Pakistan Microfinance Investment Company Limited

2019
ANNUAL REPORT








Passion for Progress

PMIC

Pakistan Microfinance Investment Company Limited

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

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Company Information

Board of Directors

1. Mr. Naved Abid Khan - Chairman
2. Mr. Tariq Hassan - Director
3. Mr. Qazi Azmat Isa - Director
4. Ms. Christine Eberhard - Director
5. Mr. Navid Goraya - Director
6. Mr. Ali Raza Bhutta - Director
7. Mr. Yasir Ashfaq - Chief Executive Officer, PMIC

Board Audit Committee

1. Mr. Navid Goraya – Chairman
2. Mr. Tariq Hassan – Member
3. Mr. Ali Raza Bhutta – Member
4. Ms. Neelum Aamir – Secretary

Board Risk Committee

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

Board Human Resource Committee

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

Fahad Asad Khan (FCA)	Chief Financial Officer
M/s. KPMG Taseer Hadi & Co, Chartered Accountants	Auditors
M/s. Haidermota & Co	Legal Advisors

Registered Office

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

Share Registrar

M/s. 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

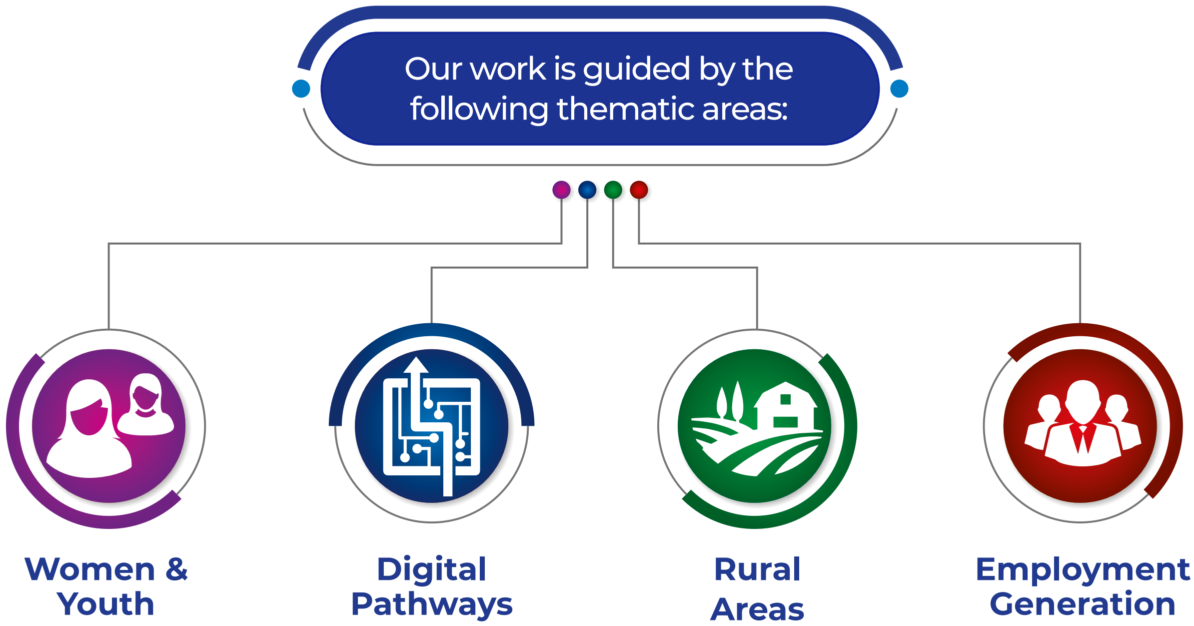
DFID	Department for International Development
DFS	Digital Financial Services
ES	Environmental and Social
KRN	Karandaaz Pakistan
MFBs	Microfinance Banks
MFPs	Microfinance Providers
NBMFIs	Non-Bank Microfinance Institutions
PMIC	Pakistan Microfinance Investment Company Limited
PMN	Pakistan Microfinance 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 eco-system of Pakistan. Its formation marks a key milestone of the National Financial Inclusion Strategy, whereby various development partners joined hands to establish a company which could actively contribute towards a robust financial system leading to provision of financial services at the bottom of the pyramid.

With focus on improving employment and livelihood opportunities for marginalized segments in the country especially women and youth, PMIC is introducing need-based products, to graduate them out of abject poverty. With outreach throughout the country through partner MFPs, PMIC has already impacted the lives of 803,119 clients. PMIC actively contributes towards formation of policies and strategies to enhance financial inclusion in the country while playing an active policy advocacy role.

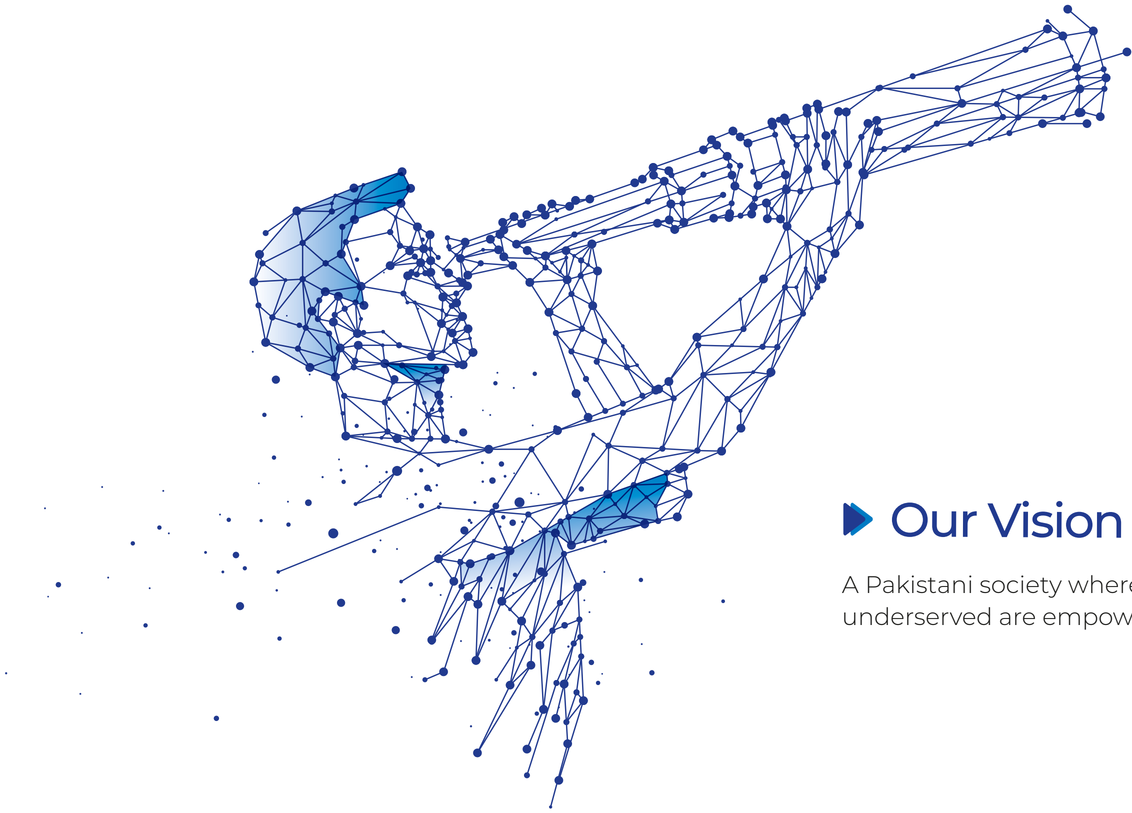
PMIC has already impacted the lives of 803,119 Clients.



