

Quarterly Report

October – December 2014

Institutional Achievements

Active Borrowers	228,918
Outstanding Portfolio	PKR 3.8 billion
Cumulative Amount Disbursed	PKR 37 billion
Cumulative Loans	2.51 million
Active Lives Insured in Health Insurance	128,961
Staff Attrition	5%
Staff Headcount	2,000

Capacity Building Programs

Cumulative Financial Education Participants	901,823
Gender Trainings	4,731
Business Incubation Lab graduates	1,521

Education Finance

Total number of schools	52
Total number of students impacted	5,200
Total number of teachers trained	150

Social Performance Dashboard

Women led businesses	55%
Clients from less developed regions	39%
New clients below poverty line	100%
Households below 30 on Poverty score card	36%
Client retention rate	63%
Client Satisfaction	99%
Staff at different management levels	45% females
Loan utilized for business purpose	98%
Increase in Business Income for	70% of clients
Increase in Savings for	79% of clients
Decrease in domestic violence for	97% of clients

Highlights from 2014

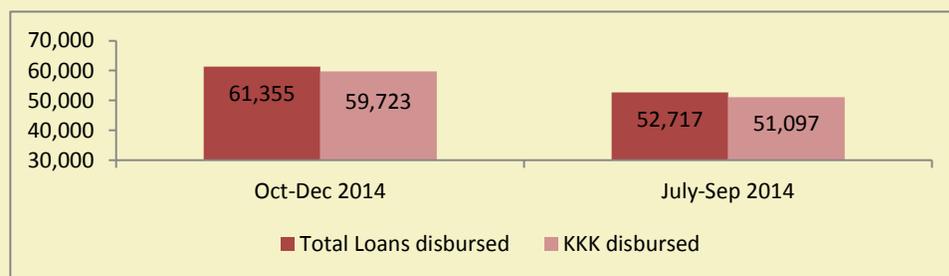
During 2014, Kashf has been successful at expanding its suite of pro-poor and pro-women products and services. Efforts have also been undertaken to contextualize the product features and offerings to the needs of the communities. In 2014, Kashf was able to disburse 239,386 loans, with an overall consolidated PAR of 0.72%. Moreover, Kashf expanded the Kashf Murabaha product to provide 5,974 Shariah Compliant loans in Khyber Pakhtoonkwa during the year 2014. Kashf was also able to increase its network by adding 11 new branches and 12 Service Centers. The Kashf staff base grew from 1,674 in 2013 to 2,000 by the end of December 2014. Kashf's unique pro-women family health insurance product insured 128,852 lives during the year 2014. Through its School Sarmaya (Education Finance) program, Kashf was able to provide accessible credit facility to around 52 schools and capacity building training sessions to 150 school teachers. The teacher trainings sessions coached teachers on better teaching practices, understanding of the psycho-social differences between various kinds of students, and equipped them with tools to make teaching more effective.

The financial health of the organization also improved and the year was closed with a positive equity of PKR531.26 million, the Return on assets (ROA) staying positive at 3% and the Return on Equity (ROE) standing at 41% by the year end. The main challenge in the year on this side was the over-leveraged balance sheet, where the debt to equity ratio is 0.91x, implying that raising straight debt against current equity will become challenging with the need to look for new sources or types of funding e.g. subordinated debt.

There have been gains made in the entire year in promoting the Kashf brand across the board through the successful implementation of the Rehaii campaign nationally and internationally throughout the year. In terms of developing a strong and viable HR base, Kashf has been able to recruit and maintain a gender equitable and diverse staff base throughout the year, with a reduction in overall staff attrition. In terms of the microfinance plus approach, Kashf has been able to sustain and put into practice all aspects of the capacity building programs. The organization is currently looking at disparate opportunities for diversifying both its portfolio and its donor/funding base, with inherent focus on its rural outreach initiative.

Operational Performance – Overall Growth

Kashf Foundation's active clientele at the end of December 2014 stood at 228,918 clients (compared with 228,723 clients in the previous quarter). 63,254 loans have been disbursed in the current quarter compared to 54,407 loans in the previous quarter, which represents a marginal increase of approximately 16%. Consequently, there has also been a marginal increase in the outstanding portfolio from Rs. 3.6 billion in September to Rs. 3.8 billion by year end.



There has been a 16% increase in number of loans disbursed resulting in an increase of around 5.6% in the outstanding portfolio.

