PMIC

Pakistan Microfinance Investment Company Limited

ANNUAL REPORT 2018

Passion for Progress

www.pmic.pk

PMIC

Pakistan Microfinance Investment Company Limited

The cover of this report highlights the Sustainable Development Goals (SDGs) 2030 where PMIC's interventions are targeted. These include poverty alleviation, decent work and economic growth, access to clean and affordable energy, access to education, gender equality, zero hunger and partnerships to achieve the goals.

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Company Information

Board of Directors

1. Naved Abid Khan - Chairman
2. Dr. Tariq Hassan - Director
3. Qazi Azmat Isa - Director
4. Christiane Schmidt - Director
5. Navid Goraya - Director
6. Kamran Ali Afzal - Director
7. Yasir Ashfaq - Chief Executive Officer

Board Audit Committee

1. Navid Goraya – Chairman
2. Dr. Tariq Hassan – Member
3. Kamran Ali Afzal – Member
4. Neelum Aamir – Secretary

Board Risk Committee

1. Qazi Azmat Isa – Chairman
2. Naved Abid Khan – Member
3. Christiane Schmidt – Member
4. Sobia Maqbool – Secretary

Board Human Resource Committee

1. Naved Abid Khan – Chairman
2. Qazi Azmat Isa – Member
3. Dr. Tariq Hassan – Member
4. Syeda Ambreen Zehra Taqvi – Secretary

Fahad Asad Khan (FCA)	Chief Financial Officer
Umer Sami Hayat	Company Secretary
M/s. KPMG Taseer Hadi & Co, Chartered Accountants	Auditors
M/s. HaidermotaBNR & Co	Legal Advisors

Registered Office

Pakistan Microfinance Company Limited
21st Floor, Plot 55 C, Ufone Tower, Jinnah Avenue (Blue Area), Islamabad 44000, Pakistan.
Tel : (92-51) 8487820-45 Fax : (92-51) 8487846-47
Website : http://www.pmic.pk/

Share Registrar

M/s. Central Depository Company of Pakistan Limited
(Share Registrar Department) CDC House, 99-B, Block-B, SMCHS, Main Shahra-e-Faisal, Karachi-74400
Tel : (92-21) 111-111-500
Fax : (92-21) 34326053
Email : info@cdcpak.com

Acronyms

DFID	Department for International Development
DFS	Digital Financial Services
ES	Environmental and Social
KRN	Karandaaz Pakistan
MFBs	Microfinance Banks
MFPs	Microfinance Providers
NBMFIs	Non-Bank Microfinance Institutions
PMIC	Pakistan Microfinance Investment Company
PMN	Pakistan Microfinance Network
PPAF	Pakistan Poverty Alleviation Fund
SBP	State Bank of Pakistan
SDGs	Sustainable Development Goals
SECP	Securities and Exchange Commission of Pakistan

Established in October 2016, PMIC is an important player in the financial services eco-system of Pakistan. Its formation marks a key milestone of the National Financial Inclusion Strategy, whereby various development partners joined hands to establish a company which could actively contribute towards a robust financial system leading to provision of financial services at the bottom of the pyramid.

With focus on improving employment and livelihood opportunities for marginalized segments in the country especially women and youth, PMIC is introducing need-based products, to graduate them out of abject poverty. With outreach throughout the country. PMIC actively contributes towards formation of policies and strategies to enhance financial inclusion in the country.

PMIC has already impactedthe lives of 717,000 Clients.

Our work is guided by the following thematic areas:

- **Women & Youth**
- **Digital Pathways**
- **Rural**
- **Employment Generation**

Passion for Progress

Our Vision

A Pakistani society where the underserved are empowered

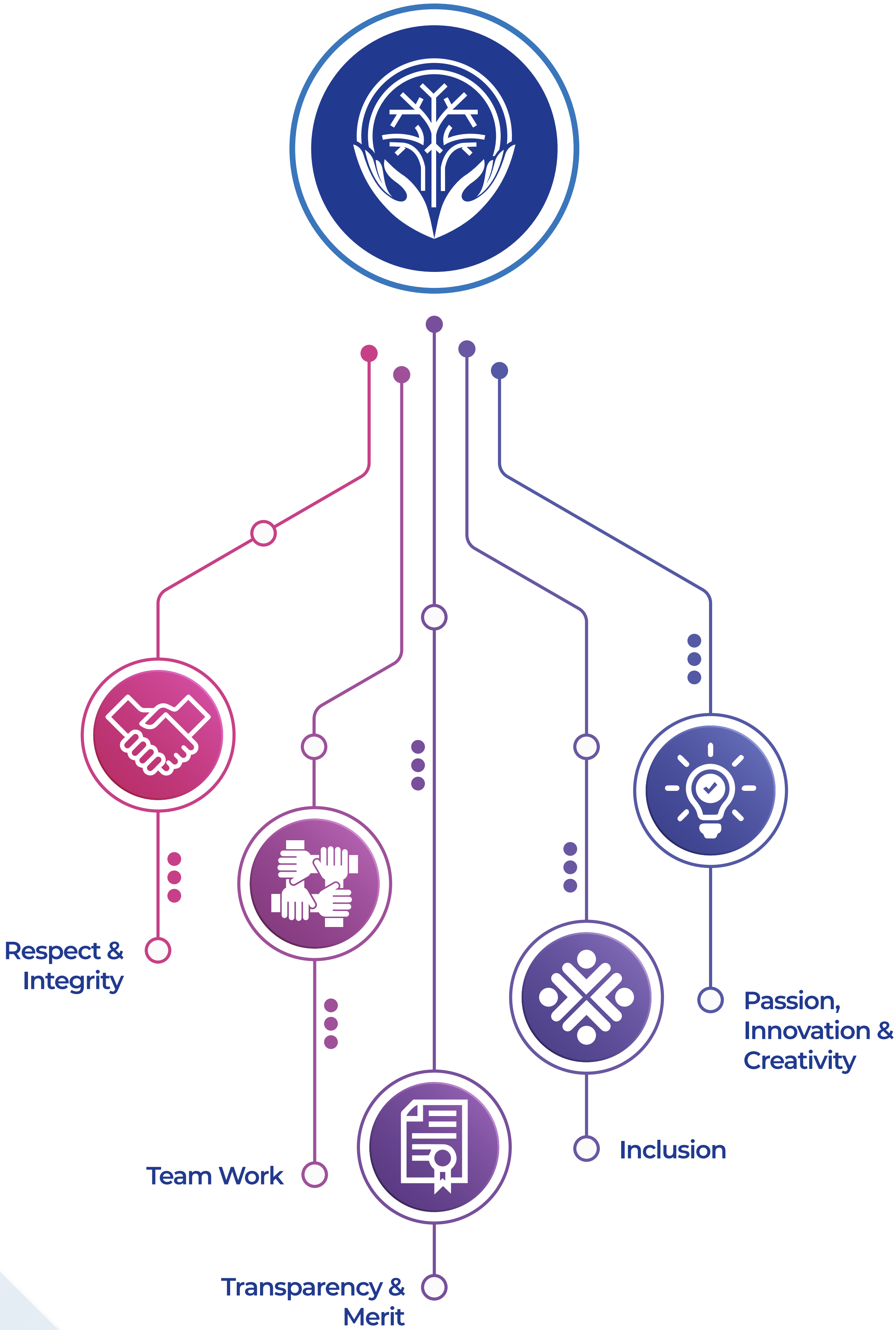
Our Mission

Provide financial and institutional services to strengthen and scale-up provision of sustainable and responsible access to finance to individuals, micro entrepreneurs, and micro enterprises in Pakistan to enhance employment and income opportunity for economically poor and underserved citizens and improve the lives of the poor.

Strategic Objectives

- Create a financially sustainable wholesale organization
- Provide innovative and customized support to PMIC investees; develop capacity to access commercial credit markets
- Ensure compliance with ES Guidelines in the organization
- Build a robust financial ecosystem for the growth of sustainable microfinance in Pakistan
- Build a strong, professional and innovative organization

Core Values


Respect & Integrity
Team Work
Transparency & Merit
Inclusion
Passion, Innovation & Creativity

Shareholders' Profile

PMIC shareholders comprise Pakistan Poverty Alleviation Fund (PPAF), DFID through Karandaaz Pakistan and KfW. These three entities have pooled in financial resources and intellectual capital in the formation of PMIC.

The sponsoring institutions bring clarity of purpose and a commitment to PMIC's mission which envisages a Pakistani society where the underserved are empowered. In addition to capital contribution from the sponsors, PMIC also has subordinate loans available from them, which reflects the sponsors' commitment to the institution's mission.

Pakistan Poverty Alleviation Fund (PPAF) - established in 2000, by the Government of Pakistan as an autonomous not-for-profit organization. PPAF enjoyed facilitation and support from the Government of Pakistan, The World Bank, International Fund for Agricultural Development (IFAD), KfW and other statutory and corporate donors. PPAF had been the largest source of wholesale funds for community-driven development in the country. The core operating units of PPAF deliver a range of development interventions at the grassroots/community level through a network of more than 100 Partner Organizations across the country.

Karandaaz Pakistan (KRN) - a not-for-profit company (registered under Section 42), established in August 2014. KRN promotes access to finance for small businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology enabled digital solutions. The Company has financial and institutional support from leading development finance institutions; principally the United Kingdom Department for International Development (UKAid) and the Bill & Melinda Gates Foundation.

KfW - a German government owned development bank. KfW has been facilitating the German Federal Government to achieve its goals in development policy and international development cooperation for more than 50 years. It is both an experienced bank and a development institution with financing expertise, expert knowledge of development policy and many years of national and international experience. On behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), it finances and supports programs and projects that mainly help countries fight poverty, maintain peace, and protect both the environment and the climate.

Board of Directors

Naved Abid Khan
Chairman

Dr. Tariq Hassan

Qazi Azmat Isa

Christiane Schmidt

Navid Goraya

Kamran Ali Afzal*

Yasir Ashfaq

*Mr. Kamran Ali Afzal joined the Board effective 27th September 2018, replacing Mr. Zafar Hasan.

Management Team

Yasir Ashfaq
Chief Executive Officer

Fahad Asad (FCA)
Chief Financial Officer

Rizwan Sheikh
Head of Corporate Finance & Investment Banking

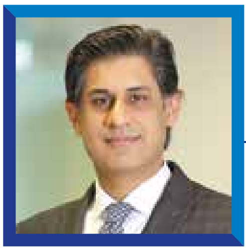
Sobia Maqbool
Chief Risk and Compliance Officer

Asghar Memon
Head of Portfolio Management

Saqib Siddiqui
Head of Sector Development

Neelum Aamir
Head of Internal Audit

Syeda Ambreen Zehra Taqvi
Head of Human Resources



Umer Sami Hayat
Company Secretary, Head of Legal and Procurement

Chairman's Message

2018 was a year of progress for Pakistan Microfinance Investment Company Limited (PMIC). The institution continued its journey to provide sustainable wholesale credit to microfinance providers (MFPs).

During this period, PMIC financed approximately 45% of the total growth in the non-bank microfinance sector, thereby, strengthening its positioning as the apex lender in the country. With prudent lending practices, PMIC was able to bring more individuals into the financial services fold, expanding its outreach to almost 717,000 end clients. I am confident that with the strong management team complemented with robust systems in place, PMIC will continue to broaden the scope of its services to the marginalized segments, along with a continued focus on enhancing financial access for women. I believe that improved access for appropriate financial services will translate into higher economic benefits and an improved quality of life for clients. We have also initiated an exercise to document the impact of various initiatives that are being undertaken by PMIC, which will help shape the future strategic direction of PMIC in continuing to offer value-added services.

The sector currently has an outreach of approximately 7 million clients. While existing institutions continue to exhibit rapid growth year-on-year, I believe there is a need to nurture new institutions to accelerate Pakistan's journey towards a more inclusive financial sector. It is imperative that new organizations be developed that can cater to the unmet demand due to geographical coverage gaps. This unmet demand is particularly apparent in areas of KP and Balochistan. A Public-Private Partnership (PPP) model has become essential to create incentives that directly cater to these market segments and PMIC is uniquely positioned to offer its platform for such partnerships.

While growth brings its own challenges in terms of institutional capabilities, the recent economic headwinds are expected to test the resilience of the sector to some extent, especially due to the continued hike in interest rates and inflationary pressures. However, I am confident that as a sector, we will be able to successfully navigate through these challenges. At PMIC, our focus will continue to be on responsible growth and supporting our sector participants through services that are customized to the needs of individual players.

With our future plans to reach out to a broader set of participants through inclusive lending practices and diversified offerings, PMIC remains committed to empowering the underserved in Pakistan.

Naved A. Khan
Chairman of the Board

CEO's Message

As I look back at the year 2018, I see that we have been successful in converting challenges into opportunities. During the year, our lending portfolio grew by more than 80% and we increased our net profit by more than 83%. On the business side, we initiated sub-ordinate debt transactions and started lending to Microfinance Banks, upscaled existing and introduced new products under MF-Plus program to create deeper impact in the lives of marginalized segments of the society. We negotiated and concluded several commercial borrowing transactions, in addition to concluding sub-ordinate debt transaction from our shareholders worth Rs. 6.8 bn. We also finalized next 5 years' strategy, established risk management framework and maintained "AA/A-1+" ratings.

I can proudly claim that more than 85% of our funding was utilized by women and more than 50% deployed in rural areas. We will continue to concentrate on developing products that cater to the specific demands of women clients and create positive economic and social gains.

Microfinance sector has grown substantially during the last few years, however, we are still serving less than one third of the potential market. There are numerous impediments to increasing these numbers specially in KP and Balochistan. PMIC will be giving special attention and working on novel ideas to cater to these underserved areas. Whereas our large partners will provide us with business volumes in future, we would keep on strengthening small and medium organizations by capacitating them to focus on niche market segments.

Year 2019 will be economically demanding for the country. The high interest rates and inflation would reduce the margins of microfinance players, which may negatively impact the high growth rates experienced during prior years. Our end clients running small businesses may also experience the impact of tough economic conditions ahead. These developments would require a much-focused approach to achieving the desired targets and impact, and at the same time warrant extra vigilance to mitigate risks at all levels. In addition to focusing on our primary business line of wholesale lending to Microfinance institutions, we will also venture into new areas to enhance financial inclusion and improve efficiency, given that we have established a strong base for PMIC. The difficult economic conditions anticipated for 2019 have only reinvigorated our resolve to focus on impactful innovation and to bring positive change in the lives of our clients. With increasing size and complexity, the need for information and automation has increased. In order to address this, PMIC would also be implementing new ERP system during the year.

I believe the primary reason of our success in achieving some formidable targets has been our teamwork and devotion. I would like to take this opportunity to thank our borrowing institutions, partner commercial banks, Board of Directors, Shareholders (PPAF, Karandaaz, KfW), SBP, SECP, PMN and other stakeholders for their continued support.

Yasir Ashfaq
Chief Executive Officer

The Board of Directors of Pakistan Microfinance Investment Company Limited (PMIC) is pleased to present the annual audited financial statements for the period ended December 31, 2018.

Economic Review

Pakistan's economy has been facing the challenges of twin deficits along with persistently high core inflation. In view of these macro-economic challenges, the regulator and policymakers have adopted a tighter fiscal and monetary policy stance. During the year 2018, rupee depreciated by almost 34% against the USD and policy rate witnessed a sharp rise of 450bps, resulting in expected slowdown of GDP growth in the FY2019-20.

Taking these developments into account, S&P Global Ratings lowered Pakistan's sovereign credit rating to 'B-' from 'B', citing diminished growth prospects, as well as elevated external and fiscal stresses. S&P maintained Pakistan's rating outlook at 'stable'. Moody's global rating agency, has assigned a 'negative' outlook to Pakistan-based banks due to economic slowdown and the banks' higher investment in sovereign securities papers of the government.

