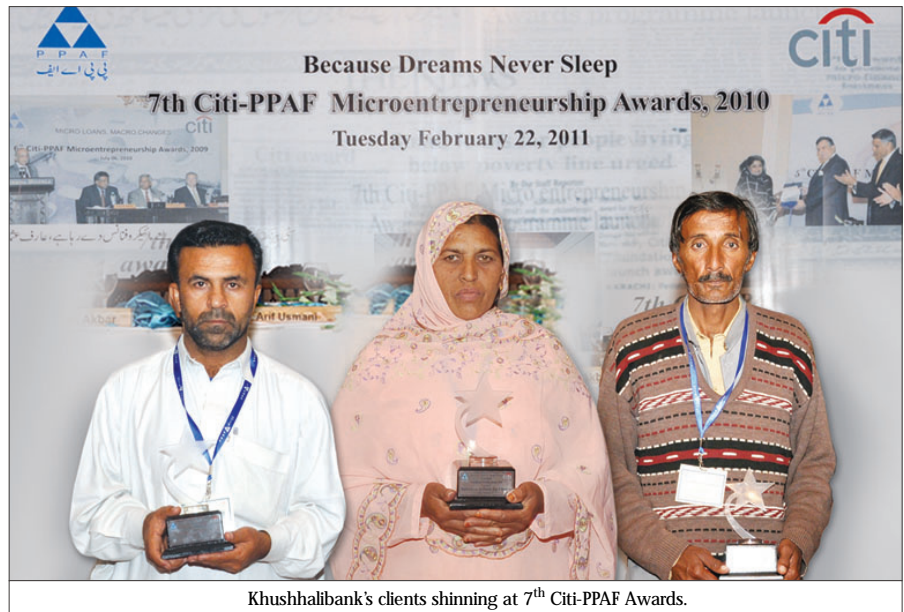


## one promise

Our 11<sup>th</sup> year marks the achievement of more than two and a half million loans to Pakistanis across the country. We strive to support and rebuild ordinary lives by creating the right combination of circumstances through skills and infrastructure development, community empowerment, independence and enterprise. More proof that we're giving common people an uncommon advantage to realize their full potential. Which is why, Khushhalibank is more than a bank. It's a promise.

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Khushhalibank's clients shinning at 7<sup>th</sup> Citi-PPAF Awards.

## 7<sup>th</sup> Citi-PPAF Awards

Khushhalibank endeavors to encourage the micro and small entrepreneurs of Pakistan through various avenues, one of which has been to participate in the Citi-PPAF Awards. The 7<sup>th</sup> Citi-PPAF Micro Entrepreneurship Awards which were held on February 22, 2011 in Islamabad witnessed a huge success of Khushhalibank's clients, who won the highest number of awards during the ceremony.

Sajan, a client Mithi Branch, was declared as the Regional Winner from Sindh Province. His loan officer Jhaman Das was also awarded for his efforts in reaching out to such enterprising entrepreneurs. Two more clients of Khushhalibank, Kalsoom Bibi from L.J.P Road Rawalpindi Branch and Muhammad Azeem from Gawadar Branch won the prizes in runner up category and their loan officers Adeel Shaehzad and Khadim Hussain were also awarded for their efforts.

Commenting on their success, Ghalib Nishtar, President Khushhalibank, stated, "These awards play an important role in highlighting and promoting the role of microfinance in poverty alleviation in our region. Our clients have been winning the Citi-PPAF Awards for last several years and most of them have been from rural backgrounds. All winners demonstrate innovative thinking and impressive business skills, and have played an instrumental role in improving the livelihoods of their families and advancing their communities."

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.

## Integrated Banking Application

Integrated Banking Application (IBA) has become a pre-requisite to remain competitive in the financial industry. High-end products of yester years have now become basic needs of a bank account holder i.e. plastic money (ATM, Credit / Debit Cards), internet banking, 24 / 7 access to account, etc. Khushhalibank has invested enormous money, time and efforts to build its franchise value to become the leading microfinance bank of the country. A number of reputable foreign and local donors have preferred Khushhalibank platform to help people

## President's Message



First quarter of the year witnessed the finalization of audited annual accounts and its approval by the Board of Directors, upgrade in the credit ratings by JCRVIS based on improved performance of the year to A.