Portfolio

Active Clients and Portfolio		
	Oct-Dec 2014	Jul-Sep 2014
Total Kashf Clients	228,918	228,723
Outstanding Portfolio	3,777,597,559	3,601,286,436

Cumulative Loans in Quarter		
	Oct-Dec 2014	Jul-Sep 2014
Amount Disbursed (KKK, KIKK, KM)	1,853,701,000	1,496,785,000
Loans Disbursed (KKK+KIK+KM)	63,061 (59,721 + 1,530 + 1810)	54,156 (51,101 + 1,522 + 1,533)

The limited growth in client base has been due to the reduction of disbursement targets in the year 2014 because of liquidity constraints being faced by Kashf. The microfinance sector experienced a similar trend in the clientele growth with the micro-credit outreach witnessing a modest growth in the last quarter of 2014 and the active borrowers growing by a meager 1% in comparison to the previous quarter.

In the current quarter Kashf has disbursed 59,721 Kashf Karobar Karza Loans (KKK), 1,530 Kashf Ibtida-e-Karobar Karza Loans (KIKK), and 1,880 Kashf Murabaha loans (KM). The KKK continues to be the main lending product for the Foundation with disbursements of over Rs. 1.7 billion. Kashf disbursed Rs. 3.5 million under KIKK which supports start-up businesses. KM loans worth over Rs. 49 million were disbursed in Abbottabad, Noshera, Mansehra and Haripur districts of KPK.

The average loan size witnessed a positive trend depicting an increase from Rs. 27,670 to PKR 29,378, significantly close to the average loan size of the sector, which stood at Rs. 30,604 at the year end. Kashf's loan size is determined by an extensive business and household appraisal of clients under Kashf's lending methodology which means that the loan is approved based on the cash-flows and business needs of the client.

Updates on Kashf Micro-Health Insurance (*Kashf Sehatmand Zindagi Bima*)

Kashf's unique pro-women family health insurance product is covering a total of 128,961 lives. In the current quarter, under the health insurance program, 33,539 lives have been insured (compared to 29,054 in the last quarter). The micro-health insurance figures for the sector exhibited a positive trend in the fourth quarter of 2014, with policy holders increasing by 4%. The Kashf's health insurance product provides cover to the entire family with hospitalization for up to Rs. 40,000 per family member. The product is currently in an initial phase of roll-out and is being offered in 9 operational areas out of 33 existing operational areas. The uptake and performance of the product has been going well. The areas are well-serviced with respect to good quality hospitals and there is an array of well-established panel hospitals. Moreover, client awareness regarding the importance of seeking professional health-care is also on the higher side. Clients have used both the cash-less option and reimbursement option. Client satisfaction in cash-less has been higher, however there have not been any issues or unnecessary delays in processing. The current quarter claims experienced a range of medical conditions including but not limited to Hypertension Management, Head Injuries, Chemotherapies, Gastroenteritis, Chronic Live Diseases, Caesarian Section, Hepatitis, Typhoid etc.

“The Kashf Health Insurance is a unique pro-women family health insurance product provided to Kashf Foundation clients to address health related costs and to manage the adverse impact of funneling business savings into unplanned expenditures.”

Financial Sustainability – Overall Performance

The overall liquidity has declined during the current quarter, mainly because of the debt repayments worth Rs. 777 million – this includes a repayment of Rs. 393 million to PPAF, Rs. 152 million to JS bank, Rs. 72 million to MCB, Rs. 83 million to Askari Bank, Rs. 68 million to UBL and Rs. 9 million to KIVA. Kashf's well-managed portfolio, with an overall consolidated PAR around 0.72% at the year end, outperforms the PAR for the sector which closed at 1.1% in December 2014.

	Oct - Dec 14	July - Sep 14
Cash to Total Assets	7.00%	17.65%
Short Term Investments and Cash to Total Assets	13.57%	22.82%
Return on Investments	9.54%	9.79%
Cash to Current Liabilities	13.78%	36.92%

The weighted average cost of funds for this quarter has been 11.42%, with COF for commercial loans at 11.99% and PPAF loans at 9.92%. Currently, there is an available pool of Rs. 303 million and an expected inflow of Rs. 430 million from PPAF; to support on-going cash-flow needs. Kashf expects to raise Rs 3.6 billion from local and foreign commercial sources over the year 2015, along with expanding the outreach to several first and second tier banks. This will be particularly contingent on being able to provide assets to back up these commercial loans, and to improving the debt to equity ratios.

Overall, the total income in the current quarter has increased by 4.71% due to an increase in income from service charges as a result of an increase in disbursements. Increased income and funding contributions will improve the organization's equity base, which is essential to increase the portfolio and reach out to more potential clients.