On the external front, current account deficit was recorded at USD 8 Billion in 1HFY19 (Jul-Dec 18), YoY reduction of 4.4%. This was well supported by a 10% increase in remittances from last year in the same period.

The government has successfully secured commitments and funds from friendly countries, which have partially addressed the uncertainty on the economic front and provided funds/commitments for Balance of payment (BoP) support.

Pakistan is also expected to enter into an IMF program, which is expected to provide relief to investors as well as the room to breathe for the new government. However, the government will have to address key structural issues, especially increasing tax base, to tread on the path of long term sustainable economic growth. Growth can pick up over the long term if the government is able to arrest the imbalances in the external account and shore up some foreign reserves while making meaningful strides towards improved fiscal position by reducing fiscal deficit.

Consumer Price Index (CPI) inflation increased by 7.2% on year-on-year basis in January 2019 (Core inflation i.e. non-food non-energy for same period recorded at 8.7%). Inflationary pressure is expected to persist due to lagged impact of currency adjustments and upward adjustments in gas and electric tariffs and policy rate increase. Projected inflation is expected to be in the range of 6.5% – 7.5% in FY2019-20. Due to pressure on core inflation, State Bank of Pakistan increased the policy rate by further 25 bps in in January 2019. The central bank has now hiked the rate by 450 basis points since January 2018 in a bid to curb high inflation.

Source: SBP (MPS-Jan19), Statistic Bureau (GOP - Jan19) reports

Microfinance sector update

The microfinance sector recorded impressive growth in the outgoing year; more than a million new individuals were brought under the fold of micro-credit. The aggregate micro-credit portfolio stood at Rs. 254b at the end of 3Q year 2018, catering to 6.6m borrowers. During the period under review penetration in rural areas, in terms of active borrowers, increased and now represent more than 50% of total. The share of women borrowers stood at 53%. In terms of utilization, almost 42% of borrowers belong to the agriculture/livestock sector, reflecting the nature of activity in rural markets.

Average loan size has only increased marginally as many clients are new to microfinance and are generally given smaller loans. There is however demand for much larger loans by clients. Microenterprise loans represented just 7.4% of total micro-credit. The utilization of enhanced loan limit (from Rs. 0.5m to Rs. 1m) by SBP can contribute towards both employment generation and revenue enhancement for microenterprises. Due to economic uncertainties and inflationary trends, the coming year will be challenging for the microfinance sector. The sharp rise in interest rates is likely to place pressure on the spreads of microfinance players, both Microfinance Banks (MFBs) and Non Bank Micro Finance Institutions (NBMFIs). Institutions that are able to improve efficiencies in doing business will do well comparatively in off-setting these challenges.

A positive development for the sector has been the licensing of private sector credit bureaus by the SBP. The licensing of private sector entities marks an important milestone for the financial sector eco-system at large and the microfinance sector in particular as creditors will have access to the information necessary to make prudent lending decisions.

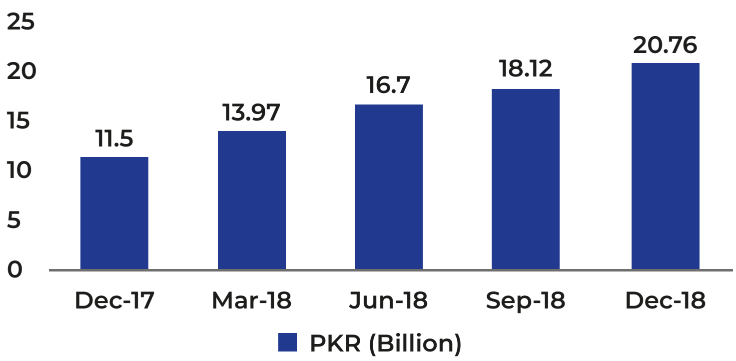
Source: Microwatch report Q3 2018 (industry data)

Operational and Financial Review

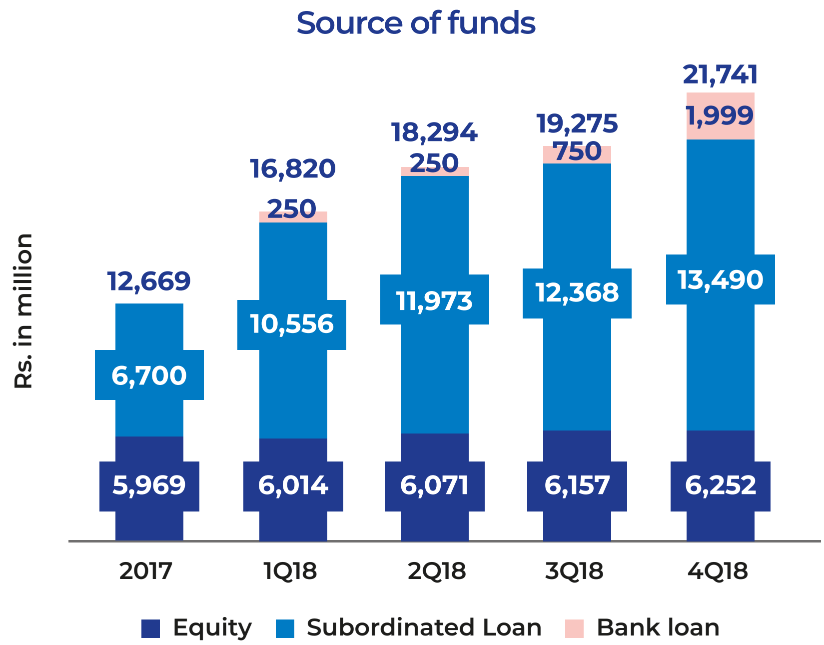
The financial results of PMIC are as follows:

	2018 (Rupees)	2017 (Rupees)	Variation %
Income	1,738,961,571	713,009,972	144%
Finance cost	(925,627,592)	(148,184,213)	525%
	813,333,979	564,825,759	44%
Administrative expenses	(307,471,550)	(256,128,541)	20%
Profit / (loss) before taxation	398,773,374	185,309,302	115%
Earning per share	47.05	25.78	83%

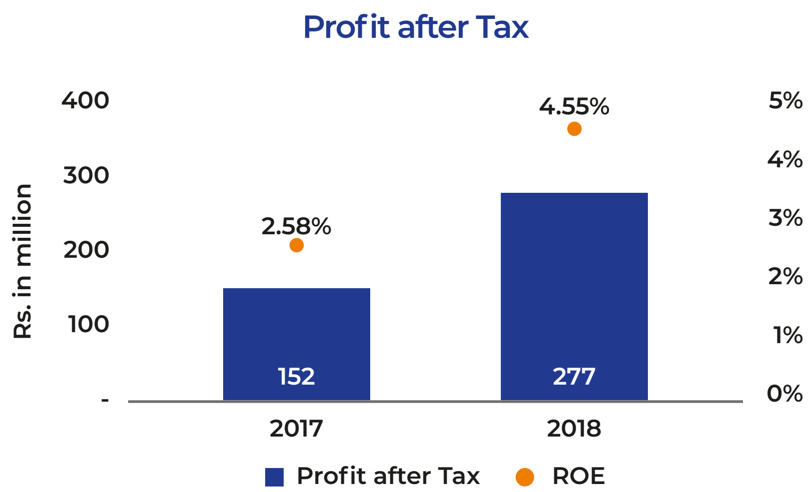
In 2018 PMIC continued its pace of growth. The company disbursed about 9.26 Bn (Net) to 21 partner financial institutions including a microfinance bank. The financing portfolio almost doubled from Rs. 11.5billion at the start of 2018 to Rs. 20.76billion by the end of the year.



Continuing to show their commitment towards PMIC's mission, the shareholders provided additional subordinated loans to the tune of PKR 6.8billion during the year (Rs. 4bn was received from PPAF and Rs. 2.8bn from Karandaaz). These subordinated loans have further strengthened the balance sheet of the company. PMIC also raised funds from commercial banks during the year 2018, closing the year at Rs. 2bn of commercial borrowings. Growth in 2019 will primarily be driven by commercial funding, which would include both bi-lateral arrangements and capital market transactions. A strong capital structure, with equity of about Rs. 6bn and subordinated loans (Rs. 13.5bn) provides PMIC a solid base to leverage itself further to support its growth in coming years.



During the year, the Company has recorded impressive financial results and growth. For the year ended December 31, 2018, PMIC earned revenues of PKR 1.7billion (YoY: 144%) and Net Spread of PKR 697million (YoY: 55%). The impact of higher interest rates will keep pressure on net spreads of the company.



PMIC continues to invest in people and technology. Administrative expenses remained well within budget and were recorded at PKR 307million for the year 2018 and includes various one-off capacity building costs.

Internal control system of the company was further strengthened during the year and remained effective during the year. PMIC also initiated the Business Process Review activity during the year focusing on improving efficiencies and process automation/integration of technology. In the coming year, this is expected to further improve operational efficiencies.

Business Review

PMIC was able to successfully deliver on its business and social objectives during the year. The credit disbursements from PMIC to partner financial institutions was utilized to serve over 717,000 microfinance clients, of which 86% are women. Moreover, 58% of the portfolio at year-end was outstanding in rural areas. The financing is expected to generate development outcomes in line with PMIC's vision to enhance employment and income generating opportunities with almost 40% of the portfolio extended for enterprise/commerce and trading purposes. Exposure in agriculture and livestock aggregated 35% at year-end while 2% of portfolio is deployed in Education, Renewable Energy, Housing and Consumer loans. PMIC will continue to focus lending in segments that generate jobs, increase revenues of small and micro enterprises, stimulate digital finance and expand access to formal finance for the underserved and marginalized but enterprising segments, especially women.

PMIC acknowledges the increasing funding requirements of the microfinance sector. PMIC's fund and non-fund based credit offering for our clients include syndicated loans and debt capital markets instruments, secured term loans, subordinated credit facilities, structured finance, risk participation arrangements and credit enhancement partial guarantees, etc.

In addition, PMIC plans to set up a Financial Advisory Desk to support microfinance players' growing financing requirements. In this context, PMIC is building strategic partnerships with commercial lenders and relevant financial intermediaries to develop robust capital market platform for the sector, that will be instrumental in achieving National Financial Inclusion Strategy (NFIS) growth targets.

With a commitment to develop the financial needs of the microfinance industry, PMIC during the year 2018 introduced new products like subordinated loan facility for its borrowers. Additionally, financial technology firms are also explored for potential strategic investments, this is in consonance with PMIC's objective of leveraging the use of technology and developing an inclusive financial ecosystem.

PMIC's strategy is targeting four main thematic areas including need-based microfinance plus products for women and youth, access to finance in the rural underserved areas, adoption of digital pathways and employment generation. In 2018, PMIC launched several innovative and beneficiary centric initiatives; these include agriculture value chain for smallholder farmers, crop and livestock micro-insurance products, graduating clients towards SME through enterprise development, graduating clients out of poverty, digitization of microfinance operations, promoting affordable quality education through Low Cost Private School-LCPS model, and provision of clean energy through Solar Home Solutions. During the year, PMIC Board has approved the next 5 years business plan, targeting 244,000 beneficiaries through various socially directed (MF Plus) initiatives focusing on innovation, value addition and product development. PMIC is focused on creating meaningful impact through all these initiatives and plans to document results to reach out to various development agencies, and corporates to upscale the same.

In the year 2018, PMIC focused on ensuring sound implementation of the policy framework and strengthening of the Enterprise Risk Management Framework, with a view to achieve overall objectives of the Company while maintaining risk within the approved limits. PMIC also developed the Environment and Social Risk Management Policy that envisions an adequate mitigation response by the Company and its borrowers, to the challenges and risks associated with environmental and social issues within the ambit of microfinance. AML/Compliance new regulations enacted during the year have been factored into our policy framework.

Board Committees

The following Board Committees functioned actively during the year:

- Board Audit Committee (BAC)
- Board Risk Committee (BRC)
- Board Human Resource Committee (BHRC)

Management Committees

To implement prudent practices, foster joint decision making and bring into play participation from all areas, the following Management Committees functioned actively during the year:

- Management Committee (MANCOM)
- Management Risk Committee (MRC)
- Assets & Liabilities Committee (ALCO)

Outlook

Coming year will be challenging for the microfinance sector due to economic trends. PMIC will continue to support the microfinance sector by introducing new products and innovative solutions to meet the growing demands of the stakeholders. Our institutional knowledge and acumen will help in providing the leadership for the sector which will ultimately meet the varying needs of the end beneficiaries.

We also intend to roll out Islamic Microfinance products during the year 2019 and also increase our reach to remote areas of the country in Balochistan and Khyber Pakhtunkhwa.

Our interventions are driven by our vision to ensure greater provision of sustainable and responsible access to finance and create positive impact in the lives of those living at the bottom of the pyramid.

Credit Rating

PMIC's long-term rating of "AA" and short-term rating of "A 1+" has been maintained by The Pakistan Credit Rating Company Limited (PACRA).

The ratings are a testimony of the company's stand-alone financial strength, augmented by strong shareholders' support.

Pattern of Shareholding

The shareholding as at December 31, 2018 is as follows;

Sr#	Shareholders	Shares	Percentage
1	Pakistan Poverty Alleviation Fund	2,883,256	49.00%
2	Karandaaz (Pakistan)	2,224,243	37.80%
3	KfW	776,719	13.20%
4	Directors	4	0.00%
Total		5,884,222	100.00%

Following individuals acted as directors of the Company during the year:

Sr#	Name	Title
1.	Mr. Naved Abid Khan[1]	Chairman (Appointed on April 27, 2018)
2.	Mr. Zubyr Soomro	Chairman (resigned: April 27, 2018)
3.	Mr. Qazi Azmat Isa	Director
4.	Ms. Christiane Schmidt	Director
5.	Mr. Navid Yousaf Goraya	Director
6.	Mr. Kamran Ali Afzal[2]	Director (Appointed on September 27, 2018)
7.	Dr. Tariq Hassan	Director
8.	Mr. Yasir Ashfaq	CEO/Director
9.	Mr. Zafar Hassan	Director (resigned: September 3, 2018)

Auditors

The present Auditors, M/s KPMG Taseer Hadi & Co. Chartered Accountants retire and being eligible, offer themselves for re-appointment. The Board of Directors, on the recommendation of the Audit Committee, recommended the appointment of M/s KPMG Taseer Hadi & Co. Chartered Accountants, as auditors of the Company for the year ending December 31, 2019.

Acknowledgement

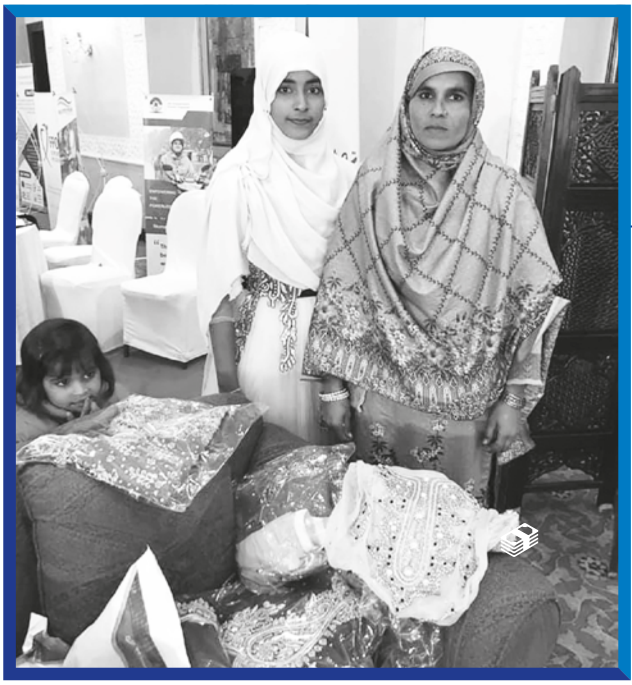
The board of directors would like to take this opportunity to express their gratitude to the shareholders (PPAF, Karandaaz, KfW), Ministry of Finance, SECP, SBP, PMN, our lenders, borrowers and hundreds of thousands of microfinance clients for their support and trust. We would also like to acknowledge the efforts and commitment of PMIC staff, who have contributed significantly toward company's success.