The implementation of the core banking application continues in full swing and the first pilot branch went live at Haripur, whereas expansion across the network will commence from the next quarter.

All efforts during the last three months were mobilized towards tracking and recovery of loans under the package for the flood affected areas since the first half of the year is critical in terms of our recovery efforts and will impact performance in terms of revenues and profits.

The closure of non-performing branches and opening of new branches in potential areas continue as per plan and will contribute towards the over all sustainability of the institution.

The quarter under review has started on a positive note and I hope that we maintain the momentum towards achieving our Business Plan goals and objectives for the year.

affected by natural calamities such as earthquakes, floods, etc. Leveraging upon market repute, it is high time to have a robust banking system whereby the bank could offer more competitive products and services to remain at the top in the industry as well as strengthening its financials / profitability.

Khushhalibank has been exploring a number of IBA options for quite sometime, and finally selected Bank Essential (BE) banking application which precisely suits our skills-set, local environment as well as meets the regulatory requirements. Yes, it is online / realtime centralized system which will enable us to introduce a lot more new products and services. President, Khushhalibank, inaugurated commencement of BE implementation on 24<sup>th</sup> Jan 2011.

BE implementation is progressing through its professional cycle of Installation, Configuration, Rigorous User Acceptance Testing (UAT), Piloting, Roll-out, etc. Khushhalibank managed piloting BE at Haripur Branch in a record time.

A change in computer system entails revision of Procedures and Processes so as to realign our operational routines with changed environment. In fact it is an excellent opportunity to re-engineer our processes so as to make these further time & cost effective. Complying with financial best industry practices and to ensure that the transition is flawless, all stake holders including Internal Control Group was invited for review during multiple stages. Khushhalibank plans to replace its platform across the network by June 2012.



Khushhalibank's team after the successful launch of Integrated Banking Application at Haripur Branch.

## Round Table Conference on the Andhra Pradesh Crisis

The Indian Microfinance Industry suffered a serious jolt in the Indian State of Andhra Pradesh due to the recent crisis, resulting from a combination of factors, including over-indebtedness among low-income households and the extraordinary increase in microfinance institutions. The rampant success of the MFIs attracted more players, both formal and informal, to start loan borrowing facilities to poor households, with few checks and balances in place. Therefore, some operators engaged in aggressive and unreasonable debt collection practices attracted significant media and political backlash. To address these very issues Pakistan Microfinance Network organized a round table conference in Islamabad on the need to recognize the risks related to the microfinance sector particularly keeping in view the recent microfinance crisis in Andhra Pradesh. The half day convention comprised of different presentations on the Indian crisis followed up by a panel discussion on the various initiatives required to avoid such issues in the future.

The meeting reviewed in detail the findings of Andhra Pradesh Crisis Survey and also provided a forum for microfinance stakeholders to exchange views on the principal risks to future performance of microfinance sector in the region. Eminent speakers and practitioners such as Mr. Ghalib Nishtar, President, Khushhalibank, Mr. Sanjay Sinha, Executive Director of M-CRIL India, Mr. Syed Mohsin Ahmed, CEO, Pakistan Microfinance Network, Mr. Greg Chen, representing the Consultative Group to Assist the Poor (CGAP) presented papers to provide insight and gave key recommendations on the various issues microfinance industry is currently facing. The forum also witnessed attendance by prominent delegates from the public & private sectors, donors, key stakeholders, along with participation from Khushhalibank and other prestigious National and International Organizations.

Commenting on the conclusion of the half day roundtable conference, Ghalib Nishtar, President Khushhalibank stated "The crisis in Andhra Pradesh highlights the need for more cohesive rules and regulations of the microfinance industry. Our industry needs to come up with

adequate steps to avoid such problems in Pakistan in the future.” He further commented, “Our industry needs to develop microfinance programs in such a manner that it meets the need of low income households by providing greater variety of financial services and safeguarding the low income households in times of crisis.”

The discussion concluded with a note of optimism from all the stakeholders, with everyone agreeing that it was a step in the right direction that witnessing the Indian crisis, all stakeholders in Pakistan came together to discuss possible solution and mapping where they stand against the issues which formed the basis for Indian crisis.

