



“Financial Services for All”

(A Company set up under Section 42 of the Companies Ordinance 1984)

QUARTERLY REPORT

July – September 2009

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Overall Growth

In the third quarter of 2009, Kashf Foundation achieved a noteworthy milestone by crossing the **one million mark in cumulative number of clients reached** to date. In the current quarter, there was continued emphasis on building a new and robust portfolio for the company to go back to business as usual, while simultaneously focusing on developing new schemes and incentives to consolidate the outstanding portfolio.

The continuously deteriorating economic environment and the ensuing increase in credit risk placed the onus on the Foundation to contextualize and improve some aspects of its loan disbursement methodology. Thus relevant changes were made at the head office level, which were then conveyed to the field through a series of trainings and process tool-kits developed jointly by the Learning and Development Team and Operations Department. Trainings and refreshers were undertaken by Area Managers across Punjab to aid the uptake of the changes in the loan disbursement process.

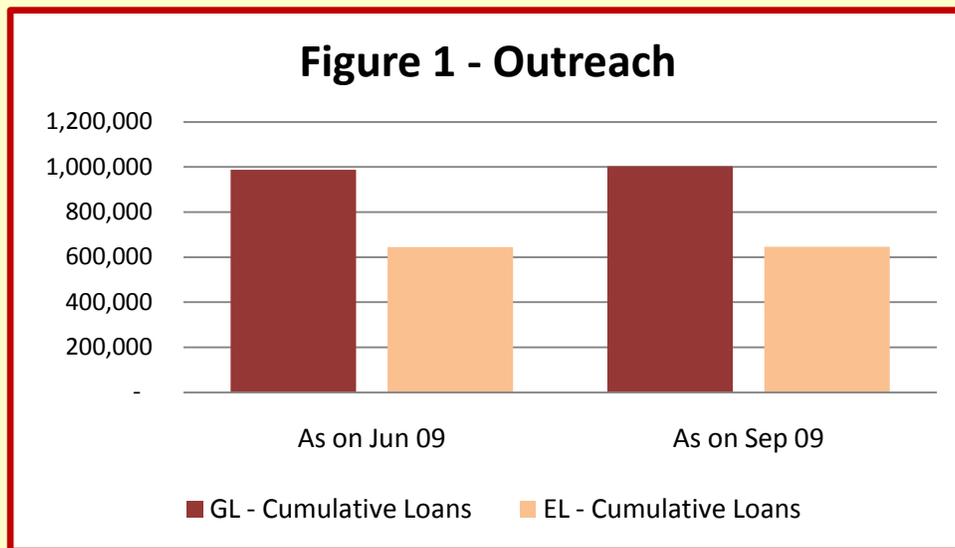
There was a slight decrease in the number of active clients to 287,546 in September (compared to 288,079 at end June). The decrease can be attributed to increased diligence in new disbursements to improve portfolio quality, more stringent screening of repeat clients, and prudent lending in riskier markets. Hence the number of clients that were available for re-disbursement after having paid up their previous loan was higher than the clients that were re-disbursed under the new methodology.

General Loan and Emergency Loan Outreach

TABLE 1 : OUTREACH		
	APR 09 – JUN 09	JUL 09 – SEP 09
Active GL Clients	288,079	287,546
Cumulative GL Loans	987,245	1,003,587
Cumulative EL Loans	644,722	645,795

In the third quarter, 16,342 General Loans were disbursed under the new methodology (compared with 2,402 loans disbursed in the previous quarter). This denotes an increase in pace of new disbursements as the learning hurdles associated with the new disbursement policy have been minimized, and both clients and staff have become more comfortable with the new disbursement policy.

In this quarter, 1,073 Emergency Loans were disbursed. The low number of loans disbursed is a result of the active policy of prudent Emergency Loan disbursements at the field level as in the current economic environment, field staff is trying to increasingly focus on loans channelized towards the setting up of long-term income-generating businesses.



Launch of Kashf Aitebar Karza (KAK)

Kashf Foundation has developed a new product which will help clients deal with the continuously deteriorating economic stress by renewing the credit line available to clients. The product rationale is to enable clients to enhance their current businesses in order to improve their cash outflows. The

Kashf Aitebar Karza (KAK), as the name aptly suggests, is based on trust between the client and Kashf Foundation. This loan has clearly delineated eligibility conditions, and clients unable to meet any of the stipulated terms are not considered eligible. The product has been piloted in the Ravi Rayon Branch, and in the first phase of roll-out the product will be rolled out to 45 branches across Regions 1, 2 and 3 in October 2009. Based on monitoring and review the Foundation plans on making the product available to all branches in 2010.

Market Research

Kashf explored numerous options in their back-to-business strategy in the third quarter which include branching out to new markets with microfinance potential. To this end, the research team undertook a new markets research in South Punjab. The research findings will guide the expansion strategy in the short-medium term.

Recovery Officers

As a part of the strategy to induce recoveries and maintain regular follow-ups in the more difficult areas in the field, Kashf Foundation has formulated a pilot for trying out specialized Recovery Officers. The primary responsibility of the Recovery Officers will be to pursue and recover the most problematic clients and encourage them to re-build their relationship with the Foundation. This will have multifold benefits as it will give loan officers more time to pursue other clients and enhance the quality of the new and old portfolio.

