Managerial remuneration	2,763,876	-	42,535,122	2,763,876	-	38,346,594
Charge for defined benefit plan/ gratuity	326,290	-	4,919,850	331,071	-	4,667,752
Rent and house maintenance	1,243,740	-	19,140,837	1,243,740	-	17,255,992
Utilities	276,384	-	4,253,527	276,384	-	3,834,686
Medical	174,895	-	4,257,573	17,279	-	3,455,080
Conveyance	339,788	-	13,898,264	286,323	-	11,925,606
Bonus	-	-	2,448,193	-	-	3,688,841
Others	-	117,139	507,065	-	66,660	681,516
Total	<u>5,124,973</u>	<u>117,139</u>	<u>91,960,431</u>	<u>4,918,673</u>	<u>66,660</u>	<u>83,856,067</u>
Number of person(s)	<u>1</u>	<u>6</u>	<u>35</u>	<u>1</u>	<u>5</u>	<u>33</u>

32.1 The President is provided with a Bank maintained car.

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

33. SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES AS AT DECEMBER 31, 2011

	TOTAL	UPTO 1 MONTH	OVER 1 MONTH UPTO 6 MONTHS	OVER 6 MONTHS UPTO 1 YEAR	OVER ONE YEAR
Rupees					
Market rate assets					
Advances	4,167,113,455	441,512,438	1,852,415,098	1,873,185,919	-
Investments	944,757,075	-	944,757,075	-	-
Balances with SBP and NBP - deposit accounts	782,026	782,026	-	-	-
Balances with other banks - deposit accounts	478,631,655	478,631,655	-	-	-
Lending to financial institutions	1,138,028,622	1,138,028,622	-	-	-
Total market rate assets	6,729,312,833	2,058,954,741	2,797,172,173	1,873,185,919	-
Other non-earning assets					
Cash in hand	148,030,385	148,030,385	-	-	-
Balances with SBP and NBP - current accounts	83,592,041	83,592,041	-	-	-
Balances with other banks - current accounts	338,649,337	338,649,337	-	-	-
Operating fixed assets	197,494,669	6,705,151	26,820,604	33,525,755	130,443,159
Other assets	654,404,692	94,157,045	481,634,997	48,577,425	30,035,225
Deferred tax asset	69,996,068	-	-	-	69,996,068
Total non-earning assets	1,492,167,192	671,133,959	508,455,601	82,103,180	230,474,452
Total assets	8,221,480,025	2,730,088,700	3,305,627,774	1,955,289,099	230,474,452
Market rate liabilities					
Borrowing from ADB	3,273,565,312	-	181,864,740	181,864,740	2,909,835,832
Borrowings from financial institutions	684,062,104	400,009,260	-	184,052,844	100,000,000
Deposits	582,033,205	193,860,874	56,915,832	331,256,499	-
Total market rate liabilities	4,539,660,621	593,870,134	238,780,572	697,174,083	3,009,835,832
Other non-cost bearing liabilities					
Deposits	1,094,977,283	1,094,977,283	-	-	-
Other liabilities	221,062,240	112,964,411	102,944,816	5,153,013	-
Total non-cost bearing liabilities	1,316,039,523	1,207,941,694	102,944,816	5,153,013	-
Total liabilities	5,855,700,144	1,801,811,828	341,725,388	702,327,096	3,009,835,832
Net assets	2,365,779,881	928,276,872	2,963,902,386	1,252,962,003	(2,779,361,380)
Represented by:					
Share capital	1,705,000,000				
Statutory reserve	174,916,406				
Capital reserve	24,255,224				
Unappropriated profit	404,476,730				
Reserve for contingencies	28,385,353				
Deficit on revaluation of assets	1,510,695				
Deferred grants	27,235,473				
	<u>2,365,779,881</u>				

34. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

34.1 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, 2011 are summarized as follows:

Description	INTEREST / MARK-UP BEARING					NON-INTEREST BEARING		Effective Interest Rate
	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	Sub Total	Total	
	Rupees							
Financial assets:								
Cash and balances in current and other accounts	-	-	-	-	-	-	570,271,763	-
Balance in deposit accounts	479,413,681	-	-	-	-	479,413,681	-	5.0 % to 12.5 %
Lending to financial institutions	1,138,028,622	-	-	-	-	1,138,028,622	-	11.5 % to 11.8 %
Investments	944,757,075	-	-	-	-	944,757,075	-	11.8 % to 13.6 %
Advances	4,167,113,455	-	-	-	-	4,167,113,455	-	29.0 %
Other assets	-	-	-	-	-	-	584,122,083	-
	6,729,312,833	-	-	-	-	6,729,312,833	1,154,393,846	7,883,706,679
Financial liabilities:								
Deposits and other accounts	582,033,205	-	-	-	-	582,033,205	1,094,977,283	1,677,010,488
Borrowings	947,791,584	388,729,480	438,729,480	363,729,480	1,454,917,912	3,957,627,416	-	5.0 % to 13.1 %
Other liabilities	-	-	-	-	-	-	221,062,240	6.1 % to 15.2 %
	1,529,824,789	388,729,480	438,729,480	363,729,480	1,454,917,912	4,539,660,621	1,316,039,523	5,855,700,144
On balance sheet gap	5,199,488,044	(388,729,480)	(438,729,480)	(363,729,480)	(1,454,917,912)	2,189,652,212	(161,645,677)	2,028,006,535
Un recognized:								
Commitments	-	-	-	-	-	-	11,565,810	11,565,810
Off balance sheet gap	5,199,488,044	(388,729,480)	(438,729,480)	(363,729,480)	(1,454,917,912)	2,189,652,212	(173,211,487)	2,016,440,725

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		Effective Interest Rate
	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	Sub Total	Total	
	Rupees							
Financial assets:								
Cash and balances in current and other accounts	-	-	-	-	-	-	585,535,081	-
Balance in deposit accounts	158,991,229	-	-	-	-	158,991,229	-	5.0 % to 13.3 %
Lending to financial institutions	811,921,784	-	-	-	-	811,921,784	-	12.10 %
Investments	1,252,790,066	-	-	-	-	1,252,790,066	-	12.2 % to 13.3 %
Advances	3,621,410,320	-	-	-	-	3,621,410,320	-	23.0 % to 29.0 %
Other assets	-	-	-	-	-	-	565,490,061	-
	5,845,113,399	-	-	-	-	5,845,113,399	1,151,025,142	6,996,138,541
Financial liabilities:								
Deposits and other accounts	197,594,000	-	-	-	-	197,594,000	802,734,625	1,000,328,625
Borrowings	488,729,480	463,729,480	363,729,480	363,729,480	1,818,647,392	3,862,294,792	-	6.0 % to 10.0 %
Other liabilities	-	-	-	-	-	-	156,765,219	6.0 % to 12.3 %
	686,323,480	463,729,480	363,729,480	363,729,480	1,818,647,392	4,059,888,792	959,499,844	5,019,388,636
On balance sheet gap	5,158,789,919	(463,729,480)	(363,729,480)	(363,729,480)	(1,818,647,392)	1,785,224,607	191,525,298	1,976,749,905
Un recognized:								
Commitments	188,644,900	-	-	-	-	188,644,900	17,785,875	206,430,775
Off balance sheet gap	4,970,145,019	(463,729,480)	(363,729,480)	(363,729,480)	(1,818,647,392)	1,596,579,707	173,739,423	1,770,319,130

34.2 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.

34.3 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.

34.4 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.

34.5 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.

35. RELATED PARTY TRANSACTIONS

The Bank's related parties comprise of directors, key management personnel, shareholders and entities over which the directors are able to exercise significant influence and employee gratuity fund. The detail of Bank's shareholders is given in note 17.2.2 while remuneration of key employee personnel is disclosed in note 32 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:

	2011 Rupees	2010 Rupees
Transactions with shareholder banks during the year		
Lending to financial institutions	18,786,225,831	31,330,245,781
Repayment of lending to financial institutions	17,728,559,193	31,249,883,797
Borrowings	1,777,836,195	200,000,000
Repayment of borrowings	1,477,826,935	157,636,644
Contribution to gratuity fund	28,346,711	14,021,500
Income		
Interest income on deposit account bank balances	11,546,785	7,297,240
Interest income on lending to financial institutions	21,294,844	28,625,425
Expenses		
Interest expense on borrowings	31,592,300	28,670,191
Bank charges	7,043,423	4,392,497

	2011 Rupees	2010 Rupees
Balances outstanding at the year end		
Balances with banks	513,971,442	548,628,193
Lending to financial institutions	1,438,028,622	380,361,984
Interest income on deposit account bank balances	413,699	408,270
Interest income on lending to financial institutions	3,968,859	130,304
Advances receivable from executives	14,636,611	17,523,554
Borrowings	500,009,260	200,000,000
Interest payable on borrowings	12,927,554	144,483,070
Balance payable to gratuity fund	4,458,181	3,299,391
TDR placement with Shareholder banks	3,000,000	-

36. CAPITAL RISK MANAGEMENT

The Bank's objectives when managing its capital are:

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

Capital requirements applicable to the Bank are set out under 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 1 billion. 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.

