Pakistan Microfinance Investment Company Limited

Annual Report 2022

Passion for Progress

21st Floor, Ufone Tower,
55-C Main Jinnah Avenue Blue Area,
Islamabad 44000, Pakistan.

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Email: info@pmic.pk
Website: www.pmic.pk

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Company Information

BOARD OF DIRECTORS

Mr. Naved Abid Khan
Chairman

Dr. Tariq Hassan
Director

Mr. Nadir Gul Barech
Director

Ms. Christine Eberhard
Director

Mr. Navid Goraya
Director

Mr. Yasir Ashfaq
Chief Executive Officer, PMIC

BOARD AUDIT COMMITTEE

Mr. Navid Goraya
Chairman

Dr. Tariq Hassan
Director

Ms. Irum Sardar
Head of Internal Audit

BOARD RISK COMMITTEE

Ms. Christine Eberhard
Acting Chairman

Mr. Nadir Gul Barech
Member

Mr. Naved Abid Khan
Member

Mr. Rashid Imran
Secretary

BOARD HUMAN RESOURCE COMMITTEE

Mr. Naved Abid Khan
Chairman

Mr. Nadir Gul
Member

Dr. Tariq Hassan
Member

Ms. Zainab Kakar
Secretary

Mr. Safwat Khalid	Chief Financial Officer
Mr. Yasir Masud	Company Secretary, Head of Legal & Procurement
M/s. A.F Ferguson & Co.	External Auditors
M/s. HaiderMota & Co.	Legal Advisors

Registered Office

Pakistan Microfinance Company Limited

21st Floor, Ufone Tower, 55-C Main Jinnah Avenue Blue Area, Islamabad 44000, Pakistan.

TEL : (92-51) 8487820-45

FAX : (92-51) 8487820-45

WEBSITE : : http://www.pmic.pk/

Share Registrar

M/s. CDC Share Registrar Services Limited

CDC House, 99-B, Block-B, S.M.C.H.S, Main Shahra-e-Faisal, Karachi 74400

TEL : 0800 23275

FAX : (+92 21) 34326053

EMAIL : info@cdcsrsl.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 Limited
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

About PMIC

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

With a 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 through partner MFPs, PMIC has already impacted the lives of 769,521 Clients. PMIC actively contributes towards the formation of policies and strategies to enhance financial inclusion in the country while playing an active policy advocacy role.

Our work is guided by the following thematic areas:

Brand Statement

PASSION FOR PROGRESS

Vision
Mission
Statements

Our Vision

A Pakistani society where the underserved are empowered.

Our Mission

Provide financial and institutional services to strengthen and scale-up the 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 strong, professional and innovative organization

Build a robust financial ecosystem for the growth of sustainable microfinance in Pakistan

Core Values

Respect & Integrity

Transparency & Merit

Passion, Innovation & Creativity

Team Work

Inclusion

Shareholders' Profile

PMIC's shareholders comprise of Pakistan Poverty Alleviation Fund (PPAF), DFID through Karandaaz Pakistan, and KfW. These three entities have pooled 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 contributions from the sponsors, PMIC also has subordinate loans available from them, which reflects the sponsors' commitment to the institution's mission. The collective goals of the three sponsors as reflected in the development objectives for PMIC map onto key targets under some of the SDGs.

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, the 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) - KARANDAAZ PAKISTAN is a not-for-profit special purpose vehicle set up under Section 42 in August 2014. Karandaaz is the implementation partner of the Enterprise and Asset Growth Programme (EAGR) and Sustainable Energy and Economic Development (SEED) program of the UK's Foreign, Commonwealth & Development Office (FCDO). SEED is a grant funded by FCDO whereas EAGR is co-funded by FCDO and Bill & Melinda Gates Foundation on a grant basis.

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

Mr. Naved Abid Khan
Chairman

Ms. Christine Eberhard
Director

Dr. Tariq Hassan
Director

Mr. Navid Goraya
Director

Mr. Nadir Gul Barech
Director

Mr. Yasir Ashfaq
Chief Executive Officer, PMIC

Management Team

Safwat Khalid
Chief Financial Officer

Saqib Siddiqui
Head of Sector Development

Yasir Masud
Company Secretary, Head of Legal & Procurement

Asghar Memon
Head of Portfolio Management

Muhammad Rashid Imran
Chief Risk & Compliance Officer

Ms. Irum Sardar
Head of Internal Audit

Zainab Kakar
Head of Human Resources

Chairman's Message

Chairman
Mr. Naved Abid Khan

Valued Stakeholders,
I am pleased to present to you the Annual Report of the Pakistan Microfinance Investment Company (PMIC) for the year 2022. I am delighted to inform all our stakeholders, that for 6 consequent years, PMIC has emerged as an APEX in the microfinance sector of Pakistan. It has played an instrumental role in poverty alleviation in the country, primarily focusing on rural areas, women, and youth while remaining environmentally and socially sustainable. PMIC also continues to be an important corollary for the financing needs of the microfinance providers while assisting them in improving their compliance, risk management, and governance structures and encouraging them to design client-centric products.

The microfinance sector in Pakistan is still transitioning to overcome the social and economic challenges posed by COVID, and the devastating floods of 2022. These unprecedented events have severely affected the lives and livelihoods of millions of low-income households across the country. Additionally, the limited outreach of the microfinance sector, particularly in marginalized areas like rural Sindh, Balochistan, and Khyber Pakhtunkhwa, poses a significant strain on the exponential growth prospects of the microcredit industry. The dismal backdrop coupled with increasing inflationary pressure, will pose an even bigger challenge for the affectees to sustain themselves. Despite the roadblocks, we singularly remain committed to empower our clients to regain their growth momentum and establish self-sufficient livelihoods for themselves and their families, to end inter-generational poverty in Pakistan.

Despite the prevalent economic and environmental challenges, PMIC achieved its highest-ever profit before tax of PKR 958 million and witnessed a 37% (YoY) increase in its balance sheet, which now stands at PKR 42.6 billion.

Going forward, we will continue to diversify our product portfolio and expand our outreach to underserved areas and segments. We have also invested in digital transformation and innovation to enhance our operational efficiency and customer experience. Further, we have strengthened our risk management and governance frameworks to ensure better compliance and sustainability. We continue to partner with various stakeholders, including regulators, donors, investors, and peer institutions to advocate for a conducive policy environment and a vibrant microfinance ecosystem.

I would like to take this opportunity to thank our Board of Directors, Management Team, Staff, Shareholders, Lenders, Donors, Partners, and most importantly our Clients, for their unwavering support and trust in PMIC. I am confident that with their continued cooperation and guidance, we will be able to overcome the challenges ahead and achieve our vision of creating a financially inclusive Pakistan.

Sincerely,

Chairman of the Board of Directors
PMIC

CEO Message

Chief Executive Officer
Mr. Yasir Ashfaq

As I reflect on the past year, it gives me pleasure to mention that PMIC has continued to grow at a healthy rate and is successfully pursuing its mission of providing sustainable and responsible access to finance to underserved communities.

There is no doubt that the year 2022 has been another challenging year, across the globe and especially for Pakistan. The economic and political crisis followed by large-scale flooding resulted in hardship for everyone and more so for the people living at the bottom of the pyramid.

Inflationary pressure and rising interest rates impacted disposable incomes, the conditions were tough across the board, but the effects were more severe for our clients. Nevertheless, to lessen their miseries we continued our endeavors to provide financial services to more than 760,000 clients with a loan portfolio of PKR 28 billion deployed in more than 90 districts.

We believe that financial inclusion is key to achieving numerous Sustainable Development Goals by increasing employment and income opportunities for economically poor and underserved citizens and we are committed to this mission. It is an established fact that no country can achieve its development potential without mainstreaming women in economic activities. I am particularly pleased to inform you that 85% of our clients are female, reflecting PMIC's core tenet of gender equality in line with SDG 5. As we look ahead, we are confident that PMIC will continue to lead the charge in empowering women and creating new opportunities for those who need them the most.

In addition to that, we are also cognizant of the fact that there is large unemployment amongst youth, and we therefore tried to focus on it as well and 39% of our funding is provided to youth. Similarly, 62% of our funding is deployed in rural areas. Our programs in Renewable energy and education tried to fill the funding gaps in these sectors. Our PRIME initiative, which provides solar home solutions through microfinance, reached almost 28,000 clients.

Additionally, we launched the opening round of our Challenge Fund (CF), which focused on accelerating access to finance and increasing the income of smallholder farmers. The CF was awarded to help farmers get access to finance and improve their crop yield, ultimately helping them improve their incomes.

In 2022, PMIC secured several long-term financing facilities from commercial banks and the State Bank of Pakistan under the World Bank-supported Line of Credit facility, aggregating to a total of PKR 4.69Bn. This funding has enabled us to expand outreach and increase the impact of our initiatives. In terms of our commitment to social impact, we introduced the first-of-its-kind Social Impact and Performance Rating with PACRA, which will revolutionize the way microfinance providers focus on ESM impact.

Furthermore, we are pleased to report that we have achieved a total of 43% women as our team members and 45 training sessions were held in 2022 with a 40% female participation ratio. The training sessions were held at the best international and national institutions, and a mentorship session for MANCOM was also conducted.

At PMIC, we recognize the challenges that natural disasters can pose to microfinance clients, and organized a round table to assess the impact of floods on the microfinance sector. We initiated a PKR 25 million "Business Revival Initiative" for 1,000 flood-affected families in the districts of Sanghar and Dadu.

The year ahead is predicted to be another demanding year. The geopolitical risks have not subsided and the resultant inflation and hike in commodity prices are still prevailing. The growth in the global economy will be slow as domestically we will grow at a rate of around 0.5%. This would increase poverty and severely test the resilience of individuals and institutions alike. At the same time, the challenging conditions would drive us to reinvent ourselves. The successful would be those who do not endure alone but help the complete ecosystem of their sector and industry to sail through these troubled waters.

As we look ahead, we are excited about the opportunities to further scale up our mission, deepen our partnerships, and continue to make a positive impact on the lives of economically poor and underserved citizens of our country and help the whole ecosystem to survive.

I would like to conclude by extending gratitude to my team at PMIC and will take this opportunity to thank our borrowing institutions, Board of Directors, PPAF, Karandaaz Pakistan, FCDO, KfW, SBP, SECP, PMN, and the larger network of stakeholders for their continuous support to PMIC.

Yasir Ashfaq
Chief Executive Officer

Director's Report

The Board of Directors of Pakistan Microfinance Investment Company Limited (PMIC) is pleased to present the Annual Audited Financial Statements for the period ending December 31, 2022.

Economic Review

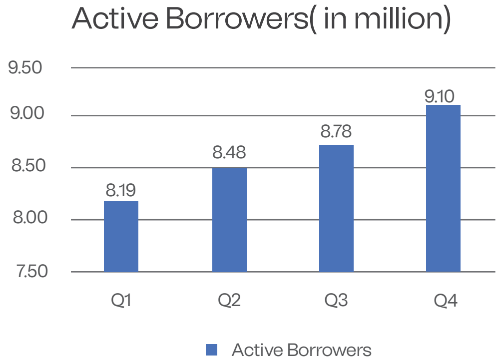
Pakistan showed a phenomenal GDP growth rate of 6% during the fiscal year 2022, however, the V-shaped recovery after covid was overshadowed by ballooning twin fiscal and current account deficits. Furthermore, the Russia-Ukraine conflict resulted in high international fuel and commodity prices resulting in a widening trade deficit and international debt repayments exerting immense pressure on foreign exchange reserves. This resulted in approximately 28% depreciation of the PKR against the US Dollar during FY 2022. Moreover, the country was severely affected by devastating floods, caused by climatic shifts resulting in the melting of glaciers coupled with unprecedented rainfall. The damage from the floods has been estimated by the International Finance Institutions (IFIs) and the UN at around $32.4 billion, which amounts to 11% of the country's GDP. Political instability further deteriorated the challenging economic situation.

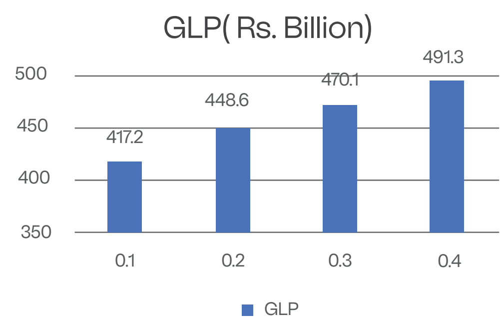
The Consumer Price Index (CPI) peaked at 24.5% on a year-on-year basis in December 2022. To manage the rising inflation, the State Bank of Pakistan (SBP) increased the monetary policy rate from 9.75% in January 2022 to 16.00% by December 2022. Moreover, imports were curbed through administrative measures which have resulted in bringing down the current account deficit during the first half of FY 2023 to $ 3.6 billion as compared to $ 9.1 billion from July 21 to December 21.

As the country struggled to secure external financing for FY 2023, Moody's had downgraded the Government of Pakistan's local and foreign currency issuer and senior unsecured debt ratings to Caa1 from B3 with an outlook to remain negative. Post-year-end 2022, the rating was further downgraded to Caa3 with a negative outlook.

Microfinance Sector Update

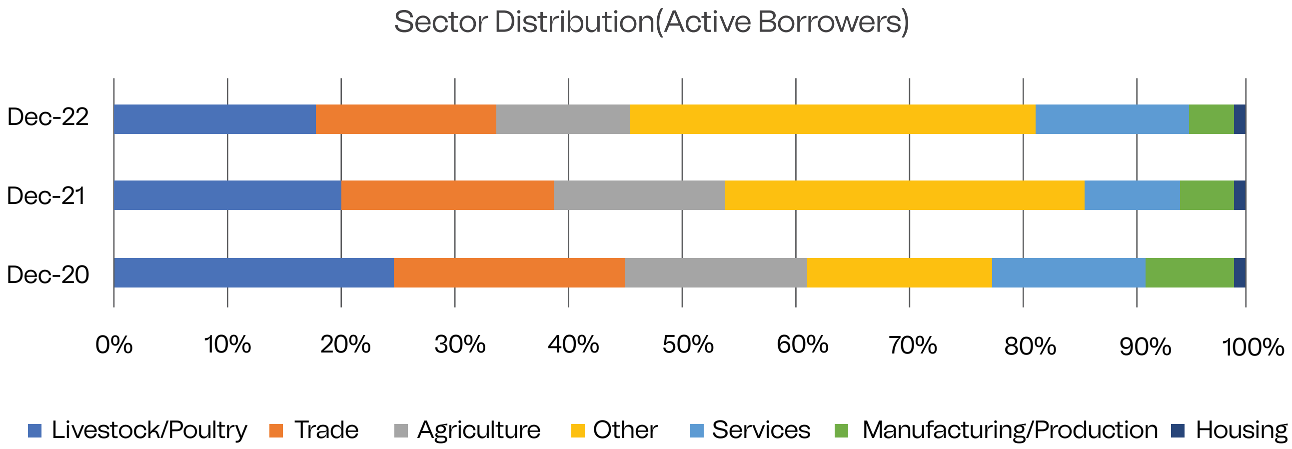
At year-end 2022, the Gross Loan Portfolio (GLP) of the sector was Rs. 491 billion which increased by 25% from the year-end 2021 GLP of Rs. 393 billion. This was the same as the average year-on-year increase of 25% in GLP over the previous 5 years (2016-2021). Active borrowers at year end-2022 stood at 9.1 million while the same was 8.1 million in 2021 showing a 12% increase; this reflected the recovery of the overall microfinance sector. For year-end 2022, the approximate total number of female active borrowers for the sector was 4.1 million as compared to approximately 3.6 million at the year-of end of 2021. In 2022, the sector showed a persistent recovery throughout 2022 with an increase in both active borrowers and GLP. However, most of this growth has been driven by nano loans. This is evident from the fact that the Microfinance Bank (MFB) peer group, which is the largest provider of nano loans and has become one of the contributors to the microfinance sector with a market share of 77.2% of GLP and 65.5% of active borrowers.





The penetration rate of the sector stood at 22.7% in 2022. However, there was little change in the penetration rate by region as KPK and Baluchistan continued to have low penetration as compared to Punjab and Sindh.

Broad features of the GLP have remained largely consistent over FY22. The proportion of borrowers from rural areas has declined throughout the year, comprising 47% of total microfinance borrowers at year-end. (FY21: 65%). Similarly, the sector-wise distribution of the portfolio also remained consistent with the past trends showing minor deviations.



One significant change is in the category of 'Other' borrowers which demonstrated a sizeable increase. The loan portfolio of female clients showed a 1% increase as they made up 45% of the total portfolio in FY22 as compared to 44% in FY21. In recent years, a decline in rural and women share has been observed, which can be attributed to a significant increase in nano loans by MFBs i.e. approx. 2.5 million clients.

Compared to 2021 the PAR-30 (Portfolio at Risk – 30 Days) for the sector has increased from 4.9% to 5.6%, owing to the devastating impact of the floods.

The profitability of the sector was under pressure in FY22 largely owing to the maturity of the deferred portfolio of MFBs and an increase in write-offs. Non-performing loan levels increased as compared to 2021. Overall, the industry continued to face issues related to liquidity and credit risk which may become more pronounced due to the prevailing macroeconomic environment of the country. For 2023 it is expected that growth will continue to remain slow as MFPs focus on consolidation along with managing their NPLs and liquidity.

PMIC Review

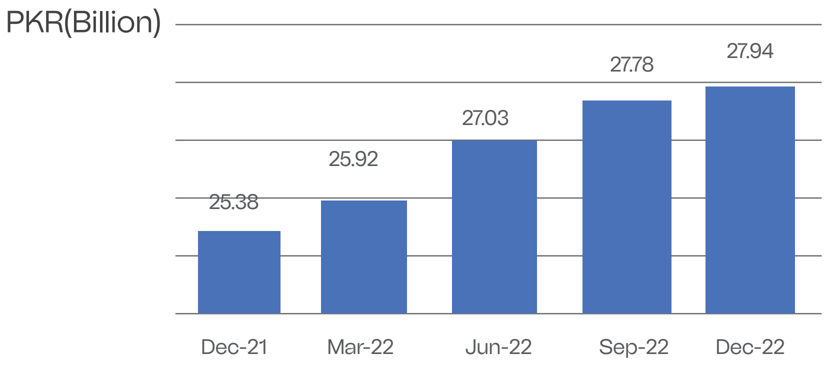
i. Operational and Financial Review

The financial results of PMIC are as follows:

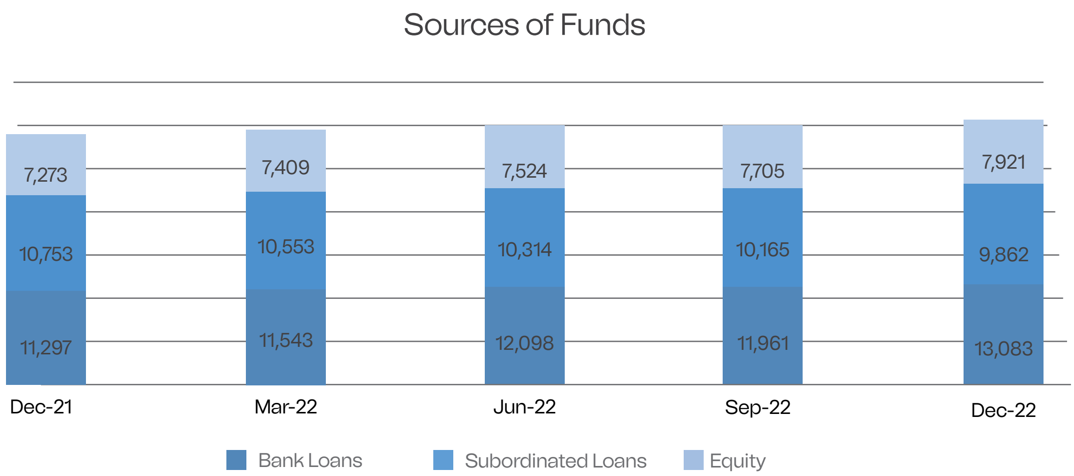
	2022 (Rupees)	2021 (Rupees)	Variation %
Income	**4,898,482,168**	**2,793,499,350**	**75%**
Finance cost	(3,407,694,876)	(1,774,718,215)	92%
	1,490,787,292	**1,018,781,135**	**46%**
Administrative expenses	(430,523,524)	(374,838,166)	15%
Profit before taxation	958,197,510	669,411,232	43%
Profit after taxation	**632,784,098**	**477,055,785**	**31%**
Earning per share	107.54	81.07	31%

The company's net markup income posted Rs. 1,491 million for the year 2022, as compared to Rs. 1,019 million in 2021. This was mainly attributable to the increase in loan volumes and re-pricing of financing rates due to higher interest rates. Net Profit after tax increased by 31% from last year and accordingly, the return on equity for the year was 8.2% for the year.