For & on behalf of the Board

-sd-	-sd-
Yasir Ashfaq **CEO**	**Navid Goraya** **Director**

Date: **March 6, 2019**
Place: **Islamabad**

[1] Mr. Naved Abid Khan joined the Board as Chairman on April 27, 2018 following the resignation of Mr. Zubyr Soomro.
[2] Mr. Kamran Ali Afzal joined the Board as Director on September 27, 2018 following the resignation of Mr. Zafar Hassan.



Rukhsana from Sheikhupura

Started with a loan of PKR 10,000

- Current loan is PKR 125,000
- Engaged in stitching and embroidery business
- Trained more than 10 employees
- Monthly revenue more than PKR 100,000
- Provides for education of her children

Manno from Nagarparkar

Started with a loan of PKR 35,000

- Purchased deep freezer for his shop to meet the demand for cold beverages
- Also purchased a solar system to power the deep freezer in his second loan cycle
- Able to afford comfortable life for himself and his family!

Client Success Stories

Saima from Lahore

- A passionate teacher with a Master's degree established her own low-cost private school in Lahore
- Started with a loan of PKR 140,000 to expand her school to cater to 100 more students
- Employs more than 10 teachers in her school
- Able to ensure good education for her children and her deceased sister's children!

Bashir from Khushab

Started with a loan of PKR 100,000

- Setup his own scrap collection center
- Collects and sells 2-3 truckloads of scrap every month
- Employs more than 20 persons who earn an average of PKR 12,000 per month
- From a family who used to live in tents, he has constructed his own house
- Able to ensure that his family has access to basic amenities of life!

Results-Based Framework

PMIC has devised an organization-wide Results-Based Framework (RBF), that rests on a realistic theory of change. The results framework is a clear articulation of the different levels, or chain of results expected from PMIC's interventions.

Interventions

- Financing
- Technical advisory/capacity building
- Awareness raising
- Building eco-system
- Policy advocacy

Outputs

- Policy and institutional environment improved to enable financial institutions to cater to financial services requirements of poor people in a responsible manner
- Institutions facilitating access to diverse financial services promoted
- New loan, savings and insurance products developed, and piloted
- Integrating gender issues in microfinance programs
- Non-sector players in the eco-system step in to provide ancillary services.

Outcomes

- Improved regulations and policy support at national level facilitating entry of new institutions and growth of existing ones
- Both individuals and businesses have opportunities to access, and the ability to use, a range of appropriate financial services that are responsibly and sustainably provided by formal financial institutions

Impact

- Poor and vulnerable people, especially women, benefit from economic growth
- Increase in expenditure, incomes and/or assets
- Improved social well-being

PMIC's Strategic Pillars – An Integrated Intervention Approach

Facilitating any initiative that stimulates financial inclusion translating into higher economic benefits for the poor and marginalized groups in Pakistan is at the heart of PMIC's strategy. As an investment company, it does not limit its objective to just earning financial returns from its operations; PMIC achieves its triple bottom line via three core work streams:

- Wholesale Lending
- Microfinance Plus Initiatives
- Building the Eco-system

Wholesale Lender

PMIC is positioned as the only dedicated wholesale apex institution for the microfinance sector, working with the aim of generating positive social and economic impact for microfinance clients and for the ecosystem. The whole-sale lending business is carried out through:

i. Lending to MFIs and MFBs; directly and indirectly through simple and structured finance instruments

Indicators to track	2018 Update
Portfolio of PMIC	PKR 20.76 billion
No. of Borrowers	21

ii. Priority lending for underserved economic groups and regions

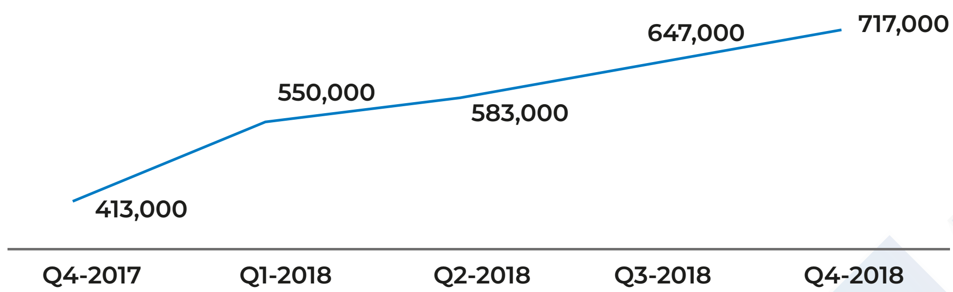
At the end of December-2018, PMIC, through its borrowers, had reached out to 717,000 clients, with presence in 65 districts.

Indicators to track	2018 Update
Proportion of PMIC's portfolio deployment in rural areas	58%
Proportion of women clients in PMIC's portfolio	85%
Proportion of youth* clients in PMIC's portfolio	22.5%
PMIC's Loan Portfolio deployment in Extreme Poverty Zone 1 and 2 Districts	PKR 2.6 billion
No. of microfinance clients previously utilizing subsidized schemes graduated	6,233

Microfinance Portfolio Characteristics

PMIC's portfolio growth also owes itself to broadening the ambit of its operations to greater numbers of end-clients – and not just borrowing institutions. At the end of FY2017, PMIC had been lending to 16 MFPs. By end of FY2018, PMIC successfully added five more institutions to its portfolio. A snapshot of the progress over 2018, as to growth in end-clientele is provided below.

Total Active End-Clients (Dec 2018)



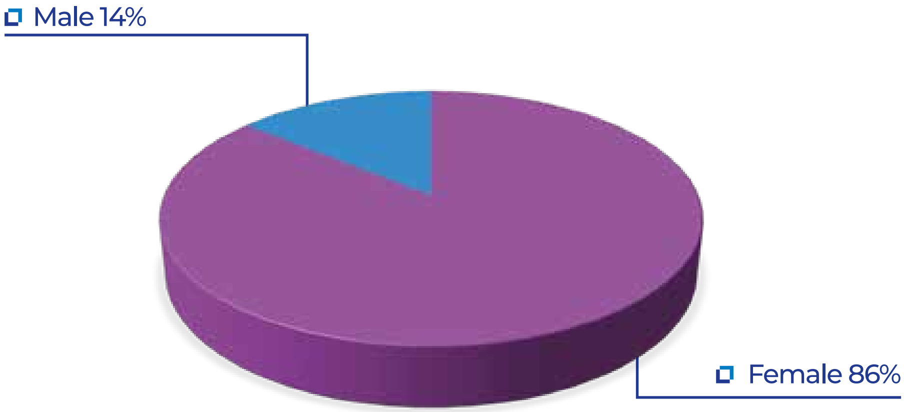
*Youth: defined as those in the age bracket of 18-30.

PMIC envisages to extend the impact via its operations to even larger numbers of clients and borrowing institutions over the year 2019.

Women Empowerment

PMIC is cognizant of the potentially significant reduction in gender inequality that can be brought about by increasing the proportion of women accessing microfinance services. PMIC has set the target of having 65% of its total end-clientele to be females. By December 2018, the target had been far-exceeded, primarily owing to the majority representation of NBMFIs in PMIC's portfolio. Efforts would continue in the future to direct major portion of funding to women clients.

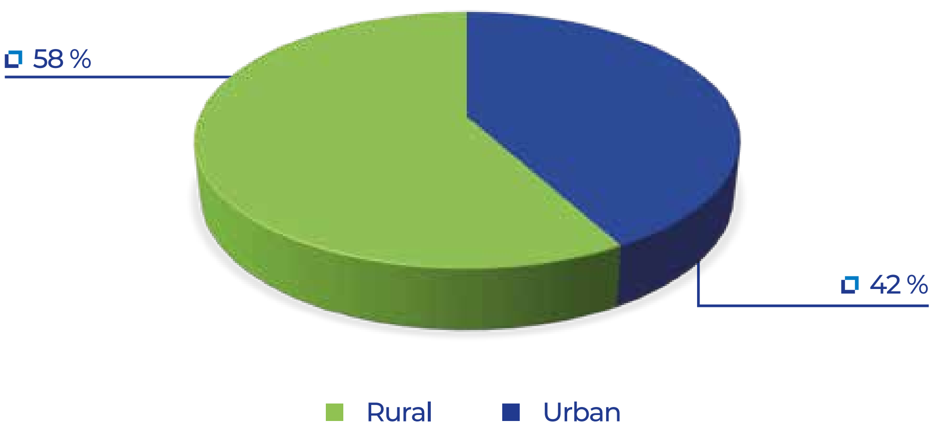
Active Clients - Gender Breakup (Dec 2018)



Geographic Mix

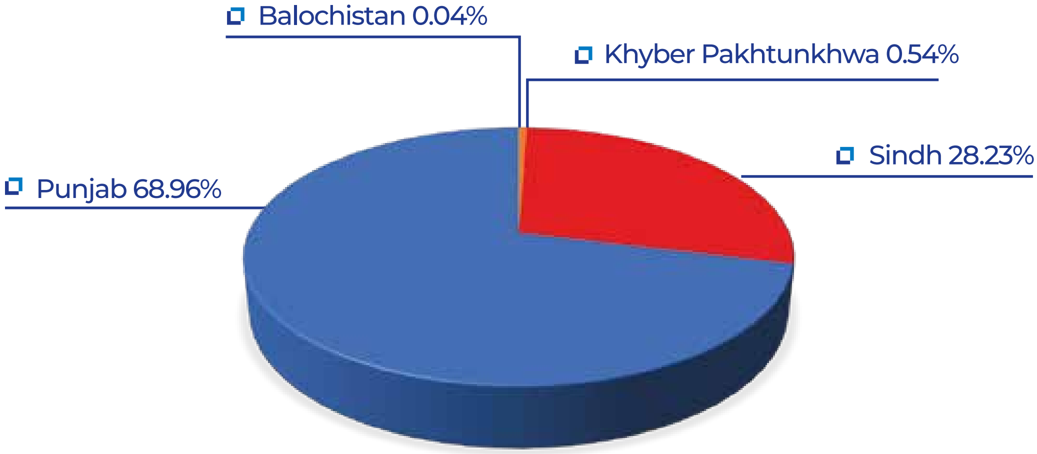
Provided greater prevalence of poverty in rural settings of the country relative to urban areas, it is one of PMIC's objectives to deploy at least 50% of its portfolio in rural Pakistan. Although by year-end, PMIC had exceeded this objective by a fair margin (8%), efforts would be dedicated to further enhance outreach in underdeveloped and marginalized communities – while not leaving the developed areas unattended at the same time.

Geographic Break-up by rural/urban (Dec 2018)



[1] Quanda Zhang & Alberto Posso (2017) Microfinance and gender inequality: cross-country evidence, Applied Economics Letters, 24:20, 1494-1498, DOI: 10.1080/13504851.2017.1287851

Provincial Distribution (Dec 2018)

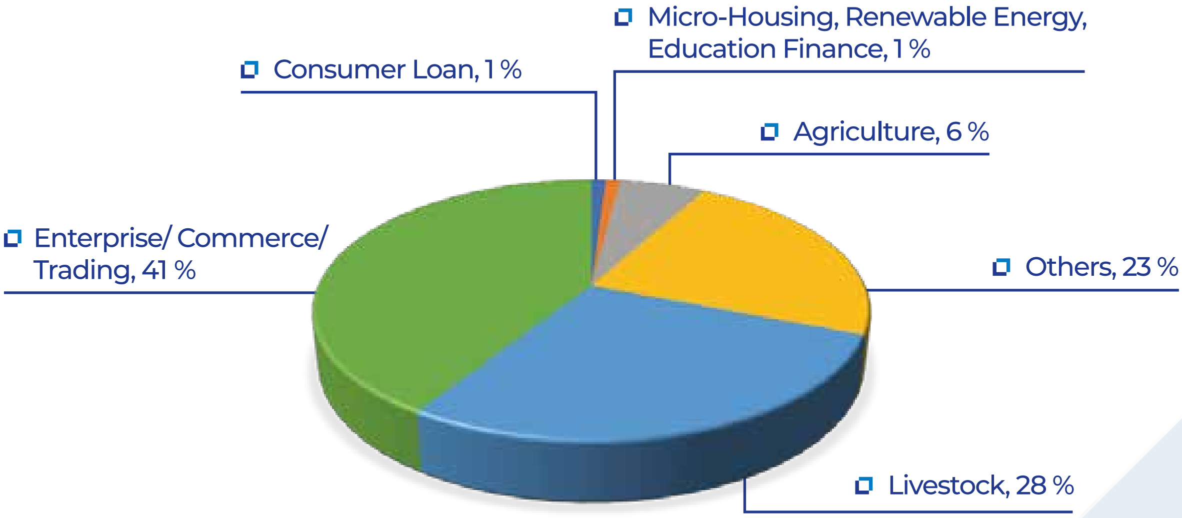


Poverty rates and related development indicators apropos Balochistan and KPK indicate an acute need of appropriate interventions in these two provinces. PMIC will be exploring avenues for both setting up new MFIs and facilitating the penetration of existing ones in the two provinces.

Sectoral Distribution

At the ground level, PMIC's end-clients are engaged in a myriad of income generating activities. These activities are clubbed into general categories such as agriculture, enterprise, and livestock. However, owing to the MF Plus interventions and product innovations, PMIC has been able to cater to a few other sectors based on the demand of the market. The sectoral distribution of portfolio deployed as of year-end is provided below.

Sectoral Distribution (Dec 2018)



Microfinance Plus

MF Plus products focus on integrating financial investments with innovation, value creation, risk mitigation and capacity enhancement for the end borrowers or the microfinance providers. Microfinance Plus interventions are designed holistically to consider the effect on the entire ecosystem i.e. the market, the institutions and the microfinance clients.

Microfinance Plus rests on three core components:

- i. Introducing need-based products and models for MF clients to enhance their incomes.
- ii. Capacity building initiatives in the sector
- iii. Initiatives aimed at connecting MFPs and clients to strategic partners and digital platforms to catalyze socioeconomic development

Key areas of focus under MF plus are as follows:

- Crop Value Chains
- Education Financing
- Livestock Value Chains
- Microinsurance
- Enterprise Value Chains
- Graduation of individuals from Social Safety Net to Bankable poor
- Renewable Energy

In its second year of operations, as a triple bottom line institution, PMIC focused on expanding the impact of its initiatives targeted towards end clients. PMIC together with its implementing partners and stakeholders reached out to more than **22,000** households through value chains, enterprise development, micro-insurance and renewable energy.

Intervention	Clients reached in 2018
Crop Value Chain	10,000
Micro-insurance	7,843
Enterprise Value Chain	2,140
Renewable Energy	325

In a snapshot, during the year PMIC and the Sona Welfare Foundation (SWF) implemented crop value chains for 10,000 smallholder rice and wheat farmers in districts Nankana Sahib, Sheikhupura and Gujranwala. The initiative facilitated access to finance for the farmers, profiling of farmers, awareness sessions, crop productivity enhancement trainings and linkages with public and private entities for provision of inputs and uptake of crop, resulting in enhanced income and improved productivity.