Brand Statement

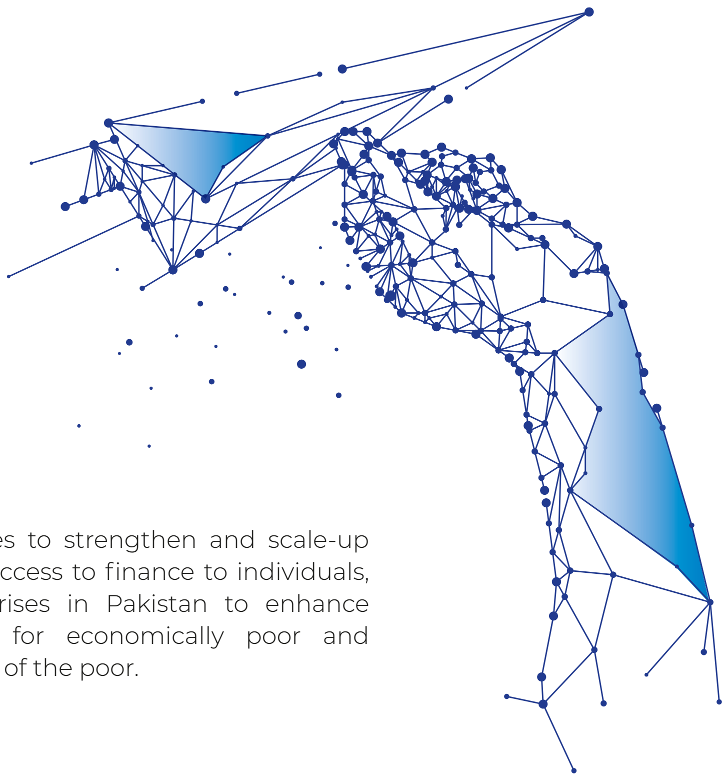
Passion for Progress

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 provision of sustainable and responsible access to finance to individuals, micro entrepreneurs, and micro enterprises in Pakistan to enhance employment and income opportunity for economically poor and underserved citizens and improve the lives of the poor.

Strategic Objectives

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

Core Values


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

Shareholders' Profile

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

The sponsoring institutions bring clarity of purpose and a commitment to PMIC's mission which envisages a Pakistani society where the underserved are empowered. In addition to capital contribution from the sponsors, PMIC also has subordinate loans available from them, which reflects the sponsors' commitment to the institution's mission. 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, International Fund for Agricultural Development (IFAD), KfW and other statutory and corporate donors. PPAF had been the largest source of wholesale funds for community-driven development in the country. The core operating units of PPAF deliver a range of development interventions at the grassroots/community level through a network of more than 100 Partner Organizations across the country.

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

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

Board of Directors

Naved Abid Khan
Chairman

Dr. Tariq Hassan

Qazi Azmat Isa

Christine Eberhard*

Navid Goraya

Ali Raza Bhutta**

Yasir Ashfaq

* Ms. Christine Eberhard joined the Board as Director on July 24, 2019 following the resignation of Ms. Christiane Schmidt.

** Mr. Ali Raza Bhutta joined the Board effective 30^{th} January 2020, replacing Mr. Kamran Ali Afzal.

Management Team

Yasir Ashfaq
Chief Executive Officer

Fahad Asad (FCA)
Chief Financial Officer

Rizwan Sheikh
Head of Corporate Finance & Investment Banking

Sobia Maqbool*
Chief Risk and Compliance Officer

Asghar Memon
Head of Portfolio Management

Saqib Siddiqui
Head of Sector Development

Neelum Aamir
Head of Internal Audit

Syeda Ambreen Zehra Taqvi
Head of Human Resources

* Ms. Sobia Maqbool has resigned from PMIC on 25 June, 2020.

Chairman's Message

During 2019, PMIC continued its responsibilities as an apex institution and provided sustainable, wholesale credit to microfinance providers, empowering an ever-growing number of beneficiaries and communities across Pakistan.

With its prudent lending practices, PMIC was able to extend the width of its financial services, resulting in an outreach of almost 800,000 end user clients by the end of 2019, 83% of which were women. PMIC continues to create immense impact, as its interventions are representative of its mission and thematic focus of supporting the underserved and marginalized segments of the society, especially women. Such interventions include PMIC's Microfinance Plus initiatives that offer value added services as a means of integrating financial investments with innovation, value creation, risk mitigation and capacity enhancement for the end users and microfinance providers. I firmly believe that greater access to financial services translates into higher economic benefits, improved well-being and a better quality of life for our clients. We continue to assess the impact of such interventions that will further help us in shaping the way we direct such value-added services.

During the year, we witnessed a slow-down in growth rates across the microfinance sector and a heightened risk averse strategy adopted by microfinance providers in response to the challenging economic environment. With pressure on profitability and increased costs of providing services, institutions need to focus on optimum resource utilization and impactful innovations to meet end user needs. With a competent management team, strong policies and inventive initiatives underway, PMIC is well positioned to weather the current economic environment. However, in order to amplify our outcomes, multi-stakeholder partnerships are necessary to pursue opportunities that benefit the entire sector. In this respect, PMIC plans to roll out a EUR 15 million financing facility for its renewable energy program signed in 2019 while the company also closed its first financial advisory transaction in the capital markets space during the year. PMIC continues to reach out to its shareholders, partners and other key stakeholders to build a cohesive movement through various responsible business practices and interventions. During the year, one of the most significant headwinds faced by PMIC was as a result of the closure of BRAC Pakistan, a PMIC customer, who had to wind down its operations due to regulatory action. This adversely affected PMIC's profitability given PMIC took a 100% provisioning against BRAC's non-performing portfolio. To safeguard its interests, PMIC has filed a legal suit for recovery of its exposure in Islamabad High Court and we are confident that PMIC will be successful in recovering this exposure.

In 2020, we expect economic activity to be severely affected due to the ongoing COVID-19 pandemic as institutions and businesses curtail or shutter operations for prolonged periods. The impact of this will surely be felt at the bottom segment of society, especially our target end user clients, many of whom are dependent on daily wages coupled with financing support from microfinance providers. I strongly believe it is the responsibility of microfinance practitioners to provide support to such clients in these difficult times.

We stand committed alongside our team and partners to empower the underserved in Pakistan through inclusive lending practices and impactful innovation. I would also like to take this opportunity to express my gratitude to our employees, shareholders, lenders, borrowers, microfinance clients and all other stakeholders for their support, contribution and trust.

