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Auditors' Report to the Members

We have audited the annexed balance sheet of Kashf Foundation (a Company setup under section 42 of Companies Ordinance, 1984) as at 30 June 2016 and the related statement of income and expenditure, statement of comprehensive income, cash flow statement and statement of changes in funds 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 Company'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 Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied except for the change in accounting policy as referred to in note 4.1 with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

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- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, statement of comprehensive income, cash flow statement and statement of changes in funds together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2016 and of the surplus, its comprehensive income, its cash flows and changes in fund for the year then ended; and
- d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Lahore

Date: 07 October 2016

KPMG Taseer Hadi & Co.

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Chartered Accountants

(Bilal Ali)

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)

Balance sheet


As at 30 June 2016

| | Note | 2016 Rupees | 2015 Rupees |
|---|------|----------------------|----------------------|
| ASSETS | | | |
| <u>Non-current assets</u> | | | |
| Operating fixed assets | 5 | 379,135,446 | 304,261,545 |
| Capital work-in-progress | 6 | 186,605,483 | 95,497,760 |
| Intangible assets | 7 | 253,766 | 761,305 |
| Long term investments | 8 | 195,000,000 | 840,000,000 |
| Long term loans - considered good | 9 | 261,239,935 | 216,196,348 |
| Long term Micro-credit loan portfolio | 10 | 14,147,584 | 2,490,543 |
| Long term deposits | | 463,360 | 5,270,200 |
| | | 1,036,845,574 | 1,464,477,701 |
| <u>Current assets</u> | | | |
| Micro-credit loan portfolio | 11 | 4,363,483,196 | 4,359,335,148 |
| Kashf Murabaha | 12 | 139,097,188 | 117,976,522 |
| Short term investments | 13 | 432,275,052 | 343,730,919 |
| Advances, deposits, prepayments and other receivables | 14 | 101,641,010 | 139,854,078 |
| Accrued service charges | | 70,728,681 | 70,561,263 |
| Accrued Murabaha profit | | 50,194 | - |
| Cash and bank balances | 15 | 1,225,894,209 | 514,869,815 |
| | | 6,333,169,530 | 5,546,327,745 |
| Total assets | | 7,370,015,104 | 7,010,805,446 |
| EQUITY AND LIABILITIES | | | |
| <u>Equity</u> | | | |
| Donated funds | 16 | 206,585,110 | 195,960,238 |
| General funds | | 1,080,175,246 | 402,733,477 |
| Reserve for loan loss | | 68,220,915 | - |
| Grants related to fixed assets | | 12,815,689 | 16,059,256 |
| Fair value reserve | | 5,602,475 | 5,397,586 |
| | | 1,373,399,435 | 620,150,557 |
| Surplus on revaluation of land | 17 | 201,647,080 | 131,598,330 |
| <u>Non-current liabilities</u> | | | |
| Borrowings from financial institutions and others | 18 | 1,965,127,183 | 2,998,790,396 |
| <u>Current liabilities</u> | | | |
| Current maturity of non-current liabilities | 19 | 3,510,544,901 | 2,916,929,478 |
| Short term borrowings | 20 | 59,530,178 | 51,838,681 |
| Capacity building grants | 21 | 28,553,713 | 48,362,558 |
| Other grants un-utilized | 22 | 350,565 | 350,565 |
| Advance Murabaha Income | | - | 86,196 |
| Accrued markup | 23 | 115,020,235 | 150,155,172 |
| Trade and other payables | 24 | 115,841,814 | 92,543,513 |
| | | 3,829,841,406 | 3,260,266,163 |
| Contingencies and commitments | 25 | | |
| Total equity and liabilities | | 7,370,015,104 | 7,010,805,446 |

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

Kashf

Lahore


Chief Executive


Director

07 OCT 2016

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)