To protect the livelihoods of smallholder livestock farmers through micro-insurance, 11,132 animals of 7,843 clients were insured in 8 districts of Punjab and Sindh. PMIC facilitated the development of indices where livestock insurance had not been offered previously to enhance risk mitigation of the smallholder farmers in underserved areas of the country.

With the aim to cater to the ‘missing middle’ segment, generate employment and increase revenues of the growing enterprises, 2,140 clients have been provided with larger size loans for enterprise development. In line with PMIC’s aim to foster graduation of individuals out of poverty, during the year 6,222 clients previously benefiting from social safety net schemes and interest free loans have been provided with access to sustainable market based financial services leading to growth in their livelihood ventures and financial inclusion.

PMIC and KfW have been working to build eco-system and delivery models for provision of high-quality Solar Home Solutions (SHS) in poor and off-grid areas of the country. A study was commissioned to “Econoler”, an international firm with expertise in market assessment for energy, to gauge market demand and develop product designs based on which the Euro 15 million program would be designed and implemented. Simultaneously two pilot interventions were run with users in Layyah, Rajanpur and Muzzafargarh. PMIC continued its collaboration with the International Finance Corporation (IFC), Alternate Energy Development Board (AEDB), Sindh Energy Department, World Bank, renewable energy vendors, associations and other relevant stakeholders to ensure market development and building a strong platform for ensuring access to energy starved communities.

An important achievement of the year has been the formulation of PMIC’s 5 years strategy which lays strong emphasis on creating positive social impact through value added products and financial services. The PMIC Board has approved the strategy for product verticals and sector development focus areas with targets for the next 5 years and clear output and impact indicators. The strategy aims to reach out to more than 300,000 clients over a span 5 years through microfinance plus products whilst ensuring that at least 12% of PMIC’s portfolio is targeted towards microfinance plus products.

Eco-System Enabler

PMIC also focuses on enabling the eco-system for strengthening and growth of the microfinance sector. In this regard, PMIC is represented on various committees on the national level, especially with the regulator and industry bodies and continues to ensure that the interest of MFPs and their clients are well-heard and remain protected at field and provincial government level.

Moreover, PMIC strongly believes in documenting the impact of its interventions and will be working with independent third parties to do the same. Documenting impact evidence allows PMIC to build synergistic alliances with other like-minded entities.

Risk Management

PMIC has developed strong internal risk management tools to achieve optimal levels of risk and return and encourages the same for its borrowers. We at PMIC understand that managing the right risks at the right time will not only help us in achieving our business objectives but also keep our balance sheet risk under check.

For its own operations, PMIC is now focused on implementing the risk management policies developed during its formation stage in addition to strengthening the Enterprise Risk Management Framework. PMIC has also developed the Environment and Social Risk Management Policy that envisions an adequate mitigation response by the Company and its borrowers, to the challenges and risks associated with environmental and social issues, within the ambit of microfinance.

PMIC is distinguished from other commercial lenders given its mandate to strengthen the capacity of its borrowing institutions. During the year 2018, PMIC facilitated strategic sessions through PMN with small borrowers to help improve their governance and management practices and improve the strategic planning process. We also keep our borrowers updated with key risk events that may have an adverse impact on their portfolio quality. It is our commitment that we will continue to engage closely with our borrowers to ensure that overall risk within the sector remains manageable. We expect that a sound risk management framework at the borrowers' level will help PMIC manage its own risk.

PMIC and Karandaaz

PMIC and Karandaaz Pakistan have signed a subordinate loan agreement under which Karandaaz Pakistan has provided PMIC with a subordinate loan of PKR 2.8 billion. This agreement is envisaged to play an important role towards achievement of financial inclusion goals defined in the National Financial Inclusion Strategy (NFIS) and Microfinance Growth Strategy 2020.The subordinate loan will be leveraged by PMIC to raise more funds to meet the needs of the Microfinance Banks (MFBs) and Non-Bank Microfinance Institutions (NBMFIs) for larger funding lines with longer tenors. The sub loan will also increase the per party exposure limit of PMIC and shall allow PMIC to lend more funds to its microfinance borrowers.

PMIC and Sona Welfare Foundation

PMIC and Sona Welfare Foundation (SWF), the corporate social responsibility wing of Fauji Fertilizer Company (FFC), collaborated on projects worth more than PKR 500 million to implement Agriculture Value Chains for 10,000 smallholder rice and wheat farmers in districts Nankana Sahib, Sheikhupura and Gujranwala. The partnership between the entities focusses on ensuring provision of microfinance to the smallholder farmers along with capacity building on best agriculture practices.

PMIC and Opportunity International

PMIC and Opportunity International (OI) have agreed to engage in “Education through Microfinance”, a project to finance and support low cost private schools in Pakistan. Opportunity International is an international entity operating in Africa, Eastern Europe, Central and East Asia and Latin America that focusses on education finance technical assistance with the aim to contribute to the empowerment of poor people in developing countries by enhancing their opportunities. The entity is entering the Pakistan market for the first time and will be working with PMIC to work on financing products for low-cost private schools bundled with components to enhance education quality in these schools.

Events

PMIC, IFC, AEDB Co-host “Solar Off-grid: opportunities within a billion-dollar industry” conference

On the 14th of March PMIC hosted the “Solar Off-grid: opportunities within a billion-dollar industry” conference in partnership with AEDB and IFC. The conference brought together policy-makers, implementers, solar vendors, microfinance providers, development agencies, and other relevant stakeholders to address the challenges and opportunities in the off-grid solar energy space in Pakistan.

PMIC and CERP - Roundtable on Scaling Education Financing in Pakistan

PMIC and Center of Economic Research in Pakistan (CERP) jointly organized a roundtable in Islamabad with the aim to bring together key stakeholders to share experiences and jointly articulate the way forward to meet the potential demand for education financing in the country. The roundtable discussion was attended by key stakeholders including microfinance institutions, microfinance banks, commercial banks, development agencies among others. A common understanding was reached among the stakeholders to further explore the needs of the low cost private school segment and start investing in education financing.

PMIC and PMN – Microfinance Conference 2018

PMIC and the Pakistan Microfinance Network (PMN) hosted a two-day microfinance conference on accelerating financial inclusion through microfinance in 2018. The conference was attended by key stakeholders of the sector- the regulators, microfinance providers, commercial banks, Digital Financial Service providers, FinTechs, insurance companies, corporate entities, donor agencies, policy makers, regulators, development agencies, Government representatives and microfinance beneficiaries. Significant highlights of the conference included keynote addresses by Dr. Ishrat Hussain, Advisor to the Prime Minister and former Governor State Bank of Pakistan and Mr. Asad Umar the Minister for Finance, Revenue, and Economic Affairs. Moreover, Mr. Hammad Azhar the Minister of State for Revenue engaged in an interactive fireside chat at the conference.

Another interesting feature of the conference was the participation of microfinance beneficiaries from as far as Tharparkar in Sindh and Khushab and Sheikhupura in Punjab. The beneficiaries shared their journey of rising through the ranks from poverty to prosperity through microfinance; the stories instilled a renewed sense of courage and motivation in the audience. The conference participants committed to identifying areas of collaboration and to build synergies to enhance financial inclusion in the country by undertaking a systematic analysis of the growth drivers that may have direct or indirect influence on the microfinance industry.

GIIN Membership

PMIC is a member of the Global Impact Investing Network (GIIN). The GIIN is the leading nonprofit dedicated to increasing the scale and effectiveness of impact investing. As per the GIIN Impact Investor Survey 2018, almost 21% of the Assets under Management (AUMs) of the whole industry were invested in microfinance; the third highest allocation in terms of sectoral distribution. GIIN defines impact investments as investments made with the intention to generate positive, measurable, social and environmental impact alongside a financial return. PMIC's membership in the GIIN signifies a commitment to deepening our engagement in the impact investing industry. PMIC represented Pakistan at the GIIN Investors Forum 2018 at the panel discussion on Pakistan.

PMIC Joins Male Champions of Change (MCC) Initiative

Male Champions of Change (MCC) Pakistan unites male corporate leaders in encouraging women's participation at all levels of employment and is modelled on an Australian initiative, a powerful coalition to achieve gender equality. The Australian High Commissioner in Pakistan, Margaret Adamson, was also present at the launch of the initiative in Pakistan.

Our People & Culture

Strategy Meeting 2018

The management shared the approved strategy with the PMIC Team to define the way forward for the organization. This platform was utilized by all departments to share their plans for the year and determine the support required from each department for successful completion of these plans.

Corporate Social Responsibility - Plantation activities by PMIC employees

PMIC employees are very passionate with regards to CSR activities. With the ever growing need to have a greener and cleaner Islamabad, plantation activities were arranged for PMIC employees at H-9 and F-5 sectors of Islamabad. All employees participated actively despite the scorching heat to contribute to a greener and cleaner Pakistan.

Summer Internship Program, 2018

As part of employer branding strategy, PMIC onboarded a batch of interns in its first flagship summer internship program. The learning experience left a mark on the interns as they shared their projects with the PMIC Team. The program was comprehensively structured where PMIC interns visited Karandaaz and PPAF offices to have a broader understanding of the vision behind creation of PMIC.

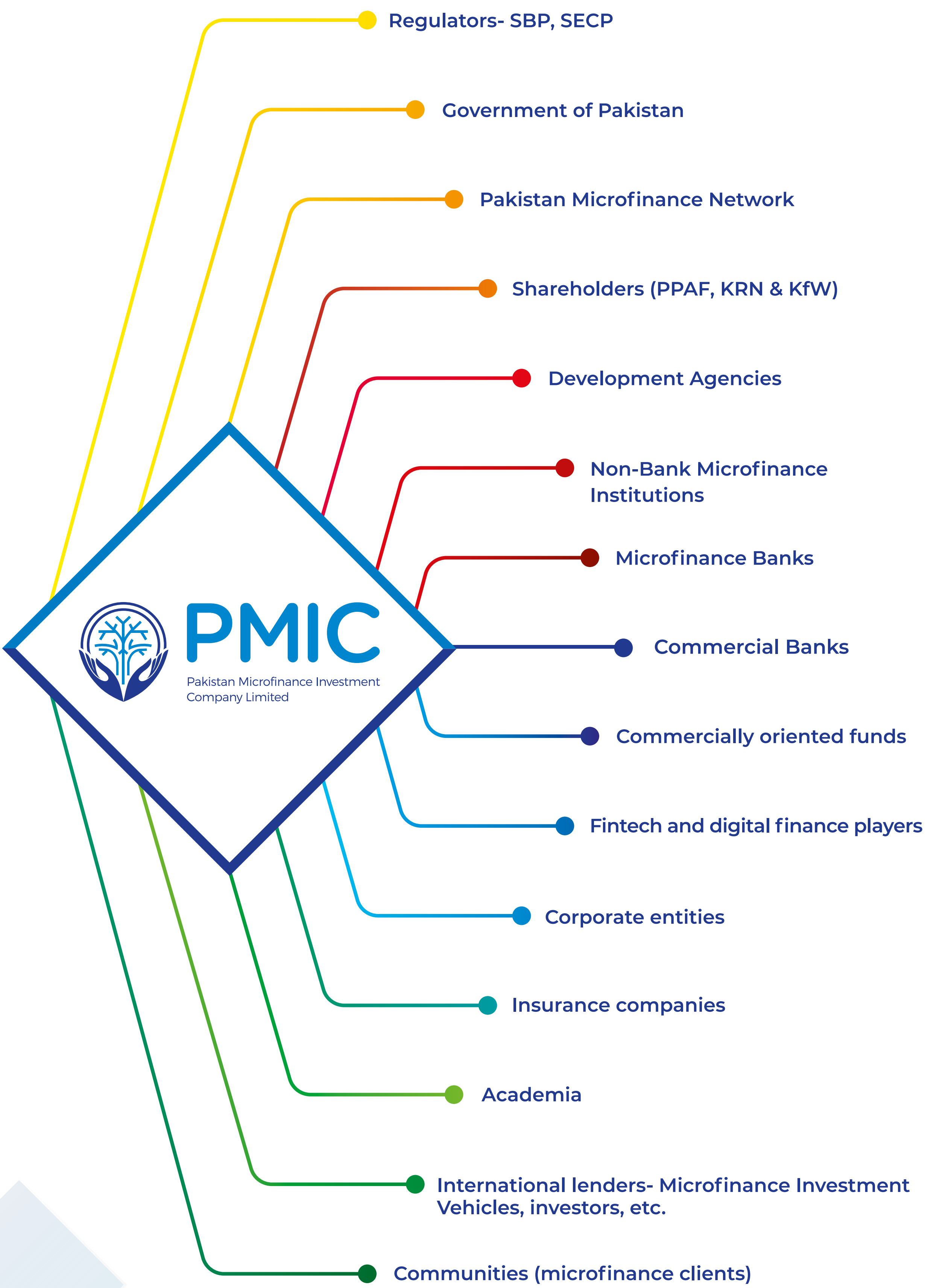
Quarterly Review Meetings

PMIC held its quarterly review meetings in April and October 2018 where all departments shared an update on their work assignments, projects and objectives defined for the year 2018.

Lunch Hosted for LBS students by PMIC

PMIC hosted a lunch for London Business School students visiting Pakistan. PMIC took this opportunity to invite Mr. Qazi Azmat Isa (CEO PPAF), Mr. Ali Sarfaraz (CEO Karandaaz) and Ms. Joanna Reids, Head of DFID Pakistan. A detailed overview of microfinance sector in Pakistan was presented and PMIC's role in microfinance sector of Pakistan was appreciated and commended.

Partner's Universe



Financial Statements

- Auditors' Report
- Audited Financial Statements 2018

KPMG Taseer Hadi & Co.
Chartered Accountants
Sixth Floor, State Life Building, Blue Area
Islamabad, Pakistan
Telephone 92 (51) 282 3558, Fax 92 (51) 282 2671

INDEPENDENT AUDITORS' REPORT

To the members of Pakistan Microfinance Investment Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Pakistan Microfinance Investment Company Limited (the Company), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of the profit, the comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit.

KPMG Taseer Hadi & Co.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditors' report is Riaz Pesnani.

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KPMG Taseer Hadi & Co.
Chartered Accountants
Islamabad
14 March 2019

Pakistan Microfinance Investment Company Limited
Statement of Financial Position
As at 31 December 2018

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
NON-CURRENT ASSETS			
Property and equipment	4	26,103,984	29,748,918
Intangible assets	5	523,553	854,222
Advance for capital expenditure		-	1,611,000
Financing - net	6	8,894,884,583	7,139,588,188
Long term advances and deposits	7	9,781,528	9,478,118
Deferred tax asset	8	71,925,709	46,043,760
		9,003,219,357	7,227,324,206
CURRENT ASSETS			
Advances, prepayments and other receivable	9	37,903,614	40,867,914
Markup accrued - receivable	10	513,952,339	176,059,138
Due from related parties	11	9,256,300	134,892,422
Short-term investments	12	825,000,000	950,000,000
Advance tax - net	13	2,519,247	-
Current portion of financing	6	11,638,516,667	4,241,451,812
Cash and bank balances	14	56,366,945	66,748,590
		13,083,515,112	5,610,019,876
TOTAL ASSETS		22,086,734,469	12,837,344,082
SHARE CAPITAL AND RESERVES			
Share capital	15	5,884,222,000	5,884,222,000
Unappropriated profit		361,160,457	85,150,985
		6,245,382,457	5,969,372,985
NON-CURRENT LIABILITIES			
Subordinated loans	16	12,346,699,884	6,680,638,230
Loans and borrowings	17	1,783,333,333	-
Employee benefits	18	12,241,552	7,257,880
		14,142,274,769	6,687,896,110
CURRENT LIABILITIES			
Short term borrowings	19	99,236,997	-
Trade and other payables	20	45,395,158	70,310,648
Deferred grant	21	4,000,000	-
Provision for tax - net	13	-	1,325,323
Markup accrued - payable	22	290,840,075	89,077,246
Current portion of subordinated loans	16	1,142,938,346	19,361,770
Current portion of loans and borrowings	17	116,666,667	-
		1,699,077,243	180,074,987
TOTAL EQUITY AND LIABILITIES		22,086,734,469	12,837,344,082
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 37 form an integral part of these financial statements.