Naved Abid Khan
Chairman of the Board

CEO's Message

The year 2019 was an exceptionally eventful year and I am gratified by our resilience in the face of daunting challenges. The economic slowdown, significantly high interest rate and inflationary pressures impacted us and our clients. The biggest challenge to PMIC during the year was the specific provision made against non-performing portfolio of BRAC Pakistan, resulting in a decrease in profit on a year on year basis. However, we remain well capitalized and equipped to ensure strong internal controls and to maintain a robust risk management framework to mitigate risks associated with our portfolio.

During the year, we materialized significant opportunities and delivered on the commitments we have made to our stakeholders. Our gross financing portfolio grew by 15% on a year-on-year basis to Rs. 23.86 billion. We made our debut in the local debt capital market by winning two financial advisory mandates to provide subordinated loan facility and Privately Placed Tier II Term Finance Certificates (PPTFC) to FINCA Microfinance Bank Ltd and Khushhali Microfinance Bank Ltd respectively. We borrowed Rs 1.8 billion at K-1% under Financial Inclusion and Infrastructure Program from the State Bank of Pakistan which brought down our cost of borrowing. We also signed a Subordinated Loan Agreement of Euro 15 Million with KfW, our shareholder, which will be used primarily for a program of access to energy through provision of solar equipment to private households and micro and small enterprises in rural and peri-urban areas through on-lending the funds to microfinance partners. This highlights our shareholders' confidence in our ability to create significant impact in the sector and their continued support and commitment towards our cause.

During the year, 62% of PMIC funding to microfinance institutions was deployed in rural areas and was collectively utilized to serve approximately 800,000 microfinance clients, of which 83% were women. We also implemented numerous Microfinance Plus projects in Renewable Energy (PRIME), Crop Productivity Enhancement Initiative, Livestock Value Chain, Education through Microfinance, Enterprise Development Initiative and Graduation Out of Poverty. PMIC is in the process of assessing the impact of three of these interventions through an extensive study, outcomes of which are expected in 2020. We will continue with the resolve to serve the marginalized and underserved to create positive economic and social gains, as evident through PMIC's vision and strategy.

The year 2020 will continue to be a challenging year for the economy due to high interest rates, inflationary pressures and unfolding situation due to Covid-19 . This will result in further pressure on the microfinance sector, impact of which will be especially felt by the end clients. Nevertheless, PMIC will continue to vigilantly serve the underserved in cooperation with its stakeholders. The focus will be on moving towards sector specific lending and expanding microinsurance across our portfolio. On the other hand, we plan to implement digital financial inclusion strategy. In an environment where there is increasing need for cautious growth, we are well-positioned to create impact through our efforts on positively thoughtful and impactful innovation.

I believe the primary reason of our achievements has been our commitment, teamwork and devotion. I would also like to take this opportunity to thank our borrowing institutions, partner commercial banks, Board of Directors, Shareholders (PPAF, Karandaaz, KfW), SBP, SECP, PMN, my team and other stakeholders for their continued 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 ended December 31, 2019.

Economic Review [1]

Pakistan's economy continues to face challenges including persistently high inflation and a current account deficit. In view of these macro-economic challenges, Pakistan entered into an IMF program of USD 6 Billion to revive its economy in July 2019. As a result, to meet commitments of the IMF supported program, the regulator and policymakers have adopted a tighter fiscal and monetary policy stance, resulting in a sharp increase in SBP policy rate to 13.25% by August 2019. The government is trying to address key structural issues such as increasing tax base and tax revenue collection and improving its progress on the AML/CFT framework. Pakistan also transitioned to a market determined exchange rate with the exchange rate now stable around PKR/USD 154 – 155 level. Furthermore, the current account deficit contracted by 75 percent to USD 2.15 billion during the first half of FY20 due to a notable reduction in imports and modest growth in both exports and workers' remittances. Additionally, due to a decreasing fiscal deficit, in December 2019, the IMF approved the second aid tranche of USD 450 million after its first review in November 2019. Taking these developments into account, the IMF has maintained its projection for economic growth for 2020 to be 2.4%. Additionally, Moody's global rating agency revised upwards Pakistan's rating from 'Negative' to 'Stable' in December 2019, reflecting Pakistan's long-term growth potential. The low level of GDP growth rate has adversely impacted new job creation in the country, thus affecting those living at the bottom of the pyramid.

Consumer Price Index (CPI) inflation increased by 14.6% on year-on-year basis in January 2020 (Core inflation for same period recorded at 7.9%). Inflationary pressure is expected to persist due to lagged impact of currency adjustments, upward adjustments in gas and electric tariffs, increased oil prices and imposition of import tariffs. Projected inflation is expected to be in the range of 11% – 12% in FY20. Due to pressure on core inflation, State Bank of Pakistan has maintained the policy rate at 13.25% in January 2020 in a bid to curb high inflation.

Banking Sector Update [2]

Banking sector remained well capitalized and robust, despite challenging macroeconomic environment. The earnings of the banking sector improved due to increase in SBP policy rates. Private sector advances witnessed a general slowdown due to subdued economic activity and continued monetary tightening. Asset quality saw some deterioration, with increased volume and share of non-performing loans.

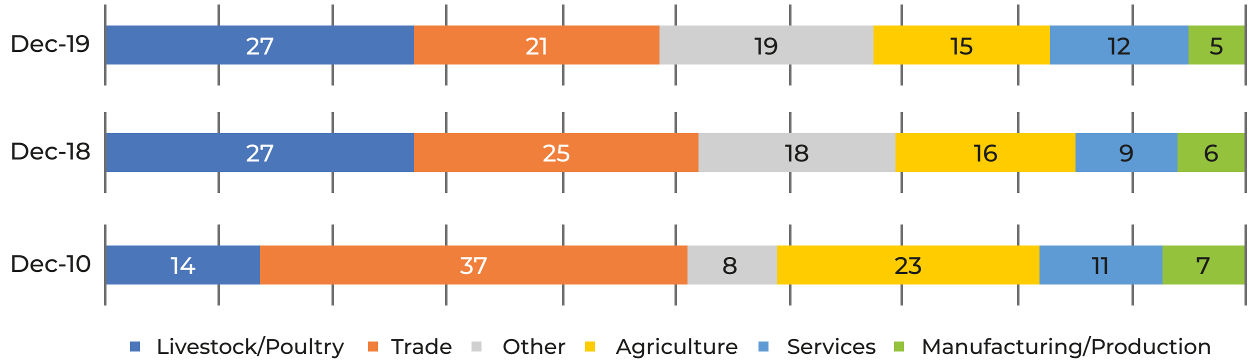
Microfinance Sector Update [3]

2019 was a departure from historical trends for the microfinance sector as growth was almost muted, with the gross loan portfolio (GLP) increasing by only 11% to Rs. 305.8b (CY18: Rs. 274.7b) versus a CAGR of 40% over the preceding 5 years. The increase in number of clients was even lower at 4.5%, with total active clients reported at 7.2m (CY18: 6.9m).