Gross financing trajectory increased during the year by approximately Rs. 2.56 billion and exposure as of December 31, 2022, stood at Rs. 27.94 billion with 23 financial institutions including four MFBs. The increased demand from the microfinance sector for credit lines has resulted in stable revenue growth and improvement in PMIC's annual net profit.



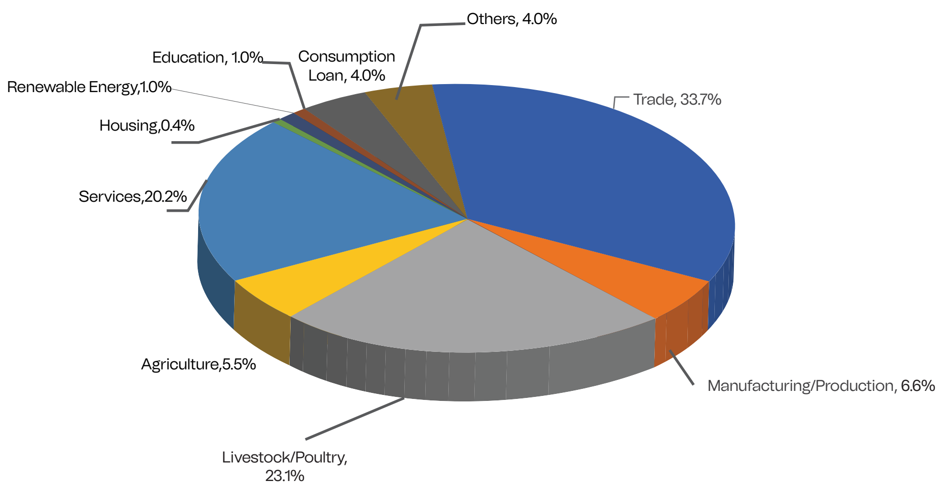
PMIC also raised funds from commercial banks during 2022, closing the year at Rs. 13.08 billion of commercial borrowings. Growth in 2022 was driven by commercial funding which increased by 16%. The company remains well capitalized at December 2022, with Rs. 7.92 billion equity and subordinated loans of Rs. 9.86 billion.



ii. Business and Outreach Review

During the year, PMIC loan originations to lending institutions have served approximately 767,650 microfinance clients out of which 85% were women. At the end of the year, 62% of the portfolio was rural, in line with PMIC's goals of serving people in underserved areas and improving development outcomes. PMIC's funding model is consistent with PMIC's vision of expanding employment and income opportunities, with nearly 34% of the portfolio dedicated to trade/manufacturing and manufacturing, with 29% exposure to agriculture and livestock. Lending to the service sector accounted for 20% at the end of the year, with 2.7% of the portfolio invested in education, renewable energy, housing, and consumer loans. PMIC will continue to focus lending on segments that create job opportunities and increase revenues for small businesses. In addition, PMIC plans to use loans to promote digital growth, provide access to renewable energy, and expand access to formal loans for underserved individuals, especially women.

Sectoral Distribution



PMIC aims to meet the growing needs of its clients by constantly developing innovative products that meet the growing funding needs of the microfinance sector. The majority of loans offered by PMIC through its borrowers are for individuals who operate micro, small, and medium businesses in 95 districts nationwide, with portfolios deployed across all provinces in the country.

PMIC has successfully rolled out a modified Institutional Rating System (IRS) that was designed in consultation with PACRA and Microfinanza (an Italian microfinance rating agency). This would help PMIC to evaluate the borrowers more objectively, improve various areas of operations of the borrowers based on assessment and contribute to maintaining portfolio quality. In line with the effort of the Government of Pakistan to convert the banking sector of the country fully Shariah-compliant, PMIC has also initiated the process of developing Islamic microfinance products for its borrowers. In this regard, an agreement with a Shariah Consultancy has been signed and it is expected to be ready for launch in 2023.

In addition to financial returns, PMIC also remained focused on social and environmental goals throughout the year. Priorities were outlined and progress was made to enhance the outreach to underserved economic groups and regions, including women, youth, rural areas, and areas of extreme poverty.

At the sector development front, in line with the blended finance approach, which creates a positive impact on the lives of clients it reaches out to through its borrowers; PMIC deploys part of its profits to augment its financing to MFPs with technical assistance and grants support to implement Microfinance Plus (MF Plus) projects.

The PMIC-KfW supported Renewable Energy Initiative - PRIME program continued to provide access to clean and green energy to communities living in off-grid and poor-grid areas of Pakistan with more than 10,000 systems sold during the year. The uptake of the program remained low because of a decrease in supply and the exponential increase in the prices of eligible products. To make the product affordable for clients, KfW has sanctioned a Euro 5 million grant as a subsidy, modalities of which are being worked upon.

PMIC launched the first round of its Challenge Fund (CF) focusing on the thematic area of accelerating access to finance and increasing the income of small farmers during the year 2022. The first round of the CF, with a total grant funding of PKR 25 million was awarded to M/S Growtech Services Limited. Through this grant, they shall focus on building the capacity of 1,000 small farmers through training, use of technology-based agricultural solutions, technical support, provision of quality agricultural inputs, access to finance, and in facilitation in the sale of their harvested yield to large buyers.

Pakistan faced devastating floods during the year 2022, causing unprecedented loss of lives and businesses/livelihood means for affected rural communities. PMIC played its part by launching a Business Revival Initiative (BRI) for 1,000 microfinance clients in two districts of Sindh who had lost their livelihoods during the disaster. PKR 25 million were to be disbursed as grants among the most vulnerable segments of society including women, people with disabilities, transgender, and other minorities to revive their income-generating activities.

Despite a challenging macroeconomic environment, exacerbated by floods in 2022, PMIC continued proactive engagement with commercial banks and procured adequate funding arrangements to meet its business requirements. PMIC also remained a key beneficiary of funding limit under the State Bank of Pakistan's "Line of Credit Facility" supported through World Bank's "Financial Inclusion and Infrastructure Project" (FIIP).

During the year, multilateral organizations showed eagerness to partner with PMIC to structure risk-sharing arrangements. This would enhance PMIC's appetite for taking additional credit exposure on smaller microfinance players but due to domestic economic conditions, they are currently reluctant to close any transaction.

The year also saw the launch of the region's first Social Impact Fund by National Investment Trust Limited (NITL), an initiative jointly conceptualized and structured by PMIC and NITL. The fund aims to act as an alternative funding channel through the Mutual Funds platform which would invest in financial instruments (PPTFCs/Commercial papers) of Microfinance players.

PMIC partnered with one of the largest global crowdfunding platforms to procure low-cost funding to support piloting its retail initiative. The funding would enable PMIC to target new geographies and business segments and assist in the diversification of the revenue stream.

Going forward, PMIC aims to spearhead capital market activity in the Microfinance Sector and widen its scope into Retail Lending. The focus will be working in its capacity as a Financial and Social Impact Advisor for the issuance of financial instruments of sector players.

From the overall risk faced by PMIC, the management is cognizant of the volatile economic condition that deteriorated during the year, where a significant increase in policy rate was experienced in December 2022 and touched 16%. A further increase is expected in the first half of the year 2023. The USD exchange rate peaked at PKR 240 (around PKR 225 in December 2022) and inflation reached an all-time high of around 25%. A downtrend in the macroeconomy coupled with high inflation and the effects of the 2022 floods have strained the growth of the sector. However, despite multiple factors combined, no significant change in the overall repayment behavior of the end clients was noticed till December 2022.

PMIC as an apex institution managed to maintain satisfactory recovery trends, and no noticeable delays in repayments from MFPs were noticed, despite multiple challenges faced by the sector in the year 2022, MFPs had not only sustained the portfolio levels but also managed to maintain operational sustainability. Post-2022 floods, lenders seemed slightly conservative, therefore, they have limited their financings to MFIs.

iii. Board Committees

The following Board Committees functioned actively during the year:

	Number of Meetings Held
Board Audit Committee (BAC)	04
Board Risk Committee (BRC)	05
Board Human Resource Committee (BHRC)	05

iv. 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)

v. Adequacy of Internal Financial Controls

The Board of Directors has established a system of sound internal financial controls to achieve effectiveness and efficiency in its operations which includes but is not limited to reliable financial reporting and compliance with applicable laws and regulations, and internal policy frameworks approved by the Board. The Company's independent Internal Audit function regularly reviews effectiveness of controls. Furthermore, the Board Risk & Audit Committees oversee the internal control framework and financial statements' effectiveness.

vi. 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 reflect the company's financial strength, strong shareholders' governance and management support.

vii. Pattern of Shareholding

The shareholding as at December 31, 2022, is as follows:

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

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

Name	Title
Mr. Naved Abid Khan	Chairman / Independent Director
Dr. Tariq Hassan	Independent Director
Mr. Nadir Gul	Director
Mr. Navid Yousaf Goraya	Director
Ms. Christine Eberhard	Director
Mr. Yasir Ashfaq	CEO/Director

Remuneration of directors for their term is determined / approved by the shareholders in the respective Annual General Meeting as per articles of association of the Company. No Director is involved in the determination of his / her own remuneration package. For information on the remuneration of Directors and CEO FY22, please refer to notes in the Financial Statements.

viii. Auditors

The Board of Directors has established a system of sound internal financial controls to achieve effectiveness and efficiency in its operations which includes but is not limited to reliable financial reporting and compliance with applicable laws and regulations, and internal policy frameworks approved by the Board. The Company's independent Internal Audit function regularly reviews effectiveness of controls. Furthermore, the Board Risk & Audit Committees oversee the internal control framework and financial statements' effectiveness.

The present auditors, M/s A. F. Ferguson & Co. Chartered Accountants retire and being eligible, have offered them for reappointment. The Board of Directors, on the recommendation of the Audit Committee, recommended the appointment of M/s A. F. Ferguson & Co. Chartered Accountants, as auditors of the Company for the year ending December 31, 2023.

Outlook

Pakistan's business landscape is uncertain amidst a global recessionary outlook and domestic structural reforms. Due to devastating floods, policy tightening, and critical efforts to tackle sizable fiscal and external imbalances, Pakistan's economy is forecasted to slow in fiscal year 2023 (ending 30 June 2023). Going forward, the economic outlook will be shaped largely by the restoration of political stability and the continued implementation of reforms under the revived International Monetary Fund program to stabilize the economy and restore fiscal and external buffers.

The World Bank has projected inflation to remain around 23% in FY23, reflecting flood-related disruptions to the supply of food and other goods, higher energy prices, and difficult external conditions, including tighter global monetary conditions. The growth of microfinance sector will be also slow and cautious.

Acknowledgement

The Board of Directors would like to take this opportunity to expres gratitude to the shareholders (PPAF, Karandaaz, KfW), Ministry of Finance, Securities and Exchange Commission of Pakistan, State Bank of Pakistan, our lenders, borrowers and microfinance clients for their support, inspiration and trust. We would also like to acknowledge the efforts and commitment of PMIC staff, who have contributed significantly toward the company's success.

For and on behalf of the Board:

Director	Chief Executive Officer
Date:	Date:
Place:	Place:

“Empowering Communities For A BrighterTomorrow”

Wholesale Lending and Portfolio Management

Wholesale Lending and Portfolio Management

PMIC has established itself as the only premier institution dedicated to wholesale microfinance sector to making a positive social and economic impact on microfinance clients and ecosystem. The wholesale lending business is conducted through lending to MFIs and MFBs regulated by SECP and SBP respectively.

INDICATORS TO TRACK	2022 UPDATE
PMIC Exposure	PKR 27.96 billion
No. of Borrowers Served	26

PMIC delivered strong results in terms of maintaining portfolio quality during challenging circumstances which reflect the underlying strength of PMIC's vision to promote financial inclusion across the country. During the year 2022, three new institutions/MFPs added to the PMIC portfolio. Moreover, PMIC aims to address the growing needs of clients by constantly developing innovative products that cater to the increasing funding requirements of the microfinance sector. The majority of loans offered by PMIC borrowers are targeted towards individuals, running micro, small, and medium-sized enterprises with penetration across all provinces in the country.

PMIC Islamic Finance Operations

Islamic microfinance has the potential and acceptance in the country, but a lack of adequate financing and innovative products are impeding its potential for growth. In order to catalyze growth in the microfinance sector, serving the underserved areas and diversifying its product base, PMIC is committed to providing institutional support to the microfinance industry and developing parallel financing products based on Islamic Shariah principles. PMIC has also initiated the process of developing Islamic microfinance products for borrowers for end clients. In this regard, an agreement has been signed with Shariah's consultancy firm, and the new product is expected to launch during the year 2023.

Institutional Rating System

PMIC reviews its institutional rating system tool almost every two years to make it more robust and cater to the needs of the changing microfinance environment. After review, PMIC has successfully implemented the latest Institutional Rating System (IRS) developed in consultation with PACRA and Microfinanza (Italian microfinance rating agency). This allows PMIC to evaluate, assess or perform due diligence on borrowers and identify various areas to improve borrower operations based on the evaluation and maintain portfolio quality more objectively.

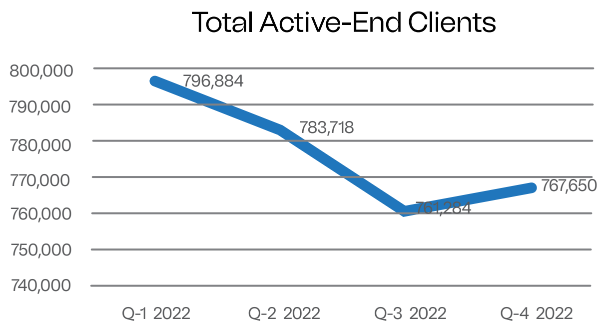
Priority lending for underserved economic groups and regions

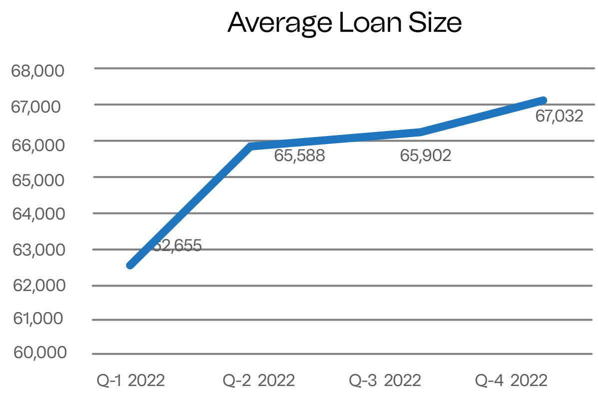
At the end of December 2022, PMIC, through its borrower organizations, had reached out to around 767,650 clients, with presence in 90 districts out of which 20 districts fall under Extreme Poverty Zones.

INDICATORS TO TRACK	2022 UPDATE
Deployment of PMIC funding through its borrowers in rural areas	62%
Proportion of women clients	85%
Proportion of youth clients	39%
Deployment in Extreme Poverty Zones	PKR 3.5 billion

Microfinance Portfolio Characteristics

The unprecedented floods have affected not only the other sectors but the microfinance industry in the country too. The borrowers were affected through the dispersion of their clients which ultimately affected the cashflows. However, through joint efforts of PMIC and MF institutions, along with regulators, PMIC borrowers started reviving, and portfolio quality improved with the business activity gradually returning to normal. Moreover, the year 2022 was a time of consolidation as MFIs were looking to strengthen their business and realigned their business plans for growth and expansion, after the effects of Covid-19. PMIC has played a key role in extending support to MF institutions by actively engaging with borrowers and the MF sector. A snapshot of PMIC's active customers for 2022 is provided. PMIC plans to extend its reach to more borrowers offering unique products and services to end clients, especially in underserved areas through its business in the coming years. Moreover, the average loan sizes of PMIC-funded loans offered through its borrowers have consistently increased over the years which depicts the catering to the growing needs of microfinance clients. The trend of average loan size is graphed below:



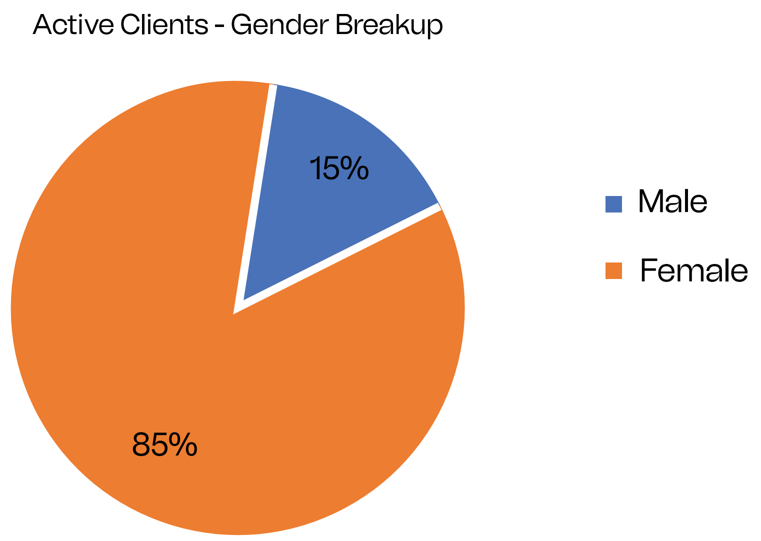


PMIC's Efforts to Counter Flood Impacts

The unexampled flooding has impacted PMIC borrowers which are exclusively operational in Sindh and southern Punjab. To support its borrowers and help them in reviving from the devastating stage, PMIC teams visited the flood-affected areas during and after the floods to assess portfolio quality and the changing situation in the field. PMIC has been able to address the impact with borrowers and has also offered a Business Revival Program from its own profits, where 1,000 families have been provided business revival grants to re-establish their businesses in the two most devastating flood-affected districts in Sindh. The grant aimed to serve the most effected clients, especially women, minorities, and youth clients. PMIC staff also conducted regular supervision and monitoring field visits of its borrowers to ascertain the situation at the field level. The business team visited more than 700 clients and 74 branches of the borrowers, as compared to 665 clients and 78 branches last year.

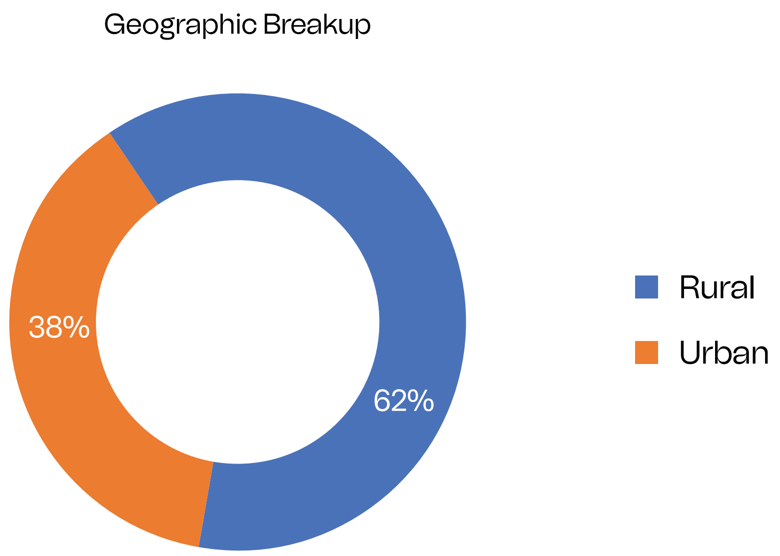
Women Empowerment

Women empowerment continues to be one of the fundamental goals of PMIC, aiming to improve the socio-economic status of women. PMIC recognizes that increasing the accessibility of microfinance services to women has the potential to significantly reduce gender inequality. PMIC is therefore committed to gender equality and financial inclusion, especially for women. As of December 2022, the PMIC portfolio has over 85% of women clients. This is mainly due to NBMFI's majority in the PMIC portfolio, which has a high proportion of female clients. Over the coming years, PMIC will continue to focus on female clients.