Statement of Income and Expenditure

For the year ended 30 June 2016

| | Note | 2016 Rupees | 2015 Rupees |
|---|---------------|----------------------|----------------------|
| Service and other charges on micro-credit loan portfolio | 26 | 1,904,471,196 | 1,594,299,085 |
| Profit on Kashf Murabaha | | 53,004,116 | 32,487,860 |
| Return on investments and bank deposits | 27 | 128,606,906 | 159,936,153 |
| Other income | 28 | 49,962,308 | 35,110,744 |
| | | 2,136,044,526 | 1,821,833,842 |
| <u>Less:</u> | | | |
| Finance cost | 29 | (562,273,322) | (640,629,630) |
| | | 1,573,771,204 | 1,181,204,212 |
| <u>Less: Operating expenses</u> | | | |
| General and administrative expenses | 30 | (879,021,516) | (805,702,866) |
| Impairment on loan to associate | 9 | - | (87,337,348) |
| Seminar, workshop, research and staff training expenses | | (8,056,757) | (8,433,011) |
| Reversal/(Provision) of loan loss | 11.5 & 12.1.2 | 25,326,943 | (20,286,630) |
| | | (861,751,330) | (921,759,855) |
| Capacity building grants recognized as income - core business | 21.1 | 20,619,862 | 50,176,258 |
| | | 732,639,736 | 309,620,615 |
| <u>Add: Non operating income</u> | | | |
| Capacity building grant - non core business | 21.1 | 187,626,665 | 125,377,602 |
| Other income | 31 | 4,295,126 | 11,193,994 |
| | | 191,921,791 | 136,571,596 |
| <u>Less: Non operating expenses</u> | | | |
| Capacity building grant - non core business | 32 | (182,884,376) | (125,067,570) |
| Surplus for the year | | 741,677,151 | 321,124,641 |


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

Kashf

Lahore



Chief Executive



Director

07 OCT 2016

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)

Statement of Comprehensive Income

For the year ended 30 June 2016

| | 2016 Rupees | 2015 Rupees |
|--|--------------------|--------------------|
| Surplus for the year | 741,677,151 | 321,124,641 |
| <u>Items that may be reclassified subsequently to profit and loss</u> | | |
| Fair value gain on available-for-sale investment | 204,889 | 384,867 |
| Total comprehensive income for the year | 741,882,040 | 321,509,508 |

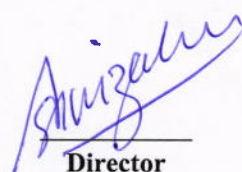
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Lahore



Chief Executive



Director

07 OCT 2016

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)

Statement of Changes in Funds

For the year ended 30 June 2016

| | Donated funds | General funds | Reserve for loan loss | Grants related to operating fixed assets | Fair value reserve | Total |
|---|--------------------|----------------------|-----------------------|--|--------------------|----------------------|
| ----- Rupees ----- | | | | | | |
| Balance as at 30 June 2014 | 620,116,859 | (359,143,414) | - | 16,448,494 | 5,012,719 | 282,434,658 |
| Assets recognized during the year | - | - | - | 4,946,528 | - | 4,946,528 |
| Grants related to fixed assets utilized | - | 5,335,766 | - | (5,335,766) | - | - |
| Fair value gain on available-for-sale investment | - | - | - | - | 384,867 | 384,867 |
| Surplus for the year | - | 321,124,641 | - | - | - | 321,124,641 |
| | - | 321,124,641 | - | - | 384,867 | 321,509,508 |
| Micro credit loan portfolio recognized | 11,259,863 | - | - | - | - | 11,259,863 |
| Transferred from donated to general funds | (435,416,484) | 435,416,484 | - | - | - | - |
| Balance as at 30 June 2015 | 195,960,238 | 402,733,477 | - | 16,059,256 | 5,397,586 | 620,150,557 |
| Balance as at 01 July 2015 | 195,960,238 | 402,733,477 | - | 16,059,256 | 5,397,586 | 620,150,557 |
| Assets recognized during the year | - | - | - | 741,966 | - | 741,966 |
| Grants related to fixed assets utilized | - | 3,985,533 | - | (3,985,533) | - | - |
| Fair value gain on available-for-sale investment | - | - | - | - | 204,889 | 204,889 |
| Surplus for the year | - | 741,677,151 | - | - | - | 741,677,151 |
| | - | 741,677,151 | - | - | 204,889 | 741,882,040 |
| Micro credit loan portfolio recognized | 10,624,872 | - | - | - | - | 10,624,872 |
| Transferred from general funds to reserve for loan loss | - | (68,220,915) | 68,220,915 | - | - | - |
| Balance as at 30 June 2016 | 206,585,110 | 1,080,175,246 | 68,220,915 | 12,815,689 | 5,602,475 | 1,373,399,435 |