In the current high inflation and interest rate environment, which is increasing the portfolio risk, microfinance institutes and microfinance banks are exhibiting risk averse behavior. As a result, while there is demand for larger loans by microfinance customers, the average loan size disbursed has decreased from Rs. 55 thousand to Rs. 47 thousand level after a persistent upward trend for more than a decade.

Broad features of the GLP have remained largely consistent over CY19, with proportion of borrowers from rural areas comprising 53% of total (CY18: 51%) and women clients comprising 51% (CY18: 53%). Moreover, microfinance banks (MFBs) continue to enjoy almost 70% market share in terms of GLP. Similarly, sector-wise distribution of portfolio has also remained consistent over CY19, as depicted in the chart below. Over a longer-term horizon, however, share of agriculture sector has gone down considerably.

[1] Source: SBP (MPS-Jan20), Pakistan Bureau of Statistic (Jan20), IMF reports;
[2] SBP Review (HY-19);
[3] Microwatch report Q4 2019 (industry data)



From almost negligible PAR levels consistently for several years, the level of infection in micro-credit has been on a rising trend for the past few quarters. PAR-30 for the sector was reported at 4.8% at the end of CY19 versus 2.2% at end-CY18. The incidence of non-performance in case of MFBs is much higher at 6.1% (CY18: 5.8%) versus other MFPs at 1.8% (CY18: 1.3%).

Profitability of the sector has come under pressure in CY19. Non-performing loans and the related write-offs have increased. Cost of funds and operating expenses also witnessed an upward trend, further squeezing margins for the microfinance sector players i.e. microfinance institutes and microfinance banks.

In the current scenario, institutions that are able to optimize resource utilization and are innovative in their service delivery are better positioned to minimize the impact of higher costs on the bottom line. Understanding client needs and delivering products that meet those needs while continuous engagement with clients has become more important than before. Given that two private sector credit bureaus are now fully functioning, microfinance institutes and microfinance banks' ability to evaluate credit worthiness of potential clients stands improved.

As the sector enters into a challenging phase, PMIC is well equipped and further strengthening its capacity to meet the growing demands in this respect.

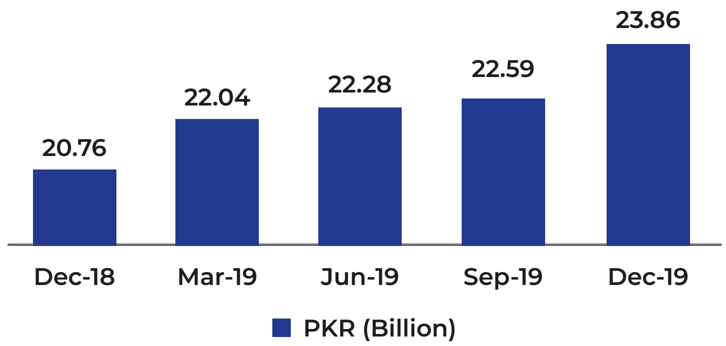
PMIC Review

i. Operational and Financial Review

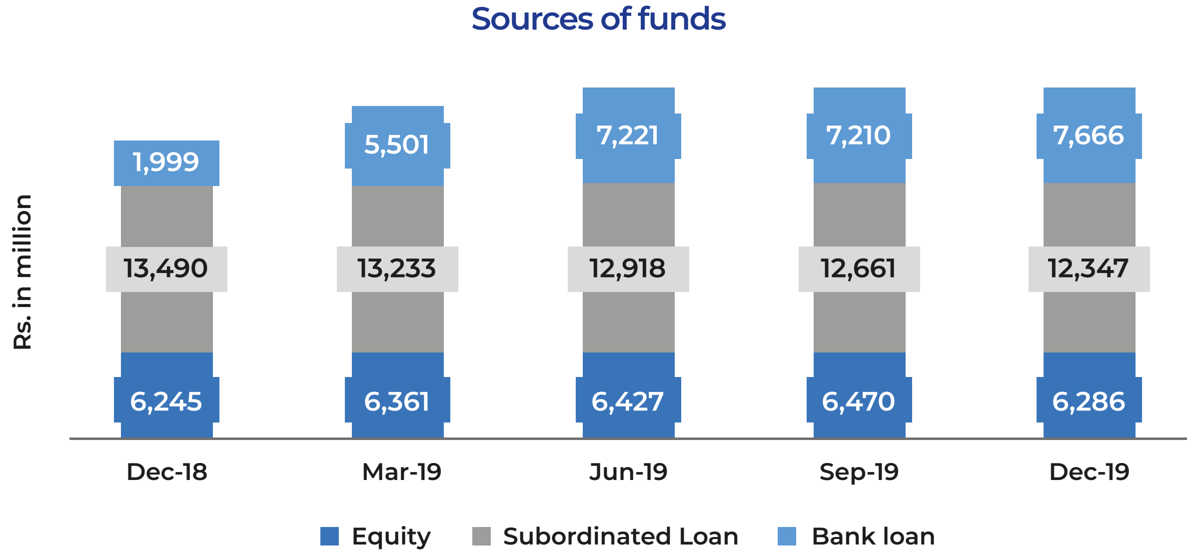
The financial results of PMIC are as follows:

	2019 (Rupees)	2018 (Rupees)	Variation %
Income	**3,632,549,761**	**1,738,961,571**	**109%**
Finance cost	(2,385,579,598)	(925,627,592)	158%
	1,246,970,163	**813,333,979**	**53%**
Administrative expenses	(340,835,471)	(307,471,550)	11%
Profit before taxation	67,655,917	398,773,374	-83%
Profit after taxation	**39,322,990**	**276,853,394**	**-86%**
Earning per share	6.68	47.05	-86%

In 2019 PMIC focused on cautious growth. The company disbursed about Rs. 3 Billion (Net) to 19 partner financial institutions including three MFBs. The financing portfolio grew from Rs. 20.76 billion at the start of 2019 to Rs. 23.86 billion by the end of the year.



PMIC also raised funds from commercial banks during the year 2019, closing the year at Rs. 7.66 billion of commercial borrowings. Growth in 2020 will primarily be driven by commercial funding, which would include bi-lateral arrangements as well as capital market transactions. During the year 2019, PMIC has signed a Euro 15 Million subordinated loan agreement with KfW for PMIC-KfW Renewable Energy project (PRIME), which signifies the confidence and support of our shareholders. The company remains well capitalized at December 2019, with Rs. 6.28 billion equity and subordinated loans of Rs 12.34 billion.



Company's net income before provision was recorded at Rs. 1,246 Million for the year 2019, an increase of 53% from last year. Profit for the year was recorded at Rs. 39 Million, a decline of 85% from last year primarily due to 100% specific provision of Rs. 721 Million booked during the year mainly against non-performing portfolio of BRAC Pakistan. Return on equity was accordingly 0.6% for the year (Return on equity would have been 8.6% for the year if 100% provision against BRAC Pakistan was not made). BRAC Pakistan was closed down during the year due to regulatory action. The company has filed a legal suit for recovery of its amount in Islamabad High Court and will ensure its interests are protected.