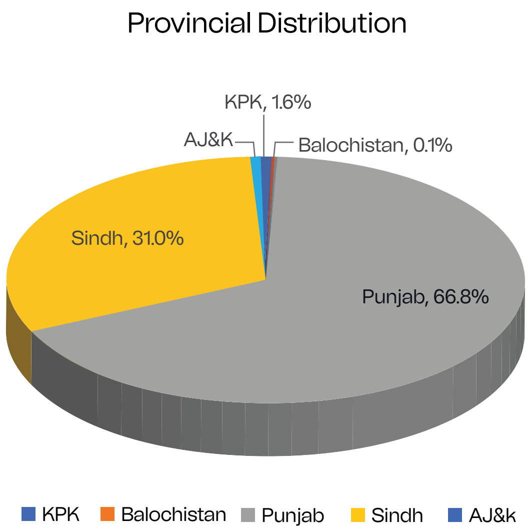
Geographic Mix

Given the prevalence of poverty in rural areas of the country compared to urban areas, one of PMIC's core priorities is to enhance portfolio concentration in rural Pakistan. By December 2022, PMIC had deployed 62% of its portfolio in rural areas and will continue to maximize its efforts to reach out to underdeveloped and marginalized communities, while urban areas will remain under focus as well.



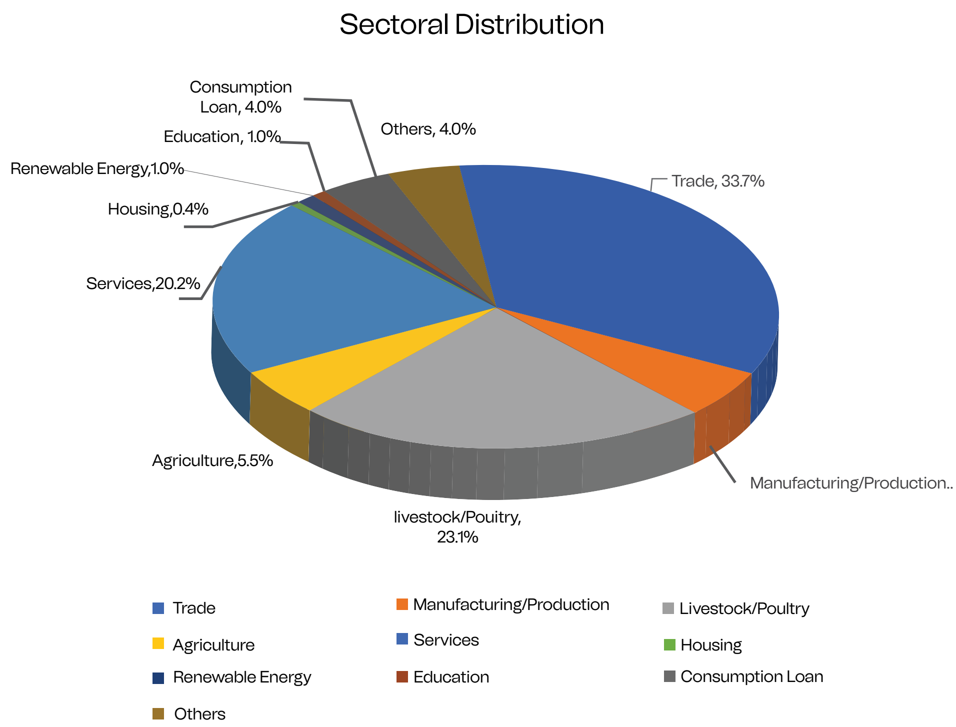
Provincial Distribution

Microfinance portfolio distribution is predominant in Punjab (67%) and Sindh (31%). High poverty rates and low development indicators point to the need for appropriate interventions in Balochistan and the KPK. As PMIC focuses on both gender and geographic diversity, it will continue to explore avenues for new MFIs/MFBs and will help in the penetration of existing MFIs/MFBs in less accessed districts/provinces.



Sectoral Distribution

PMIC's end-clients are engaged in various income-generating activities. These activities are clubbed into general categories such as agriculture, livestock, enterprise or retail shops, services, and a few other categories. However, owing to the MF Plus interventions and product innovations, PMIC has been able to make inroads into a few other sectors such as Renewable Energy and Education, which aims to target the unmet demand. The sectoral distribution of the portfolio as of year-end is provided below.



Client's
Success Story

SHAZIA BIBI

Shazia Bibi grew up in a conservative Pathan household with financial struggles due to strict social norms that prevented her mother from working. Despite her family's disapproval, Shazia pursued her dream of owning a beauty salon and learned beautician techniques without formal training.

She used her savings and convinced her husband to invest in her business, and eventually took out loans from KASHF, a borrower of PMIC, to improve and expand her salon. Through hard work and an innovative business approach, Shazia has increased her household income from PKR 6,000 to PKR 50,000, and has been able to contribute to household expenses and her children's school fees.

Shazia Bibi has also become a source of inspiration for young girls in her community, teaching her sister and fifty other girls how to become successful beauticians. Despite facing obstacles such as low education and work experience, Shazia's determination and accessible finance from KASHF and PMIC have enabled her to build a better life for herself and her family.

Microfinance Plus

PMIC uses a blended finance approach to augment its financing with Technical Assistance support as it believes that financial services alone cannot help the communities in uplifting their economic well-being. The clients require access to information and awareness to learn new techniques for increasing their livelihood means, capacity-building training to improve their skill set, and access to markets so that they could purchase inputs at cost-effective prices and sell their resultant products at good profit margins. PMIC calls this approach 'Microfinance Plus'. As a triple-bottom-line company, PMIC has designed and implemented microfinance plus initiatives that focus on integrating financial investments with innovation, value creation, risk mitigation, and capacity enhancement for the end borrowers and the microfinance providers. The initiatives have helped to generate greater social, environmental, and economic impact and cater to 7 out of the 15 Sustainable Development Goals - SDGs. Microfinance Plus interventions are designed holistically to consider the effect on the entire ecosystem i.e. the market, the institutions, and the microfinance clients.

During 2022, PMIC implemented 5 MF Plus projects including PMIC KfW Renewable Energy Initiative through Microfinance (PRIME), Challenge fund, Livestock Micro Insurance, Education Finance, and Business Revival Initiative.

The PRIME program continued to provide access to clean and green energy to communities living in off-grid and poor-grid areas of Pakistan. The program had faced numerous challenges which greatly hiked the price of Solar Home Solutions - SHS in Pakistan. In order to address the affordability challenge, Germany's Federal Ministry for Economic Cooperation and Development (BMZ) sanctioned Euro 5 Million Grant Subsidy for increasing the sale of SHS to poor communities under the PRIME program. Despite the above-mentioned challenges, PMIC – in collaboration with its borrowers – was able to sell around 29,000 systems as of December 2022 with a total financing outlay of PKR 86 Million. PMIC had also hired the Agriculture Finance Consultants – AFC, which is the project implementation consultant and will be assisting PMIC in the deployment of the PRIME program.

PMIC launched the 1st round of its Challenge Fund - CF focusing on the thematic area of Accelerating Access to Finance and Increasing Income of Small Farmers during the year 2022. The 1st round CF – with total grant funding of PKR 25 M - was awarded to M/S Growtech services limited which focused on building the capacity of small farmers through training, use of technology-based agri solutions, technical support, provision of quality agri inputs, access to finance and facilitation in the sale of harvested yield to large buyers. PMIC had also launched the 2nd round challenge fund on Digital Lending, however, due to floods in 2022 it's execution was halted and the allocation of PKR 25 M was diverted towards the Business Revival Initiative for flood-affected communities. Towards the end of the year, PMIC again launched the 2nd round CF focusing on designing and pilot testing of a

Digital Credit Scoring Model – award of contract to be made in 1st quarter of 2023.

PMIC continued working on the Livestock Micro Insurance initiative, where it is pilot testing a technology-based insurance product by the name TAGMU. The initiative is being deployed in collaboration with Safco Microfinance Company Limited SMCL and Thardeep Microfinance Foundation – TMF, while Asia Insurance Company – AIC is the insurance provider. Quite a few challenges were faced as this is the first time a technology-based livestock insurance product is being deployed. Over 3,500 animals were insured under the pilot project.

PMIC also launched its Education Finance program, in collaboration with Opportunity International - OI. The initiative involves 70% grant funding contribution from OI and 30% from PMIC. The project involves the provision of access to finance for 150 low-cost private schools along with 3 yearlong training for teachers – for imparting quality education to students – and school owners for improving the overall working of schools.

Pakistan faced devastating floods during the year 2022, causing unprecedented loss of lives and businesses/livelihood means for affected rural communities. PMIC played its part by launching a Business Revival Initiative (BRI) – targeting the worst-hit flood-affected clients of TMF and SMCL in Sindh. The BRI initiative targeted 1,000 clients with livelihoods severely affected by floods and households which did not have any other source of income. Further, 60% of all targeted clients included women, and 15% were clients with disabilities, transgenders, and minorities. Total grant funding of PKR 25 M was provided to 1,000 clients.

Client's
Success Story

RUBINA BIBI

Rubina Bibi from Multan, a client of PMIC's borrower KASHF is a micro-entrepreneur who has used her passion for cooking to create a lunchbox delivery and frozen food business in partnership with her husband, which not only sustains their household but also gives Rubina a continuous sense of personal accomplishment.

Despite facing patriarchal attitudes from her husband, who believed that women's place was inside the home, Rubina convinced him to allow her to start a small home-based frozen food business with a loan from KASHF.

Rubina started by making frozen food items like samosas, rolls, cutlets, and kebabs and later expanded her business by testing the market for lunch boxes for office employees. Her husband started getting involved and now manages the deliveries, undertakes procurement of all groceries, and helps Rubina in the food preparation.

Rubina has also diversified her income by setting up an additional business in cloth trading, which has an edge over others due to her husband's experience of running a boutique and shop. The income from the two businesses has allowed the family to regain financial security and afford a better life.

Risk Management

PMIC has a well-established risk governance structure, where the overall responsibility of risk management rests with PMIC's Board of Directors. Within the risk governance structure, the Board Risk Committee (BRC), Management Risk Committee (MRC), and Asset & Liability Committee (ALCO) exist to oversee Credit Risk, Market Risk, Liquidity Risk, Operational Risk, and Compliance Risk. The policy framework also includes comprehensive documents namely, Risk Appetite Framework, Risk Policy covering credit risk, market & liquidity risk, and operational risk, Environmental & Social Risk Management Guidelines, and AML/CFT Policy.

As part of the credit risk management function, PMIC uses a risk rating system developed by renowned rating agencies i.e., PACRA and Microfinanza (an Italian microfinance rating agency), which performs risk profiling of borrowers by ascribing ratings to them across specific dimensions of ownership, governance, management, operation & controls, social impact, business & financial risks. At post disbursement level, PMIC's exposures are regularly monitored against internal and regulatory limits besides multi-layered engagement with borrowers beyond the traditional lending process.

PMIC is closely engaged with not only the Board of Directors and management of borrowing institutions but also their end clients. Field engagements include visits to head offices and branches in addition to clients' localities. The independent assessment through these field visits provides direct insight into the needs of MFPs and that of their clients, their respective behaviors, practices, and feedback, which in turn equips them better to identify, assess and manage trends that pose threats to PMIC, its borrowers and the microfinance industry as a whole.

In addition to the above, portfolio and financial reports are also periodically solicited from borrowers which serve as a steppingstone for Credit risk profiling. Major identified risks are internally discussed at MRC and BRC.

The company manages liquidity risks under its policy to ensure fulfillment of all financial obligations in a timely manner with no or minimal associated costs. The Asset-Liability Committee (ALCO) proactively guides on liquidity, Balance Sheet structure, scheduled disbursements, and mismatches of financial obligations and sources of funds while managing market risk arising out of policy and interest rate changes through appropriate limits.

PMIC's Environment and Social Risk Management Policy envisages an adequate response by the Company and its borrowers to the challenges associated with environmental and social risks arising from the Microfinance business. The document also puts forth a comprehensive exclusion list of activities that PMIC and its borrowers must not indulge in.

To keep itself abreast of the latest regulatory guidelines, the company also has recently updated its AML/CFT policy. As per the policy mandate, PMIC currently deals with institutional clients only and carries out all transactions through banking channels. Further key personnel in management and boards of its borrowing institutions are actively screened against the notified list of proscribed persons. PMIC also conducts independent verification of the identity of its partners' management and the Board of Directors through NADRA Verisys.

All these risks are regularly evaluated, reported, and discussed at Management and board levels. Also, the devised mitigants pertaining to partner organizations are prescribed to them, which eventually help build the risk management capacity of PMIC borrowers in particular and the industry as a whole. Considerable importance is given to the fact that all relevant policy & risk frameworks and implementation tools are thoroughly developed and implemented by PMIC borrowers to safeguard the interest of their own institutions and that of the industry against all threats and key risks.

After COVID-19, the economic conditions of the country began to weaken further in early 2022, where a significant increase in policy rate reaching 16%, the USD exchange rate peaked at PKR 240, and inflation reached an all-time high of around 25%. A slowdown in the macro economy, specifically high inflation coupled with the effects of the 2022 floods has strained the growth of the sector and overall delinquency.

As Pakistan's microfinance sector passes through a recovery phase from COVID and the floods, PMIC continues to strive for adopting robust risk management frameworks that will provide stability to not only itself but to the industry as well.

Floods and COVID-related delinquency and other challenges have unearthed the need for sectoral and geographic diversification of the microfinance sector which can only be materialized through expansion into untapped markets, the introduction of new innovative financial products, investment in low-to-no-penetrated areas and digitization. Being considered the apex entity of the sector and assuming the associated responsibility, PMIC will continue to work on these fronts and keep encouraging its borrowing institutions in the coming years.

Client's
Success Story

FARZANA BIBI

Farzana Kausar a 38-year-old mother of 03 daughters from Ada Thingy, Vehari has become a success in home-based beauty salon services in her village. Her husband worked as a labourer in a flour mill and earns 25,000 per month and they live in a separate family system.

Farzana already had the skills of a beautician and she wanted to support her husband so she could do more for her daughters. Hence, she decided to turn her hobby into a small business and she approached AGAHE Pakistan, one of the borrowers of PMIC for a 40,000Rs loan to set up her parlour. This helped her set up a small saloon in her house and buy the essentials required. Once this setup started working successfully, she took another loan of 50,000Rs and later 100,000Rs from AGAHE and expanded her salon.

Her hard work paid off and Farzana is currently earning around Rs. 25,000 to 30,000 per month from her beauty services. She wishes to teach this skill to all three daughters so that they would also earn income on their behalf in the future. Her husband supports her business and motivates her to expand it further enabling the family to ensure sustainable financial stability.

Legal & Procurement

In order to comply with best practices for not only becoming digitized but to be an environmentally friendly business, the Corporate Secretariat Department onboarded a software provider Pervasent Inc. to supply its services for Board Papers to digitize the PMIC's Board and its processes. Pervasent Inc. provides a Board Portal with a variety of user-friendly features along with the greatest levels of security while allowing PMIC to maintain utmost confidentiality by keeping the data on its own servers. IPADs and IPENCILs were purchased and handed to PMICs Board members and Senior Management in order to allow for a seamless and modern user experience. PMIC has completed this transition and the department takes pride in doing its part for the environment by reducing the organization's carbon footprint.

In order to give effect to a new initiative and to expand on its goal to enhance financial inclusion PMIC had been actively exploring to introduce an Islamic Finance product to its existing as well as new clients. To assist, the Procurement Department has successfully onboarded the services of "Qazi Shariah Consultancy" at an optimally negotiated cost for not product development, but for consultancy on Profit and Loss distribution and Pool Management Framework as compliant per Sharia principles.

Under the advice of the Board of Directors, the Corporate Secretariat Department arranged a talk session by Mr. Sakib Sherani, a prominent and well-regarded economist, to provide an in-depth analysis of the Current Economic Position of Pakistan and its future Outlook. Mr. Sherani provided insights on the current economic situation of Pakistan and the outlook for the next couple of years for the benefit and consumption of PMIC's Board Members and Senior Management. PMIC benefited from this exercise in formulating budgets and business plans for the year ahead.

In order to enhance operational efficiency PMIC implemented an ERP system (SAP) and the Procurement Department takes pride in being the very first department to successfully transition to digital operations through SAP since the system went live in 2022 including the provision of additional support in facilitating payments through SAP for all departments.

In order to further support the profitability of the Company through leveraging from an arbitrage opportunity, which suddenly arose at the very end of 2022; the Legal and Corporate Secretarial Department assisted in obtaining not only the assent of the Board of Directors for a PKR 10B Money Market Line with focused and successive follow up but also by turning around the vetted and reviewed legal documentation of the financing facility, in record time, resulting in the company timely benefiting from the one-off arbitrage.

Client's
Success Story

SHABANA SHAHID

Shabana, a skilled maker of wooden stamps for fabric printing, faced significant challenges after her husband became a drug addict and stopped working. As a mother of three, the situation was difficult for Shabana, and her business was faltering. But with the help of the CSC Women Empowerment Program and a loan from PMIC, Shabana was able to stabilize her business and get things back on track.

With the loan, Shabana was able to invest in equipment such as wood-cutting machines, increasing her working capacity and allowing her to take on more orders. Her profits grew, allowing her to afford an education for her children and meet their daily demands. With the stabilization of her business, Shabana was even able to start her husband's treatment, which he is now receiving under care and supervision at a rehabilitation center.

Through her hard work and determination, Shabana has overcome significant challenges and achieved success. PMIC is proud to have played a role in Shabana's journey, and we remain committed to empowering women like her through financial inclusion.

Corporate Finance and Investment Banking

The year 2022 was one of the most challenging years for Pakistan. Global supply chain disruptions in the aftermath of the Ukraine-Russia War & Covid-19 pandemic, political turmoil, and floods in September 2022 combined to put Pakistan in a severe economic crisis. Despite the challenges, PMIC continued its focus on structuring initiatives that facilitate and channel incremental growth capital toward the microfinance sector.

Debt Management and Capital Markets

During 2022, PMIC proactively engaged with the stakeholders especially commercial banks and multilateral entities and kept them abreast with fast-changing developments in the microfinance sector. Commercial banks showed confidence in PMIC's financial strength and extended long-term credit facilities to support the liquidity constraints of Microfinance institutions. PMIC availed term loan/running finance facilities amounting to Rs 4,689.5 Mn.

During the year, the State Bank of Pakistan disbursed Rs 689.5 Mn out of Rs 1,535.93 Mn "Line of Credit" Facility to PMIC under World Bank's "Financial Inclusion and Infrastructure Project" (FIIP). The repayment guarantee for the utilization of the LOC facility was provided by Bank Alfalah.

Risk Sharing Arrangement with Multilateral Agencies

In light of the perceived risk of the sector which escalated amid the volatile macroeconomic situation in the country, PMIC put more weightage on prudently managing the portfolio risk. In this regard, a risk-sharing arrangement was explored with Multilateral Agencies including Asian Development Bank, British International Investment, and U.S. International Development Finance Corporation during the year that would allow PMIC to manage its concentration & portfolio risk and channel additional growth capital to MFIs without enhancing credit risk on PMIC's own Balance Sheet.

Social Impact Fund

In May 2022, National Investment Trust Limited (NITL) launched the region's first Social Impact Fund (NIT-SIF), an initiative jointly structured by NITL and PMIC. NIT-SIF is a "perpetual" and "open-end" sector-specific Mutual Fund that aims to mobilize large-scale private sector capital from prospective institutional and retail investors to invest in capital market instruments of high-impact Microfinance players.
PMIC along with National Bank and NIT participated with Rs 200 Mn each whereas the Bank of Punjab participated with Rs 70 Mn in the Fund. Retail Investors contributed Rs 47 Mn to take the fund size to Rs 717 Mn at IPO. As of December 2022, NIT-SIF's fund size increased to Rs 1.03 Bn (44% increase since IPO) and provided a 16.34% return since inception, outperforming the 6-month KIBOR benchmark return of 15.90%. Credit Enhancement Facility for Microfinance Providers.

PMIC and Bank of Punjab finalized an arrangement that would utilize PMIC's Credit Enhancement Facility ("CEF") as partial collateral for the Bank of Punjab's incremental Financing to microfinance institutions (MFIs). CEF aims at reducing the credit risk to banks/DFIs entering into lending arrangements with financially and socially sustainable MFIs, especially in the current challenging environment where sources of liquidity remain limited.

International Funding for PMIC's Retail Initiative

During the year, PMIC negotiated a term loan facility with one of the largest global crowdfunding platforms to support and pilot its retail initiative. The funding will support PMIC to target new geographies and business segments and assist in the diversification of revenue stream.