37. GENERAL INFORMATION

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

	2011	2010
Offices		
Number of microcredit branches	69	69
Number of full service branches	40	40
Total Branches of the Bank	<u>109</u>	<u>109</u>
Human Resource		
Total number of permanent staff - credit sales	687	764
Total number of permanent staff - banking/ support	652	629
Total number of contractual staff - banking/ support	822	770
Total staff strength of the Bank	<u>2,161</u>	<u>2,163</u>

		2011 Number	2010 Number
Micro-finance cases			
		352,962	325,523
		374,633	337,163
		339,243	327,472
		2011 Rupees	2010 Rupees
		4,273,802,377	3,722,152,797
		5,279,687,500	4,541,032,800
Portfolio Quality			
		252,518,142	231,390,047
		167,818,991	85,719,742
		106,688,922	100,742,477
Average loan sizes			
		12,108	11,434
		3,997,977,587	3,676,178,728
Information about the Bank's assets/ liabilities			
		8,221,480,025	7,238,672,439
		7,993,950,131	7,023,682,753
		197,494,669	168,718,686
		7,730,076,232	6,913,225,771
		2,845,864,312	1,645,823,324
		2,338,544,408	2,207,077,843
38. FINANCIAL RATIOS	Note	2011	2010
Sustainability/ Profitability			
	38.1	(2.69%)	2.61%
	38.2	(22.45%)	(14.21%)
	38.3	(0.79%)	0.81%
	38.4	(6.60%)	(4.39%)
	38.5	97.07%	104.97%
	38.6	68.80%	79.36%
	38.7	(3.01%)	4.73%
Asset / Liability Management			
	38.8	2.81	4.27
	38.9	31.29%	31.67%
	38.10	(3.51%)	(10.86%)
	38.11	7.15%	7.09%
	38.12	5.44%	5.66%
Portfolio Quality			
	38.13		
		1.46%	2.29%
		1.30%	2.25%
		0.62%	0.77%
		0.33%	0.69%
		2.19%	0.22%
	38.14	3.92%	2.33%
	38.15	42.25%	43.54%

	Note	2011	2010
Efficiency / Productivity			
Operating expense ratio	38.16	28.06%	27.97%
Cost per borrower (Rupees)	38.17	3,307	3,140
Personnel productivity	38.18	163	150
Loan officer productivity	38.19	514	426
Average disbursed loan size (Rupees)	38.20	14,093	13,468
Average outstanding loan size (Rupees)	38.21	12,108	11,434

- 38.1** 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.
- 38.2** 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.
- 38.3** 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.
- 38.4** 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.
- 38.5** 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.
- 38.6** 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.
- 38.7** Profit margin measures the percentage of operating revenue that remains after all financial, loan loss provision and operating expenses are paid.
- 38.8** Current ratio measures how well the Bank matches the maturities of its assets and liabilities.
- 38.9** 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.
- 38.10** Yield gap compares revenue actually received in cash with revenue expected from microcredit advances.
- 38.11** 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.
- 38.12** 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.
- 38.13** 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.

- 38.14 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.
- 38.15 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.
- 38.16 Operating expense ratio is the most commonly used efficiency indicator for Microfinance Banks. It includes all administrative and personnel expenses.
- 38.17 Cost per borrower provides a meaningful measure of efficiency for the Bank, by determining the average cost of maintaining an active borrower.
- 38.18 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.
- 38.19 Loan officer productivity measures the average case load of each loan officer.
- 38.20 Average disbursed loan size measures the average loan size that is disbursed to clients.
- 38.21 Average outstanding loan size measures the average outstanding microcredit balance by client, which may be significantly less than the average disbursed loan size.

39. DATE OF APPROVAL

These financial statements were approved by the Board of Directors of the Bank in their meeting held on March 16, 2012.