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

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Lahore


Chief Executive


Director

07 OCT 2016

Kashf Foundation (A Company Setup Under Section 42 of Companies Ordinance, 1984)

Cash Flow Statement

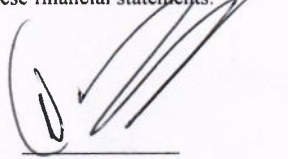
For the year ended 30 June 2016

| | Note | 2016 Rupees | 2015 Rupees |
|--|------|----------------------|----------------------|
| <u>Cash flow from operating activities</u> | | | |
| Surplus for the year | | 741,677,151 | 321,124,641 |
| <i>Adjustments for non cash items:</i> | | | |
| Depreciation on operating fixed assets | | 9,368,535 | 9,312,657 |
| Amortization on intangibles | | 507,539 | 507,539 |
| Impairment on loan to associate | | - | 87,337,348 |
| Capacity building grants recognized as income | | (208,246,527) | (175,553,860) |
| Return on investments and bank deposits | | (128,606,906) | (159,936,153) |
| Accrued mark up recoverable on long term loans | | (45,043,587) | (29,906,668) |
| Amortization of transaction costs of commercial borrowings | | 33,805,016 | 17,795,032 |
| Finance cost | | 528,468,306 | 622,834,598 |
| (Gain) on disposal of fixed assets | | (33,715) | (1,752,802) |
| Provision against doubtful receivables | | 160,186 | 7,361,276 |
| Reversal/(provision) of loan loss provision | | (25,326,943) | 20,286,630 |
| | | 165,051,904 | 398,285,597 |
| Surplus before working capital changes | | 906,729,055 | 719,410,238 |
| <u>Effect on cash flow due to working capital changes</u> | | | |
| (Increase)/Decrease in loan portfolio | | (11,598,812) | (821,668,434) |
| Decrease/(Increase) in Accrued service charges | | (303,808) | (13,399,518) |
| (Increase)/Decrease in advances, deposits, prepayments and other receivables | | (31,227,026) | (32,048,131) |
| Increase /(Decrease) in trade and other payables | | 21,484,725 | 44,682,893 |
| (Decrease)/Increase in borrowers' security deposits | | 1,813,576 | (3,388,518) |
| | | (19,831,345) | (825,821,708) |
| Cash generated from/ (used in) operations | | 886,897,710 | (106,411,470) |
| Finance cost paid | | (563,603,243) | (551,671,313) |
| | | 323,294,467 | (658,082,783) |
| Net cash generated from/ (used in) operating activities | | 323,294,467 | (658,082,783) |
| <u>Cash flow from investing activities</u> | | | |
| Fixed capital expenditure | | (105,623,110) | (48,611,093) |
| Sale proceeds from disposal of fixed assets | | 355,416 | 4,415,788 |
| Long term deposits | | 4,806,840 | - |
| Return on investments and bank deposits | | 197,886,815 | 103,716,078 |
| Long term investment - net | | 645,000,000 | (760,000,000) |
| Short term investment - net | | (88,339,244) | 31,281,800 |
| | | 654,086,717 | (669,197,427) |
| Net cash generated from/ (used in) investing activities | | 654,086,717 | (669,197,427) |
| <u>Cash flow from financing activities</u> | | | |
| Capacity building grants | | 199,804,520 | 166,639,123 |
| Transaction costs paid for borrowings | | (6,097,945) | (33,824,002) |
| Proceeds from borrowings | | 3,644,825,475 | 3,335,000,000 |
| Repayments of borrowings | | (4,112,580,337) | (2,078,321,389) |
| Net outflow from financing activities | | (274,048,287) | 1,389,493,732 |
| | | 703,332,897 | 62,213,522 |
| Net increase in cash and cash equivalents | | 463,031,134 | 400,817,612 |
| Cash and cash equivalents at the beginning of the year | | 1,166,364,031 | 463,031,134 |
| Cash and cash equivalents at the end of the year | 33 | 1,166,364,031 | 463,031,134 |

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

Kashf

Lahore



Chief Executive



Director

07 OCT 2016