Way Forward

Going forward, PMIC plans to structure innovative financing solutions especially leveraging the capital market platform for the sector. The focus will be working in its capacity as a Financial and Social Impact Advisor for the issuance of financial instruments of sector players to launch social initiative-based thematic/impact bonds.

Client's
Success Story

MAJEEDA BIBI

Majeeda Bibi, from Sukkur, is an ace producer of rillis and a hardnosed businesswoman, who exclusively sells her rillis in Karachi in order to get better prices for her exquisitely handcrafted pieces. The art of rilli making and the intricate patterns that characterize the craft have been passed down inter-generationally from mother to daughter and date back many centuries.

Majeeda Bibi, like others in the neighborhood, started making rillis at an early age. First, as a piece rate worker for others as she did not have the finances to purchase raw materials, and then later at a small scale when she was able to save some funds to start her own production. After a few years of gaining experience in producing and selling her own rillis, she approached KASHF, a borrower of PMIC for a loan.

The KASHF staff were able to quickly analyze her business potential and provided her with a loan to grow her business. From the loan, Majeeda Bibi bought raw materials for the rillis from the close by town of Shikarpur, and this how her business began. Today, she is able to earn a sustainable income for her family.

Our People and Culture

1. Employee Engagement Survey

An Employee Engagement Survey was conducted and completed. Our CEO understands the level of passion PMIC's workforce has for serving the underserved hence PMIC is always a step ahead of its competition. This is one of the key factors for PMIC's success. A 100% response rate was received from the employees for the employee engagement survey. PMIC's HR department strives to create an organizational culture that will be sought after by everyone who meets PMIC, and it will be a place where employees are proud to work. Defining this vision and achieving it takes time and effort which we as a team are committed to do.

2. Exposure visits for Head of HR

The Head of HR visited Kashf and RCDP branches in Sheikhupura and held meetings with their Senior Management in Lahore. This visit was specifically planned to help finalize PMIC strategy preparation which needed input from the Institutions regarding PMIC's new business ideas. Branch visits included meetings with the Senior Management, Credit officers, and clients/borrowers. The Head of HR had a detailed discussion with branch managers in both organizations and understood the grading, salary, and administrative structures.

It was observed that both organizations have many differences while working on the same business model within the same vicinity. The administrative aspect was very interesting as most branches offered a residential facility for Credit Officers who were working in that branch and belonged to far-flung areas.

3. CEO Club

After completion of the Annual Appraisal, Top 5 employees were identified and recognized by forming the CEO Club as per PMIC Reward and Recognition Framework. They will be working with the CEO and Head of HR for PMIC's culture development and business initiatives. During the year CEO Club members celebrated PMIC values with various initiatives including Ted talks and other planned activities.

4. Awareness Session on Employee Handbook, HR Policies and Code of Conduct

As part of the Annual exercise and best practice, HR Team conducted an Awareness Session regarding the updated HR Policies of 2021, which are effective from 1st Jan 2022 along with a refresher of the Code of Conduct. Both online and in-person sessions in Urdu and English were conducted for better comprehension of employees.

5. Women's Day

PMIC team observed Women's Day to celebrate its female workforce representation of 33% along with its female clients. PMIC management held a town hall with the PMIC team to appreciate and recognize the importance of females and their contribution not only towards PMIC but towards economic activity. Later, PMIC management had lunch with PMIC's female workforce.

Furthermore, in an effort to appreciate our women clients on the field, PMIC also sent a small token of appreciation to those who have shown extraordinary resilience during the tough COVID years and have worked hard for their families and society.

6. PMIC Team Away Day

PMIC team went out for team building activities and a day out for team bonding to Mabali island. The team participated in various water sports and on-ground activities followed by lunch. The day was designed to recognize team effort and have a relaxing day together. Birthdays of the employees in the first quarter of the year, 2022, Jan- March were also celebrated.

7. Online Student Session with Head of HR

The Head of HR conducted an online student session with Students of Monash University- Students of Monash University, Malaysia reached out to PMIC for their project on organizational behavior. The Head of Human Resources briefed the students regarding the impact of the Covid-19 pandemic on changes in the corporate culture and how it has pushed the corporate world towards agility and resilience. The interaction was insightful for the students and helped them understand how PMIC has handled and taken responsibility for its team and business employees during the impacted time.

8. Quarterly Meeting

On May 13th first quarterly meeting was held, and each department presented department KPIs and updates to the team. A fruitful discussion was held to discuss departmental projects and expectations for the coming months.

HR also arranged our Eid lunch for the team and the birthdays of employees were also celebrated.

9. PMIC HR Re-initiated International Trainings for the Employee

5 employees were sent to Dubai for South Asian Financial Inclusion training(S-FIT) hosted by South Asia microfinance network.

10. Business Process Review Awareness Session

The Business Process Review Awareness session series was launched on 16th June 2022. These sessions were designed and executed after the employee engagement survey results. Each department held a session for the PMIC team to generate awareness regarding internal processes, with Q/A at the end of the session.

11. Registered with CIMA as training Partner

PMIC has been registered with CIMA as a training partner organization. This will help PMIC become the employer of choice and this membership will be providing added benefits for employee training.

12. Managers as Mentors

Sensing Session with Kamran Rizvi: PMIC is committed to developing its workforce. Mentorship sessions for MANCOM commenced in June 2022. These sessions are aimed to develop mentors for their teams. MANCOM is being trained to become effective mentors by developing relationships with the team to share their experience, knowledge, and connections effectively. Developing mentors is essential for PMIC as the major benefit is that MANCOM will lead the future generation of PMIC, in an area they care about and ensure that best practices are passed along.

13. PMIC Independence Day Celebrations

To put our mission to practice and keep up with our triple bottom line mission, team PMIC embarked on a tree plantation drive to commemorate Pakistan's 75th Independence Day. Kids of team members also joined the activity with great enthusiasm and made their contribution to making Pakistan a cleaner and greener place. The entire PMIC team was overjoyed to be a part of this drive. The event culminated with a cake-cutting ceremony and a breakfast for the attendees. PMIC firmly believes that each one of us, with our little individual efforts, can make an immense contribution to the betterment of Pakistan.

14. Employee Retention

PMIC as an organization strongly believes in taking care of all its stakeholders. Recognizing the inflationary pressures and the economic challenges faced by team members, the Board on the recommendation of Management of PMIC announced decent ad-hoc relief allowance across the board. This measure boosted employee morale and dedication to the organization and will help strengthen the bond between PMIC's vision and the commitment of its team.

15. Five (5) Year Celebration

PMIC greatly admires and values its employees. The efforts of our staff members help us to achieve PMIC's core goals and objectives of socio-economic development. Our teamwork and passion are key drivers behind our motivation to achieve essential milestones. In light of this, PMIC acknowledged the efforts and hard work of its employees that have been part of PMIC for the past 5 years by celebrating and awarding a shield as a token of appreciation.

16. CEO Club - Shark Tank Activity

CEO Club initiated a Shark Tank activity whereby PMIC team members came forward with ideas that could be utilized for providing help and support to community affected by floods. This companywide activity was launched forming four (4) groups ensuring interdepartmental representation. Each group produced an idea with details of financial impact, people it will help, risks involved and its implementation etc. in a presentation.

The ideas were presented by the groups on the 26th of October 2022 to a panel of MANCOM members. They were assessed based on their feasibility and further presented to the CEO and the Board.

17. **Pinktober Awareness Session**

PMIC held an awareness session on Breast Cancer, its causes, and early detection. Female employees of PMIC attended the session and shared their health concerns and cancer scares. Many team members shared stories of cancer survivors, they also shared that their health sometimes takes a back seat due to busy daily routines and thus they end up not prioritizing their own health.

18. **2nd Quarterly Meeting**

On December 19, 2022, 2nd quarterly meeting was held; every department presented their respective KPIs and updates to the team. Each department discussed their ongoing projects and expectations for the upcoming year.

After Quarterly Meeting one dish party was arranged, in which team members brought homemade food for one another. This activity/initiative is aligned with one of the PMIC values Inclusion which is dedicated to enhancing acceptability and harmony among the PMIC Team.

"Lighting the Path to a Resilient Future"

Independent Auditor's 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 December 31, 2022, and the statement of profit or loss, 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 the explanations given to us, the statement of financial position, statement of profit or loss, 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 December 31, 2022 and of the profit and other 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 Auditor's 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.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the directors' report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

Auditor's 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 auditor's 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 the 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 judgement and maintain professional skepticism throughout the audit. 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 concernbasis 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 auditor's 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 auditor's 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, 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).

Other Matter

The financial statements of the Company for the year ended December 31, 2021 was audited by another firm of Chartered Accountants who vide their reports dated April 01, 2022 expressed an unmodified opinion thereon.

The engagement partner on the audit resulting in this independent auditor's report is Amer Raza Mir.

A.F.Ferguson & Co.

Chartered Accountants
Lahore

Dated: March 24, 2023

UDIN: AR202210118jJ7YSaKlg

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED
Statement of Financial Position as at December 31, 2022

	Note	2022 (Rupees)	2021 (Rupees)
NON-CURRENT ASSETS			
Property, plant and equipment	4	5,953,365	8,633,077
Right of use asset	5	63,528,062	103,692,138
Intangible assets	6	8,212,472	15,223,155
Long term investments *	7	394,200,502	721,899,079
Financing - net	8	13,296,040,624	12,921,187,500
Long term advances, prepayments and deposits	9	18,681,476	32,079,093
Deferred tax asset	10	451,254,416	330,461,774
Derivative financial instrument	11	205,810,758	56,192,000
		14,443,681,675	14,189,367,816
CURRENT ASSETS			
Advances, prepayments and other receivables	12	60,952,653	31,842,388
Markup accrued - receivable	13	1,395,696,824	649,773,742
Due from related parties	14	23,014,950	8,486,049
Lending to financial institutions (reverse repo)	15	1,000,255,511	-
Short-term investments *	16	11,346,940,814	2,473,471,066
Advance tax - net	17	619,785,067	515,086,671
Current portion of financing	8	13,165,550,274	11,220,376,731
Cash and bank balances	18	544,663,194	2,018,996,397
		28,156,859,287	16,918,033,044
TOTAL ASSETS		**42,600,540,962**	**31,107,400,860**
SHARE CAPITAL AND RESERVES			
Share capital	19	5,884,222,000	5,884,222,000
Contribution by Shareholder - net of tax		77,772,080	92,699,720
Unappropriated profit		1,953,301,052	1,295,720,834
		7,915,295,132	7,272,642,554
NON-CURRENT LIABILITIES			
Subordinated loans	20	8,851,973,053	9,617,540,714
Loans and borrowings	21	10,665,454,114	9,004,843,002
Employee benefits	22	25,203,424	21,132,912
Subsidy payable	23	158,363,723	150,553,851
Lease liabilities	24	-	43,908,018
Unearned income	25	6,408,079	14,822,387
		19,707,402,393	18,852,800,884
CURRENT LIABILITIES			
Short term borrowings	26	10,612,963,619	1,284,699,455
Current portion of subordinated loans	20	1,009,745,937	1,135,355,847
Current portion of loans and borrowings	21	2,417,777,778	2,292,777,778
Current portion of lease liability	24	42,713,993	36,587,598
Current portion of unearned income	25	2,909,926	-
Trade and other liabilities	27	70,890,831	60,016,005
Markup accrued - payable	28	820,841,353	172,520,739
		14,977,843,437	4,981,957,422
CONTINGENCIES AND COMMITMENTS	29		
TOTAL EQUITY AND LIABILITIES		**42,600,540,962**	**31,107,400,860**

* The corresponding figures of these financial statements line items have been restated as explained in note 7.3.

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Executive Officer

Director

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED
Statement of Profit or Loss for the Year Ended December 31, 2022

	Note	2022 (Rupees)	2021 (Rupees)
Income	30	4,898,482,168	2,793,499,350
Finance cost	31	(3,407,694,876)	(1,774,718,215)
		1,490,787,292	1,018,781,135
Net provision on financing	8	(235,825,267)	(60,763,296)
		1,254,962,025	958,017,839
Administrative expenses	32	(430,813,401)	(374,838,166)
Other expenses	33	(67,438,520)	(14,299,529)
		(498,251,921)	(389,137,695)
Other income	34	54,722,667	21,829,451
Fair value gain on derivative financial instrument	35	146,764,738	78,701,638
Profit before taxation		958,197,509	669,411,233
Income tax expense	36	(325,412,602)	(192,355,448)
Profit for the year		**632,784,907**	**477,055,785**

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Executive Officer **Director**

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED
Statement of Comprehensive Income for the Year Ended December 31, 2022

	Note	2022 (Rupees)	2021 (Rupees)
Profit for the year		632,784,907	477,055,785
Comprehensive income / (loss) for the year			
Items that will not be reclassified to profit or loss			
- Remeasurement of defined benefit liability - gratuity	22	3,086,468	(675,270)
Items that may be reclassifed subsequently to profit or loss			
Remeasurement of available for sale financial assets		12,594,039	323,587
Comprehensive income / (loss) - net of tax		15,680,507	(351,683)
Total comprehensive income for the year		**648,465,414**	**476,704,102**

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Executive Officer **Director**

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED
Statement of Changes in Equity for the Year Ended December 31, 2022

	Share capital	Revenue reserve-unappropriated profit	Capital reserve - Contribution by Shareholder - net of tax	Total equity
		(Rupees)		
Balance at January 01, 2021	**5,884,222,000**	**808,538,625**	**103,177,827**	**6,795,938,452**
Total comprehensive income for the year				
Profit for the year	-	477,055,785	-	477,055,785
Other comprehensive loss for the year - net of tax	-	(351,683)	-	(351,683)
Total comprehensive income for the year	-	476,704,102	-	476,704,102
Excess finance costs under subordinated loan arrangement	-	10,478,107	(10,478,107)	-
Balance at December 31, 2021	**5,884,222,000**	**1,295,720,834**	**92,699,720**	**7,272,642,554**
Total comprehensive income for the year				
Profit for the year	-	632,784,907	-	632,784,907
Other comprehensive income for the year - net of tax	-	15,680,507	-	15,680,507
Total comprehensive income for the year	-	**648,465,414**	-	**648,465,414**
Deferred tax on contribution by KfW	-	-	(5,812,836)	(5,812,836)
Excess finance costs under subordinated loan arrangement	-	9,114,804	(9,114,804)	-
	-	9,114,804	(14,927,640)	-
Balance at December 31, 2022	**5,884,222,000**	**1,953,301,052**	**77,772,080**	**7,915,295,132**

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Executive Officer **Director**

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED

Statement of Cash Flows as at December 31, 2022

	Note	2022 (Rupees)	2021 (Rupees)
Cash flows from operating activities			
Cash used in operations before working capital changes	37	(394,348,918)	(311,510,152)
Changes in working capital:			
Financing - net		(2,555,851,934)	(1,836,921,679)
Long term advances, prepayments and deposits		13,397,617	(23,017,723)
Advances, prepayments and other receivable		(29,110,265)	(1,383,924)
Investments		1,283,005,807	(881,198,887)
Trade and other payables		10,874,826	17,297,128
		(1,277,683,949)	(2,725,225,085)
Cash used in operations		(1,672,032,867)	(3,036,735,237)
Taxes paid		(563,078,888)	(361,805,498)
Finance cost paid		(2,428,445,898)	(1,795,790,354)
Net settlement with hedging counter party		(102,493,350)	(50,700,247)
Staff retirement benefits paid - gratuity		(9,253,506)	(11,649,005)
Staff retirement benefits paid - compensated absences		(775,639)	(3,900,549)
Receipt of markup on financing		3,709,772,633	2,459,246,034
Receipt of profit on deposit accounts / certificates		73,169,989	27,197,844
Receipt of markup on reverse repo transactions		94,846,704	176,608,504
Receipt of markup on treasury bills		118,611,501	48,720,720
Receipt of markup on Pakistan Investment Bonds		43,877,770	54,860,408
Receipt of markup on Term Financial Certificates		132,979,600	53,999,699
Subsidy paid		-	(2,972,706)
Increase in unearned income		(5,504,382)	14,822,387
Grant income		11,583,538	13,072,373
Net cash used in from operating activities		(596,742,795)	(2,415,025,627)
Cash flows from investing activities			
Purchase of property and equipment		(3,963,289)	(2,310,502)
Purchase of intangible assets		-	(5,367,005)
Proceeds from disposal of property and equipment		-	227,259
Net increase in available-for-sale securities		(9,809,820,526)	(689,256,200)
Net cash used in investing activities		(9,813,783,815)	(696,706,448)
Cash flows from financing activities			
Receipt of loans and borrowings - net		1,785,611,112	3,165,536,665
Lease rentals paid		(42,070,511)	(38,245,920)
Receipt of short term borrowings		9,328,264,164	1,209,771,566
Repayment of subordinated loans		(1,135,355,847)	(1,142,938,344)
Net cash generated from investing activities		9,936,448,918	3,194,123,967
Net (decrease) / increase in cash and cash equivalents		(474,077,692)	82,391,892
Cash and cash equivalents at beginning of the year		2,018,996,397	1,936,604,505
Cash and cash equivalents at end of the year		**1,544,918,705**	**2,018,996,397**

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Executive Officer **Director**

1 CORPORATE AND GENERAL INFORMATION

1.1 Legal status and operations

Pakistan Microfinance Investment Company Limited ("the Company") was incorporated on August 10, 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 was 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 companies 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 December 31, 2022.

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') issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;

- The Non-Banking Finance Companies (Establishment and Regulation) 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

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

Where the requirements of the Companies Act, 2017, the NBFC rule sand 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.

2.2 Initial application of standards, amendments or an interpretation to existing standards

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Standards, amendments and interpretations to approved accounting standards that are effective in current year or have been early adopted by the Company

Certain standards, amendments and interpretations to IFRS are effective for accounting periods beginning on or after January 01, 2022 but are considered not to be relevant to the Company's operations (although they may affect the accounting for future transactions and events) and are, therefore, not detailed in these financial statements.

2.2.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following new amendments with respect to the accounting and reporting standards would be effective from the dates mentioned below against the respective amendment:

a) Amendments to IAS 8, 'Definition of Accounting Estimates

Classification of liabilities as current or non-current (Amendments to IAS 1) effective for the annual period beginning on or after January 01, 2023. These amendments in the standards have been added to further clarify when a liability is classified as current. The standard also amends the aspect of classification of liability as non-current by requiring the assessment of the entity’s right at the end of the reporting period to defer the settlement of liability for at least twelve months after the reporting period. An entity shall apply those amendments retrospectively in accordance with IAS 8. The amendment is not likely to have an impact on the Company's financial statements.

(b) Amendments to IAS 1, 'Classification of liabilities as current or non-current'

The narrow-scope amendments to IAS 1 Presentation of Statements, effective for accounting periods beginning on or after January 01 , 2024, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the settlement of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.
These amendments are not expected to have a material impact on the Company's financial statements when they become effective.

(c) Amendments to IAS 1 and IFRS 2 Practice Statement 2, 'Disclosure of Accounting Policies'

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.
The above mentioned amendments are effective for accounting periods beginning on or after January 01, 2023.

The Company is in the process of assessing the impact of these amendment on the Company's financial statements.

(d) Amendments to IAS 12, 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction'

The amendments to IAS 12 Income Taxes, effective for accounting periods beginning on or after January 01, 2023, require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The Company is in the process of assessing the impact of these amendments on the Company's financial statements.

2.2.3 Exemption from applicability of certain standards

(a) Adoption of IFRS 9, 'Financial instruments'

The SECP, through SRO 1827(I)/2002 dated September 29, 2022, has notified that IFRS 9, Financial Instruments, is applicable for accounting periods ending on or after June 30, 2024. IFRS 9, Financial Instruments: Classification and Measurement, addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'expected credit losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL approach has an impact on all assets of the Company which are exposed to credit risk. The Company is in the process of assessing the full impact of this standard and the Company awaits final guidelines from pertinent regulators for application of some aspects of IFRS 9.

(b) Amendment of IAS 40, 'Investment property'

The SECP has deferred the applicability of 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 IAS, till further decision.

(c) Amendment of IFRS 07, 'Financial Instruments'

The SECP has 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.

2.3 Basis of measurement and preparation

2.3.1 Accounting convention

These financial statements have been prepared under historical cost convention except as otherwise stated.