## The verve to achieve, the spirit to motivate

Talent deserves encouragement and success demands recognition. An ardent believer in grooming the budding entrepreneurs, Khushhalibank has always encouraged the spirit of young men and women trying to make their mark as entrepreneurs. A recent example has been Khushhalibank’s support of IBA VERVE 2011 which took place on February 26, 2011 in Karachi. Organized annually by IBA Entrepreneurship Society (IBAES) and Center for Entrepreneurial Development, this annual summit was attended by young aspiring entrepreneurs, students and renowned businessmen from across the country.

The intent of the IBA Verve was to acknowledge the contributions made by young entrepreneurs in various sectors which prove to be vital building blocks for a successful economy. Acknowledging the contributions of the entrepreneurs, Khushhalibank became the exclusive partner for IBA Verve 2011, which provided a networking platform to young entrepreneurs to connect with the market leaders from across industries. The story telling sessions were highly motivational and gave the young entrepreneurs insight into the mechanics of setting up successful businesses and the ups and downs of undertaking different ventures. Prominent and established persons from the business sector like Arif Habib, Chairman & Chief Executive, Arif Habib Corporation Limited, Iqbal Ebrahim CEO, Orient Textile Mills and many other prominent and successful business leaders shared their personal success stories and how they tackled different scenarios in their respective professions.

It is imperative to encourage the entrepreneurial spirit in the next generation of business leaders of our country and initiatives such as IBA Verve 2011 provide an ideal platform to do so. These young business students hold the key to a stable and successful business environment in Pakistan and events like these allow the established and aspiring entrepreneurs to get together and share their experiences, views and ideas. They also help aspire many others to enter the field of entrepreneurship.



Rizwan Sheikh, Manager HR, receiving the plaque at IBA Verve 2011.

## Quarterly Business Update, January - March, 2011

	Microcredit		Micro-Savings		Micro-Insurance	
	Active Borrowers	Value (PKR Millions)	Active Savers	Value (PKR Millions)	Policy Holders	Sum insured (PKR Millions)
2011-Q1	333,069	40,10.3	238,495	526.7	333,069	4,010.3

## Annual Accounts for year ended 31 December 2010

Thirty first meeting of the Board of Directors of the Bank was held on 4 March 2011 in Islamabad to review and approve the annual audited financial statements of the Bank for the year ended 31 December 2010.

Khushhali Bank Limited (KBL) remains the largest microfinance bank in the country, in terms of outstanding number of borrowers, nationwide presence in around 76 districts of the country and strong capital base among the industry players. During the year, bank posted a net profit of Rs. 174.2 m. The income from core banking operations exceeded a landmark of Rs.1b reflecting growth of 19% over the last year despite of the fact that growth of our loan portfolio was impaired as a result of devastating flood which struck the country in July, 2010.

Total asset base of the Bank increased to PKR 7.24 b (FY09: Rs. 6.59b), depicting a growth of 10% in FY10. The increase was largely manifested in investments and placements representing 30.7% of total assets while advances portfolio constitutes 50% of the resource base.

The Board was informed that as a result of acceleration of liability drive during the last quarter of the year; within forty full service banking outlets, deposit base has increased to nearly PKR 1b as against the modest balance of PKR 190m last year.

The Board appreciated the management’s effort in pursuing sustainable operating strategy whereby Bank was reducing dependency on grants / subsidies and was able to maintain its lead position in the market in a difficult year which has witnessed equity erosion of some institutions within microfinance sector. Later, the shareholders in its annual general meeting held on 29 March 2011 also adopted the annual audited accounts of the Bank.

Detail annual accounts of the Bank which incorporate additional disclosures to enhance transparent reporting framework of the Bank i.e. disclosure guidelines for financial reporting and definitions of selected financial terms, ratios and adjustments as prescribed by the Consultative Group to Assist the Poor (CGAP) have been placed on our website.

## A Glance into Khushhalibank's Promise of "Changing Lives"

### Microfinance inspires Sajjan to breed success in barren lands of Thar



It is said that an expedition of a thousand miles begins with one single step forward. Seven years ago, in a tiny district of Tharparkar, a courageous man took his first step towards prosperity; a step that led him through the difficult and complex terrains of life to liberate him from conditions of extreme poverty in search of a brighter and better future for his family. Born to a very poor family, Sajjan's parents did not possess sufficient resources to support his education, leaving him with dire future prospects. However, Sajjan, being a man of courage and determination never gave up hope and continued working hard to triumph over life's setbacks. His aim was to prove himself as a role model for the people of his community who have lost themselves in their everyday problems.