40. GENERAL

Prior year 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

1st Floor, 09 Ferozepur Road, Near Muzang Chungi, Lahore.
Tel: 042-37534789, Fax: 042-37534789

15-Shadman, Near Shadman Chowk, Jail Road, Lahore.
Tel: 042-37582083, Fax: 042-7534808

Sheikhupura

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

Gujrat

Ground Floor, Shehrooz Plaza, Near SA Fans Area Estate G.T. Road, Gujrat.
Tel: 053-3536275, Fax: 053-3521426

Kamoki

Near Mughal Sanitary Store, Opposite Neelum Cinema, GT Road, kamoki.
Tel: 055-6402171, Fax: 055-6811141

Gujranwala

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

Haronnabad

Plot # 221, Main Bazar, Haroonabad.
Tel: 063-2256495/2250195
Fax: 063-2250095

Sialkot

BASF Building, Main Defence Road, Near Sublime Chowk, Sialkot.
Tel: 052-3573242/3253208
Fax: 052-3573243

Toba Tek Singh

Al Aziz Centre, Share Kot Road, Toba Tek Singh.
Tel: 0462-517512-14, Fax: 0462-514618

Hafizabad

Shop # B1-185, Garhi Awan, Kassoke Road, Hafizabad.
Tel: 0547-541141-42, Fax: 0547-541143

Pakpattan

Pakpattan Club, Club Road, Pakpattan.
Tel: 0457-352477, Fax: 0457-352559

Hasilpur

Near Honda Altas Store, Main Bahawalpur Road, Hasilpur.
Tel: 062-2442936, Fax: 062-2442936

Faisalabad

1st Floor, Jinnah Center, Jinnah Colony, Faisalabad.
Tel: 041-2413281, Fax: 041- 2413280

Narowal

Usman Plaza, Circular Road, Moore Saddiq Pura, Narowal.
Tel: 0542-414267, Fax: 0542-414268

Okara

Plot No. 4033/8, M.A. Jinnah Road, Okara.
Tel: 044-2550003, Fax: 044-2550046

Wazirabad

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

Chishtian

Plot # 47, Block "C", Qazi Wala Road, Adjacent College Road, Chishtian.
Tel: 063-2500431, Fax: 063-2500332

Hassanabdal

Plot #, B-I-69, Khasra # 2534, Mohallah Milad Nagar, Near Civil Hospital, Main Hazara Road, Hassanabdal.
Tel: 057-2520191, Fax: 057-2520191

Jhang

Siddiq Center, Park Street, Near DC House, Civil Lines, Saddar, Jhang.
Tel: 0477-620986, Fax: 0477-627940

Kasur

Minhas Colony, Chowk Khan Mehal Cinema, Main Lahore Road, Kasur.
Tel: 049-2773202-203, Fax: 049-2773200

Jhelum

Flat # 03, 1st Floor, Soldier Arcade, Civil Lines, Jhelum.
Tel: 0544- 620267, Fax: 0544-620267

Sargodha

Ground Floor, Zahoor Plaza, Noori Gate, Sargodha.
Tel: 048-3740862, Fax: 048-9230558

Bhalwal

Plot # 20/20, Iqbal Colony, Noon Sugar Mill Road, Bhalwal.
Tel: 048-6642571, Fax: 048-6642431

Shujahabad

Jalal Pur Road, Opp. KB Stand, Shujahabad.
Tel: 0641-4396006, Fax: 0641-4396195

Lodhran

Allama Iqbal Commerce College, Multan Bahawalpur Road, Lodhran.
Tel: 0608-361322, Fax: 0608-364224

Multan

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

Sahiwal

276/B-1, 1st Floor, Alflah Tower, Jinnah Road (High Street), Sahiwal.
Tel: 040-9200502, Fax: 040-4225313

Fatehjang

Shop # 1, Ground Floor,
Mudassir Awan Arcade, Rawalpindi Road,
Fatehjang.
Tel: 057-2212132, Fax: 057-2212132

Chakwal

Shop # MCB 4/1785, Rawalpindi Road.
Chakwal.
Tel: 0543-550917-18

Khushab

Plot No. 221, Block No. 4, College Chowk,
Jauharabad, Khushab.
Tel: 0454-72313, Fax: 0454-720131

Qadirpur Rawan

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

Ahmedpur East

Ground Floor, Unique Plaza, KLP Road, Near
Uch Bypass, Ahmedpur East.
Tel: 062-2272450, Fax: 062-2273450