2.3.2 Functional and presentation currency

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

2.4 Use of estimates and judgments

In preparing these financial statements in accordance with approved accounting standards, management has made judgements, estimates and assumptions that affect the applicatio of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies that management considers critical because of the complexity, judgment of estimation involved in their application and their impact on these financial statements.

Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events tat are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates.

The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

(i) Note 3.3, 5 and 24 – recognition of right-of-use asset and lease liability under IFRS 16

(ii) Note 3.5.3 and 22 - measurement of defined benefit obligations: key actuarial assumptions

(iii) Note 3.9, 10 and 36 - recognition of deferred tax assets and estimation of income tax provision

(iv) Note 3.6, 7 and 16 - classification of investments

(v) Note 3.6, 11 and 35 – measurement of fair value of derivative financial statements

(vi) Note 3.6, 19, 20 and 23 – identification and initial measurement of compound financial instruments

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Property, plant and equipment

3.1.1 Owned

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 expendi transferred to the respective item of property and equipment when available for intended use.

Subsequent expenditure

Subsequent expenditure is 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 derecognized. 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 6 to the financial statements. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.3 Lease Liability

3.3.1 Lease Liability and Right of Use of assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases arerecognised as a right-of-use asset and a corresponding liability at the date at which a leased asset is available for use by the Company.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments include fixed payments, variable lease payment that are based on an index or a rate expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable. The extension and termination options are incorporated in determination of lease term only when the Company is reasonably certain to exercise these options.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-to-use asset, or is recorded in profit or loss if the carrying amount of right-to-use asset has been redut zero. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3.4 Lending to or Borrowing from Financial institutions

The Company enters into transactions of borrowing (re-purchase) from and lending (reverse re-purchase) to financial institutions, at contracted rates for a specified period of time. These are recorded as under:

a. Sale under re-purchase agreements

Securities sold subject to a re-purchase agreement are retained in the financial statements as investments and the counter party liability is included in borrowings from financial institutions. The differential in sale and re-purchase value is accrued on a pro-rata basis and recorded as markup expense.

b. Purchase under resale agreements

Securities purchased under agreement to resell (reverse re-purchase) are included in lending to financial institutions. The differential between contracted price and resale price is accrued on pro rata basis over the period of the contract and recorded as markup income.

Securities held as collateral are not recognized in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions.

3.5 Employee Benefits

The accounting policies for employee benefits are described below:

3.5.1 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.

3.5.2 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 Trustees. The contributions of the Company are charged to profit or loss.

3.5.3 Defined benefit plan — Gratuity fund

The Company operates a defined benefit plan comprising an 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 bene 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 22.3. Any changes in these assumptions will impact the carrying value of obligations for gratuity.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognized 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 the defined benifit plan our recognised in profit or loss.

3.5.4 Other long-term employee benefit scheme Compensated leave

The Company operates unfunded compensated leave absences scheme covering all eligible employees completing the minimum qualifying period of service as specified in the policy of the Company. 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 other long-term employee benefit scheme is recognized in profit or loss.

3.6 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 and subsequent measurement methods adopted by the Company are disclosed in the individual policy statements associated with each item of financial instruments.

Financial Assets

All the financial assets are initially recognised at fair value, being the cost of the consideration given including transaction costs associated with the investment, except in case of held for trading investments, in which case the transaction costs are charged off to the statement of profit or loss. Financial assets are classified as:

- Financial asset at fair value through profit or loss - held for trading;
- Held to maturity financial assets;
- Available-for-sale financial assets; or
- Financing

(a) Financial asset at fair value through profit or loss - held for trading

Investments which are acquired principally for the purposes of selling in the near term and are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking are classified as 'at fair value through profit or loss' - held for trading.

These investments are initially recognised at fair value, being the cost of the consideratin given. The transaction costs associated with the financial assets classified as 'at fair value through profit or loss' are charged off to the statement of profit or loss currently.

After initial recognition, these investments are remeasured at fair determined with reference to the period end quoted rates. Gains or losses on remeasurement of these financial assets are recognised in the statement of profit or loss.

(b) Held to maturity financial assets

Investments with fixed or determinable maturity where management has both the positive intent and ability to hold till maturity are classified as held-to-maturity. These investments are measured initially at fair value plus transaction costs that are directly attributable to these investments. Subsequent to initial measurement, held to maturity investments are stated at amortised cost. Provision for impairment in value, if any, is taken to the statement of profit or loss. Premiums and discounts on these investments are amortised using the effective interest rate method and taken to the statement of profit or loss.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories. Subsequent to initial recognition, they are measured at fair value and changes therein, if any are recognised in other comprehensive income until derecognised or impaired, when the accumulated fair value adjustments recognised in other comprehensive income are included in the statement of profit or loss. However, unquoted investments are stated at cost less impairment losses, if any.

(d) Financing

Financing comprises of installment finance facilities extended to microfinance institutions and banks. Financing is 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 Substandard	**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

General provision

The Risk Management function of the Company regularly conducts assessments of the portfolio to identify borrowers most likely to be affected due to changes in the business and economic environment. The Company expects that its borrowers will continue to be impacted due to significant increase in policy rate by the State Bank of Pakistan, increased inflation and decline in purchasing power of general public, however, the potential impact is difficult to predict with any degree of certainty.

Derecognition

All financial assets are de-recognised when the right to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risk and rewards of ownership.

Financial Liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value plus directly attributable transaction costs, if any, and subsequently measured at amortised cost, if applicable. Financial liabilities are derecognised at the time they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or expires.
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.

Compound instruments

In accordance with requirements of IAS 32 'Financial Instruments: 'Presentation', the Company assess whether a financial instrument meets the definition of financial liability or equity and recognizing the financial instrument accordingly. If the financial instrument is a compound instrument, the Company recognizes each component separately with the equity component representing the residual amount after deducting the fair values of liabilities component from the consideration. Such equity component is recognized as 'Contribution by Shareholder' and presented net of related deferred tax.

Derivative financial instruments

Derivative financial instruments are initially recognized 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.

3.7 Dividend and appropriation to reserves

Dividend and other appropriation to reserves are recognized in the financial statements in the period in which these are approved.

3.8 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 settlethe 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

3.9 Taxation

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income as the case may be.

Current tax

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years. Where there is uncertainty in income tax accounting i.e. when it is not probable that the tax authorities will accept the treatment, the impact of the uncertainty is measured and accounted for using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty. Such judgements are reassessed whenever circumstances have changed or there is new information that affects the judgements. Where, at the assessment stage, the taxation authorities have adopted a different tax treatment and the Company considers that the most likely outcome will be in favour of the Company, the amounts are shown as contingent liabilities. In making a judgment and / or estimate relating to probability of outcome, the management considers laws, statutory rules, regulations and their interpretations. Where, based on management's estimate, a provision is required, the same is recorded in the financial statements.

Deferred tax

Deferred tax is accounted for using the liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to the statement of profit or loss, except in the case of items charged or credited to equity or other comprehensive income, in which case it is included in the statement of changes in equity or statement of other comprehensive income as the case may be.

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.

3.10 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.

3.11 Finance income and finance cost

Finance income comprises profit on deposit accounts. Markup income is recognized as it accrues in profit or loss, using contractual rates.

Finance costs comprise of markup expense on subordinated loans, borrowings, unwinding of subsidy payable, bank charges and foreign exchange gain/loss on any foreign currency denominated loan/ borrowing. Borrowing costs (except on subordinated loan from KfW and unsubsidy payable) that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using contractual rates. Unwinding of subsidy payable and finance cost on subordinated loan are recognized in profit or loss using markup method.

3.12 Revenue Recognition

Mark-up / income on financing

Markup income / return on financing is recognized on a time proportion basis using the contractual rates 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 contractual rates. 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 Company transfer control of services under the contract, which is either at a point in time or over the time if the customers simultaneously receives and consumes the benefits provided by the Company’s performance.

Income on bank deposits

Return on bank deposits are recognized on time proportionate basis.

3.13 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.

3.14 Impairment

3.14.1 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.

3.14.2 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 inflow 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 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.

3.15 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.

3.16 Cash and cash equivalents

Cash and cash equivalents are carried at cost in case of local currency and at closing exchange rate in case of foreign currency. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, balances with bank and reverse repurchase transactions.

3.17 Markup bearing borrowings

Markup bearing borrowings are initially measured at cost being the fair value of consideration received, less attributable transaction cost. Subsequent to initial recognition, they are measured at cost less subsequent payments.

3.18 Borrowing Cost

Markup bearing Borrowing cost are recognized as an expense in the period in which they are incurred except where such cost relate to the acquisition, construction or production of a qualifying asset in which case cost are capitalized as part of the asset.

4 PROPERTY, PLANT AND EQUIPMENT

	Office Equipment	Computers	Furniture	Leasehold Improvements	Vehicles	Total
			(Rupees)			
Net carrying value basis						
Year ended December 31, 2022						
Opening net book value (NBV) as at January 01, 2022	1,198,072	4,750,008	741,835	1,181,755	761,407	8,633,077
Additions (at cost) during the year	189,919	3,647,000	126,370	-	-	3,963,289
Depreciation charge	(621,429)	(3,852,578)	(488,046)	(1,070,207)	(610,741)	(6,643,001)
Closing net book value (NBV)	**766,562**	**4,544,430**	**380,159**	**111,548**	**150,666**	**5,953,365**
Gross carrying value basis						
As at December 31, 2022						
Cost	4,038,675	19,619,784	8,007,147	17,294,220	4,327,588	53,287,414
Accumulated depreciation	(3,272,113)	(15,075,354)	(7,626,990)	(17,182,670)	(4,176,922)	(47,334,049)
Net book value (NBV)	**766,562**	**4,544,430**	**380,157**	**111,550**	**150,666**	**5,953,365**
Depreciation rate per annum	20%	33.33%	20%	20%	20%	
Net carrying value basis						
Year ended December 31, 2021						
Opening net book value (NBV) as at January 01, 2021	1,840,566	6,182,882	2,210,606	4,640,599	1,626,919	16,501,572
Additions (at cost) during the year	146,002	2,073,000	91,500	-	-	2,310,502
Disposals (at NBV)	(31,028)	-	-	-	-	(31,028)
Depreciation charge	(757,468)	(3,505,874)	(1,560,271)	(3,458,844)	(865,512)	(10,147,969)
Closing net book value (NBV)	**1,198,072**	**4,750,008**	**741,835**	**1,181,755**	**761,407**	**8,633,077**
Gross carrying value basis						
As at December 31, 2021						
Cost	3,848,756	15,972,784	7,880,777	17,294,220	4,327,588	49,324,125
Accumulated depreciation	(2,650,684)	(11,222,776)	(7,138,942)	(16,112,465)	(3,566,181)	(40,691,048)
Net book value (NBV)	**1,198,072**	**4,750,008**	**741,835**	**1,181,755**	**761,407**	**8,633,077**
Depreciation rate per annum	20%	33.33%	20%	20%	20%	

5 RIGHT OF USE ASSET

This represents right-of-use asset recognized on the building obtained on lease. This is being depreciated on straight line basis over its lease term. Reconciliation of the carrying amount is as follows:

	Note	2022 (Rupees)	2021 (Rupees)
Cost			
Balance at January 01		197,204,077	80,550,422
Additions during the period		-	116,653,655
Modification during the period		(1,829,617)	-
Balance at December 31		195,374,460	197,204,077
Depreciation			
Balance at January 01		93,511,939	60,407,038
Charge for the period	32	38,334,459	33,104,901
Balance at December 31		131,846,398	93,511,939
Net book value		63,528,062	103,692,138
Depreciation rate per annum		37.5%	37.5%

6 INTANGIBLE ASSETS

	Note	2022 (Rupees)	2021 (Rupees)
Cost			
Balance at January 01	6.1	22,024,055	992,000
Additions during the period		-	21,032,055
Balance at December 31		22,024,055	22,024,055
Amortization			
Balance at January 01		6,800,900	992,000
Charge for the period	32	7,010,683	5,808,900
Balance at December 31		13,811,583	6,800,900
Net book value		8,212,472	15,223,155
Amortization rate per annum		33.33%	33.33%

6.1 This represents computer softwares of the Company.

7 LONG TERM INVESTMENTS

	Note	2022 (Rupees)	Restated 2021 (Rupees)
Held to maturity			
Pakistan Investment Bonds	7.1	144,200,502	238,565,746
Term Finance Certificates			
- Askari Bank Limited	7.2	100,000,000	100,000,000
- U Microfinance Bank Limited	7.3	383,333,333	500,000,000
" Current Portion of Term Finance certificates - U Microfinance Bank Limited"		(233,333,333)	(116,666,667)
		394,200,502	721,899,079

7.1 The face value of these Pakistan Investment Bonds (PIBs) amounts to Rs. 150 million (2021: Rs. 250 million). These carry effective markup rates ranging from 8.77% to 11.51% (2021: 8.66% to 11.51%) per annum having maturity period ranging between twenty two to thirty seven months (2021: twenty six to thirty seven months) from the date of investment.

7.2 This represents investment in rated, unsecured, subordinated and privately placed Term Finance Certificates issued by Askari Bank Limited with a face value of Rs. 1,000,000 each, carrying markup of 3-months KIBOR plus 120 bps for the tenor of 10 years (2021: 3-months KIBOR plus 120 bps for tenure of 10 years) payable on quarterly basis, while principal redemption will be made in the last four quarters of the issue term. The investment will mature in March 2030.

7.3 Total investment in TFC instrument amounts to Rs. 583.33 million, out ofwhich Rs. 200 million is classified as 'Available-for-sale' under short term investment category. This carries effective markup rate of 6 month KIBOR plus 1.35% per annum (December 31, 2021: markup rate of 6 month KIBOR plus 1.35% per annum) having maturity from December 2022 in six equal semi-annual installments. Refer to note 16.3 to these financial statements.

The company has restated prior year balances of investments by correcting current/non-current classification. The impact of the same as follows:

	Original Balance (Rupees)	Restatement (Rupees)	Restated Balance (Rupees)
Current Portion of Term Finance certificates - U Microfinance Bank Limited		**(116,666,667)**	**(116,666,667)**

There was no impact of the same on the opening balances of the corresponding period and therefore a third statement of financial position has not been given.

There was no impact of the same on statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cashflows.

8 FINANCING - NET

Financing to microfinance institutions and microfinance banks - markup bearing:

	Note	No. of loans	2022 (Rupees)	No. of loans	2021 (Rupees)
Financing - net	8.1	40	27,940,291,676	47	25,384,439,742
Less:					
General provision	8.2		(690,568,928)		(482,813,333)
Specific provision	8.3	6	(788,131,850)	4	(760,062,178)
			(1,478,700,778)		(1,242,875,511)
Current maturity			(13,165,550,274)		(11,220,376,731)
			13,296,040,624		**12,921,187,500**

8.1 This includes unsecured loans extended to FINCA Microfinance Bank Limited amounting to Rs. 800 million (2021: Rs 800 million) and Khushhali Microfinance Bank Limited amounting to Rs. 1,400 million (2021: Rs 1,400 million) under subordinated debts agreement. Loan terms are mentioned below:

	FINCA Microfinance Bank Limited	**Khushali Microfinance Bank Limited**	**Khushali Microfinance Bank Limited**
Disbursement date	December 20, 2019	June 18, 2021	December 27, 2019
Total loan facility (Rs.)	800,000,000	600,000,000	800,000,000
Outstanding balance (Rs.)	800,000,000	600,000,000	800,000,000
Mark-up rate	6m KIBOR + 3%	6m KIBOR + 2.7%	6m KIBOR + 2.7%
Grace period	5 years and 6 months	8 years	5 years
Repayment method	6 semi-annual installments	12 quarterly installments	12 quarterly instalments
Due date of last instalment	September 30, 2027	June 30, 2029	December 31, 2027

8.2 General provision ranges between 1% to 20% (2021: 1.25% to 5.0%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers and as per the provision rates approved by Board of Directors.

8.3

Particulars of non-performing financing	Note	Provision rate	2022 Amount outstanding	2022 Provisions required	2022 Provisions held	2021 Amount outstanding	2021 Provisions required	2021 Provisions held
Category of classification			161,185,267	-	-	-	-	-
Other assets especially mentioned (OAEM)		0%	-	-	-	51,725,642	12,931,411	12,931,411
Sub-standard		25%	-	-	-	-	-	-
Doubtful		50%	798,856,409	788,131,850	788,131,850	747,130,767	747,130,767	747,130,767
Loss	8.5	100%	**960,041,676**	**788,131,850**	**788,131,850**	**798,856,409**	**760,062,178**	**760,062,178**

8.4

Particulars of provision against non-performing financing	2022 Specific	2022 General	2022 Total	2021 Specific	2021 General	2021 Total
Balance at January 01	760,062,178	482,813,333	1,242,875,511	747,130,767	434,981,448	1,182,112,215
Provision charge	28,069,672	207,755,595	235,825,267	12,931,411	47,831,885	60,763,296
Balance at December 31	**788,131,850**	**690,568,928**	**1,478,700,778**	**760,062,178**	**482,813,333**	**1,242,875,511**

8.5 This includes financing amounting to Rs. 711.6 million (2021: Rs. 711.6 million) to BRAC-Pakistan (BRAC-PK). The financing was Rs. 850 million on February 28, 2019 against BRAC-PK. During the period from March to September 2019, BRAC-PK repaid Rs. 138.4 million to PMIC. These payments were against the full-due principal repayment for the quarter that ended June 30, 2019 and partially against the principal for the quarter ended September 30, 2019. In addition, Rs. 29.2 million in respect of markup due for the quarter that ended March 31, 2019 was also received. On March 05, 2019, Securities and Exchange Commission of Pakistan (SECP) issued a show cause notice to BRAC-PK for revocation of license. On April 04, 2019, SECP revoked BRAC-PK's license and its operations were suspended. On May 27, 2019, SECP appointed an administrator to manage the affairs of BRAC-PK and to transfer assets and liabilities of BRAC-PK to another similar entity. The transfer of assets and liabilities could not materialize. SECP has filed a lawsuit for the liquidation of BRAC-PK whereby the High Court appointed an official liquidator. Considering the above-mentioned factors and uncertainty regarding the recoverability of the receivable amount, the portfolio has been classified on a subjective basis and accordingly 100% provision has been made. The Company has also filed a recovery lawsuit in Islamabad High Court in December 2019 which is sub-judice.

9 LONG TERM ADVANCES, PREPAYMENTS AND DEPOSITS

	Note	2022 (Rupees)	2021 (Rupees)
Considered good			
Advances to employees	9.1	29,955,309	50,579,658
Less: Current portion	12	(21,612,029)	(24,338,714)
		8,343,280	26,240,944
Long term prepayment - transaction charges		5,694,651	703,079
Less: Current portion	12	(1,361,175)	(369,650)
		4,333,476	333,429
Security deposits	9.2	6,004,720	5,504,720
		18,681,476	32,079,093

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

9.2 This represents security deposits against leased premises and employee fuel cards.

9.3 Long-term advances include advances to Key Management Personnel of Rs 19,497,216 (2021: Rs 37,626,923).

10 DEFERRED TAX ASSET

The deferred tax asset comprises of temporary differences relating to:

	Note	2022 (Rupees)	2021 (Rupees)
Accelerated tax depreciation & Amortization		4,135,744	3,014,028
Loss allowance on financing to microfinance institutions		487,971,257	360,433,898
Deferred liability - Leases		3,655,372	669,337
Loss allowance on investments		(11,748,955)	93,840
Capital contribution under below-market loan		(38,305,652)	(37,863,265)
Deferred liability - employee benefits		5,546,650	4,113,936
		451,254,416	330,461,774

10.1 The gross movement in net deferred tax asset during the period is as follows:

	2022	2021
Opening balance	330,461,774	308,086,813
Credited to statement of profit or loss	132,967,890	22,374,961
Charged to other comprehensive income	(6,362,412)	-
Charged to equity	(5,812,836)	-
Closing balance	451,254,416	330,461,774

11. DERIVATIVE FINANCIAL INSTRUMENT

	Note	2022 (Rupees)	2021 (Rupees)
Mark to Market gain	11.1	205,810,758	56,192,000

11.1 The Company entered into a cross currency interest rate swap agreement on December 01, 2020 against its exposure on fixed rate foreign currency borrowing from KfW for a period of ten (10) years. Under the cross currency swap agreement, the Company will pay interest semi annually at the applicable Karachi Inter Bank Offered Rate (KIBOR) minus 1.75% to Habib Bank Limited (HBL) and will receive fixed rate of 1% on the date of payment to KfW. Fair value of derivative represents present value of future cash flows of cross currency interest rate swap. Also refer note 20.3 to these financial statements.

12. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2022 (Rupees)	2021 (Rupees)
Advances			
- Supplier	12.1	612,728	2,022,468
- Employees	12.2	2,923,366	1,115,290
- Against Microfinance Plus initiatives	33	516,155	648,925
- Current portion of long term advances to employees	9	21,612,029	24,338,714
		25,664,278	28,125,397
Prepayments			
- Insurance		4,519,921	1,939,381
- Subscriptions		683,519	556,537
- Current portion of long term prepayment - transaction charges	9	1,361,175	369,650
		6,564,615	2,865,568
Other receivables	12.3	28,723,760	851,423
		60,952,653	31,842,388

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

12.2 These represent advances given to employees for official purposes.

12.3 This includes an amount of Rs. 28,711,160 (2021: Rs. 838,823) receivable from State Bank of Pakistan on account of guarantee fee reimbursable as mentioned in note 21 to these financial statements.

	Note	2022 (Rupees)	2021 (Rupees)
13 MARKUP ACCRUED - RECEIVABLE			
Markup receivable on financing	13.1	1,742,616,650	928,334,302
Suspended mark-up income	13.2	(477,932,997)	(324,891,402)
		1,264,683,653	603,442,900
Profit on deposit accounts and term deposit certificates		-	157,534
Profit on reverse repo transaction		2,226,621	-
Profit on investment in Treasury Bills		91,862,947	24,632,474
Profit on Term Finance Certificates - Askari Bank Limited		747,124	493,562
Profit on Term Finance Certificates - U Bank Limited		2,643,699	3,092,055
Guarantee fee receivable	13.3	26,780,063	6,080,953
Profit on investment in Pakistan Investment Bonds		6,752,717	11,874,264
		131,013,171	46,330,842
		1,395,696,824	649,773,742

13.1 This represents markup accrued on financing to microfinance institutions and banks as mentioned in note 8 to these financial statements.

13.2 This represents markup income on non-performing loans as disclosed in Note 8.3 which has been suspended in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

13.3 This represents fee receivable in respect of guarentee obtained from Askari Bank Limited and Bank Alfalah against the finance facility from State Bank of Pakistan as mentioned in note 21 to these financial statements.

14. DUE FROM RELATED PARTIES - UNSECURED	Note	2022 (Rupees)	2021 (Rupees)
Grant income receivable - KfW	14.1	23,014,950	8,486,049

14.1 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).

14.2 **Ageing of related party balances**

	Not due	Past due 0-30 days	Past due 31-365 days	Total gross amount due
	(Rupees)			
Balance as at December 31, 2022				
KfW	23,014,950	-	-	23,014,950
Balance as at December 31, 2021				
KfW	8,486,049	-	-	8,486,049

15 LENDING TO FINANCIAL INSTITUTIONS (REVERSE REPO) - Considered good

	Note	2022 (Rupees)	2021 (Rupees)
Repurchase agreement lendings (Reverse repo) - with financial institution	15.1	1,000,255,511	-

15.1 These carry effective markup rate ranging between 16.24% and 16.25% (2021: Nil) per annum having maturity of 5 days from date of investment

16 SHORT-TERM INVESTMENTS

	Note	2022 (Rupees)	2021 (Rupees)
Held to maturity			
Term deposit certificates		-	500,000,000
Treasury Bills	16.1	289,556,999	970,965,550
Pakistan Investment Bonds	16.2	99,002,075	196,259,062
Current Portion of Term Finance certificates - U Microfinance Bank Limited	16.3	233,333,333	116,666,667
		621,892,407	1,783,891,279
Available for Sale			
Term Finance certificates - U Microfinance Bank Limited	16.3	197,787,600	500,000,000
Treasury Bills	16.4	10,307,844,340	189,579,787
		10,505,631,940	689,579,787
Fair value through Profit and Loss			
Social Impact fund	16.5	219,416,467	-
		11,346,940,814	2,473,471,066

16.1 The redemption value of these Treasury Bills amounts to Rs. 300,000,000 (2021: Rs. 1,000,000,000). These carry effective markup rate of 15.67% (2021: 7.42% to 8.28%) per annum having maturity period of 84 days (2021: 13 days to 69 days) from the date of investment.

16.2 The face value of these Pakistan Investment Bonds (PIBs) amounts to Rs.100,000,000. These carry effective markup rate of 8.66% (2021: 200,000,000, interest rates ranging between 11.59% to 11.78%) per annum. These PIBs have maturity period of 26 months from the date of investment. (2021: maturing on September 19, 2022). Also refer note 7.1 to these financial statements.

16.3 These carry effective markup rate of 6 month KIBOR plus 1.35% (2021: 6 month KIBOR plus 1.35%) per annum having maturity in June 2025. 50% of these are secured against lien on government assets of a similar tenor and remaining 50% is secured against first pari passu charge on the Issuer's Book Debts, Advances and Receivables with 25% margin. The fair value of TFC is calculated using available market rates. For catergorization of fair value, please refer to note 43 to these financial statements. Also refer to note 7.3 to these financial statements.

16.4 The redemption value of these Treasury Bills amounts to Rs. 10,700,000,000 (2021:

Rs. 200,000,000). These carry effective markup rates ranging from 10.85% to 16.70% (2021:

11.28% to 1111.48%) per annum having maturity period ranging betwen 76 days to 364 days (2021: 167 days) from the date of investment. The fair value of Treasury Bills are calculated using available market rates. For fair value categorization kindly refer to note 43.1 to hese financial statements.

16.5 This company has made an investment in mutual fund managed by National Investment Trust under Social Impact Fund. The fund was officially launched on May 12, 2022 and invested PKR 200 million. The objective of this fund is to develop and promote alternate funding channels and bridge the gap between Capital Market investors and Microfinance practitioners using commercially viable and scalable innovative platforms.

17 ADVANCE TAX - NET

	Note	2022 (Rupees)	2021 (Rupees)
Opening balance		515,086,671	368,011,582
Current tax charge	36	(458,380,492)	(214,730,409)
Income tax paid / withheld during the period		563,078,888	361,805,498
Closing balance		**619,785,067**	**515,086,671**

18 CASH AND BANK BALANCES

	Note	2022	2021
Cash in hand		33,170	27,068
Cash at banks - Local currency	18.1	544,625,575	2,018,959,141
- Deposit accounts		4,449	10,188
- Current accounts		544,630,024	2,018,969,329
		544,663,194	**2,018,996,397**

18.1 These represent deposit accounts with banks carrying markup ranging from 3.5% - 14.5% (2021: 5% - 12.5%) per annum.

19 SHARE CAPITAL

19.1 Authorized share capital

2022 (Number of Shares)	2021 (Number of Shares)		2022 (Rupees)	2021 (Rupees)
6,500,000	6,500,000	Ordinary shares of Rs. 1,000 each fully paid in cash	6,500,000,000	6,500,000,000

19.2 Issued, subscribed and paid up capital

2022 (Number of Shares)	2021 (Number of Shares)		2022 (Rupees)	2021 (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

19.2.1 There has been no movement in ordinary share capital during the year ended December 31, 2022

19.2.2 All ordinary shares rank equally with regard to the Company's residual assets. Holders of these shares are entitled to dividends as declared from time to time 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 period were same as number of shares outstanding at the beginning of the period.

19.2.3 Pattern of Shareholding

Shareholders	Nature of relationship	2022	2021	2022	2021
		(Number of Shares)		(Percentage of Shareholding)	
Pakistan Poverty Alleviation Fund	Associated undertaking	2,883,256	2,883,256	49.00%	49.00%
Karandaaz Pakistan	Associated undertaking	2,224,243	2,224,243	37.80%	37.80%
KfW	Associated undertaking	776,719	776,719	13.20%	13.20%
Directors	Director	4	4	0.00%	0.00%
Total		**5,884,222**	**5,884,222**	**100.00%**	**100.00%**

20 SUBORDINATED LOANS - UNSECURED

	Note	2022 (Rupees)	2021 (Rupees)
Subordinated loan from Pakistan Poverty Alleviation Fund	20.1	6,125,467,349	7,260,823,196
Subordinated loan from Karandaaz Pakistan	20.2	2,800,000,000	2,800,000,000
Subordinated loan from KfW	20.3	936,251,641	692,073,365
		9,861,718,990	10,752,896,561
Less: Current portion of subordinated loans		(1,009,745,937)	(1,135,355,847)
		8,851,973,053	**9,617,540,714**

20.1 This represents the outstanding balance of subordinated loans, under the agreement between Pakistan Poverty Alleviation Fund (an associated undertaking) and the Company dated November 17, 2016 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 15 years and carries markup of 6-months KIBOR plus 1% (2021: 6-months KIBOR plus 1%) per annum payable quarterly. The principal repayments have started from October 2018. The loan is subordinated to other indebtedness of the Company.

20.1.1 The purpose of the loan is mainly to pilot and upscale microenterprise financing through Microfinance Institutions and Microfinance Banks for different sectors and to enhance the capitalization of the Company.

20.2 This represents the outstanding balance of subordinated loans, under the agreement between Karandaaz Pakistan (an associated undertaking) and the Company dated December 28, 2017 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 10 years and is currently carrying markup of 6-months KIBOR plus 1% (2021: 6-months KIBOR plus 1%) per annum payable quarterly starting from June 2027. The loan is subordinated to other indebtedness of the Company.

20.2.1 The purpose of the loan is mainly to pilot and upscale microenterprise financing through Microfinance Institutions and Microfinance Banks for different sectors and to enhance the capitalization of the Company.

20.3 This represents the first tranche amounting to USD 5.5 million, of total non-revolving subordinated loan of USD equivalent Euro 15 million, under the agreement between KfW (an associated undertaking) and the Company dated December 30, 2019, with prior approval of SECP for disbursement of each tranche to the Company. The receipt was translated at the exchange rate of Rs. 159.75/USD; i.e. Rs. 878.6 million. Markup rate is 1% per annum. The agreement tenure is 10 years with principal and markup bullet repayment at the time of maturity on December 30, 2029. The Company has also entered into cross currency swap agreement with Habib Bank Limited, in respect of above mentioned subordinated loan. Refer to note 11 to these financial statements.

The fair value of the subordinated loan has been calculated with reference to the present value of future cash outflows using a discount rate of 5.46% (being the Company's estimate for market rate of interest for a similar instrument (in respect of currency, term, type of interest rate and other factors) with a similar credit rating). Under the terms of loan agreement with KfW, the subsidy will be spent as per prior approval of KfW. Also refer to note 23 to these financial statements.

The difference between the fair value of subordinated loan and subsidy payable has been recognized in equity as a 'Contribution by a shareholder'.

20.3.1 The purpose of the loans is mainly to support the Company's capital base aimed at provision of loans to Microfinance partners in Pakistan for the purpose of providing financing in respect to the energy project. For assessment of fair value, please refer to note 43 to these financial statements.

	2022 (Rupees)	2021 (Rupees)
Opening Balance	692,073,365	-
Fair value of subordinated loan from KfW	-	591,337,168
	692,073,365	591,337,168
Finance cost	47,632,422	37,444,434
	739,705,787	628,781,602
Exchange loss	196,545,853	63,291,763
	936,251,640	**692,073,365**

21 Loans and borrowings - secured

	Note	2022	2021
JS Bank Limited - Term Finance		125,000,000	375,000,000
Askari Bank - Term Finance		1,312,500,000	562,500,000
Allied Bank Limited - Term Finance		3,016,666,667	1,700,000,000
National Bank - Term Finance		1,977,777,778	2,000,000,000
MCB Bank - Term Finance		500,000,000	833,333,333
State Bank of Pakistan - Term Finance	21.3, 21.4, 21.5	3,291,287,447	2,601,787,447
Bank Alfalah - Term Finance		250,000,000	375,000,000
Habib Bank Limited - Term Finance		2,000,000,000	2,000,000,000
Bank Of Punjab - Term Finance		210,000,000	350,000,000
Habib Metropolitan - Term Finance		400,000,000	500,000,000
		13,083,231,892	11,297,620,780
Less: Current portion of loans and borrowings		(2,417,777,778)	(2,292,777,778)
		10,665,454,114	9,004,843,002

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

Term Finance Facility	2022			
	Markup	Total facility Amount (Rupees)	Instalments Outstanding	Date of final Repayment
JS Bank Limited	6mK + 0.48%	750,000,000	01 half yearly	09-Mar-23
Askari Bank Limited - I	6mK + 0.40%	500,000,000	02 half yearly	08-Nov-23
Askari Bank Limited - II	6mK + 0.50%	500,000,000	03 half yearly	14-Feb-24
Askari Bank Limited - III	3mK + 0.65%	1,000,000,000	16 quarterly	19-Nov-27
Allied Bank Limited - I	6mK + 0.45%	300,000,000	02 half yearly	04-Dec-23
Allied Bank Limited - II	6mK + 0.70%	500,000,000	05 half yearly	24-May-25
Allied Bank Limited - III	6mK + 0.45%	1,000,000,000	06 half yearly	24-May-26
Allied Bank Limited - IV	3mK + 0.6%	1,000,000,000	12 quarterly	07-Jun-27
Allied Bank Limited - V	3mK + 0.6%	500,000,000	12 quarterly	31-Dec-27
National Bank of Pakistan - II	3mK + 0.85%	1,000,000,000	1 half yearly	30-Jun-23
National Bank of Pakistan - III	3mK + 0.85%	2,000,000,000	08 half yearly	31-Dec-26
MCB Bank Limited	6mK + 0.75%	1,000,000,000	03 half yearly	29-Mar-24
State Bank of Pakistan - I	6mK - 1.00%	1,784,917,447	Bullet repayment	30-Jun-24
State Bank of Pakistan - II	6mK - 1.00%	628,000,000	Bullet repayment	22-Dec-25
State Bank of Pakistan - III	6mK - 1.00%	1,535,950,000	Bullet repayment	07-Nov-27
Bank Alfalah Limited	6mK + 0.80%	500,000,000	04 half yearly	05-Nov-24
Habib Bank Limited	3mK + 0.70%	2,000,000,000	06 half yearly	20-Apr-26
Bank of Punjab	6mK + 0.75%	350,000,000	03 half yearly	30-Jun-24
Habib Metropolitan Bank	6mK + 0.75%	500,000,000	04 half yearly	31-Dec-24

Term Finance Facility	2021			
	Markup	Total facility Amount (Rupees)	Instalments Outstanding	Date of final Repayment
JS Bank Limited	6mK + 0.48%	750,000,000	03 half yearly	09-Mar-23
Askari Bank Limited - I	6mK + 0.40%	500,000,000	04 half yearly	08-Nov-23
Askari Bank Limited - II	6mK + 0.50%	500,000,000	05 half yearly	14-Feb-24
Allied Bank Limited - I	6mK + 0.45%	300,000,000	04 half yearly	04-Dec-23
Allied Bank Limited - II	6mK + 0.70%	500,000,000	06 half yearly	24-Mar-25
Allied Bank Limited - III	6mK + 0.45%	1,000,000,000	06 half yearly	24-May-26
National Bank of Pakistan - I	3mK + 0.85%	2,000,000,000	01 half yearly	28-Feb-22
National Bank of Pakistan - II	3mK + 0.85%	1,000,000,000	03 half yearly	30-Jun-23
National Bank of Pakistan - III	3mK + 0.85%	1,000,000,000	09 half yearly	31-Dec-26
MCB Bank Limited	6mK + 0.75%	1,000,000,000	05 half yearly	29-Mar-24
State Bank of Pakistan - I	6mK - 1.00%	2,000,000,000	Bullet repayment	30-Jun-24
State Bank of Pakistan - II	6mK - 1.00%	628,000,000	Bullet repayment	31-Dec-23
State Bank of Pakistan - II	6mK - 1.00%	1,535,950,000	Bullet repayment	29-Nov-26
Bank Alfalah Limited	6mK + 0.80%	500,000,000	06 half yearly	05-Nov-24
Habib Bank Limited	3mK + 0.7%	2,000,000,000	06 half yearly	20-Apr-26
Bank of Punjab	6mK + 0.75%	350,000,000	05 half yearly	30-Jun-24
Habib Metropolitan Bank	6mK + 0.75%	500,000,000	05 half yearly	31-Dec-24

21.2 These loans and borrowings are secured against present and future current and non-current receivables of the Company with 20% - 25% margin (2021: 20% - 25% margin)

21.3 This represents outstanding balance amounting to Rs. 1,784,917,447 (December 31, 2021: Rs. 1,784,917,447) of the unsecured term finance loan facility of Rs. 1,784,917,447 million carrying markup of 6-months KIBOR minus 100 bps (2021: 6-months KIBOR minus 100 bps) for the tenor of five years (2021: 5 years) starting from 2019 payable on half yearly basis i.e. 30 June and 31 December, while payment of principal will be made in the last four quarters of the loan period or in bullet form. The loan is provided against the targets set by State Bank of Pakistan (SBP). The associated cost of guarantee is claimable from State Bank of Pakistan (SBP).

21.3.1 The Company has provided a guarantee of Rs. 2,000 million (2021: Rs. 2,000 million) against the finance facility obtained from SBP. This guarantee has been obtained from Askari Bank Limited and is secured against first pari passu charge on receivables / microcredit advances of the Company of Rs. 2,500 million inclusive of 20% margin (2021: Rs. 2,500 million inclusive of 20% margin).

21.4 This represents outstanding balance amounting to Rs. 317 million (2021: Rs. 317 milion) from the unsecured term finance loan facility of Rs.628 million carrying markup of 6-months KIBOR minus 100 bps (December 31, 2021: 6-months KIBOR minus 100 bps) for the tenor of five years starting from 2020 payable on half yearly basis i.e. 30 June and 31 December, while payment of principal will be made in the last four quarters of the loan period or in bullet form. The loan is provided against the targets set by SBP. The associated cost of guarantee is claimable from SBP.

21.4.1 The Company has provided a guarantee against the finance facility of Rs. 628 million obtained from SBP. This guarantee has been obtained from Bank Alfalah Limited and is secured against first pari passu charge on present and future assets (excluding land and buildings) of Rs. 837.33 million inclusive of 25% margin (2021: Rs. 837.33 million inclusive of 25% margin).

21.5 This represents outstanding balance amounting to Rs. 1,189 million (2021:500 million) from the unsecured term finance loan facility of Rs. 1,535.93 million carrying markup of 6-months KIBOR minus 100 bps (2021: 6-months KIBOR minus 100 bps) for the tenor of five years starting from Nov-2021 payable on half yearly basis i.e. June 30 and December 31, while payment of principal will be made in the last four quarters of the loan period or in bullet form. The loan is provided against the targets set by SBP. The associated cost of guarantee is claimable from SBP.

21.5.1 The Company has provided a guarantee against the finance facility of Rs. 1,535.93 million obtained from SBP. This guarantee has been obtained from Bank Alfalah Limited and is secured against first pari passu charge on present and future assets (excluding land and buildings) of Rs. 2,267 million inclusive of 25% margin (2021: Rs. 2,267 million inclusive of 25% margin).