-sd-
CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Profit or Loss
For the year ended 31 December 2018

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Income - gross	24	1,739,127,088	730,705,996
Sales tax	24	(165,517)	(17,696,024)
Income - net		1,738,961,571	713,009,972
Finance cost	25	(925,627,592)	(148,184,213)
		813,333,979	564,825,759
General provision	6.3	(115,888,750)	(114,960,000)
		697,445,229	449,865,759
Administrative expenses	26	(307,471,550)	(256,128,541)
Other expenses	27	(7,870,222)	(15,070,880)
		(315,341,772)	(271,199,421)
Other income	28	16,669,917	6,642,964
Profit before taxation		398,773,374	185,309,302
Income tax expense	29	(121,919,981)	(33,629,859)
Profit for the year		276,853,394	151,679,443

The annexed notes 1 to 37 form an integral part of these financial statements.

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CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Other Comprehensive Income
For the year ended 31 December 2018

	Note	31 December 2018	31 December 2017
		(Rupees)	(Rupees)
Profit for the year		**276,853,394**	151,679,443
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefits liability - gratuity	**18.2.2**	**(1,172,112)**	1,355,787
Related tax		**328,191**	(406,736)
Other comprehensive (loss) / income - net of tax		**(843,921)**	949,051
Total comprehensive income for the year		**276,009,473**	152,628,494

The annexed notes 1 to 37 form an integral part of these financial statements.

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CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Changes in Equity
For the year ended 31 December 2018

	Share Capital	Revenue Reserve - unappropriated profit	Total equity
		(Rupees)	
Balance at 01 January 2017	**5,884,222,000**	**(67,477,509)**	**5,816,744,491**
Total comprehensive income for the year			
Profit for the year	-	151,679,443	**151,679,443**
Other comprehensive income for the year- net of tax	-	949,051	**949,051**
Total comprehensive income for the year	-	152,628,494	**152,628,494**
Balance at 31 December 2017	**5,884,222,000**	**85,150,985**	**5,969,372,985**
Total comprehensive income for the year			
Profit for the year	-	276,853,394	276,853,394
Other comprehensive (loss) / income for the year - net of tax	-	(843,921)	(843,921)
Total comprehensive income for the year	-	276,009,473	276,009,473
Balance at 31 December 2018	**5,884,222,000**	**361,160,457**	**6,245,382,457**

The annexed notes 1 to 37 form an integral part of these financial statements.

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CHIEF EXECUTIVE OFFICER

-sd-

DIRECTOR

Pakistan Microfinance Investment Company Limited
Cash Flow Statement
For the year ended 31 December 2018

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities before working capital changes	30	(310,573,123)	(256,526,770)
Changes in working capital:			
Financing - net	6	(9,268,250,000)	(11,496,000,000)
Long term advances and deposits	7	(303,410)	(4,753,648)
Advances, prepayments and other receivable	9	3,531,753	(20,072,688)
Lending to financial institutions		-	3,259,995,148
Due from related party		(776,819)	-
Short-term investments	12	125,000,000	1,400,000,000
Trade and other payables	20	(24,915,490)	(47,467,944)
		(9,165,713,967)	(6,908,299,132)
Cash used in operations		(9,476,287,090)	(7,164,825,902)
Taxes paid		(151,318,308)	(78,005,702)
Finance cost paid		(723,864,763)	(59,106,967)
Staff retirement benefit - gratuity paid		(15,925,720)	(100,000)
Receipt of markup on financing		1,278,125,327	224,610,252
Receipt of profit on term deposit certificates		54,752,322	32,631,374
Receipts of profit on deposit accounts		25,453,393	12,069,480
Receipt of markup on reverse repo transactions		67,156,238	174,045,843
Receipt of insurance claim on disposal of asset		-	62,800
Service fee received		128,296,177	-
Grant income		18,480,767	-
Net cash used in operating activities		(8,795,131,658)	(6,858,618,822)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	4	(5,736,213)	(32,758,601)
Purchase of intangible assets		-	(992,000)
Advances for capital expenditure		1,611,000	2,336,164
Net cash used in investing activities		(4,125,213)	(31,414,437)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of loans and borrowings		1,900,000,000	-
Receipt of short term borrowings		99,236,997	-
Receipt of subordinated loans - net		6,789,638,230	6,700,000,000
Net cash generated from financing activities		8,788,875,227	6,700,000,000
Net decrease in cash and cash equivalents		(10,381,645)	(190,033,259)
Cash and cash equivalents at beginning of the year		66,748,590	256,781,849
Cash and cash equivalents at end of the year		56,366,945	66,748,590

The annexed notes 1 to 37 form an integral part of these financial statements.

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CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Notes to the Financial statements
For the year ended 31 December 2018

1. CORPORATE AND GENERAL INFORMATION

1.1. Legal status and operations

Pakistan Microfinance Investment Company Limited ("the Company") was incorporated on 10 August 2016 under the Companies Ordinance, 1984 (now the Companies Act, 2017) as a public unlisted company. The Company is licensed to carry out investment finance services as a Non-Banking Finance Company ("NBFC") under Section 282C of the Companies Ordinance, 1984, Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 ("the NBFC Rules") and Non-Banking Finance Companies and Notified Entities Regulations 2008 ("the NBFC Regulations").

The Company is setup jointly by Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan and KfW, a German development company, to catalyze and lead the next phase of growth in the microfinance sector of Pakistan. The purpose of the Company is to provide a wide range of financial services, including wholesale funding to microfinance institutions and microfinance banks to promote financial inclusion in Pakistan in order to alleviate poverty and contribute to broad based development.

The registered office of the Company is situated at 21st floor, Plot 55 C, Ufone Tower, Jinnah Avenue (Blue Area), Islamabad, Pakistan.

The Pakistan Credit Rating Agency (PACRA) has maintained the Company a rating of 'AA' (long term credit rating) and 'A1+' (short term credit rating) on 31 December 2018.

1.2. Summary of significant transactions and events

The Company's financial position and performance was particularly affected by the following events and transactions during the year:

- Due to the first time application of financial reporting requirements under the Companies Act, 2017 including disclosure and presentation requirements of the fifth schedule of the Companies Act, 2017, certain additional disclosures are made in these financial statements to comply with the requirements of the Act.

- The Company obtained Rs. 1.9 billion in the form of long term loans from banks.

- The Company obtained subordinated loans amounting to Rs. 6.8 billion.

2. BASIS OF PREPARATION

2.1. Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards ("IFRS Standards"), issued by the International Accounting Standards Board ("IASB") as notified under the Companies Act, 2017;

- The Non Banking Finance Companies Rules, 2003 and the Non Banking Finance Companies and notified entities Regulations, 2008 (here-in-after mentioned as 'the NBFC rules and NBFC regulations") ;

- Directives issued by the Securities and Exchange Commission of Pakistan ("SECP").; and

- Provisions of and directives issued under the Companies Act, 2017.

Where the requirements of the Companies Act, 2017, the NBFC rules and NBFC regulations and the directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Companies Act, 2017, the NBFC Rules and NBFC Regulations, or the requirements of the said directives shall prevail.

The SECP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' through Circular No. 19 dated 13 August 2003 for Non-Banking Finance Companies (NBFCs) providing investment finance services, discounting services and housing finance services, with the direction that such companies shall continue observing the State Bank of Pakistan's BSD Circular Letter No. 11 dated 11 September 2002, regarding the application of said IASs, till further decision. In addition, the SECP has also deferred the application of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' through SRO 411(1) / 2008 on such Non-Banking Finance Companies as are engaged in investment finance services, discounting services and housing finance services.

Details of the Company's accounting policies are included in Note 3.

2.2 Basis of measurement and preparation

2.2.1 Accounting convention

These financial statements have been prepared under historical cost convention except for the liability related to staff retirement gratuity which is stated at present values determined through actuarial valuation.

2.2.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees (Rupee or PKR), which is the Company's functional currency. All amounts have been rounded to the nearest rupee, unless otherwise indicated.

2.3 Use of estimates and judgments

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties or where judgment was exercised in application of accounting policies that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ended 31 December 2018 is included in the following notes:

(i) Note 3.1 and 4 – useful life, reassessed value, residual value and depreciation method of property and equipment;
(ii) Note 3.2 and 5 - useful lives, residual values and amortization method of intangible assets;
(iii) Note 3.4 and 18 - measurement of defined benefit obligations: key actuarial assumptions;
(iv) Note 22 recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and; and
(v) Note 3.8, 13 and 28 - recognition of deferred tax assets and estimation of income tax provision

2.4 Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, both for financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the approved accounting standards as applicable in Pakistan, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows;

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Standards, interpretations and amendments to the approved accounting standards

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2019:

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Company's financial statements. The Company is currently in the process of analyzing the potential impact of changes required.

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Company is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on adoption of the standard.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. As stated above, the SECP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' through Circular No. 19 dated 13 August 2003, therefore it is not clear as of now whether the IFRS 9 would be applicable to the Company or not.

- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The Company is currently in the process of analyzing the potential impact of its lease arrangements that will result in recognition of right to use assets and liabilities on adoption of the standard.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Company's financial statements.

- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Company's financial statements.

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- Amendment to IFRS 3 *'Business Combinations'* – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

    - IAS 12 *Income Taxes* - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.

    - IAS 23 *Borrowing Costs* - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the change as indicated below:

The Companies Act, 2017 specified certain additional disclosures to be made in the financial statements. The Company has presented the required disclosures in these financial statements to comply with the requirements of the Act. However, there was no change in the reported amounts of assets, liabilities, profit and other comprehensive income due to this change.

3.1 Property and equipment

3.1.1 Owned

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Recognition and measurement

Items of property and equipment are measured at cost, which includes capitalized borrowing costs (if any), less accumulated depreciation and any accumulated impairment losses except for capital work in progress and advances for capital expenditures which are stated at cost less impairment loss, if any. Cost comprises of purchase price and other directly attributable costs less refundable taxes.

Capital work in progress and advances for capital expenditures are transferred to the respective item of property and equipment when available for intended use.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognized in profit or loss.

Subsequent expenditure

Subsequent expenditure are included in the assets carrying amount or recognized as separate asset only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. The carrying amount of the replaced part is derecognised. All other repairs and maintenance is charged to the profit or loss.

Depreciation

Depreciation is calculated to charge the cost of items of property and equipment less their estimated residual values using the straight line method, and is generally recognized in profit or loss at rates given in note 4 to these financial statements. Capital work in progress is not depreciated.

Depreciation on additions to property and equipment is charged on pro-rata basis from the month in which property and equipment is acquired or capitalized while no depreciation is charged for the month in which property and equipment is disposed off / derecognized.

The Company reviews the residual values and useful lives of property and equipment on a regular basis. Any change in such estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge and impairment.

3.2 Intangible assets

Recognition and measurement

Intangible assets with finite useful life are stated at cost less accumulated amortization and impairment losses, if any.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands (if any), is recognized in the profit or loss as incurred.

Amortization

Amortization of intangible assets, having finite useful life, is charged by applying straight line method, so as to charge the cost of assets at amortization rate as mentioned in note 5 to the financial statements. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.3 Reverse repurchase agreements

Transactions of reverse repurchase of investment securities are entered into at contracted rates for specified periods of time. Such investments are purchased with a corresponding commitment to resell at a specified future date (reverse repo) and are not recognized in the balance sheet as investment; amounts paid under these agreements are recorded as lendings. The difference between purchase and resale price is accrued as return from lendings over the life of the reverse repo agreement.

3.4 Employee benefits

The accounting policies for employee benefits are described below:

3.4.1 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.4.2 Defined contribution plan – Provident fund

The Company operates a defined contribution provident fund scheme for permanent employees. Contributions to the fund are made monthly by the Company and employees at an agreed rate of salary, the fund is managed by its Board of Trustee. The contributions of the Company are charged to profit or loss.

3.4.3 Defined benefit plans

The Company operates the following defined benefit plans:

Gratuity

The Company operates a defined benefit plan comprising a funded gratuity scheme covering all eligible employees completing the minimum qualifying period of service as specified by the scheme. Annual provisions to cover the obligations under the scheme are based on actuarial estimates and are charged to profit or loss. Actuarial valuations are carried out by a qualified actuarial expert using the Projected Unit Credit (PUC) Actuarial Cost Method. Net markup expense and other expenses related to defined benefit plan is recognized in profit or loss.

The present value of the obligation for gratuity depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge for the year include the discount rate, expected increase in eligible salary and mortality rate as per note 18.3. Any changes in these assumptions will impact the carrying amount of obligations for gratuity.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in statement of other comprehensive income. The Company determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plan are recognised in profit or loss.

Compensated leave absences

The Company operates defined benefit plan comprising an unfunded compensated leave absences scheme covering all eligible employees as specified in the policy of the Company.

The Company recognises provision for compensated absences on the unveiled balance of privilege leaves of all its eligible employees.

3.5 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. These are derecognized when the Company 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, amortized cost or historical cost as the case may be.

Other particular recognition methods adopted by the Company are disclosed in the individual policy statements associated with each item of financial instruments.

Financial Assets

Financial assets are cash and balances with banks, investments, financing and other receivables. Financing are stated at their nominal value as reduced by appropriate provisions against non-performing financing, while other financial assets excluding investments are stated at cost. Investments are recognized as per note 3.13.

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Financial liabilities include subordinate loans, loans and borrowings, short term 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 de-recognition of the financial assets and liabilities is included in the profit or loss for the year in which it arises.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit or loss.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities and tax assets and tax liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set off the recognized amount and the Company intends either to settle on net basis or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

3.6 Share capital and dividend

Ordinary shares are classified as equity and recognized at their face value. Dividend distribution to the shareholders is recognized as liability in the period in which it is declared.

3.7 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessment of time value of money and risk specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect current best estimate.

3.8 Taxation

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to an item recognized directly in equity or other comprehensive income in which case it is recognized in equity or other comprehensive income.

Current tax

Current tax comprises the expected tax payable or refundable on the taxable income or loss for the year and any adjustment to the tax payable or refundable in respect of previous years. The amount of current tax payable or refundable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax assets and liabilities are offset if certain criteria are met. The charge for current taxation is based on taxable income at current rates of taxation enacted or substantially enacted at the reporting date, after taking into consideration available tax credits, rebates and tax losses, if any.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for the Company and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantially enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if certain criteria are met.

The Company takes into account the current income tax laws and decisions taken by the taxation authorities. Instances where the Company's view differs from the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

3.9 Foreign currency transactions and translation

Transactions in foreign currencies are translated into Pak Rupee at exchange rate on the date of transaction. All monetary assets and liabilities in foreign currencies are translated into Pak Rupee at the rate of exchange approximating those ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

3.10 Finance income and finance cost

Finance income comprises profit on deposit accounts. Markup income is recognized as it accrues in profit or loss, using effective markup method.

Finance costs comprise markup expense on subordinated loans, loans borrowings and bank charges. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using effective markup method.

3.11 Revenue recognition

Mark-up / income on financing

Markup income / return on financing are recognized on a time proportion basis using the effective markup method except the markup income / return on non-performing financing which is recognized on a receipt basis in accordance with the requirements of the NBFC rules and NBFC regulations issued by the SECP. Return / markup on rescheduled / restructured financing is recognized as permitted by the aforementioned regulations, except where, in the opinion of the management, it would not be prudent to do so.