Administrative expenses remained well within budget and were recorded at PKR 340 million for the year 2019 and includes various one-off capacity building costs and staff trainings.

Internal control system of the company remained robust and effective during the year. PMIC conducted the Business Process Review activity during the year focusing on improving efficiencies and process automation/integration of technology. Implementation of world class SAP Enterprise Resource System (ERP) was also initiated during year 2019, and the project is expected to be completed in the first half of the year 2020. SAP will automate PMIC's processes for further business efficiencies and will provide timely insights and analysis for better business decisions.

ii. Business and outreach review

In addition to financial returns, PMIC also remained focused on its social and environmental objectives during the year. Priority was set and adequate progress made on increasing outreach to underserved economic groups and areas including women, youth, rural and extreme poverty zones.

During the year, the credit disbursements from PMIC to partner financial institutions were utilized to serve about 800,000 microfinance clients, of which 83% were women. 62% of the portfolio at year-end was outstanding in rural areas, in line with PMIC's objective to serve those in marginalized areas and enhance development outcomes. PMIC's model of financing is in line with PMIC's vision to enhance employment and income generating opportunities as almost 36% of the portfolio was extended for trade/manufacturing and production purposes, with exposures in agriculture and livestock aggregated at 34%. Loans to services sector stood at 23% at year-end while 3% of portfolio was deployed in Education, Renewable Energy, Housing and Consumer loans. PMIC will continue to focus its lending in segments that generate employment opportunities and increase revenues of small and micro enterprises. Additionally, PMIC aims to use its lending to stimulate digital growth, create access to renewable energy and expand access to formal finance for the underserved, especially women.

PMIC is keen to promote financial inclusion across Pakistan and acknowledges the increasing funding requirements of the microfinance sector. PMIC offers both fund and non-fund based credit offering for our clients.

During the year under review, PMIC made its debut in the local debt capital market by winning two Financial Advisory mandates for leading MFBs. PMIC has provided subordinated loan facility and Privately Placed Tier II Term Finance Certificates (PPTFC) to FINCA Microfinance Bank Ltd and Khushhali Microfinance Bank Ltd respectively. The facilities will contribute towards bank's Tier II capital requirements prescribed by the State Bank of Pakistan for MFB. With this partnership, PMIC and MFBs aim to improve the financial inclusion indicators of the country and contribute towards the National Financial Inclusion Strategy.

PMIC during the year 2019 also established relationships with tech-based startups and enterprises, including initiating lending to a new age fintech providing financial products and services through the use of technology and digitalization. In the coming year more tech-based institutions will be explored for partnerships and strategic investments. This is in consonance with PMIC's objective of leveraging the use of technology and developing an inclusive financial ecosystem.

In line with its objectives, PMIC designs and implements "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. Microfinance Plus interventions are designed holistically to consider the effect on the entire ecosystem i.e. the market, the institutions and the microfinance clients. In 2019, PMIC upscaled several innovative and beneficiary centric microfinance plus initiatives; these include crop productivity enhancement for smallholder farmers, livestock value chain, crop and livestock micro-insurance products, enterprise development initiative, graduating clients out of poverty, promoting affordable quality education through Low Cost Private School-LCPS model and provision of clean energy through Solar Home Solutions under the PMIC-KFW Renewable Energy through Microfinance (PRIME) program reaching out to more than 50,000 households. PMIC is focused on creating meaningful impact through all these initiatives and plans to document results to reach out to various development agencies, and corporates to upscale the same.

During the year, PMIC maintained a robust risk management framework. PMIC's engagement with its borrowers is multi-layered and goes beyond the role of traditional lenders; whereby its staff is closely engaged with not just the management of borrower organizations but also the end clients utilizing their financial services. PMIC also has a Board approved AML (Anti-Money Laundering) policy which means that as per its business plan and policy, PMIC only deals with institutional clients after undertaking active screenings and all transactions are conducted through banking channels. PMIC's Environment and Social Risk Management Policy envisions an adequate mitigation response by the Company and its borrowers, to the challenges and risks associated with environmental and social issues, within the ambit of microfinance.

iii. Board Committees

The following Board Committees functioned actively during the year:

Committee	Number of Meetings Held
Board Audit Committee (BAC)	4
Board Risk Committee (BRC)	5
Board Human Resource Committee (BHRC)	5

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. Credit Rating

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

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

vi. Pattern of Shareholding

The shareholding as at December 31, 2019 is as follows;

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

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

Sr#	Name	Title
1	Mr. Naved Abid Khan	Chairman
2	Mr. Qazi Azmat Isa	Director
3	Ms. Christine Eberhard [1]	Director
4	Ms. Christiane Schmidt [1]	Director
5	Mr. Navid Yousaf Goraya	Director
6	Dr. Tariq Hassan	Director
7	Mr. Kamran Ali Afzal [2]	Director
8	Mr. Yasir Ashfaq	CEO/Director

[1] Ms. Christine Eberhard joined the Board as Director on July 24, 2019 following the resignation of Ms. Christiane Schmidt on May 28, 2019.
[2] Mr. Ali Raza Bhutta joined the Board as Director on January 30, 2020 following the resignation of Mr. Kamran Ali Afzal on 06 September, 2019.

vii. Auditors

The present Auditors, M/s KPMG Taseer Hadi & Co. Chartered Accountants retire and being eligible, offer themselves for re-appointment. The Board of Directors, on the recommendation of the Audit Committee, recommended the appointment of M/s KPMG Taseer Hadi & Co. Chartered Accountants, as auditors of the Company for the year ending December 31, 2020.

viii. Outlook

The year 2020 will continue to be a challenging year for the economy, with expected GDP growth of approximately 2.4%. This will result in pressure on the microfinance sector, and it will thus undergo consolidation and structure itself for cautious growth. However, the potential for expansion still remains high especially in low penetrated geographies. The sector will need to innovate and introduce new products and services for the end clients.

Economic outlook may continue to remain weak in CY20 which may bear adversely on the microfinance sector. With year-on-year Wholesale Price Index for food alone recorded at 16% in CY19, the impact at the bottom of the pyramid is being felt considerably, as is the case with almost all income spectrums. PMIC will continue to serve the microfinance sector in coordination with the stakeholders.

ix. Acknowledgement

The board of directors would like to take this opportunity to express their gratitude to the shareholders (PPAF, Karandaaz, KfW), Ministry of Finance, SECP, SBP, PMN, our lenders, borrowers and 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 company's success.

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Yasir Ashfaq
Chief Executive Officer
Date: 11 March 2020
Place: Islamabad

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Navid Goraya
Director
Date: 11 March 2020
Place: Islamabad

Client Success Stories - Women - Breaking Stereotypes

Credit Officer on Wheels!