22 EMPLOYEE BENEFITS

	Note	2022 (Rupees)	2021 (Rupees)
Net defined benefit liability			
- Compensated leave absences	22.1	16,808,031	14,185,985
- Gratuity	22.2	8,395,393	6,946,927
		25,203,424	21,132,912

22.1 Net defined benefit liability - Compensated leave absences

The amounts recognized in the statement of financial position are as follows:

	Note	2022	2021
Present value of defined benefit obligation		16,808,031	14,185,985

Movement in net defined benefit liability

	Note	2022	2021
Net liability at 01 January		14,185,985	14,748,207
Charge for the year recognized in the statement of profit or loss	22.1.1	3,397,685	3,338,327
Payments made during the year		(775,639)	(3,900,549)
Net liability at 31 December		**16,808,031**	**14,185,985**

22.1.1 Charge for the year recognized in the statement of profit or loss

	Note	2022	2021
Current service cost		2,365,839	3,223,784
Interest cost		1,690,275	1,311,788
Past service cost (change in rules)		-	(86,639)
Experience adjustment on defined benefit liability		(658,429)	(1,110,606)
		3,397,685	**3,338,327**

Expense is recognized in the following line item in the statement of profit or loss

	Note	2022	2021
Administrative expenses	32	3,397,685	3,338,327

22.1.2 Key actuarial assumptions

The latest actuarial valuation was carried out on December 31, 2022 using the projected unit credit method with the following assumptions:

	2022	2021
Discount rate (per annum)	14.25%	12.25%
Salary increase rate (per annum)	15.00%	10.00%
Leave accumulation factor (per annum)	10 days	10 days
Normal retirement age (years)	60	60
Effective salary increase date	01-Jan-23	01-Jan-22
Mortality rate	SLIC 2001-2005	SLIC 2001-2005
Duration	10.19	11.84 years

22.1.3 Sensitivity analysis

For a change of 100 basis points, present value of defined benefit liability at the reporting date would have been different:

	2022 (Rupees)		2021 (Rupees)	
	Increase	Decrease	Increase	Decrease
Discount rate	(1,590,514)	(1,590,514)	(1,547,193)	1,812,738
Salary increase rate	1,998,028	1,998,028	1,940,699	(1,674,824)

22.1.3.1 Although the analysis does not take into account full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

22.2 Net defined benefit liability-gratuity

22.2.1 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	2022 (Rupees)	2021 (Rupees)
Present value of defined benefit obligation		50,627,243	38,578,342
Benefits Payable		490,600	
Fair value of plan assets		(42,722,450)	(31,631,415)
Net liability	**22.2.1.1**	**8,395,393**	**6,946,927**
Movement in net defined benefit liability			
Net liability at January 01		6,946,927	2,933,919
Charge for the year recognized in the statement of profit or loss		13,788,441	14,986,743
Re-measurement recognized in the statement of other comprehensive income		(3,086,468)	675,270
Benefits Paid on behalf of fund		(2,306,580)	(11,649,005)
Contributions		(6,946,927)	-
Net liability at December 31	**22.2.1.1**	**8,395,393**	**6,946,927**

22.2.1.1 Reconciliation of liability recognised in the statement of financial position

December 31, 2022	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability/(asset)
		(Rupees)	
Balance at January 01	38,578,342	(31,631,415)	6,946,927
Charge for the year	18,084,195	-	18,084,195
Expected return on plan assets	-	(4,295,754)	(4,295,754)
Charge to profit or loss net of return on plan assets	18,084,195	(4,295,754)	13,788,441
Experience adjustments on defined benefit liability	(3,163,114)	76,646	(3,086,468)
Benefits paid	(2,381,580)	2,381,580	-
Benefits paid on behalf of the fund	-	(2,306,580)	(2,306,580)
Contributions to gratuity fund	-	(6,946,927)	(6,946,927)
	51,117,843	(42,722,450)	8,395,393
December 31, 2021			
Balance at December 31			
Balance at January 01	34,941,130	(32,007,211)	2,933,919
Charge for the year	18,267,482	-	18,267,482
Expected return on plan assets	-	(3,280,739)	(3,280,739)
Charge to profit or loss net of return on plan assets	18,267,482	(3,280,739)	14,986,743
Experience adjustments on defined benefit liability	(2,981,265)	3,656,535	675,270
Benefits paid	(11,649,005)	11,649,005	-
Benefits paid on behalf of the fund	-	(11,649,005)	(11,649,005)
Contributions to gratuity fund	-	-	-
Balance at December 31	38,578,342	(31,631,415)	6,946,927

22.2.1.2 Plan assets comprise of:

	2022 (Rupees)		2021 (Rupees)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Pakistan Investment Bonds (PIBs)	27,500,000	26,052,796	17,500,000	15,420,586
Treasury Bills	-	-	-	-
Cash at bank	16,669,654	16,669,654	16,210,829	16,210,829
	44,169,654	42,722,450	33,710,829	31,631,415

Charge for the year recognized in the statement of profit or loss	Note	2022 (Rupees)	2021 (Rupees)
Current service cost		13,534,269	15,283,028
Interest cost		254,172	(296,285)
		13,788,441	**14,986,743**
Expense is recognized in the following line item in the statement of profit or loss			
Administrative expenses	32	13,788,441	14,986,743
Re-measurement recognized in the statement of other comprehensive income			
Actuarial (gain) on obligation		(3,163,114)	(2,981,265)
Actuarial loss on assets		76,646	3,656,535
		(3,086,468)	**675,270**

22.2.4 Sensitivity analysis

For a change of 100 basis points, present value of defined benefit liability at the reporting date would have been different:

	2022 (Rupees)		2021 (Rupees)	
	Increase	Decrease	Increase	Decrease
Discount rate	(4,821,735)	5,551,057	(4,225,758)	4,941,300
Salary increase rate	5,791,024	(5,097,922)	5,095,220	(4,420,373)

For a change of 1000 basis points, present value of defined benefit liability at the reporting date would have been different:

	2022 (Rupees)		2021 (Rupees)	
	Increase	Decrease	Increase	Decrease
Withdrawal rate	45,343	(46,181)	4,529	(4,632)

22.2.4.1 Although the analysis does not take into account full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

22.2.5 Expected benefit payments for the next 10 years and beyond;

	(Rupees)
FY 2023	1,482,051
FY 2024	1,059,120
FY 2025	1,413,212
FY 2026	1,236,360
FY 2027	4,586,897
FY 2028 to FY 2012	66,993,430
FY 2012 and above	287,078,708

22.2.6 Key actuarial assumptions

The latest actuarial valuation was carried out on December 31, 2022 using the projected unit credit method with the following assumptions:

	2022	2021
Discount rate (per annum)	14.25%	12.25%
Salary increase rate (per annum)	15.00%	10.00%
Return on planned asset (per annum)	14.25%	12.25%
Normal retirement age (years)	60	60
Effective salary increase date	01-Jan-23	01 January 2021
Mortality rate	SLIC 2001-2005	SLIC 2001-2005
Duration	10.24	11.88 years

22.3 Risk associated with defined benefit plans

22.3.1 Salary risk - (linked to inflation risk)

The risk that the final salary at the time of cessation of service is greater than what was 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.

22.3.2 Demographic risks

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

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

23 SUBSIDY PAYABLE

	2022 (Rupees)	2021 (Rupees)
Opening balance	150,553,851	141,958,164
Unwinding of subsidy payable	12,273,090	13,089,826
Payments during the period	-	(2,972,706)
Effect of change in estimate for cash outflows	(4,463,219)	(1,521,433)
	158,363,723	**150,553,851**

23.1 Under the subordinated loan agreement described in note 20.3, the present value of future expected cash outflows for subsidy amounts to Rs. 141,958,164, using a discount rate of 8.69%. The gross subsidy amount was calculated at weighted average rate/ per annum applicable to other subordinated loans less the rate payable in cross currency swap entered for the tranche where Company has disbursed loan to the customers. Where loan is not yet disbursed to the customers by the Company, subsidies amount is the return accrued by placing and maintaining the disbursed loan amount on the Company's bank account designated for the loan minus the amount in Pak Rupees which is payable in cross currency loan tranche. Refer to note 11.1 to these financial statements

24 LEASE LIABILITY

	2022 (Rupees)	2021 (Rupees)
Lease liability	42,713,993	80,495,616
Current portion of lease liability	(42,713,993)	(36,587,598)
	-	**43,908,018**

24.1 The lease obligation relates to a 3 year rental agreement (expiring on August 30, 2024) for the Company's head office. Rentals are payable in advance on annual basis, with an annual increment of 10%. The Company has recognized a right of use asset under IFRS - 16 at 01 September 2021, upon renewal of previous rental agreement, at the present value of the remaining lease payments at the incremental borrowing rate of 7.91% and prepaid rental installment. The Company is reasonably certain that it will not exercise its option to terminate the agreements early. As at December 31, 2022, there are no short-term and / or low value lease agreements or lease agreements that include variable lease payments.

	2022 (Rupees)	2021 (Rupees)
Opening balance	80,495,616	-
Additions during the period	-	78,407,735
Modification during the period	(5,946,027)	-
Finance cost	10,234,915	2,087,881
Repayments	(42,070,511)	-
Closing balance	42,713,993	80,495,616
Current portion shown under current liabilities	(42,713,993)	(36,587,598)
Long term lease liability as at closing date	**-**	**43,908,018**

24.2 Maturity Analysis

	2022 (Rupees)	2021 (Rupees)
Gross lease liabilities - minimum lease payments:		
Not later than 1 year	42,713,993	36,587,598
Later than 1 year but not later than 5 years	-	43,908,108
Later than 5 years	-	-
	42,713,993	**80,495,706**

25 UN-EARNED INCOME

	2022 (Rupees)	Restated 2021 (Rupees)
Deferred Grant	9,318,005	14,822,387
Current portion of deferred grant	(2,909,926)	-
	6,408,079	14,822,387

26	SHORT TERM BORROWINGS - SECURED	Note	2022 (Rupees)	2021 (Rupees)
	Allied Bank Limited - Running Finance	26.1	499,963,619	498,371,855
	Allied Bank Limited- Repurchase transaction	26.2	9,663,000,000	289,123,400
	Bank of Punjab- Repurchase transaction		-	497,204,200
	UBL-Repurchase transaction	26.3	450,000,000	-
			10,612,963,619	**1,284,699,455**

26.1 This represent utilized amount of running finance facility amounting to Rs. 500 million (2021: Rs. 500 million) and carries markup rate of 3-months KIBOR plus 0.40% (2021: 3-months KIBOR plus 0.40%) per annum, payable on quarterly basis. This facility is secured against first pari passu charge over present and future advances / receivables and investments of the Company along with 20% margin.

26.2 This represent repo borrowing transaction amounting to Rs. 9,663 million (2021: Rs. 289 million) and carries markup rate of 16.05% (2021: 10.75%) per annum having maturity in March 2023. This facility is secured against government securities having face value amounting to Rs. 10,000 million.

26.3 This represent repo borrowing transaction amounting to Rs. 450 million (2021: Rs. Nil) and carries markup rate of 16.3% (2021: Nil) per annum having maturity in January 2023. This facility is secured against government securities having face value amounting to Rs. 500 million.

27	TRADE AND OTHER LIABILITIES	Note	2022 (Rupees)	2021 (Rupees)
	Creditors and employees		2,009,245	2,095,558
	Accrued expenses	27.1	68,579,662	57,725,743
	Payable to provident fund		34,329	-
	Income tax deducted at source		267,595	194,704
			70,890,831	**60,016,005**

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

27.2	Payable to employees' provident fund	2022 (Rupees)	2021 (Rupees)
	Balance at January 01	-	1,677,457
	Contribution / withheld during the year	24,894,352	20,015,520
	Payments during the year	(24,860,023)	(21,692,977)
	Balance at December 31	**34,329**	**-**

28 MARKUP ACCRUED - PAYABLE

Markup payable on subordinated loans	28.1	377,544,882	61,188,815
Markup payable on swap arrangement with HBL		368,056	233,736
Markup payable on loans and borrowings	28.2	442,928,415	111,098,188
		820,841,353	**172,520,739**

28.1 This represents markup payable in respect of the subordinated loans mentioned in note 20 to these financial statements.

28.2 This represents markup payable in respect of the loans and borrowings as mentioned in note 21 to these financial statements.

29 CONTINGENCIES AND COMMITMENTS

(a) Contingencies

29.1 There are no material contingencies at the reporting date, other than the tax related contingencies refered to note 36.2 to these financial statements (2021: no material contingencies other than the tax related contingencies refered to note 36.2).

(b) Commitments

29.2 Procurement commitment amounts to Rs. 6.8 million and Rs 0.044 million for purchase of laptops and office equipment respectively (2021: Rs. 2.38 million)

30 INCOME	Note	2022 (Rupees)	2021 (Rupees)
Markup on financing	30.1	4,371,013,386	2,425,937,063
Income from deposit accounts / certificates		73,012,455	24,655,378
Income on reverse repo transactions		97,073,324	173,509,806
Income on Treasury Bills investment		185,841,974	66,133,785
Income on Pakistan Investment Bonds		38,756,223	46,016,094
Interest on investment in Term Finance Certificates		132,784,806	57,247,224
		4,898,482,168	**2,793,499,350**

30.1 This represents markup on financing to microfinance institutions and banks as mentioned in note 8 to these financial statements.

31	FINANCE COST	Note	2022 (Rupees)	2021 (Rupees)
	Markup/ unwinding effect on balance from associates	31.1	1,415,143,168	944,201,102
	Markup on loans and borrowings	31.2	1,631,062,567	702,258,331
	Markup on repurchase transactions		47,438,361	779,922
	Markup on derivative financial instruments		102,627,670	50,799,182
	Amortized transaction cost		369,561	369,732
	Bank charges		297,824	793,103
	Foreign exchange loss on subordinated loan		193,691,833	63,291,762
	Guarantee fee		76,341,599	54,297,095
	Less: Guarantee fee to be reimbursed by State Bank of Pakistan		(59,277,707)	(42,072,014)
			17,063,892	12,225,081
			3,407,694,876	**1,774,718,215**

31.1 This represent (a) markup on subordinated loans from Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan and KfW as mentioned in note 20 to these financial statements, and (b) unwinding of subsidy payable.

31.2 This represent markup on loans and borrowings as mentioned in note 21 to these financial statements.

32	ADMINISTRATIVE EXPENSES	Note	2022 (Rupees)	2021 (Rupees)
	Salaries, wages and other benefits	32.1	260,779,624	229,466,588
	Traveling and conveyance	32.2	26,453,709	16,334,874
	Legal and professional fees		6,495,291	3,773,148
	Advertisement and promotion		10,498,529	10,018,626
	Utilities		4,829,803	3,625,524
	Telecommunication and postage		1,817,675	1,784,635
	Director's fee		4,410,000	4,672,500
	Printing and stationery		1,459,112	1,365,647
	Repair and maintenance		5,524,223	4,200,995
	Auditors remuneration	32.3	2,109,100	3,526,000
	Insurance		2,213,974	2,054,284
	Office supplies and meeting expenses		3,641,279	3,077,114
	IT Expenses		18,170,332	9,937,359
	Miscellaneous		3,673,671	1,758,874
	Depreciation on property and equipment	4	6,643,000	10,147,969
	Depreciation on ROUA	5	38,334,460	33,104,901
	Amortization	6	7,010,682	5,808,900
	Financial charges on lease liability		10,234,915	2,087,881
	Consultancy, training and outsourcing arrangements	32.4	16,514,022	28,092,347
			430,813,401	**374,838,166**

32.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 27,576,705 (2021: Rs. 27,771,400)

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

32.3	Auditor's Remuneration	2022 (Rupees)	2021 (Rupees)
	Statutory Audit fee	1,392,000	1,148,400
	Other services	475,600	1,561,600
	Out of pocket expenses	241,500	120,000
	Tax consulation fee	-	696,000
		2,109,100	**3,526,000**

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

32.5 A.F.Ferguson & Co has been appointed as statutory auditor in the current year where as EY Ford Rhodes were the auditors for the year ended 2021.

33	OTHER EXPENSES	Note	2022 (Rupees)	2021 (Rupees)
	Crop value chain	33.1	18,996,500	-
	Solar home solutions	33.1	21,990,770	11,901,502
	Education	33.1	1,451,250	2,398,027
	Flood Relief	33.1	25,000,000	-
			67,438,520	**14,299,529**

33.1 These represent specific grants extended to borrowers of the Company as part of its Microfinance Plus (MF Plus) initiative. The company records the related expense on disbursement as no further economic benefit is expected to be received.

33.2 No director or their spouses(s) had interest in any grantee(s) irrespective of the amount of grant agreed or disbursed.

34	OTHER INCOME	Note	2022 (Rupees)	2021 (Rupees)
	Grant income (KfW)	34.1	26,112,439	13,480,398
	Advisory and arrangement fee	34.2	5,226,882	1,677,613
	Others		23,383,346	230,314
	Refund of grants		-	6,441,126
			54,722,667	**21,829,451**

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

34.2 Advisory and arrangement fee has been charged on account of participation in and arrangement of private placement of Term Finance Certificates issued by Khushhali Microfinance Bank Limited and U Microfinance Bank Limited.

		Note	2022 (Rupees)	2021 (Rupees)
35	**FAIR VALUE GAIN ON DERIVATIVE FINANCIAL INSTRUMENT**			
	Mark to Market gain on derivative	11	146,764,738	78,701,638
36	**INCOME TAX EXPENSE**			
	Income tax:			
	- Current		428,762,505	214,730,409
	- Prior		29,617,987	-
			458,380,492	214,730,409
	Deferred tax	10	(132,967,890)	(22,374,961)
			325,412,602	**192,355,448**

		Note	2022 (Rupees)	2021 (Rupees)
36.1	Relationship between accounting profit and tax expense is as follows:			
	Accounting profit for the year		958,197,509	669,411,233
	Applicable tax rate		29.00%	29.00%
	Tax charge		277,877,278	194,129,258
	Super Tax @ 4%		42,621,618	-
	Tax effect of permanent differences		25,759,007	5,906,281
	Tax effect of change in rate		(50,803,454)	(8,351,342)
	Prior year effect		29,617,987	-
	Others		340,166	671,251
			325,412,602	**192,355,448**

37 CASH GENERATED FROM OPERATIONS

	Note	2022 (Rupees)	2021 (Rupees)
Profit before taxation		958,197,509	669,411,233
Adjustments for non cash items and others:			
Depreciation on property and equipment	4	6,643,000	10,147,969
Depreciation on ROUA	5	38,334,460	33,104,901
Amortization on intangible assets	6	7,010,682	5,808,900
Financial charges on lease liability	32	10,234,915	2,087,881
Net provision on financing		235,825,267	60,763,296
Leave encashment		3,397,685	3,338,327
Mark to market gain on derivative financial instrument	35	(146,764,738)	(78,701,638)
Forex exchange loss on KfW loan	31	193,691,833	63,291,762
Staff retirement benefit - gratuity		13,788,441	14,986,743
Markup on financing	30	(4,371,013,386)	(2,425,937,063)
Income from deposit accounts / certificates	30	(73,012,455)	(24,655,378)
Income on reverse repo transactions	30	(97,073,324)	(173,509,806)
Income on Treasury Bills investment	30	(185,841,974)	(66,133,785)
Income on Pakistan Investment Bonds	30	(38,756,223)	(46,016,094)
Interest on investment in TFCs	30	(132,784,806)	(57,247,224)
Finance cost	31	3,214,003,043	1,711,426,453
Grant income	34	(26,112,439)	(13,480,398)
Gain on disposal of fixed assets		-	(196,231)
Gain recognized on the modification of lease liability		(4,116,408)	-
		(394,348,918)	**(311,510,152)**

38 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Note	2022			2022		
		Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
			(Rupees)			(Rupees)	
Managerial remuneration		34,678,158	-	105,437,598	30,154,920	-	100,218,789
Performance bonus		6,000,000	-	18,612,597	5,000,000	-	15,188,573
Other perks and benefits		2,410,740	-	26,765,469	1,988,658	-	22,700,590
Contribution to provident fund		2,427,471	-	7,218,486	2,110,844	-	7,015,315
Gratuity		2,889,846	-	8,903,825	2,512,910	-	8,646,243
Meeting fee	38.2		4,410,000		-	4,672,500	-
		48,406,215	4,410,000	166,937,975	41,767,332	4,672,500	153,769,510
Number of persons		1	2	27	1	2	28

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

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

38.3 Executives includes employees, other than the chief executive and directors, whose basic salary exceeds Rs. 1,200,000 (2021: Rs. 1,200,000) per annum.

39 EMPLOYEES PROVIDENT FUND

39.1 All the investments out of provident fund have been made in accordance with the provisions of Section 218 of the Companies Act 2017 and the rules formulated for this purpose.