Strengthening of the Head Office Operations Team

In order to align the research objectives and tasks to feed into the operational strategy more effectively- a research, market intelligence and analysis cell was introduced within the Operations Department in the current quarter. Consequently, a strong Operations team at the Head Office has been formed which covers all aspects of the operational needs of the Foundation. This will further consolidate the operations team, and create a stronger niche for the research function with an in-house feedback mechanism.

Financial Sustainability

Overall performance¹

In the third quarter, Kashf continued with its strategy to maintain high levels of liquidity. Consequently, a higher proportion of funds were invested in short-term investments (85 percent of the total investment pool) to increase efficiency through a higher yield. At the end of the quarter, the total investment portfolio increased to Rs. 1.82 Billion [compared with June where it was Rs. 2.58 Billion].

TABLE 2: RATIOS		
	APR - JUN 2009	JUL - SEP 2009
Cash to Total Assets (%)	24%	31.87%
Short Term Investments & Cash to Total Assets (%)	62%	74%
Cash to Current Liabilities	2.8x	1.9x
Return on Investments	13.35%	12.30%

The sources of finance for the third quarter remained the same as the first two quarters and on-lending funds were met through PPAF funds. PPAF approved two finance facilities of PKR 1.75 Billion under CED and PKR 350 Million under PRISM. We utilized PKR 320 Million from PPAF under CED facility in this quarter. The average Cost of Funds (COF) for the third quarter was 11.34% (compared to 11.95% in June). This decrease was due to the decrease in KIBOR, additionally, some commercial debt was partially repaid in this quarter.

¹ Figures in this for Quarter 2 are audited figures, which may vary from the unaudited figures provided in the previous quarterly report.

TABLE 3: INCOME FROM FINANCIAL SERVICES

	Apr – Jun 2009	Jul – Sep 2009	Weightage (%)
Service Charge	37,798,285	30,375,742	25%
Investments	88,260,084	87,908,634	73%
Other Income	558,110	2,083,570	2%
Total Income	126,616,479	120,367,946	

There was a decrease in income from Service Charge due to the current repayment issue, as the service charge income is recognized on receipt basis. However, income from investments increased by Rs. 17 million and exhibited an improving trend during the quarter. The income from insurance premium (which is a major part of Other Income) decreased in this quarter due to a low number of loans disbursed.

Efficiency Ratios

There was an increase of 1% in the administrative cost, which shows that the company's administrative efficiency declined over this quarter. The reason for declining administrative efficiency is because of incremental costs on static portfolio and loan provisioning.

TABLE 4: EFFICIENCY RATIOS

	JUN 2009	SEP 2009
Administrative Efficiency	15.87%	16.85%
Operating Efficiency	44%	46%
Operational-Self Sufficiency (OSS)	40%	22%
Financial Self Sufficiency (FSS)	35%	20%

The operating expense ratio went up to 46% in the current quarter (compared to 44% in June 2009). The major reason for increase in operational costs was because loan loss reserve was kept over 80% of outstanding portfolio to meet any contingencies.

For the third quarter, the OSS was 22% (compared to 40% in June 2009) and FSS went down to 20% (compared to 35% in June 2009). The decrease in both indicators can be associated with the decrease in the income from service charge which fell due to the recovery crisis and increased loan loss provision.

Life Insurance

The table below shows the number of life insurance clients during the second and third quarter of 2009. Life Insurance follows disbursement trends, and has consequently shown an increase compared to the second quarter.

Insurance Enrollment		Apr - Jun 2009	Jul - Sep 2009	Total
Premium Received	Lives Covered	6,684	30,284	36,968
	Amount (In Rs.)	527,240	5,102,480	5,629,720
Cumulative Lives Insured		1,814,283	1,110,497	2,924,780
Claims Received	Number of Claims	117	80	197

The total number of lives insured cumulatively in 2009 is 40,224. The total number of claims for the third quarter was 80 totaling to a payout of Rs. 1.1 Million. The premium collected increased by 90% since new disbursements picked up pace in this quarter.

Human Resources

HR Trend Analysis

HR TREND ANALYSIS				
	APR 09 – JUN 09		JUL 09 – SEP 09	
Total Permanent Staff	1436		1,341	
Total HO Staff	122		115	
Total Field Staff	1315		1,226	
Gender	Male	Female	Male	Female
Number	882	555	826	515
Total Staff (Trainee + Permanent)	1444		1424	
Total Staff (HO)	122		117	
Total Staff(Field)	1314		1297	
Gender (Trainee + Permanent)	Male	Female	Male	Female
Ratio	61%	39%	61%	39%
Number	887	557	874	540
Total Staff Recruited	0		94	
Total Staff Recruited – HO	0		2	
Total Staff Recruited - Field	0		92	
Gender Recruited Staff	Male	Female	Male	Female
Number	-	-	59	35
Turnover (Quarterly)	Voluntary	Involuntary	Voluntary	Involuntary
Number	83	129	94	11
Overall Turnover	14%		8%	
Number	212		105	

- The total staff count was 1,424 and the female gender ratio at the organizational level stood at 39% at the close of September 2009.
- The recruitment team continued to identify and employ talented and committed staff as a result of which 94 employees were inducted during this quarter.
- Total 92 employees were recruited for the field (38% of these were females), whereas 2 employees were hired for Head Office positions.
- Overall employee turnover was 8% as 94 staff resigned and 11 staff members were terminated.