Zahida Noor – a Senior Credit Officer employed with AGAHE Pakistan manages a portfolio of around 500 clients within a 15 km radius of her branch in Vehari. In a city where women are mostly confined to their homes, Zahida was determined to gain financial independence and started her career as a Credit Officer with AGAHE Pakistan.

As an integral part of her job, she needed to be regularly engaged with her clients at their premises. These visits became difficult for her as she had to walk long distances in the harsh summer weather or alternatively had to resort to using public transport such as vans or rickshaws, which was expensive. This would often lead to delays in client meeting for disbursements and recoveries, thereby adversely affecting the portfolio. Being a strong independent woman, this situation was frustrating for her.

Determined to find a solution, she requested the senior management of AGAHE Pakistan to provide her with a motorcycle to facilitate her in field activities. In taking this bold step, Zahida became the first woman employee to be provided with a motorcycle and also the first woman in her area to ride her motorcycle on her own! This has been a huge milestone for her since Zahida is now able to meet all customer commitments in an efficient and effective manner with convenient access to all her portfolio clients. At the same time, she is inspiring many other women that they can also break through social taboos and nothing is out of their reach!

Robina Qadeer- Pick & Drop Service

Life reached a very difficult point for Robina, when at the age of 25 she got divorced with the responsibility of 4 children and no source of income. She faced a multitude of financial problems to manage her expenses and her children's school fees. At this point, she explored various options to earn some income for her household. Robina had an old car parked outside her place, but had no money to repair it. She then came to know of the facility to avail a microfinance loan. This came as a ray of light in Robina's otherwise dark and gloomy life. She obtained the loan and used it to repair her car in order to bring it to a good working condition. She then started pick and drop services for children in her locality. Soon she was able to provide for her family's expenses in a comfortable manner whilst ensuring that all her children had access to education. Building on her success, she then sold the car to purchase an old van enabling her to provide pick and drop services to a greater number of children. The most significant achievement for Robina today is that her daughter has completed her studies to become a dentist, her son works as a manager at a pharmaceutical company and her 2 younger children are in college. For Robina the ride has not been easy but with her determination and resilience, she has achieved a lot - she is not only financially independent, she is now supported by accomplished and educated children!

PMIC Strategy

PMIC's Strategic Pillars – An Integrated Intervention Approach

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

- Wholesale Lending
- Microfinance Plus Initiatives
- Research and Policy Advocacy
- Financial and Business Advisory

Wholesale Lender

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

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

Indicators to track	2019 Update
Portfolio of PMIC	PKR 23.86 billion
No. of Borrowers	24

During the year under review, PMIC provided subordinated loan facility and privately placed Tier II Term Finance Certificates (PPTFC) to FINCA Microfinance Bank Ltd and Khushhali Microfinance Bank Ltd respectively. Besides fulfilling their capital adequacy requirements, majority of these loans will be targeted towards individuals, running micro, small and medium-sized enterprises across the country with penetration in Balochistan and KPK as well.

ii. Priority lending for underserved economic groups and regions

At the end of December 2019, PMIC, through its partner organizations, had reached out to 769,521 clients, with presence in 74 districts.

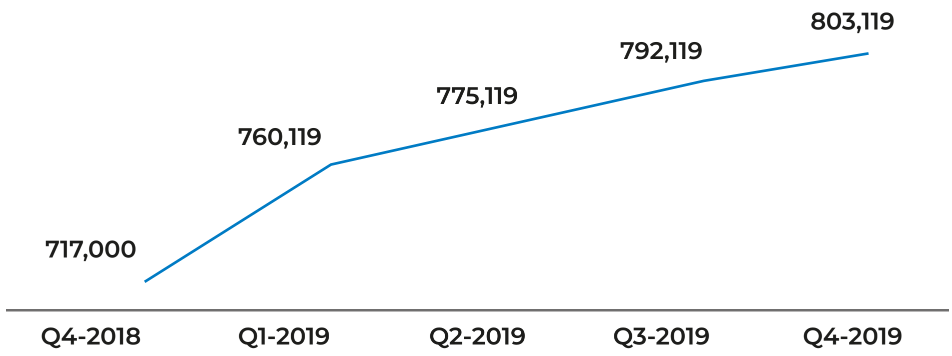
Indicators to track	2019 Update
Proportion of PMIC's portfolio deployment in rural areas	62%
Proportion of women clients in PMIC's portfolio	83%
Proportion of youth clients in PMIC's portfolio	35%
PMIC's Loan Portfolio deployment in Extreme Poverty Zone 1 and 2 Districts	PKR 2.5 billion
No. of microfinance clients previously utilizing subsidized schemes	9,692

PMIC aims to improve and strengthen small and medium scale Microfinance Institutes. Therefore, PMIC appointed advisors for 6 small and medium scale partner Microfinance Institutions to support their development and growth. This will help the organizations to improve their overall governance and financial performance by enabling strategic thinking at the institutional level and focusing more on better risk management strategies. It is expected that the exercise will facilitate the organizations in becoming more receptive towards using/acquiring latest technologies.

Microfinance Portfolio Characteristics

PMIC's portfolio growth owes itself to broadening the ambit of its operations to greater numbers of end-clients – and not just borrowing institutions. At the end of FY2019, PMIC was lending to 24 MFPs (2018: 21 MFPS). A snapshot of the progress over 2019 in terms of end-clientele is provided below.

Total Active End-Clients (Dec 2019)

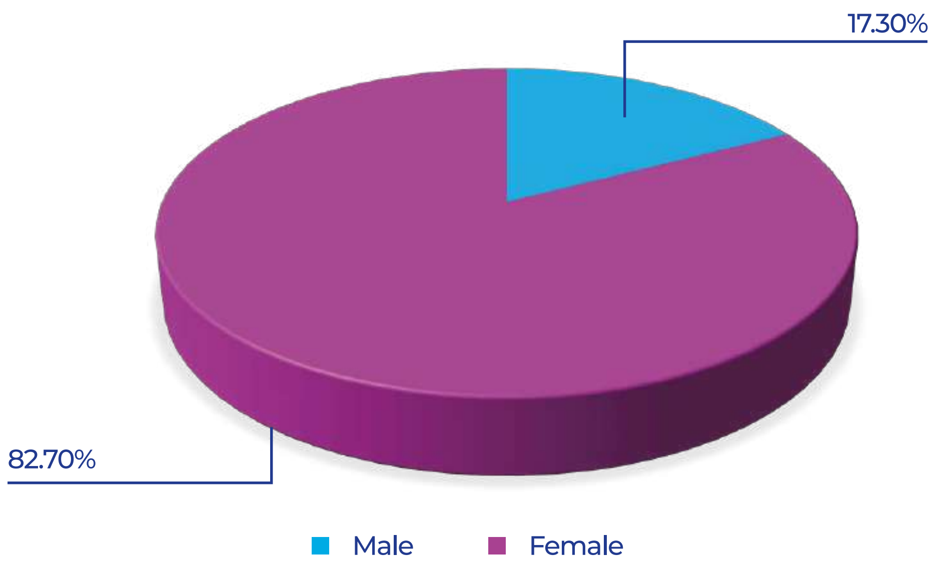


PMIC envisages to extend the impact via its operations to even larger numbers of clients and borrowing institutions over the year 2020.