Bahawalpur

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

Rawalpindi

Ropyal Brothers Plaza, Murree Road, Chandni
Chowk, Satellite Town, Rawalpindi.
Tel: 051-4842548, Fax: 051-4842549

CB#1, Bilal Centre, IJP Road,
Near British Colony, Rawalpindi.
Tel: 051-5472718, Fax: 051-5472717

Mandi Bahaudin

Shop No. 5/201, Ward No. 5, Opposite
Alfateh Masjid, Mandi Bahaudin.
Tel: 0546-500980, Fax: 0546-521002

Mianwali

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

Khanewal

Plot # 1, Street # 1, Block 2,
RCA Chowk, Khanewal.
Tel: 065-2551528, Fax: 065-2551529

Khanpur

Plot # 309-310, Model Town "A",
Near Bank Alfalah, Khanpur.
Tel: 068-5576922-23, Fax: 068-5576924

Liaquatpur

87-A, Scheme No 2, Bank Road,
Opposite Qayyam Petroleum,
Liaquatpur.
Tel: 068-5792599, Fax: 068-5792599

Rahim Yar Khan

29/30 Canal Bank Road, Opps.
Jamiat ul Farooq, Rahim Yar Khan.
Tel: 068-5886223, Fax: 068-5879772

Dera Ghazi Khan

Near Microwave Tower (NTC), Jampur Road,
Dera Ghazi Khan.
Tel: 064-2470721, Fax: 064-9260535

Khairpur Tamewali

Main Bahawalpur Road,
Opposite Chand Restaurant,
Khairpur Tamewali.
Tel: 062-2262010, Fax: 062-2261011

Rajanpur

Kamran Market, Opposite Jamia Sheikh
Darkhasti, Indus Highway, Rajanpur.
Tel: 0604-690120/333365
Fax: 0604-689513

Kot Addu/Muzaffargarh

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

Pasrur

Faisal Colony, Main Sialkot Pasrur Road,
Near General Bus Stand, Pasrur.
Tel: 052-6442247, Fax: 052-6442247

Karor Lal Essan

Sewag Plaza, Opposite PTCL Exchange,
Fateh Pur Road, Karor Lal Essan,
District Leyyah.
Tel: 0606-810506, Fax: 0606-810505

Taunsa Sharif

Vohova Road, Taunsa Sharif.
Tel: 0642-601395, Fax: 0642-601367

Jampur

Opposite Canal Rest House, Indus Highway,
Jampur.
Tel: 0604-332427, Tel: 0604-568650

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: 0453-513187, Fax: 0453-510187

Pattoki

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

Chichawatni

Ahata No.1974, Block No.14, Street No.1,
Fawara Chowk, Chichawatni.
Tel: 040-5483415, Fax: 040-5480577

Burewala

First Floor 3-C, Opposite Telephone Ex-
change, Multan Road, Burewala.
Tel: 067-3354157, Fax: 067-3354157

Bahawalnagar

Plot # 358, Jail Road, Jinnah Colony,
Bahawalnagar.
Tel: 063-2279054/2273914
Fax: 063-2279055

Fazilpur

Khata No. 27, Opposite Truck Adda,
Main Indus Highway, Fazilpur.
Tel: 0604-332196, Fax: 0604-681660

Vehari

Plot # E/8, Main Karkhana Bazar,
Near Askari Bank Limited, Vehari.
Tel: 067-3360306, Fax: 067-3360301

Tibbi

Main Bazar, Near Telephone Exchange, Tibbi.
Tel: 064-2007202, Fax: 064-2007202

Arifwala

31-A, Chowk Purana Dakhana, Arifwala.
Tel: 0457-835204, Fax: 0457-830541

Khyber Pakhtoonkhwa

Peshawar

Ground Floor, Hurmaz Plaza, Tehkal Payan,
University Road, Peshawar.
Tel: 091-5702376-9218366
Fax: 091-5840377

Abbotabad

Ground Floor, Ali Plaza, Mansehra Road, Sup-
ply Bazar, Abbotabad.
Tel: 0992-343108, Fax: 0992-343108

Malakand Agency

Tahir plaza, Main Bazar, Batkhela,
Malakand Agency.
Tel: 0932-415039-40, Fax: 0932-415239

Swabi

Rehman Plaza, Mardan Road, Swabi.
Tel: 0938-223212/224587
Fax: 0938-223715

Sindh

Karachi

Ground Floor, Block C, Finance & Trade
Centre, Shahrah-e-Faisal, Karachi.
Tel: 021-99204123, Fax: 021-99204124