Trainings: Internal and External

TRAININGS CONDUCTED IN THIS QUARTER		
	Number of Trainings	Number of Participants
TLO Orientation	1	10
Super Recovery Drive	1	60
Leadership Training by MD	1	30
Policy Update Sessions	10	450
Total	13	550

HR Initiatives

The following initiatives were taken in the HR department during the third quarter of 2009.

- **Organizational Climate Survey** was conducted across all field positions and head office positions. The results from this survey are being analyzed to incorporate relevant feedback.
- **Formal communication channels** were established between management and all staff through monthly newsletters, regular HR messages and timely circulation of all key HO decisions and policies.
- Field staff headcount was mapped against workload and excess staff was released as part of a **right-sizing exercise**. This will help increase the efficiency of the organization, and enable the Foundation to better train and utilize its resources.
- **360-degree evaluations** of key positions (Area Managers) were completed. A ranking exercise following from these evaluations was undertaken which is being used to guide AM placements.
- Hiring of **Recovery Officers** was completed.
- **Super Recovery Days** were initiated wherein all Head Office staff accompanied field staff during their recovery process to show solidarity with the field teams.
- **Spotlight branches** were recognized on a monthly basis for their exemplary performance.

Gender Empowerment and Social Advocacy (GESA)

In the third quarter of 2009, GESA faced challenging tasks as it had to ensure the strengthening of Kashf's relationship with its clients and many other stakeholders. GESA managed to accomplish these goals with innovative and exciting activities, explained in detail below.

Theatre Performances

In this quarter, GESA worked on the second phase of the 'Image Building' activity Kashf had planned for the year 2009. A total of 27 theatre performances were conducted in different districts of Punjab including Jhang, Mandi Bahauddin, Okara, Sahiwal, Khanewal, Bahawalpur, Multan and Rahim Yar Khan, whereby a total audience of 5000 clients was reached.

GESA also undertook information sessions on new loan disbursements and loan rescheduling packages at these theatre performances and both these initiatives had a very positive impact on the clients.

Video Screenings

The above-mentioned theatre sessions were supplemented by video screenings of messages from the Managing Director, Roshaneh Zafar, and Kashf's television commercials (revolving around the theme of integrity and fulfilling one's obligations)-, which were shown to the audiences before the theatre performances. This initiative on the part of GESA has proven to be quite an effective marketing tool, the success of which can be gauged from increasing demands by branches for conducting performances in their respective areas. These sessions helped clear many misconceptions the clients had about Kashf, and created a positive image for the Foundation.

PPAF Theatre Performance

A member from the GESA team, Imtiaz Aslam, represented Kashf Foundation in the 10-year celebrations of the Pakistan Poverty Alleviation Fund (PPAF) by taking part in a theatre performance held at the function. GESA also participated in a theatre training arranged by the Interactive Resource Centre (IRC) for the same purpose.

Children Art Competition

GESA conducted a study with the client's children in order to assess their skills and capabilities of art-related activities. Based on the findings of this study, GESA designed and successfully conducted an Art Competition for the children of Kashf's clientele. Flyers were designed and disseminated in the field to market this event and art kits were provided to branches. The Competition was held in 50 branches of Lahore, Gujranwala and Kasur.

The theme of this competition was "*Mera Pur-Aman, Khushbaal Pakistan*" (My peaceful and prosperous Pakistan). Children in between 10 to 15 years of age were eligible to participate; approximately 20 children per branch participated in the competition. The best 50 paintings will be selected and the children will be awarded educational scholarships and prizes in a mega event which is planned for November 2009.

Media Coverage

GESA devised and executed an active media and public relations strategy for this quarter. Media proposals for satellite channels, local cable, radio and print media were prepared and put in practice. Nationwide media coverage of Kashf Loan Disbursements, and coverage of the visit to Kashf Foundation by US Congressman, Jim Greyson, were printed and disseminated to stakeholders.

GESA facilitated Indus TV's recordings of Kashf's successful women entrepreneurs, which has been telecast on national television. An interview of the Managing Director, Roshaneh Zafar, was also recorded for Pakistan Television's (PTV) program "Honestly Speaking" which was telecast on

Independence Day. An interview of a Kashf client, Saima Muhammad, was also coordinated for a renowned US publication, the New York Times.

GESA has started maintaining a district-wise database of media officials for future collaboration.

Ramadan and Eid Festivities

GESA printed Kashf Ramadan Calendars and Eid Cards for clients, staff and other stakeholders. Special Iftars were organized for local (Lahore, Faisalabad and Multan) and national media officials. Eid Cakes were also sent to high officials of the Punjab and Sindh Administration.