Women Empowerment

PMIC is aware of the potentially significant reduction in gender inequality that can be brought about by increasing access to microfinance services for women. Hence, PMIC is working to promote financial inclusion for women to help achieve gender equity and poverty reduction. PMIC had set a target of at least 50% female end clients. By December 2019, the target has been far-exceeded by 32.7%, primarily owing to the majority representation of NBMFIs in PMIC's portfolio, which have a high proportion of female clients. The target for year 2020 is set at 65% female clients. In years to come, PMIC would continue to focus more on female clients.

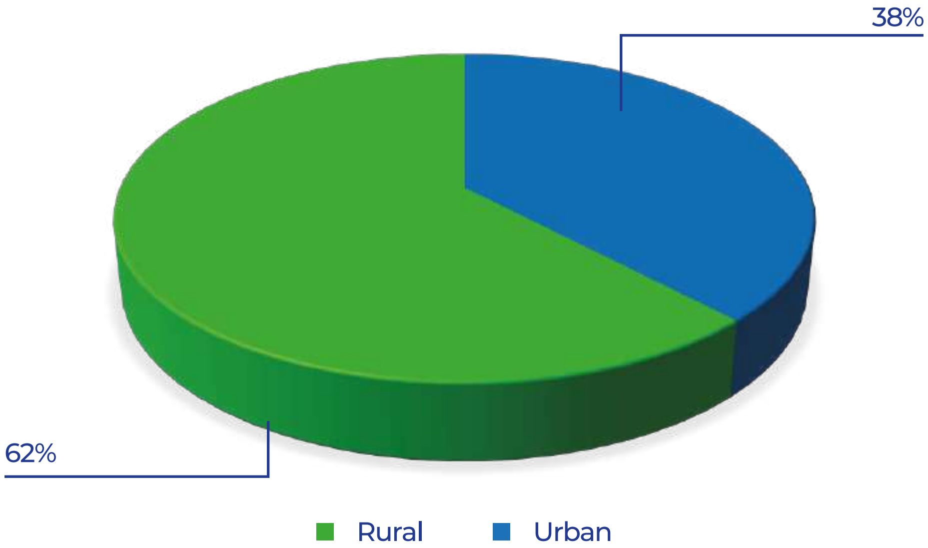
ACTIVE CLIENTS - GENDER BREAKUP



Geographic Mix

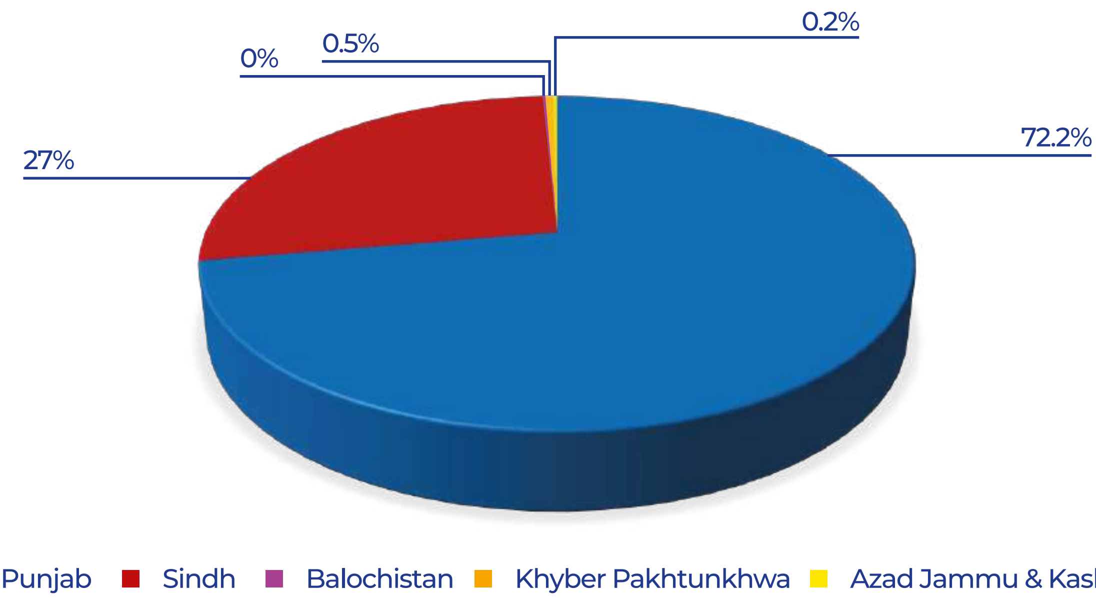
Provided greater prevalence of poverty in rural settings of the country relative to urban areas, it is one of PMIC's objectives to deploy at least 50% of its portfolio in rural Pakistan. Although by year-end, PMIC had exceeded the goal by a fair margin of 12%, efforts would continue to further reach underdeveloped and marginalized communities – while not leaving the developed areas unattended at the same time.