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- 481275

Jalalpur Pirwala

Plot # 64 /1, Al-Mahmood Shopping Centre,
Permat Road, Tehsil Jalalpur, District Multan.
Tel: 061-4212299, Fax: 061-4212292

Kahrur Pacca

Ward # 16/8 Lodhran Road, Union Council
Bakhshi Wali, Kahrur Pacca.
Tel: 0608-342123, Fax: 0608-342122

Baseerpur

Plot No. 416, Main Baseerpur Road, Baseer-
pur, District Okara.
Tel: 044-4771016, Fax: 044-4771016

Mardan

CB 445/A- 2, Saddar Bazar, The Mall, Mardan
Cantt. Mardan.
Tel: 0937-870194-195, Fax: 0937-870828

Haripur

Pankad Area, Shahrah-e-Hazara, Haripur.
Tel: 0995-610181, Fax: 0995-610353

Charsada

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

Dera Ismail Khan

Al-Zaman Building, West Circular Road,
Dera Ismail Khan.
Tel: 0966-711382, Fax: 0966-711382

Sanghar

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

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

Mankera

Near UBL, Jhang Bakkar Road, Tehsil
Mankera, District Bhakkar.
Tel: 0453-410323, Fax: 0453-410323

Mian Channu

Nishter Road, Near MCB Bank, Opposite
Khalid Tea Stall, Mian Channu.
Tel: 065-2661555, Fax: 065-2661555

Dunyapur

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

Swat (Mingora)

Ground Floor, Shahzad Plaza, Mukan Bagh,
Saidu Sharif Road, Mingora.
Tel: 0946-724744, Fax: 0946-9240417

Mansehra

Abid Khan Plaza, Near Kauho Ziarat, Shinkiar
Road, Mansehra.
Tel: 0997-304086, Fax: 0997-308128

Kohat

Samad Plaza, Behzadi Chakarkot, Bannu
Road, Kohat.
Tel: 0922-522877, Fax: 0922-522876

Nowshera

Army Welfare Shop, 1st Floor, Daewoo
Terminal, Nowshera.
Tel: 0923-610158, Fax: 0923-614558

Mithi

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

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: 0726-522067, Fax: 0726-513024

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: 0723-643481

Thatta

Shop # 6, Al-Shahbaz Shops, National
Highway, Thatta.
Tel: 0298-550783, Fax: 0298-550783

Sukkur

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

Larkana

H #.1588, Jan Mohd Jonejo Road,
Near Jarral Shah Bukhari, Larkana.
Tel: 0741-4044580, Fax: 0741-4044570

Baluchistan

Quetta

Shop # 2, Usman Complex, Hali Road
Quetta.
Tel: 081-2831990
Fax: 081-2839502

Azad Jammu & Kashmir

Muzaffarabad

Raza Building, Poultry Farm Road,
Opposite AJK University, Muzaffarabad.
Tel: 05822-920467
Fax: 05822-920469

Badeh

Mohallah Pyaro Khan Sariyo, Main Badeh
Naseerabad Road, Badeh, Tehsil Dokri,
District Larkana.
Tel: 074-4081075, Fax: 074-4081074

Dadu

Plot # 629, Main Road, Adjacent to
Govt. Girls High School, Dadu.
Tel: 025-4610007, Fax: 025-4610007

Hala

Plot # 824, Old Main National Highway,
Adjacent Babi-Nooh Situated at Hala.
Tel: 0223-32350, Fax: 0223-32352

Rohri/Saleh Pat

Pir Gul Hassan Stand, Saleh Pat District
Sukkur, Rohri.
Tel: 071-5651127, Fax: 071-5651125

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

Nasirabad

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

Bagh

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

Pannu Aqil

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

Wagan/Kambar

Opposite Sui Southern Gas Company
Limited, Kambar, Shahdadkot.
Tel: 0744-210072, Fax: 0744-210073

Thul

Near ZTBL, Main Kandhkot Road, Tehsil Thul,
Dist. Jacobabad.
Tel: 0722-610117, Fax: 0722-610368

Ranipur

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

Ratodero

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

Jafferabad

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

Rawlakot

Anmol Plaza, Opposite Firdous Clinic, CMH
Road, Rawlakot.
Tel: 05824-920193
Fax: 05824-920044

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