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

	Liabilities				
	Loans and borrowings and short term borrowings	Subordinated loans	Lease Liability	Subsidy Payable	Total
Balance at January 01, 2022	12,582,320,235	10,752,896,561	80,495,616	150,553,851	23,566,266,263
Changes from financing cash flows					
Proceeds from loans and borrowings	4,189,500,000	-	-	-	4,189,500,000
Repayments of loans and borrowings	(2,403,888,888)	-	-	-	(2,403,888,888)
Receipt of short term borrowings	9,328,264,164	-	-	-	9,328,264,164
Rental paid for the building	-	-	(42,070,511)	-	(42,070,511)
Repayments of subordinated loans	-	(1,135,355,847)	-	-	(1,135,355,847)
Total changes from financing cash flows	11,113,875,276	(1,135,355,847)	(42,070,511)	-	9,936,448,918
Other changes					
Additions to Lease Liability on contract renewal	-	-	-	-	-
Foreign currency loss on KfW loan	-	196,545,853	-	-	196,545,853
Remeasurement of subsidy payable	-	-	-	(4,463,219)	(4,463,219)
Unwinding of interest on subsidy payable	-	-	-	12,273,090	12,273,090
Financial charges on lease liability	-	-	10,234,915	-	10,234,915
Unwinding of interest on KfW Loan	-	47,632,422	-	-	47,632,422
Modification to lease contract	-	-	(5,946,027)	-	(5,946,027)
Balance at December 31, 2022	23,696,195,511	9,861,718,989	42,713,993	158,363,722	33,758,992,215
Balance at January 01, 2021	8,207,012,004	11,795,098,709	-	141,958,164	20,144,068,877
Changes from financing cash flows					
Proceeds from loans and borrowings	5,373,870,000	-	-	-	5,373,870,000
Repayments of loans and borrowings	(2,208,333,335)	-	-	-	(2,208,333,335)
Receipt of short term borrowings	1,209,771,566	-	-	-	1,209,771,566
Rental paid for the building	-	-	(38,245,920)	-	(38,245,920)
Payment of subsidy payable	-	-	-	(2,972,706)	(2,972,706)
Repayments of subordinated loans	-	(1,142,938,344)	-	-	(1,142,938,344)
Total changes from financing cash flowse liability	4,375,308,231	(1,142,938,344)	(38,245,920)	(2,972,706)	3,191,151,261
Other changes					
Unwinding of interest on KfW Loan	-	37,444,434	-	-	37,444,434
Foreign currency loss on KfW loan	-	63,291,762	-	-	63,291,762
Remeasurement of subsidy payable	-	-	-	(1,521,433)	(1,521,433)
Unwinding of interest on subsidy payable	-	-	-	13,089,826	13,089,826
Additions to lease liability	-	-	116,653,655	-	116,653,655
Financial charges on lease liability	-	-	2,087,881	-	2,087,881
Balance at December 31, 2021	12,582,320,235	10,752,896,561	80,495,616	150,553,851	23,566,266,263

41 CASH AND CASH EQUIVALENTS

	2022 (Rupees)	2021 (Rupees)
Lending to financial institutions (reverse repo)	1,000,255,511	-
Cash and bank balances	544,663,194	2,018,996,397
	1,544,918,705	2,018,996,397

42 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 9.1, 12.2, 14.1, 19 and 22 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%

42.1 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

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

Transactions with associated undertakings	2022 (Rupees)	2021 (Rupees)
Grant income recognized during the year	26,112,439	13,480,398
Grant income received during the year	11,583,538	13,072,373
Subordinated loan repaid during the year	1,135,355,847	1,142,938,344
Markup on subordinated loan charged during the year	1,359,700,875	895,188,274
Markup on subordinated loan paid during the year	1,043,344,809	1,058,984,056
Transactions with other related parties		
Employer contribution payable to provident fund	17,171	-
Total contribution paid to provident fund	24,860,008	20,015,520
Total contribution paid to gratuity fund	9,253,506	11,649,005
Transactions with key management personnel		
Remuneration and allowance	119,409,314	111,244,567
Short term benefits	6,262,483	6,070,995
Defined contribution plan	7,552,601	7,449,903
Defined benefit plan	133,224,398	124,765,465
Loan to key management personnel		
Loan to CEO/ Directors	8,965,530	16,650,270
Loan to other key management personnel	10,531,686	20,976,653
	19,497,216	37,626,923
Movement of loan to CEO/Key management personnel		
Opening Balance	37,626,923	8,895,100
Disbursements	-	47,885,120
Repayments during the year	(18,129,707)	(19,153,297)
Closing Balance	19,497,216	37,626,923

43 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A 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 conclusionthat 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.

B FAIR VALUES

43.1 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.

B. FAIR VALUE

43.1 **CLASSIFICATION 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.

		2022								
		Carrying value					Fair value			
On-balance sheet financial instruments	**Note**	**Held to maturity**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2022						(Rupees)				
Financial assets measured at fair value										
Long term investment - Term Finance Certificates	7	483,333,333	197,787,600	-	-	681,120,933	197,787,600	-	-	197,787,600
Short term investment - Treasury Bills	16	289,556,999	10,307,844,340	-	-	10,597,401,339	-	10,307,844,340	-	10,307,844,340
Derivative Financial Instrument	11	-	-	-	205,810,758	205,810,758	-	205,810,758	-	205,810,758
		772,890,332	10,505,631,940	-	205,810,758	11,484,333,030	197,787,600	10,513,655,098	-	10,711,442,698
Financial liabilities measured at fair value										
Subordinated loan - KfW	20	-	-	-	936,251,640	936,251,640	-	678,110,104	-	678,110,104
Subsidy payable	23	-	-	-	158,363,723	158,363,723		96,584,511	-	96,584,511
		-	-	-	1,094,615,363	1,094,615,363	-	774,694,615	-	774,694,615

		Restated 2022								
		Carrying value					Fair value			
On-balance sheet financial instruments		**Held to maturity**	**Available for sale**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2021						(Rupees)				
Financial assets measured at fair value										
Long term investment - Term Finance Certificates	7	600,000,000	600,000,000	-	-	1,100,000,000	-	500,000,000	-	500,000,000
Short term investment - Treasury Bills	16	970,965,550	970,965,550	-	-	1,160,545,337	-	189,579,787	-	189,579,787
Derivative Financial Instrument	11	-	-	-	56,192,000	56,192,000	-	56,192,000	-	56,192,000
		1,570,965,550	1,570,965,550	-	56,192,000	2,316,737,337	-	745,771,787	-	745,771,787
Financial liabilities measured at fair value										
Subordinated loan - KfW	20	-	-	-	692,073,365	692,073,365	-	633,987,779	-	633,987,779
Subsidy payable	23	-	-	-	150,553,851	150,553,851	-	133,250,554	-	133,250,554
		-	-	-	842,627,216	842,627,216	-	767,238,333	-	767,238,333

43.2 **Note**

Treasury Bills: Pakistan revaluation (PKRV) rate is average of the yield-to-maturity on government securities traded in the secondary market and determined at the end of day. The yield-to-maturity on government securities is quoted by the six brokerage houses keeping in view the yield-to-maturity on government securities traded in the secondary market.
Derivative Financial Instrument: The revaluation by counterparty is carried out on the basis of projected assessment of PKR to USD interest rate parity.
Sub debt Kfw: The revaluation is done using international bond valuation with maturity tenor similar to kfw loan.
Subsidy Payable: The revaluation is done using incremental borrowing rate for the entity at reporting date."

43.3 Measurement of fair values

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.

C 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 analyze 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.

43.4 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.

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	2022 (Rupees)	2021 (Rupees)
Long term investment - Pakistan Investment Bonds	7	144,200,502	238,565,746
Long term investment - Term Finance Certificates	7	483,333,333	600,000,000
Financing - gross*	8	27,940,291,676	25,384,439,742
Long term advances and deposits	9	14,348,000	31,745,664
Advances and other receivable	12	50,851,944	25,839,062
Markup accrued - receivable	13	1,395,696,824	649,773,742
Due from related parties	14	23,014,950	8,486,049
Lending to financial institutions (reverse repo)	15	1,000,255,511	-
Short term investment - Pakistan Investment Bonds	16	99,002,075	196,259,062
Short term investment - Term Finance Certificates	16	197,787,600	500,000,000
Short term investment - Treasury Bills	16	10,597,401,339	1,160,545,337
Short term investment - Term deposit certificates	16	-	500,000,000
Cash and bank balances	18	544,663,194	2,018,996,397
		42,490,846,948	31,314,650,801

*Financing has been taken gross for the purpose of determining the applicable credit risk.

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:

	2022 (Rupees)	2021 (Rupees)
Related parties	23,014,950	8,486,049
Banks and financial institutions	42,159,429,477	30,807,466,800
Others	308,402,521	498,490,487
	42,490,846,948	31,314,443,336

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of financial assets. The main component of this allowance is 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% - 20% (2021:1.25% - 5.0%) of the outstanding balance of financing, net of specific provision. The movement in general provision in respect of financing during the year was as follows:

	Note	2022 (Rupees)	2021 (Rupees)
Balance at January 01		482,813,333	434,981,448
Provision made during the year	8.4	207,755,595	47,831,885
Balance at December 31		690,568,928	482,813,333

The Company records specific provision against financing based on the unique circumstances of the counterparties and delays in agreed repayment terms. The specific provision is reassessed at each reporting date. The movement in specific provision in respect of financing during the year was as follows:

	Note	2022 (Rupees)	2021 (Rupees)
Balance at January 01		760,062,178	747,130,767
Provision made during the year	8.4	28,069,672	12,931,411
Balance at December 31		788,131,850	760,062,178

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.

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), VIS Credit Rating Company Limited (VIS) and Standard & Poor's.

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

	Ratings	2022 (Rupees)	2021 Restated (Rupees)
Long term investment - Pakistan Investment Bonds			
Counterparties without credit rating		144,200,502	238,565,746
Long term investment - Term Finance Certificates			
Counterparties with credit rating	AA-	383,333,333	500,000,000
Counterparties with credit rating	AA	100,000,000	100,000,000
		483,333,333	600,000,000

	Ratings	2022 (Rupees)	2021 (Rupees)
Financing - gross*			
Counterparties with credit rating	A	2,200,000,000	1,800,000,000
Counterparties with credit rating	A-	4,600,000,000	4,100,250,000
Counterparties with credit rating	A+	-	1,400,000,000
Counterparties with credit rating	BBB	12,178,000,000	7,900,000,000
Counterparties with credit rating	BB+	-	450,000,000
Counterparties with credit rating	BBB-	600,000,000	2,700,000,000
Counterparties with credit rating	BBB+	1,800,000,000	100,000,000
Counterparties with credit rating	AA+	-	500,000,000
Counterparties with credit rating	SIP3	1,600,000,000	
Counterparties without credit rating		4,962,291,676	6,434,189,742
		27,940,291,676	25,384,439,742

Long term advances and deposits		-	
Counterparties without credit rating		14,348,000	31,745,664
Advances and other receivable			
Counterparties without credit rating		50,851,944	31,920,015
Derivative financial instrument			
Counterparty with credit rating	AAA	205,810,758	56,192,000
Markup accrued - receivable			
Counterparties with credit rating	A3	631,664,377	306,677,853
Counterparties with credit rating	A2	278,161,959	91,649,695
Counterparties with credit rating	A1	85,522,193	32,794,631
Counterparties with credit rating	AA	747,123	493,562
Counterparties with credit rating	A1+	-	14,682,192
Counterparties with credit rating	AA-	2,643,699	
Counterparties without credit rating		396,957,473	203,475,809
		1,395,696,824	649,773,742
Due from related parties			
Counterparties with credit rating	A1+	23,014,950	8,486,049
Lending to financial institutions (reverse repo)			
Counterparties without credit rating		1,000,255,511	-
Short term investment - Pakistan Investment Bonds			
Counterparties without credit rating		99,002,075	196,259,062
Short term investment - Term Finance Certificates			
Counterparties with credit rating	AA-	197,787,600	500,000,000
Short term investment - Treasury Bills			
Counterparties without credit rating		10,597,401,339	1,160,545,337
Short term investment - Term deposit certificates			
Counterparties with credit rating	A1+	-	500,000,000
Cash at bank			
Counterparties with credit rating	A1+	544,608,955	1,514,785,851
Counterparties with credit rating	A1	54,239	504,210,546
		544,663,194	2,018,996,397

43.5 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 up to five years	Maturity after five years
			(Rupees)		
December 31, 2022					
Subordinated loan	9,861,718,989	16,785,024,772	2,559,595,212	8,934,598,936	5,290,830,624
Loans and borrowings	13,083,231,892	18,247,173,304	4,445,956,019	13,801,217,285	-
Short term borrowings	10,612,963,619	10,612,963,619	10,612,963,619	-	-
Lease liability	42,713,993	46,277,563	46,277,563	-	-
Trade and other payables	2,043,574	2,043,574	2,043,574	-	-
Markup accrued - payable	820,841,352	820,841,352	820,841,352	-	-
Subsidy payable	158,363,723	158,363,723	45,233,515	68,325,471	44,804,736
	34,581,877,142	46,672,687,907	18,532,910,854	22,804,141,692	5,335,635,360
December 31, 2021					
Subordinated loan	10,752,896,561	15,636,951,014	2,057,085,500	6,972,717,337	6,607,148,178
Loans and borrowings	11,297,620,780	14,029,880,264	3,348,186,139	10,681,694,125	-
Short term borrowings	1,284,699,455	1,284,699,455	1,284,699,455	-	-
Lease liability	80,495,616	88,348,075	42,070,512	46,277,563	
Trade and other payables	2,095,558	2,095,558	2,095,558	-	-
Markup accrued - payable	172,520,739	172,520,739	172,520,739	-	-
Subsidy payablev	150,553,851	208,711,743	37,789,090	120,810,938	50,111,715
	23,740,882,560	31,423,206,848	6,944,446,993	17,821,499,963	6,657,259,893

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 loans, loans and borrowing and short term borrowings have been determined on the basis of expected mark up rates. The mark up rates have been disclosed in note 20, 21 and 26 to these financial statements.

43.6 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.

43.6.1 Foreign currency risk

The PKR is the functional currency of the Company and as a result currency exposures arise from transactions and balances in currencies other than PKR. The Company's potential foreign currency exposure comprise:

- Transactional exposure in respect of non functional currency monetary items; and
- Transactional exposure in respect of non functional currency expenditure and revenues.

Transactional exposure in respect of non functional currency monetary items

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of the Company are periodically restated to PKR equivalent, and the associated gain or loss is taken to the profit or loss. The foreign currency risk related to monetary items is managed as part of the risk management strategy.

Transactional exposure in respect of non functional currency expenditure and revenues

Certain operating and capital expenditure is incurred by the Company in currencies other than the functional currency. Certain sales revenue is earned in currencies other than the functional currency of the Company. These currency risks are managed as part of overall risk management strategy. The Company does not enter into forward exchange contracts.

Exposure to forex risk on year end monetary balances:

	2022 (Rupees)	2021 (Rupees)
Subordinated loan from KfW	936,251,641	692,073,365

The following significant exchange rate applied during the year:

US Dollars	Average Rates		Balance Sheet	
	2022	2021	2022	2021
	207.04	168.17	226.43	176.514

Foreign Currency Sensitivity Analysis

Following is the demonstration of the sensitivity to a reasonably possible change in exchange rate of USD applied to assets at reporting date represented in foreign currency, with all other variables held constant, of the Company's profit before tax.

	2022 (Rupees)	2021 (Rupees)
Increase in 10% USD rate	(93,625,164)	(69,207,337)
Decrease in 10% USD rate	93,625,164	69,207,337

43.6.2 Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest 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).

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:

	2022 Effective rate %	2021 Effective rate %	2022 (Rupees)	2021 (Rupees)
Fixed rate instruments				
Financial assets	8.66%-16.7%	7.42%-11.78%	11,840,859,428	1,905,790,358
Financial liabilities	5.46%-16.05%	10.75%	(10,599,251,640)	(1,478,400,965)
			1,241,607,788	427,389,393
Variable rate instruments				
Financial assets	13.5% to KIBOR +3.26%	7.25% to KIBOR +3.23%	29,166,038,185	28,503,398,883
Financial liabilities	KIBOR -1% to KIBOR +1%	5.46% to KIBOR +1%	(22,508,662,860)	(21,856,815,831)
			6,657,375,325	6,646,583,052

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 interest rates at the reporting date would not effect the statement of profit or loss.

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. 291.66 million (2021: Rs. 285.03 million) and increased / decreased markup expense by Rs. 225.09 million (2021: Rs. 218.57 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.

43.6.3 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.

44 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 (2021: 100 million). As at December 31, 2022, the Company's total equity is Rs. 7,915 million (2021: Rs.7,273 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.

45 NUMBER OF EMPLOYEES

	2022	2021
Number of employees at reporting date	45	42
Average number of employees during the year	44	43

46 GENERAL

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

47 CORRESPONDING FIGURES

The corresponding figures have been rearranged and reclassified, wherever considered necessary. However, no significant reclassifications have been made, except for the following:

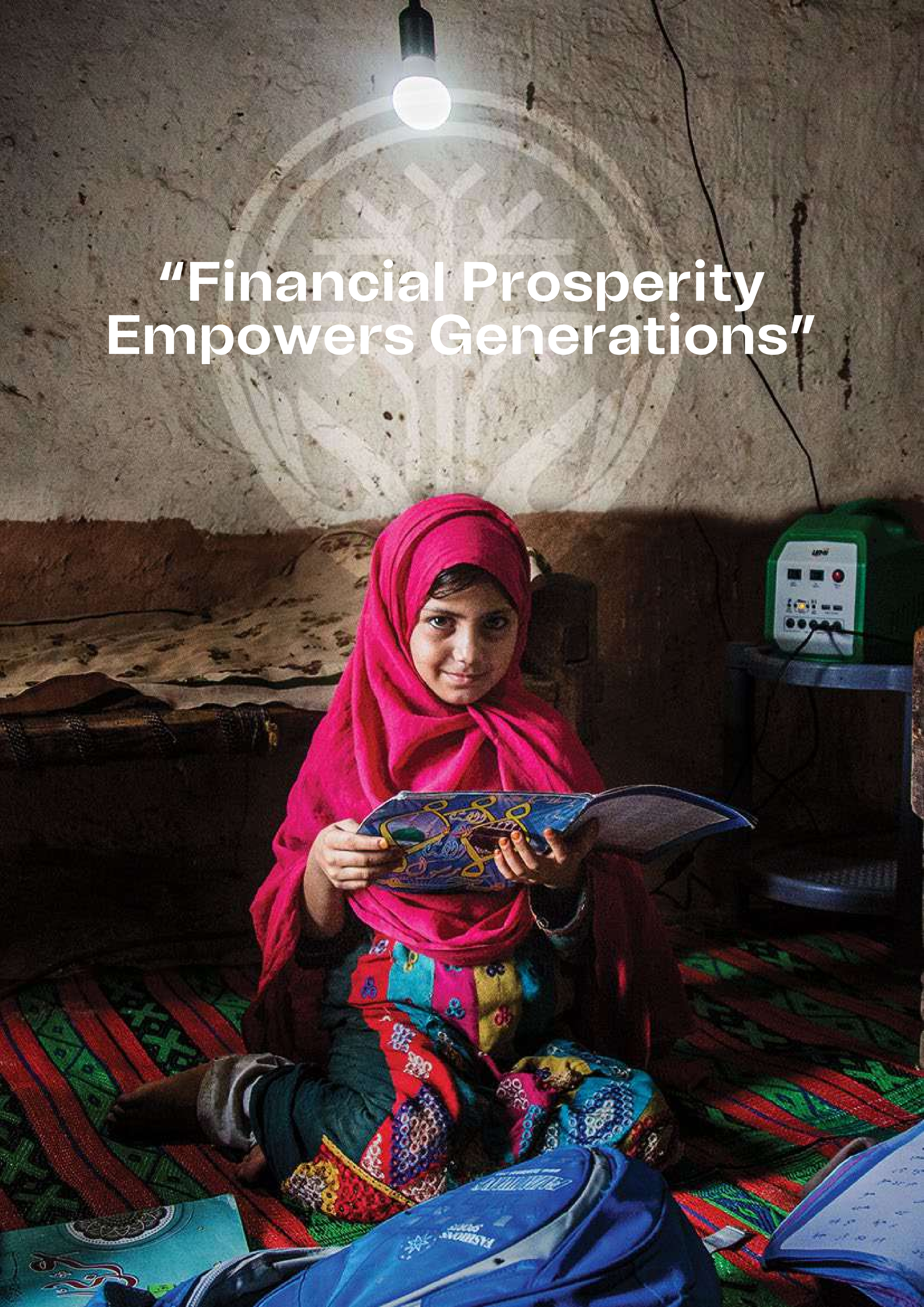
There were certain restatements made in corresponding figures to correct classification of the current and non-current portion of investments. Please refer to note 7.3.

Other than the same, there was a reclassification of bank guarantee receivable from the State Bank of Pakistan, which was classified from 'Advances, prepayments and other receivables' (note 12) to 'Markup accrued - receivable' (note 13). The amount of receivable as at the year ended December 31, 2022 is Rs. 26.6 millions (2021: Rs. 6.1 millions).

48 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Board of Directors of the Company in its meeting held on March 15, 2023.

Chief Executive Officer **Director**


“Financial Prosperity
Empowers Generations”