Income from investment

Mark-up / return on investments is recognized on time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, the related premiums or discounts are amortized through the profit or loss over the remaining period of maturity of said investment. Gain or loss on sale of investment is accounted for in the period in which the sale occurs.

Service fee

Service fee is taken to the profit or loss when the services are provided and when right to receive the fee is established.

Income on bank deposits

Return on bank deposits are recognized on time proportionate basis.

3.12 Grant income

Restricted grant

Grant received for specific purposes are classified as restricted / deferred grant. Such grant is transferred to statement of profit or loss as grant income to the extent of actual expenditure incurred there against. Expenditures incurred against committed grant but not received is accrued and recognized in income and is reflected as grant receivable only if conditions of agreement are met. Unspent portion of such grant are reflected as restricted / deferred grant in the statement of financial position.

3.13 Investments

The investments of the Company, upon initial recognition, are classified as held-for-trading, held-to-maturity or available-for-sale, as appropriate.

Investments (other than held-for-trading) are initially measured at fair value plus transaction costs associated with the investments. Held-for-trading investments are initially measured at fair value and transaction costs are expensed out in the profit or loss.

Purchase and sale of investments that require delivery within the time frame established by regulation or market convention is recognised at the trade date, which is the date the Company commits to purchase or sell the investment.

Held for trading

These represent securities acquired with the intention to trade by taking advantage of short-term market/ interest rate movements. After initial measurement, these are marked to market and surplus/ deficit arising on revaluation of 'held for trading' investments is taken to profit or loss.

Held to maturity

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, and 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 is amortized through profit or loss over the remaining period till maturity.

Available for sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, such investments are measured at fair value. The surplus / (deficit) arising on revaluation is shown in the statement of financial position in equity.

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of security is also considered as an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulations. In the event of impairment of available for sale securities, the cumulative loss that had been recognized directly in surplus on revaluation of securities on the statement of financial position below equity is thereof removed and recognized in the profit or loss.

3.14 Financing

Financing comprise of installment finance facilities extended to microfinance institutions and banks. Financing are stated net of provision for non-performing financing, if any, determined as per requirements of NBFC rules and regulations, and the policy of the Company. The outstanding principal and mark-up of the financing, payments against which are overdue for 90 days or more are classified as non-performing loans (NPLs). The unrealized interest / profit / mark-up / service charges on NPLs is suspended and credited to interest suspense account. Further the NPLs are classified into following categories as prescribed in the Regulations.

Other assets especially mentioned

These are financing, payments against which are overdue for 90 days or more but less than 180 days.

Substandard

These are financing, payments against which are overdue for 180 days or more but less than a year.

Doubtful

These are financing, payments against which are overdue for one year or more but less than 1.5 years.

Loss

These are financing, payments against which are overdue for 1.5 years.

In accordance with the Regulations, the Company maintains specific provision of outstanding principal net of liquid collaterals at the following rates:

Other assets especially mentioned	Nil
Substandard	25% of outstanding principal net of liquid collaterals
Doubtful	50% of outstanding principal net of liquid collaterals
Loss	100% of outstanding principal net of liquid collaterals

In addition to above, a general provision is maintained at 1% - 1.5% (31 December 2017: 1%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers.

3.15 Impairment

3.15.1 Financial assets:

Financial assets not classified at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on the terms that the Company would not consider otherwise and indication that a debtor will enter bankruptcy.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. For financial assets measured at amortized cost, the Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective markup rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

3.15.2 Non-financial assets:

At each reporting date, the Company reviews the carrying amount of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

The recoverable amount of an asset or CGU is greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amounts of any goodwill allocated to CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.16 Contingent liabilities

A contingent liability is disclosed when the Company has a possible obligation as a result of past events, whose existence will be confirmed only by the occurrence or non-occurrence, of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation that arises from past events, but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

3.17 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances used by the Company in the management of its short-term commitments.

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4 PROPERTY AND EQUIPMENT

	Office equipment	Computers	Furniture	Leasehold improvements	Vehicles	Capital work in progress	Total
				(Rupees)			
COST							
Balance at 01 January 2017	214,686	1,756,626	-	-	-	956,638	**2,927,950**
Additions	936,644	5,725,650	6,920,544	-	2,547,734	16,628,029	**32,758,601**
Transfers from CWIP	-	-	-	17,017,217	-	(17,017,217)	**-**
Disposal / write-off	-	(78,500)	-	-	-	-	**(78,500)**
Balance at 31 December 2017	**1,151,330**	**7,403,776**	**6,920,544**	**17,017,217**	**2,547,734**	**567,450**	**35,608,051**
Additions	**2,071,175**	**1,362,629**	**470,502**	**52,053**	**1,779,854**	**-**	**5,736,213**
CWIP charged to expenses	**-**	**-**	**-**	**-**	**-**	**(567,450)**	**(567,450)**
Balance at 31 December 2018	**3,222,505**	**8,766,405**	**7,391,046**	**17,069,270**	**4,327,588**	-	**40,776,814**
ACCUMULATED DEPRECIATION							
Balance at 01 January 2017	3,578	96,768	-	-	-	-	**100,346**
Charge for the year	165,238	1,861,732	1,092,766	2,388,639	254,773	-	**5,763,148**
On disposal / write-off	-	(4,361)	-	-	-	-	**(4,361)**
Balance at 31 December 2017	**168,816**	**1,954,139**	**1,092,766**	**2,388,639**	**254,773**	-	**5,859,133**
Charge for the year	**422,944**	**2,846,431**	**1,425,141**	**3,404,309**	**714,872**	-	**8,813,697**
Balance at 31 December 2018	**591,760**	**4,800,570**	**2,517,907**	**5,792,948**	**969,645**	-	**14,672,830**
Carrying value - 31 December 2017	982,514	5,449,637	5,827,778	14,628,578	2,292,961	567,450	**29,748,918**
Carrying value - 31 December 2018	**2,630,745**	**3,965,835**	**4,873,139**	**11,276,322**	**3,357,943**	-	**26,103,984**
Depreciation rates per annum	**20%**	**33.33%**	**20%**	**20%**	**20%**	-	

Pakistan Microfinance Investment Company Limited
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	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
5 INTANGIBLE ASSETS			
Cost	5.1		
Opening balance		992,000	-
Additions during the year		-	992,000
Closing balance		992,000	992,000
Amortization			
Opening balance		137,778	-
Charge for the year		330,669	137,778
Closing balance		468,447	137,778
Net book value		523,553	854,222
Amortization rate per annum		33%	33%

5.1 This represent accounting software of the Company.

6 FINANCING - NET

Financing to microfinance institution and banks (secured) - Markup bearing

	Note	31 December 2018 Number	31 December 2018 (Rupees)	31 December 2017 Number	31 December 2017 (Rupees)
		43	20,764,250,000	26	11,496,000,000
Less:					
Provisions held:					
- General	6.1	-	(230,848,750)	-	(114,960,000)
- Specific	6.2	-	-	-	-
Current maturity		-	(11,638,516,667)	-	(4,241,451,812)
			8,894,884,583		7,139,588,188

6.1 General provision is maintained at 1% - 1.5% (31 December 2017: 1%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers.

6.2 Particulars of non-performing financing

	Provision rate	31 December 2018 Amount outstanding	31 December 2018 Provisions required	31 December 2018 Provisions held	31 December 2017 Amount outstanding	31 December 2017 Provisions required	31 December 2017 Provisions held
			(Rupees)			(Rupees)	
Category of classification							
Other assets especially mentioned (OAEM)	0%	-	-	-	-	-	-
Sub-standard	25%	-	-	-	-	-	-
Doubtful	50%	-	-	-	-	-	-
Loss	100%	-	-	-	-	-	-
		-	-	-	-	-	-

6.3 Particulars of provision against non-performing financing

	31 December 2018 Specific	31 December 2018 General	31 December 2018 Total	31 December 2017 Specific	31 December 2017 General	31 December 2017 Total
		(Rupees)			(Rupees)	
Opening balance	-	114,960,000	114,960,000	-	-	-
Provision recognised during the year	-	115,888,750	115,888,750	-	114,960,000	114,960,000
Closing balance	-	230,848,750	230,848,750	-	114,960,000	114,960,000

6.4 General provision against non-performing financing

	31 December 2018	31 December 2017
	(Rupees)	(Rupees)
Charge for the year	115,888,750	114,960,000

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	Note	31 December 2018	31 December 2017
		(Rupees)	(Rupees)
7 LONG TERM ADVANCES AND DEPOSITS			
- Considered good			
Advances to employees	7.1	15,923,399	18,619,076
Less: Current portion		(11,772,313)	(14,602,241)
		4,151,086	4,016,835
Long term prepayment - transaction charges		494,378	-
Less: Current portion		(118,656)	-
		375,722	-
			-
Security Deposit	7.2	5,254,720	5,461,283
		9,781,528	9,478,118

7.1 These represent markup free advances against salaries extended to employees; repayable within a period of maximum twenty four months from the month of disbursement, in accordance with the human resource policy of the Company.

7.2 These represent security deposits against rented premises and employee fuel cards.

	Net balance at 01 January	Recognised in: Statement of Profit or loss	Recognised in: Statement of other comprehensive income	Net balance at 31 December
8 DEFERRED TAX ASSET		(Rupees)		(Rupees)
31 December 2018				
Taxable temporary difference				
Property and equipment	(719,806)	588,519	-	(131,287)
	(719,806)	588,519	-	(131,287)
Deductible temporary differences				
Intangible assets	5,730	(381)	-	5,349
Staff retirement benefits - gratuity	2,177,364	(1,371,319)	328,191	1,134,237
Pre-incorporation expenses	10,092,472	(3,812,712)	-	6,279,760
Financing - net	34,488,000	30,149,650	-	64,637,650
	46,763,566	24,965,238	328,191	72,056,996
Deferred Tax Asset - 31 December 2018	46,043,760	25,553,757	328,191	71,925,709
31 December 2017				
Taxable temporary difference				
Property and equipment	-	(719,806)	-	(719,806)
	-	(719,806)	-	(719,806)
Deductible temporary differences				
Intangible assets	-	5,730	-	5,730
Staff retirement benefits - gratuity	-	2,584,100	(406,736)	2,177,364
Pre-incorporation expenses	-	10,092,472	-	10,092,472
Financing - net	-	34,488,000	-	34,488,000
	-	47,170,302	(406,736)	46,763,566
Deferred Tax Asset - 31 December 2017	-	46,450,496	(406,736)	46,043,760

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		Note	31 December 2018	31 December 2017
			(Rupees)	(Rupees)
9	**ADVANCES, PREPAYMENTS AND OTHER RECEIVABLE**			
	Advances			
	- Suppliers	9.1	1,263,664	3,142,000
	- Employees	9.2	293,078	52,000
	- Current portion of long term advances to employees	7	11,772,313	14,602,241
			13,329,055	17,796,241
	Prepayments			
	- Rent	9.3	20,097,192	18,894,293
	- Insurance		2,663,748	1,865,298
	- Subscriptions		1,694,963	503,582
	- Current portion of long term prepayment - transaction charges		118,656	-
			24,574,559	21,263,173
	Other receivable		-	1,808,500
			37,903,614	40,867,914

9.1 These represent advances for office supplies and advances to consultants / service providers.

9.2 These represent advances given to employees for official purposes.

9.3 This represent prepaid rent of the Company's office.

		Note	31 December 2018	31 December 2017
			(Rupees)	(Rupees)
10	**MARKUP ACCRUED - RECEIVABLE**			
	Markup receivable on financing	10.1	494,199,914	171,933,197
	Profit on deposit accounts and term deposit certificates		19,752,425	4,125,941
			513,952,339	176,059,138

10.1 This represents markup accrued on financing to microfinance institutions and bank as mentioned in note - 6 to these financial statements.

		Note	31 December 2018	31 December 2017
11	**DUE FROM RELATED PARTIES - Unsecured**			
	Service fee receivable - Pakistan Poverty Alleviation Fund	11.1	1,200,000	128,296,177
	Grant income receivable - KfW	11.2	8,056,300	6,596,245
			9,256,300	134,892,422

11.1 This represents amount due from Pakistan Poverty Alleviation Fund (an associated undertaking) including sales tax in respect of certain monitoring services provided by the Company under an agreement.

11.2 This represents amount claimable from KfW, a German development company (an associated undertaking) as per the agreement against consultancy services and trainings (local and international).

11.3 Age analysis of due from related parties:

	Not Due	Amount past due: Past due 0-30 days	Amount past due: Past due 31-365 days	Total gross amount due	Maximum amount outstanding at any time during the year
Balance at 31 December 2018			(Rupees)		(Rupees)
Name of related party					
Pakistan Poverty Alleviation Fund	**1,200,000**	**-**	**-**	**1,200,000**	**135,939,497**
KfW	**8,056,300**	**-**	**-**	**8,056,300**	**8,056,300**
	9,256,300	**-**	**-**	**9,256,300**	**143,995,797**
Balance at 31 December 2017					
Pakistan Poverty Alleviation Fund	128,296,177	-	-	128,296,177	128,296,177
KfW	6,596,245	-	-	6,596,245	6,596,245
	134,892,422	-	-	134,892,422	134,892,422

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	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
12 SHORT-TERM INVESTMENTS			
Term deposit certificates with banks	12.1	**825,000,000**	950,000,000

12.1 These carry markup rates ranging from 8.50% to 10.50% (31 December 2017: 6.65% to 7.50%) per annum having maturity period ranging from one month to twelve months (31 December 2017: one month to six months) from the date of investment.

13 ADVANCE TAX / PROVISION FOR TAX - NET	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Opening balance		**(1,325,323)**	749,330
Current tax charge	29	**(147,473,738)**	(80,080,355)
Income tax paid / withheld during the year		**151,318,308**	78,005,702
Closing balance		**2,519,247**	(1,325,323)

	Note	31 December 2018	31 December 2017
14 CASH AND BANK BALANCES			
Cash in hand		**10,622**	22,097
Cash at banks - Local currency			
- Deposit Accounts	14.1	**56,355,723**	66,725,843
- Current Account		**600**	650
		56,356,323	66,726,493
		56,366,945	66,748,590

14.1 These represent deposit accounts with banks carrying markup ranging from 8% to 9% per annum (31 December 2017: 3.75% to 5.40% per annum).

	31 December 2018 (Rupees)	31 December 2017 (Rupees)
15 SHARE CAPITAL		
Authorized capital		
6,500,000 ordinary shares of Rs.1,000 each	**6,500,000,000**	6,500,000,000

Issued, subscribed and paid up share capital

31 December 2018 (Number of shares)	31 December 2017 (Number of shares)		31 December 2018 (Rupees)	31 December 2017 (Rupees)
5,884,222	5,884,222	Ordinary shares of Rs.1,000 each fully paid in cash	**5,884,222,000**	5,884,222,000

Shareholders	Nature of relationship	Number of shares 31 December 2018	Number of shares 31 December 2017	Percentage of shareholding 31 December 2018	Percentage of shareholding 31 December 2017
Pakistan Poverty Alleviation Fund	Associated undertaking	**2,883,256**	2,883,256	**49.00%**	49.00%
Karandaaz Pakistan	Associated undertaking	**2,224,243**	2,224,242	**37.80%**	37.80%
KfW	Associated undertaking	**776,719**	776,719	**13.20%**	13.20%
Directors	Director	**4**	5	**0.00%**	0.00%
Total		**5,884,222**	5,884,222	**100.00%**	100.00%

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15.1 All the shareholders are entitled to dividends as declared by the Company and are entitled to votes in proportion to their shareholding at the meetings of the Company. Number of shares outstanding at the end of the year were same as number of shares outstanding at the beginning of the year.