Income From Financial Services			
	Oct-Dec 14	Jul-Sep 14	Weighted average
Service Charge	357,559,039	343,818,260	84.06%
Investments	49,074,239	43,694,534	11.54%
Other Income	18,712,028	18,708,639	4.40%
Total Income	425,345,306	406,221,433	100%

There are several aspects that impact the overall financial performance of the organization. The key financial drivers that can impact include inflation, pricing, cost of funds, portfolio quality, BDO productivity and average loan size disbursed. These indicators have always played a very strategic role in strengthening the financial performance of the organization.

Efficiency Ratios

Kashf has been continuously working towards ensuring greater efficiency in its individual lending appraisal backed model. Along with various other initiatives, the organization has been extensively focusing on timely liquidity management and access to capital, through a focus on building the organization's equity.

Efficiency Ratios		
	Dec 2014	Sep 2014
Administrative Efficiency	20.87%	21.10%
Operational Self Sufficiency (OSS)	113.7%	113.7%
Financial Self Sufficiency (FSS)	105.7%	102.8%

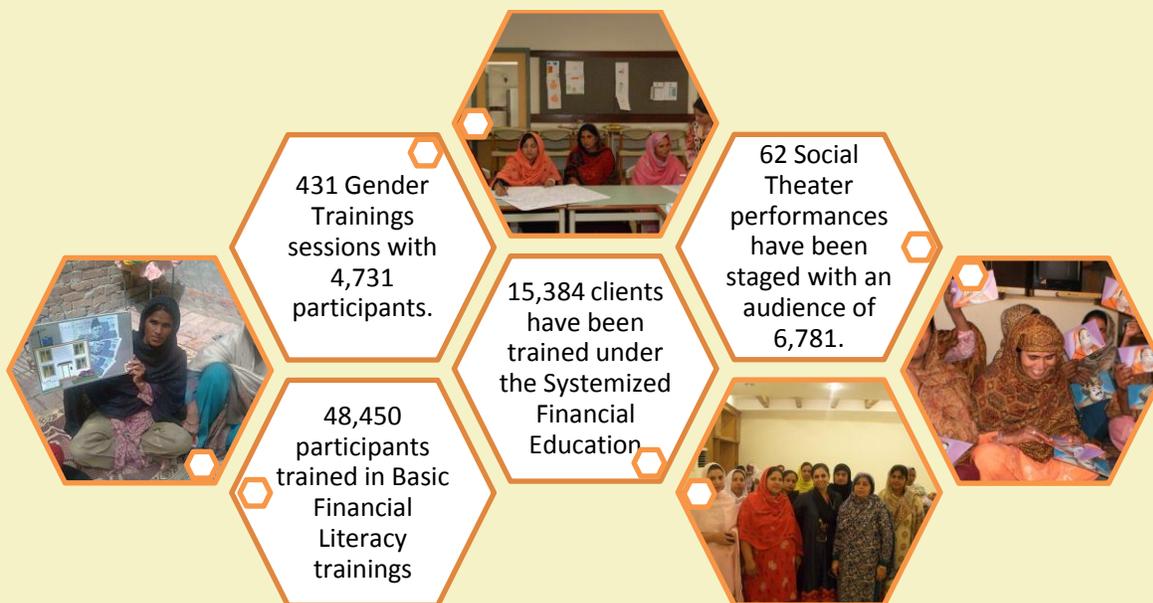
"Kashf's financial viability has improved, indicated by the increase in FSS."

The administrative efficiency ratio, which maps the resources used to build a quality portfolio, has shown improvement, with the ratio standing at 20.87% at the end of this quarter (compared to 21.10% at the end of previous quarter) due to an increase in average outstanding net portfolio amount. The OSS has shown a static trend; with the ratio standing at 113.7% in Dec 2014 (same as in Sep 2014); whereas the FSS has increased to 105.7% (compared to 102.8% in Sep 2014). Decline in monthly inflation rates resulted in the improvement of the institution's financial viability. Adjusting the effect of inflation on the institution's equity indicated an increase in FSS for this quarter.

Gender Empowerment and Social Advocacy

GESA Programs have been effectively contributing towards achieving their project's ultimate outcomes and improving the conditions and capacities for women's participation in informal and formal economic activities by providing them financial literacy trainings and access to business development services.

Round-up of activities



Women Entrepreneurs Council (WEC)

A Quarterly meeting and 20 area level meetings have been conducted with Women Entrepreneurs Council members of Sindh with the agenda of collecting suggestions on Kashf's policies, products and services from the council members. In total, 17 recommendations have been received through WEC's feedback during this quarter regarding relaxation in the loan criteria, efficiency of the disbursement process and expansion of non-financial training services. These recommendations have been compiled together and are yet to be shared with the Executive Body for revision and implementation.