Sajjan used to run a small scale business of breeding goats and sheep and sold them in the nearest livestock market. Although Sajjan worked day and night, the income he received was inadequate to meet the basic necessities of life. He could not negotiate with the regular buyers of his livestock due to the fear of losing the meager income he made. Still, Sajjan was optimistic and never stopped envisaging ways to improve his financial situation. He kept on looking for ways and means to set-up a full scale breeding business in which he could also breed bigger animals such as cows and buffaloes. This very pursuit led his way to Khushhalibank to avail a loan facility for setting up the desired business. After the consent of his peers and elders, Sajjan decided to knock at the doors of Khushhalibank in 2005 for the much needed help. The loan facility availed by Sajjan allowed him to purchase a couple of large breeding animals of superior

quality. This enabled him to negotiate for a better price with the buyers resulting in an increase in his earnings to Rs. 11,000 per month as opposed to the earlier amount of Rs 6,000.

The realization that he had the power to turn around his life did miracles for his business. He was now driven to extend the business further and push his limits to see what he can achieve. Sajjan knew that bigger livestock markets existed in the metropolitan cities of Karachi and Hyderabad, and if he could take his animals to these cities they would fetch a far better price. But transporting the animals to these cities involved huge costs and for him to take this task at hand was not feasible. Hence, he came up with a brilliant idea of mobilizing other small breeders and asked them to join him in taking the journey to Karachi at regular intervals and share the cost of transportation amongst them. This idea greatly benefitted Sajjan resulting in far better margins on the sale of his animals.

Today, life seems to have taken a positive turn for Sajjan and his family, as the man who faced tremendous hardships in the past, is now earning a good livelihood and providing for all expenses of his children including their education and marriages. Currently in his fifth loan cycle, Sajjan's earnings have jumped up to Rs 24,000 a month and he is able to provide excellent quality of green fodder to his animals resulting in better nutrition and health of his animals. He now not only earns for himself, but also provides employment to others by employing them in his business. His circumstances rather than breaking him down have made him a confident and self-reliant person who contributes positively to the society. Sajjan continues to weave more plans for his business and aspires to expanding it by setting up a farm house where he can also start the business of selling milk. He continues to brainstorm creative ideas and tap all new opportunities to empower the community members to partake in his growing business. This enterprising individual was recently acknowledged by the 'Citi PPAF Awards 2011' whereby he was chosen to be the Regional Winner of the 7<sup>th</sup> Citi-PPAF Awards from Sindh, which is a testimony to his hard work and resilience.

## Tube Well Efficiency Improvement Replacement Program (TWEIP)

Energy is a critical political and economic issue in Pakistan. In the political domain, interruptions in power supplies have commonly lasted for 10-12 hours, and have led to riots in cities across the country. In the economic realm, the debt within the power sector is enormous, and dealing with it is crowding out Government of Pakistan expenditures to other public sectors such as health and education

Agricultural tube well pump sets are a major component of peak demand in Pakistan and consume nearly 10% petroleum used in the country. These pump sets are generally known to be quite inefficient and can be replaced with more efficient ones that consume about 35% lesser energy for the same output, if appropriate incentives are provided to their owners to replace the inefficient units.

The U.S. Mission to Pakistan is addressing the broad, systemic constraints through on-going and planned programs in energy policy dialogue and reform, investments in facility upgrades, management and operational enhancements, and support for energy efficiency initiatives. The United States Government's Quick Impact Energy Program is designed for this purpose. The program will increase access to power and water to citizens of Pakistan in the near term through specific actions that include replacement of up to 11,000 energy-inefficient tube well pump sets.

Khushhalibank signed a Cooperative Agreement on TWEIP with USAID on Feb 25, 2011 for funding the replacement of tube-well pumps. Khushhalibank's role is of disbursement services provider and is required to disburse payment to the tube well pump set suppliers for a maximum of 11,000 installed pumps or the disbursement amount is not to exceed US\$18.5 million through USAID Implementation Partner.

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