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
16 SUBORDINATED LOANS - Unsecured			
Subordinated loans from:			
- Pakistan Poverty Alleviation Fund	16.1	10,689,638,230	6,700,000,000
- Karandaaz Pakistan	16.2	2,800,000,000	-
		13,489,638,230	6,700,000,000
Less: Current portion		(1,142,938,346)	(19,361,770)
		12,346,699,884	6,680,638,230

16.1 This represents the outstanding balance of subordinated loans, under the agreement between Pakistan Poverty Alleviation Fund (an associated undertaking) and the Company dated 17 November 2016 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 15 years and currently carrying markup of 6-months KIBOR plus 1% per annum payable quarterly (31 December 2017: 6-months KIBOR plus 1% per annum payable quarterly). The loan is subordinated to other indebtedness of the Company.

16.2 This represents the outstanding balance of subordinated loans, under the agreement between Karandaaz Pakistan (an associated undertaking) and the Company dated 28 December 2017 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 10 years and currently carrying markup of 6-months KIBOR plus 1% per annum (31 December 2017: Nil) payable quarterly starting from June 2027. The loan is subordinated to other indebtedness of the Company.

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
17 LOANS AND BORROWINGS - Secured			
JS Bank Limited - Term Finance		750,000,000	-
United Bank Limited - Term Finance		350,000,000	-
Askari Bank - Term Finance		500,000,000	-
Allied Bank Limited - Loan		300,000,000	-
		1,900,000,000	-
Less: Current portion of loans and borrowings		(116,666,667)	-
		1,783,333,333	-

17.1 The terms and conditions of outstanding loans and borrowings are as follows:

Borrowing Facility	31 December 2018 Markup	31 December 2018 Number of installments outstanding (Rupees)	31 December 2018 Date of final repayment	31 December 2017 Markup	31 December 2017 Number of installments outstanding (Rupees)	31 December 2017 Date of final repayment
JS Bank Limited - Term Finance	6mk + 0.48%	06 half yearly	7-Mar-23	-	-	-
United Bank Limited - Term Finance	6mk + 0.50%	06 half yearly	8-Oct-21	-	-	-
Askari Bank - Term Finance	6mk + 0.40%	08 yearly	7-Nov-23	-	-	-
Allied Bank Limited - Loan	6mk + 0.45%	06 half yearly	3-Dec-23	-	-	-

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17.2 These loans and borrowings are secured against present and future current and non-current receivables of the company (31 December 2017: Nil).

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
18 EMPLOYEE BENEFITS			
Net defined benefit liability-compensated leave absences	18.1	8,190,707	-
Net defined benefit liability-gratuity	18.2	4,050,845	7,257,880
		12,241,552	7,257,880

18.1 *Net defined benefit liability-compensated leave absences*

Movement in defined benefit liability - compensated leave absence

	31 December 2018	31 December 2017
Opening balance	-	-
Charge for the year recognised in statement of profit or loss	8,597,373	-
Payments made during the year	(406,666)	-
Closing balance	8,190,707	-

18.1.1 This represents estimated liability in respect of compensated absences to employees in accordance with the Company's Policy. Actuarial valuation has not been carried out for compensated leave absences as the impact is considered to be immaterial.

18.2 *Net defined benefit liability-gratuity*

The Company operates a funded gratuity scheme for its employees, details of which are as follows:

The amounts recognized in the statement of financial position are as follows:	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Present value of defined benefit obligation		17,827,326	7,257,880
Fair value of plan assets		(13,776,481)	-
Liability		4,050,845	7,257,880
Movement in net defined benefit liability			
Opening net (asset) / liability		7,257,880	-
Charge for the year recognised in statement of profit or loss	18.2.1	11,546,573	8,713,667
Re-measurement recognised in statement of other comprehensive income	18.2.2	1,172,112	(1,355,787)
Payments made during the year		(667,840)	(100,000)
Contributions		(15,257,880)	-
Closing net (asset) / liability		4,050,845	7,257,880

18.2.1 Amount recognised in the profit or loss is as follows:

	31 December 2018	31 December 2017
Current service cost	11,622,358	8,719,042
Markup income	(75,785)	(5,375)
	11,546,573	8,713,667

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	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Expense is recognised in the following line item in profit or loss			
Administrative expenses		**11,546,573**	8,713,667
Movement in fair value of plan obligation			
Opening present value of obligation		**7,257,880**	-
Current service cost		**11,622,358**	8,719,042
Interest cost		**744,326**	(5,375)
Benefits paid		**(667,840)**	(100,000)
Actuarial (gain) / loss on obligation		**(1,129,398)**	(1,355,787)
Closing present value of obligation		**17,827,326**	7,257,880
Movement in fair value of plan asset			
Opening balance		**-**	-
Expected return on plan assets		**820,111**	-
Contributions		**15,257,880**	-
Benefits paid on behalf of the fund		**667,840**	-
Benefits paid		**(667,840)**	-
Re-measurement of plan assets		**(2,301,510)**	-
Closing balance		**13,776,481**	-

Plan assets comprise of:

	31 December 2018		31 December 2017	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	(Rupees)		(Rupees)	
Pakistan Investment Bonds (PIBs)	**7,000,000**	**5,456,160**	-	-
Treasury bills	**7,863,224**	**7,835,234**	-	-
Cash at bank	**485,087**	**485,087**	-	-
	15,348,311	**13,776,481**		

	31 December 2018 (Rupees)	31 December 2017 (Rupees)
18.2.2 Re-measurement recognised in the statement of other comprehensive income		
Actuarial (gain) on obligation	**(1,129,398)**	(1,355,787)
Actuarial loss on assets	**2,301,510**	-
Actuarial loss recognised	**1,172,112**	(1,355,787)

The latest actuarial valuation was carried out on 31 December 2018 using projected unit credit method.

18.2.3 Key Actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2018 using the projected unit credit method with the following assumptions

	31 December 2018	31 December 2017
	(Rupees)	(Rupees)
Discount rate	13.75%	10.75%
Expected increase in eligible salary	13.75%	10.75%
Duration (years)	14.96	15.63
Normal retirement age (years)	60	60
Effective salary increase date	01 January 2019	01 January 2018
Mortality rate	SLIC 2001-2005	SLIC 2001-2005

Assumption regarding future mortality has been based on State Life Corporation (SLIC 2001-2005).

Risks associated with defined benefit plan

Salary risk- (linked to inflation risk)

The risk that the final salary at the time of cessation of service is greater than what we assumed. Since the benefit is calculated on the final salary (which will closely reflect inflation and other macroeconomic factors), the benefit amount increases as salary increases.

Demographic risks

Mortality risk - The risk that the actual mortality experience is different than the assumed mortality. This affect is more pronounced in schemes where the age and service distribution is on the higher side.

Withdrawal risk - The risk of actual withdrawals experience is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.

		Note	31 December 2018	31 December 2017
			(Rupees)	(Rupees)
19	**SHORT TERM BORROWINGS**			
	Allied bank - Running Finance	19.1	99,236,997	-

19.1 This represent utilised amount of running finance facility amounting to Rs. 100 million (31 December 2017: Nil) and carry markup rate of 3mK + 40 basis points, payable on quarterly basis.

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	Note	31 December 2018	31 December 2017
		(Rupees)	(Rupees)
20 TRADE AND OTHER PAYABLES			
Creditors		**9,493,327**	4,546,291
Accrued liabilities	**20.1**	**35,694,727**	37,165,294
Payable to provident fund	**20.2**	**-**	10,544,638
Payable to related parties		**-**	47,282
Income tax deducted at source		**41,588**	311,119
Sales tax payable		**165,516**	17,696,024
		45,395,158	70,310,648

20.1 These represent accruals made in respect of operational expenses of the Company including variable compensations.

	31 December 2018	31 December 2017
20.2 Payable to employees' provident fund	(Rupees)	(Rupees)
Balance at 1 January	**10,544,638**	-
Contribution / withheld during the year	**15,871,684**	13,878,218
Payments during the year	**(26,416,322)**	(3,333,580)
Balance at 31 December	**-**	10,544,638

21 DEFERRED GRANT

This represents grant share received from partner organisations for implementation of Microfinance Plus (MF Plus) initiatives of the Company.

	Note	31 December 2018	31 December 2017
		(Rupees)	(Rupees)
22 MARKUP ACCRUED - PAYABLE			
Markup payable on subordinate loans	**22.1**	**252,475,459**	89,077,246
Markup payable on loans and borrowings from banks	**22.2**	**38,364,616**	-
		290,840,075	89,077,246

22.1 This represents markup payable in respect of the subordinated loans mentioned in note-16 to these financial statements.

22.2 This represents markup payable in respect of the loans and borrowings as mentioned in note-17 to these financial statements.

23 CONTINGENCIES AND COMMITMENTS

23.1 There are no material contingencies at the year end (31 December 2017: Nil).

	Note	31 December 2018	31 December 2017
		(Rupees)	(Rupees)
23.2 Commitments			
For capital expenditure		**-**	378,300

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		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
24	**INCOME**			
	Markup on financing	24.1	1,600,392,044	396,543,449
	Income from deposit accounts / certificates		70,378,806	45,478,083
	Interest on reverse repo transactions		67,156,238	172,459,551
	Service fee	24.2	1,200,000	116,224,913
	Income - gross		1,739,127,088	730,705,996
	Sales tax		(165,517)	(17,696,024)
			1,738,961,571	713,009,972

24.1 This represents markup on financing to microfinance institutions and bank as mentioned in note - 6 to these financial statements.

24.2 This represents service fee income from Pakistan Poverty Alleviation Fund (an associated undertaking) in respect of certain monitoring services provided by the Company under an agreement.

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
25	**FINANCE COST**			
	Markup on subordinated loans	25.1	871,814,031	148,073,757
	Markup on loans and borrowings	25.2	53,568,822	-
	Amortised transaction cost		98,871	-
	Bank charges		145,868	110,456
			925,627,592	148,184,213

25.1 This represent markup on subordinated loans from Pakistan Poverty Alleviation Fund (PPAF) and Karandaaz Pakistan as mentioned in note - 16 to these financial statements.

25.2 This represent markup on loans and borrowings as mentioned in note - 17 to these financial statements.

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
26	**ADMINISTRATIVE EXPENSES**			
	Salaries, wages and other benefits	26.1	182,087,941	147,225,696
	Rent, rates, licenses and taxes		30,148,374	28,107,660
	Traveling and conveyance	26.2	18,091,677	16,614,538
	Legal and professional fees		2,568,832	4,940,136
	Advertisement and promotion		9,927,847	4,519,209
	Utilities		2,082,220	2,240,560
	Telecommunication and postage		1,827,142	1,667,593
	Director's fee		3,300,000	5,400,000
	Printing and stationery		1,447,799	1,214,182
	Repair and maintenance		5,685,214	5,341,971
	Auditors' remuneration	26.3	1,100,000	1,100,000
	Insurance		2,043,798	1,617,885
	Office supplies and meeting expenses		3,231,604	3,891,252
	IT expenses		1,667,330	921,117
	Miscellaneous		470,834	450,905
	Depreciation	4	8,813,696	5,763,148
	Amortization	5	330,669	137,778
	Consultancy and outsourcing arrangements	26.4	24,562,964	17,303,568
	Trainings and workshops		8,083,609	7,671,343
			307,471,550	256,128,541

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26.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 28,079,787 (31 December 2017: Rs. 19,258,305)

26.2 These represent staff business traveling and costs of operational monitoring field visits to the borrowers.

26.3 Auditors' remuneration	**31 December 2018 (Rupees)**	31 December 2017 (Rupees)
Audit fee	**800,000**	700,000
Certification fee	**250,000**	350,000
Out of pocket expenses	**50,000**	50,000
	1,100,000	1,100,000

26.4 These represent consultancies for capacity building, strategy formulation and other services.

27 OTHER EXPENSES

	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Crop value chain	**3,640,222**	-
Livestock Micro-insurance	**-**	3,240,000
Crop Micro-insurance	**-**	8,090,880
Graduation out of poverty model	**-**	1,500,000
Digital finance	**-**	2,240,000
Solar home solutions	**2,757,000**	-
Enterprise development	**1,473,000**	-
	7,870,222	15,070,880

These represent specific grants extended to borrowers of the Company as part of its Microfinance Plus (MF Plus) initiative.

28 OTHER INCOME

	Note	**31 December 2018 (Rupees)**	31 December 2017 (Rupees)
Grant income (KfW)	**28.1**	**10,170,003**	6,596,245
Grant Income (Sona Welfare Foundation)	**28.2**	**4,994,000**	-
Others		**1,505,914**	46,719
		16,669,917	6,642,964

28.1 This represents amount claimable from KfW, a German development company (an associated undertaking) as per the agreement against consultancy services and trainings (local and international).

28.2 Grant income is recognised under the agreement with Sona Welfare Foundation (SWF) dated 4 May 2018 for implementation of Crop Value Chain project.

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	31 December 2018	31 December 2017
	(Rupees)	(Rupees)
29 INCOME TAX EXPENSE		
Income tax:		
- Current	145,709,357	80,080,355
- prior	1,764,381	-
	147,473,738	80,080,355
Deferred tax	(25,553,757)	(46,450,496)
	121,919,981	33,629,859

29.1 Relationship between accounting profit and tax expense is as follows:

	31 December 2018	31 December 2017
Accounting profit/(loss) for the year	398,773,374	185,309,302
Applicable tax rate	29%	30%
Tax charge	115,644,279	55,592,791
Tax effect of permanent differences	4,511,321	4,029
Tax effect of exempt income	-	(1,978,874)
Effect of deferred tax asset not previously recognized	-	(19,988,087)
Prior year effect	1,764,381	-
	121,919,981	33,629,859

30 CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES

	31 December 2018	31 December 2017
Profit before taxation	398,773,374	185,309,302
Adjustments for non cash items and others:		
Depreciation	8,813,696	5,763,148
Amortization	330,669	137,778
General provision	115,888,750	114,960,000
Provision for leave encashment	8,190,707	-
Provision for staff retirement benefit - gratuity	11,546,573	8,713,667
Markup on financing	(1,600,392,044)	(396,543,449)
Income from term deposit certificates	(70,378,806)	(33,337,315)
Markup on reverse repo transactions	(67,156,238)	(172,459,551)
Service fee	(1,200,000)	(98,528,889)
Finance cost	925,627,592	148,184,213
Loss on disposal of asset	-	11,339
Profit on deposit accounts	(25,453,393)	(12,140,768)
Grant income	(15,164,003)	(6,596,245)
	(310,573,123)	(256,526,770)

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31 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

		31 December 2018			31 December 2017		
		Chief Executive	(Rupees) Directors	Executives	Chief Executive	(Rupees) Directors	Executives
	Note		(Rupees)			(Rupees)	
Managerial Remuneration		**24,396,000**	**-**	**84,143,261**	23,590,204	-	72,824,000
Performance bonus		**3,800,000**	**-**	**7,598,500**	-	-	-
Other perks and benefits	31.1	**1,652,824**	**-**	**11,336,739**	2,873,296	-	6,576,839
Contribution to provident fund		**1,707,720**	**-**	**5,642,807**	2,126,923	-	5,097,680
Gratuity		**2,166,000**	**-**	**-**	1,900,000	-	-
Meeting fee	31.2	**-**	**3,300,000**	**-**	-	5,400,000	-
		33,722,544	**3,300,000**	**108,721,307**	30,490,423	5,400,000	84,498,519
Number of persons		**1**	**2**	**27**	1	2	15

31.1 These include allowances paid to the Chief Executive as per the Company's policy.

31.2 Remuneration of directors represents the meeting fee of two independent directors. No other directors were paid any remuneration during the year.

31.3 Key management personnel includes employees, other than the chief executive and directors, whose basic salary exceeds Rs. 1,200,000 (2017: Rs. 500,000) per annum.