Business Incubations Labs

In this quarter, 1,521 clients have graduated from the 5th batch of 1,744 inducted BIL clients. These clients have been trained on business management, marketing and networking and product innovation techniques. The remaining clients will graduate in the next quarter. These entrepreneurs have also been taken on market visits to local market places to help them understand various marketing techniques employed by vendors. During this period, 53 market linkages have been developed with vendors. The Business Incubation Labs program is Kashf Foundation's first of its kind intervention in the microfinance sector aimed at helping self-employed and micro-entrepreneurs enhance their business scope and scale. Currently, 38 BILs are operating across the network and providing business support services to participating women clients. The financial tracking and budgeting taught to female entrepreneurs during the BIL trainings has aided them to maintain simple budgets, determine exactly how much revenues and expenses they incur and make effective business decisions. A post-training graduate assessment of the program reveals increase in savings for 79% of the clients, increase in gross profits for 70% women and expansion of business capacities for around 5% of clients.

"GESA has trained 901,823 participants in Financial Education and 70,595 on gender empowerment since the onset of the project in 2011."

Kashf Foundation's Vocational Skills Training Program

In December 2014, Kashf Foundation commenced classes for its Vocational Skills Training Program under PSDF Skills for Market 14-15 Project. Kashf has established 21 training centers in Lahore for Domestic Tailoring, Beautician and Adda Work in the villages of Jallo 1, Jallo 2 and Bedian branches. The aim of this current training program has been to equip around 760 women from low-income households with the technical and vocational skills to make them economically empowered and self-sufficient to directly contribute towards the income generation of the family and be a part of the country's trained labor force. A three days TOT has been conducted by the project's Team Lead and another three days TOT has been conducted by Punjab Vocational Training Council (PVTC) with the entire staff. 388 females have been enrolled in these centers till December 2014. PSDF's third party monitoring has also taken place twice during December and all the required documents have been provided to PSDF.

Human Resource Management & Development

- The total staff count at the end of December 2014 has stood at 1,732 and the female gender ratio at the organizational level at 50%.
- The recruitment team has continued to identify and employ talented and committed staff; 72 employees have been inducted during the current quarter.
- A total of 70 employees have been recruited for the field and 2 employees have been hired for Head Office positions. Out of the total recruited staff, 45 employees have been females. Overall Employee Turnover has been 5% owing to the resignation of 63 staff members and termination of 16 members.
- 39% of Kashf staff report to female managers.

"Kashf Foundation is proud to be the only MFI in the country to maintain a female gender ratio of 50% at the organizational level."

HR Initiatives

- Training on "Managing Diversity at Workplace" was conducted with 95 Branch Managers to equip them with a clearer understanding regarding Gender Diversity and provide them behavioral tools in order to improve the diversity management at workplace and develop an inclusive culture and working environment.
- Regional Seminars have been conducted with Region-1 and KPK teams. Through these seminars the teams have been given the opportunity to interact with the senior management and engage in discussions on social performance, financial management of clients and Kashf as a wealth management company.
- A "Live-In Session" for 34 participants from the KPK staff has been conducted in Lahore. The training included sessions on Kashf's History & Values, Organizational Culture & Diversity, Dignity at Workplace, Fraud & Internal Control, Operations Policy, Customer Care & Client Protection Code and Importance of Teams & field exposure.
- An impact assessment of the Live-In session with the KPK staff has also been conducted in this quarter in order to collect a detailed feedback of the session and gauge the extent of implementation of the learnings by the staff.
- Monthly ongoing initiatives included Employee of the Month (for all tiers and functions), HR Newsletter, Exit Interviews, and Star Performers Lunch with the Managing Director. The HR helpline received 161 queries in the current quarter regarding payroll and compensation & benefits.
- The EE team engaged with 13 female staff members on maternity leaves to inquire about their rejoining and engagement status.

Human Resources Trend Analysis

	Oct-Dec 2014		Jul-Sep 2014	
Total Permanent Staff	1732		1768	
Total HO Staff	117		112	
Total Field Staff	1615		1656	
Gender	Male	Female	Male	Female
Number	868	864	883	885
Total Staff (Trainee + Permanent)	1783		1836	
Total Staff (HO)	118		115	
Total Staff (Field)	1665		1721	
Gender (Trainee + Permanent)	Male	Female	Male	Female
Ratio	50%	50%	50%	50%
Number	895	888	909	927
Total Staff Recruited	72		32	
Total Staff Recruited – HO	2		1	
Total Staff Recruited - Field	70		31	
Gender Recruited Staff	Male	Female	Male	Female
Number	27	45	19	12
Turnover (Quarterly)	Voluntary	Involuntary	Voluntary	Involuntary
Number	63	16	77	24
Overall Turnover	5%		6%	
Number	79		101	