32 EMPLOYEES PROVIDENT FUND

Details of the Employees' Provident Fund are as follows:

	Provident fund	
	Unaudited 31 December 2018	Audited 31 December 2017
	(Rupees)	(Rupees)
Size of the fund - (total assets)	**26,358,488**	10,544,638
Cost of investments made	**23,897,418**	-
Fair value of investments	**26,358,488**	-
Cash at bank	**-**	10,544,638
Percentage of investments made (%)	**91%**	-

Breakup of investment - at cost:	31 December 2018		31 December 2017	
	(Rupees)	%	Rupees	%
Investment in government securities	**23,897,418**	**100%**	-	0%
Cash at bank	**-**	**0%**	10,544,638	100%
	23,897,418	**100%**	10,544,638	-

All the investments out of provident fund have been made in accordance with the provisions of Section 218 of the Companies Act 2017 (previously the Companies Ordinance, 1984) and the rules formulated for this purpose.

33 RECONCILIATION OF MOVEMENT OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	31 December 2018		
	Liabilities		
	Loans and Borrowings	Subordinated loans	Total
		(Rupees)	
Balance at 01 January 2018	-	6,700,000,000	6,700,000,000
Changes from financing cash flows			
Proceeds from loans and borrowings	1,900,000,000	-	1,900,000,000
Proceeds from short term borrowings	99,236,997	-	99,236,997
Proceeds from subordinated loans	-	6,789,638,230	6,789,638,230
Total changes from financing cash flows	1,999,236,997	6,789,638,230	8,788,875,227
Total equity-related other changes	-	-	-
Balance at 31 December 2018	1,999,236,997	13,489,638,230	15,488,875,227

	31 December 2017		
	Liabilities		
	Loans and Borrowings	Subordinated loans	Total
		(Rupees)	
Balance at 01 January 2017	-	-	-
Changes from financing cash flows			
Proceeds from subordinated loans	-	6,700,000,000	6,700,000,000
Total changes from financing cash flows	-	6,700,000,000	6,700,000,000
Total equity-related other changes	-	-	-
Balance at 31 December 2017	-	6,700,000,000	6,700,000,000

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34 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties comprise associated undertakings, directors as well as their close family members, companies with common directorship, executives, key management personnel and major shareholders. Balances with related parties are disclosed in notes 7.1, 9.2, 11, 16, 18, 20 and 21 to these financial statements. Below is the list of related parties with whom the Company has entered into transactions during the year:

Related Party	Basis of relationship	Shareholding in the company (%)
Pakistan Poverty Alleviation Fund	Associated undertaking	49.00%
Karandaaz Pakistan	Associated undertaking	37.80%
KfW	Associated undertaking	13.20%
Directors	Director	0.00%
Employees' provident fund	Employees contribution fund	0.00%
Staff gratuity fund	Employees benefit fund	0.00%

34.1 Following particulars relate to associated companies incorporated outside Pakistan with whom the Company had entered into transactions during the year:

Name of Party	KfW
Registered address	KfW Group Charlottenstrasse 33/33a 10117 Berlin
Country of incorporation	Germany

34.2 Details of transactions with these related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	31 December 2018	31 December 2017
Transactions with associated undertakings	**(Rupees)**	(Rupees)
Service fee charged during the year	**1,200,000**	116,224,913
Grant income recognised during the year	**10,170,003**	6,596,245
Subordinated loan received during the year	**6,809,000,000**	6,700,000,000
Subordinated loan repaid during the year	**19,361,770**	-
Markup on subordinated loan charged during the year	**871,814,031**	148,073,757
Markup on subordinated loan paid during the year	**708,415,818**	58,996,511
Payments made to associated undertakings	**-**	89,920,403
Payments made on behalf of the Company by associated undertakings	**-**	257,509
Transactions with other related parties		
Employee contribution payable to provident fund	**-**	5,272,319
Employer contribution payable to provident fund	**-**	5,272,319
Total contribution paid to provident fund	**7,935,841**	-
Total contribution paid to gratuity fund	**15,925,720**	-
Transactions with key management personnel		
Remuneration and allowance including staff retirement benefits	**108,721,307**	84,498,519

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35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

35.1 Classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

On-balance sheet financial instruments		31 December 2018						
					Fair value			
		Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2018	**Note**			(Rupees)				
Financial assets not measured at fair value	35.2							
Financing - net	6	20,533,401,250	-	20,533,401,250	-	-	-	-
Long term advances and deposits	7	21,672,497	-	21,672,497	-	-	-	-
Markup accrued - receivable	10	513,952,339	-	513,952,339	-	-	-	-
Due from related parties	11	9,256,300	-	9,256,300	-	-	-	-
Short-term investments	12	825,000,000	-	825,000,000	-	-	-	-
Cash and bank balances	14	56,366,945	-	56,366,945	-	-	-	-
		21,959,649,331	-	21,959,649,331	-	-	-	-
Financial liabilities not measured at fair value	35.2							
Subordinated loan	16	-	13,489,638,230	13,489,638,230	-	-	-	-
Loans and borrowings	17	-	1,900,000,000	1,900,000,000	-	-	-	-
Trade and other payables	20 & 35.3	-	9,493,327	9,493,327	-	-	-	-
Markup accrued - payable	22	-	290,840,075	290,840,075	-	-	-	-
		-	15,689,971,632	15,689,971,632	-	-	-	-

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35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

On-balance sheet financial instruments	Note	31 December 2017						
					Fair value			
		Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2017		(Rupees)						
Financial assets not measured at fair value	35.2							
Financing - net	6	11,381,040,000	-	11,381,040,000	-	-	-	-
Long term advances and deposits	7	24,080,359	-	24,080,359	-	-	-	-
Other receivable	9	1,808,500	-	1,808,500	-	-	-	-
Markup accrued - receivable	10	176,059,138	-	176,059,138	-	-	-	-
Due from related parties	11	134,892,422	-	134,892,422	-	-	-	-
Short-term investments	12	950,000,000	-	950,000,000	-	-	-	-
Cash and bank balances	14	66,748,590	-	66,748,590	-	-	-	-
		12,734,629,009	-	12,734,629,009	-	-	-	-
Financial liabilities not measured at fair value	35.2							
Subordinated loan	16	-	6,700,000,000	6,700,000,000	-	-	-	-
Trade and other payables	20 & 35.3	-	15,138,211	15,138,211	-	-	-	-
Markup accrued - payable	22	-	89,077,246	89,077,246	-	-	-	-
		-	6,804,215,457	6,804,215,457	-	-	-	-

35.2 The Company has not disclosed the fair values for these financial assets and financial liabilities, because their carrying amounts are reasonable approximation of fair value.

35.3 It excludes accrued expenses, income tax deducted at source and sales tax payable.

35.4 Measurement of fair values

All financial assets and financial liabilities are initially recognized at fair value of consideration paid or received, net of transaction costs as appropriate. The financial assets and liabilities of the Company approximate their carrying values. A number of Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

i. Non - derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of markup at the reporting date. This fair value is determined for disclosure purposes.

ii. Non - derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and markup cash flows, discounted at the market rate of markup at the reporting date.

B FINANCIAL RISK MANAGEMENT

The Company has exposure to following risk from its use of financial instruments.
- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks being faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

35.5 Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk the Company maintains procedures covering the application for credit approvals, granting and renewal of counterparty limits and monitoring of exposures against these limits. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

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i. Concentration of credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	31 December 2018	31 December 2017
		(Rupees)	(Rupees)
Financing - net	6	20,533,401,250	11,381,040,000
Long term advances and deposits	7	21,672,497	24,080,359
Other receivable		-	1,808,500
Markup accrued - receivable	10	513,952,339	176,059,138
Due from related parties	11	9,256,300	134,892,422
Short-term investments	12	825,000,000	950,000,000
Cash at bank	14	56,356,323	66,726,493
		21,959,638,709	12,734,606,912

Geographically there is no concentration of credit risk. The maximum exposure to credit risk for financial assets at the reporting date by type of counter party is as follows:

	31 December 2018	31 December 2017
	(Rupees)	(Rupees)
Related parties	9,256,300	134,892,422
Banks and financial institutions	21,928,709,912	12,573,825,631
Others	21,672,497	25,888,859
	21,959,638,709	12,734,606,912

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of financial assets. The main components of this allowance are a specific loss component that relates to individually significant exposures. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

ii- Impairment losses

The Company records general provision against financing at 1% -1.5% of outstanding balance of financing, net of specific provision.

The movement in provision in respect of financing during the year was as follows:

	Note	31 December 2018	31 December 2017
		(Rupees)	(Rupees)
Opening balance		(114,960,000)	-
Provision made during the year	6.3	(115,888,750)	(114,960,000)
Closing balance		(230,848,750)	(114,960,000)

The provision account in respect of financing are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrevocable is written off against the financial asset directly.

Based on past experience, the management believes that except as already provided for in these financial statements, no further impairment is required to be recognized against any financial assets of the Company.

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iii. Credit quality of financial assets

The credit quality of the Company's financial assets have been assessed below by reference to external credit rating of counterparties determined by the Pakistan Credit Rating Agency Limited (PACRA), JCR - VIS Credit Rating Company Limited (JCR - VIS) and Moody's.

An analysis of the credit quality of financial assets is as follows:

	Ratings	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Financing - net			
Counterparties with credit rating	A	1,250,000,000	-
Counterparties with credit rating	BBB+	4,825,000,000	3,400,000,000
Counterparties with credit rating	BBB	2,437,500,000	-
Counterparties without credit rating		12,251,750,000	8,096,000,000
		20,764,250,000	11,496,000,000
Long term advances and deposits			
Counterparties without credit rating		21,672,497	24,080,359
Advances, prepayments and other receivable			
Counterparties without credit rating		-	1,808,500
Markup accrued - receivable			
Counterparties with credit rating	AAA	467,466	510,136
Counterparties with credit rating	AA+	11,067	-
Counterparties with credit rating	A+	19,273,892	3,544,517
Counterparties with credit rating	A	12,878,904	71,288
Counterparties with credit rating	BBB+	111,988,300	53,345,753
Counterparties with credit rating	BBB	56,072,245	-
Counterparties without credit rating		313,260,465	118,587,444
		513,952,339	176,059,138
Due from related parties			
Counterparties with credit rating	AA+	8,056,300	6,596,245
Counterparties without credit rating		1,200,000	128,296,177
		9,256,300	134,892,422
Lending to financial institutions			
Counterparties with credit rating	A1+	-	3,259,995,148
Short-term investments			
Counterparties with credit rating	AAA	325,000,000	-
Counterparties with credit rating	A+	500,000,000	-
Counterparties with credit rating	A	-	250,000,000
Counterparties with credit rating	AA+	-	700,000,000
		825,000,000	950,000,000
Cash at bank			
Counterparties with credit rating	AAA	53,398,506	56,409,826
Counterparties with credit rating	AA+	1,638,305	8,455,742
Counterparties with credit rating	A+	1,308,347	1,860,925
Counterparties with credit rating	AA-	264	-
		56,345,422	66,726,493

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35.6 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, prudent fund management practices and the ability to close out market positions due to dynamic nature of the business. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Exposure to liquidity risk

There were no defaults on loans payable during the year.

The maturity profile of the Company's financial liabilities based on the contractual amounts is as follows:

	Carrying amount	Contractual cash flows	Maturity up to one year	Maturity after one year and upto five years	Maturity after five years
	(Rupees)				
31 December 2018					
Subordinated loans	13,489,638,230	20,242,782,671	2,173,276,126	7,726,562,871	10,342,943,674
Loans and borrowings	1,900,000,000	2,458,440,095	231,262,393	2,096,800,510	130,377,192
Trade and other payables	9,493,327	9,493,327	-	-	-
Markup accrued - payable	290,840,075	290,840,075	-	-	-
	15,689,971,632	**23,001,556,168**	**2,404,538,519**	**9,823,363,381**	**10,473,320,866**
31 December 2017					
Subordinated loan	6,700,000,000	9,724,466,995	472,995,772	5,216,874,866	4,034,596,357
Trade and other payables	15,138,211	15,138,211	15,138,211	-	-
Markup accrued - payable	89,077,246	89,077,246	-	-	-
	6,804,215,457	9,828,682,452	488,133,983	5,216,874,866	4,034,596,357

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.
The contractual cash flows relating to subordinated loan have been determined on the basis of expected mark up rates. The mark up rates have been disclosed in note 18 to these financial statements.

35.7 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market markup rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

35.7.1 Foreign currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has neither dealt in foreign currency transactions during the year nor has any balances receivables / payable in foreign currency at the reporting date; hence at present the Company is not exposed to significant foreign currency risk.

35.7.2 Markup rate risk

The markup rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market markup rates. The Company has financing and subordinated loan in Pakistan Rupees at variable rates. The financing and subordinated loan has variable rate pricing that is dependent on the Karachi Inter Bank Offer Rate (KIBOR).

Pakistan Microfinance Investment Company Limited
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i. Exposure to markup rate risk

At the reporting date the markup rate profile of the Company's markup bearing financial instruments was as follows:

	31 December 2018 Effective rate %	31 December 2017 Effective rate %	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Fixed rate instruments				
Financial assets	8 - 9	3.75 - 5.4	881,356,323	1,016,726,493
Variable rate instruments				
Financial assets	KIBOR +	KIBOR +	20,533,401,250	11,496,000,000
Financial liabilities	1 to 3.5	1 to 4.0	(15,389,638,230)	(6,700,000,000)
			5,143,763,020	4,796,000,000

ii. Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in markup rates at the reporting date would not effect profit or loss account.

iii. Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in markup rates at the reporting date would have increased / (decreased) markup income by Rs. 75.1 million (31 December 2017: Rs. 42.3 million) and increased / (decreased) markup expense by Rs. 120.1 million (31 December 2017: Rs. 20.7 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for previous year.

35.7.3 Other market price risk

The primary goal of the Company’s investment strategy is to maximize investment returns on surplus funds. The Company adopts a policy of ensuring to minimize its price risk by investing in securities having sound market performance.

Pakistan Microfinance Investment Company Limited
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35.8 Statutory minimum capital requirement and management of capital

Capital requirements applicable to the Company are set and regulated by the Securities and Exchange Commission of Pakistan ("SECP"). These requirements are put in place to ensure sufficient solvency margins. The Company manages its capital requirements by assessing its capital structure against the required level on a regular basis at the reporting date, the minimum equity requirement as per the NBFC Regulations for the non deposit taking NBFC is Rs. 100 million (31 December 2017: 100 million). As at 31 December 2018, the Company's total equity is Rs. 6,245 million (31 December 2017: Rs. 5,969 million).

The Company manages its capital structure and makes adjustments to it in light of the changes in regulatory and economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the return on capital to shareholders or issue new shares.

	31 December 2018	31 December 2017
35 NUMBER OF EMPLOYEES		
Number of employees at year end	**35**	30
Average number of employees	**33**	15

36 GENERAL

36.1 Following comparatives have been reclassified to conform to the presentation adopted in the current year:

	31 December 2017			
	Note	As previously reported	Reclassification	As reported
			(Rupees)	
Income - net	24	700,869,204	12,140,768	713,009,972
Other income	28	18,783,732	(12,140,768)	6,642,964
Deferred liabilities	18	7,257,880	(7,257,880)	-
Employee benefits	18	-	7,257,880	7,257,880

36.2 The Company has obtained sufficient fiduciary insurance for all of its employees as required under the NBFC Rules, 2003.

37 APPROVAL OF FINANCIAL STATEMENTS

37.1 These financial statements were authorized for issue by the Board of Directors of the Company in its meeting held on March 6, 2019.

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CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

PMIC

Pakistan Microfinance Investment Company Limited

PMIC

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