GEOGRAPHIC BREAK



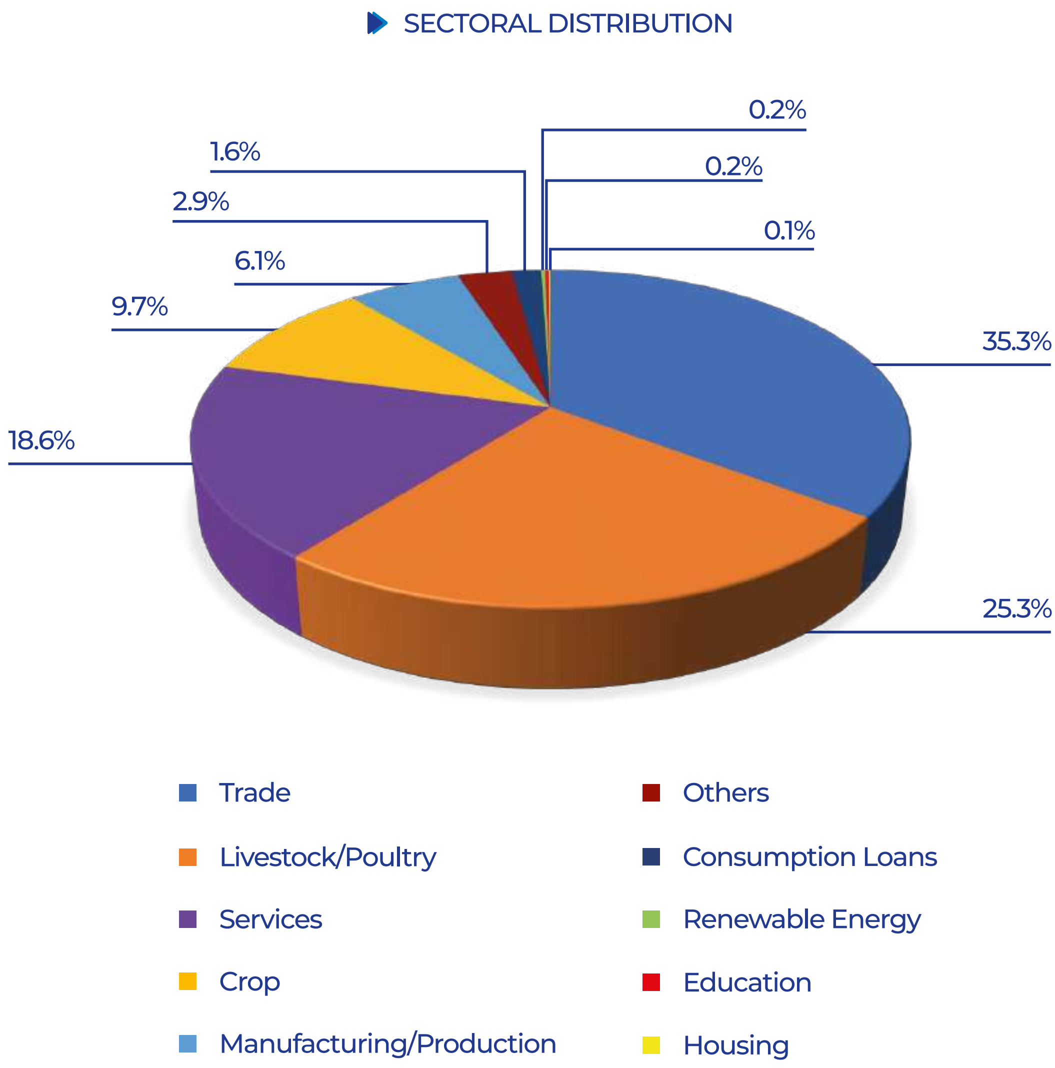
Provincial Distribution

Poverty rate and other relevant development indicators suggest the need for appropriate interventions in Balochistan and KPK. Therefore, PMIC will continue to explore avenues for new MFIs and facilitating the penetration of existing ones in the two provinces.



Sectoral Distribution

PMIC's end-clients are engaged in a myriad of income generating activities. These activities are clubbed into general categories such as agriculture, enterprise, and livestock. However, owing to PMIC's 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 were hitherto uncatered by the microfinance sector. The sectoral distribution of portfolio as of year-end is provided below.



Microfinance Plus

As a triple bottom line company, PMIC designs and implements 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. Microfinance Plus interventions are designed holistically to consider the effect on the entire ecosystem i.e. the market, the institutions and the microfinance clients.

In 2019, PMIC upscaled several innovative and beneficiary centric microfinance plus initiatives focusing on small farmers involved with crops and livestock, enterprises, renewable energy, livestock insurance, promoting education and graduating clients out of poverty. In line with its business strategy, PMIC spent PKR 60 million out of its income to deploy these initiatives and also mobilized more than PKR 15 million from corporates and international agencies to support these initiatives. PMIC is focused on creating meaningful impact through initiatives in the above areas and plans to document results to focus on areas with highest benefits to the clients and reach out to various development agencies, and corporates to support upscaling up the same.

Intervention	Clients reached in 2019
Renewable Energy (PRIME)	5,111
Livestock Productivity Enhancement	19,440
Enterprise Development through Trainings and Larger Loans	10,297
Crop Productivity Enhancement Initiative	10,119
Education through Microfinance	662 schools
Graduation of clients from Social Safety Nets to Microfinance	9,692

PMIC-KfW Renewable Energy Initiative through Microfinance (PRIME)

A key milestone achieved by PMIC during this year was the launch of the PMIC-KfW Renewable Energy Initiative through Microfinance (PRIME). PRIME is a Euro 15 Million loan program to finance Solar Home Solutions (SHS) to the poor and off-grid areas in Pakistan for 200,000 households, thereby advancing the 7th Sustainable Development Goal of 'Affordable and Clean Energy for All'. The program will build capacity of microfinance providers, catalyze market development for high-quality products, and create sustainable impact by enabling the microfinance sector of Pakistan.

PRIME was launched in November 2019 with 7 microfinance institutions and 9 suppliers qualified for the program. Within a few months of implementation over 5,000 loans have been made, providing solar products to residents of the remotest parts of the country. The program has a pan Pakistan approach but initially loans have been made in areas of Sindh and Punjab. Activities during the year included training of MFP staff, client awareness sessions, prequalification of vendors and products, interaction with local fan manufacturers and development of loan products including top-up loans.

Crop Productivity Enhancement Initiative - CPEI

PMIC implemented the CPEI project benefitting 10,119 subsistence farmers in 10 districts including Sheikhupura, Nankana Sahib, Gujranwala, Vehari, Muzaffargarh, Sanghar, Nawabshah, Matyari, Umerkot and Mirpurkhas. The farmers were trained on land preparation, effective application of necessary inputs (fertilizer, pesticides and micronutrients), effective and efficient water application procedures and latest crop harvesting techniques by leading institutions including the US-Pakistan Centre for Advanced Studies in Water – USPCASW, Agri extension services department of Fauji Fertilizer Company – FFC and Bakhabar Kissan, building the capacity of small farmers in improving their crop cultivation practices – resulting in improved crop yields and incomes. Collaborations with Agri Research Institutions like NARC, PARC and Universities like Sindh Agriculture University, Faisalabad Agriculture University and other extension departments have been made to strengthen the initiative and bring the knowledge generated by these institutions to the small farmers.

Livestock Productivity Enhancement Initiative - LPEI

The LPEI initiative was implemented benefitting 19,440 small farmers in 21 districts across Punjab and Sindh through 8 microfinance institutions. Farmers were trained on increasing milk production and animal weight, feed and water importance of treating animal diseases through veterinary medicines, vaccination of animals and replacement of unhealthy/unproductive animals helping these farmers improve animal productivity resulting in increased income.

Enterprise Development Initiative through Trainings and Larger Loans - EDI

The EDI was implemented through 7 borrowers benefitting 10,297 micro and low-end small entrepreneurs – MSMEs in 17 districts of Punjab and Sindh. The project involved provision of larger sized loans to MSMEs as well as trainings on business development, skill enhancement, budget preparation, marketing, financial literacy and bookkeeping. Institutions like PSDF, Gharpar and Uber partnered with MFPs to deliver trainings and skills to clients to strengthen their businesses and income generating ventures.

Livestock Micro Insurance - LMI

PMIC ‘s portfolio includes almost 30 % contribution of livestock sector. PMIC has made valiant efforts in introducing livestock insurance as a risk mitigation tool for clients engaged in this sector. In this regard, PMIC, in collaboration with Alfalah Insurance Company and Thardeep Microfinance Foundation have been working on introducing a technology-based application using animal facial recognition technology to identify animals and a digital platform to process claims.

Further, PMIC, in partnership with KfW and National Disaster and Risk Management Fund – NDRMF have also been working on introducing disaster risk insurance in Pakistan. In this regard, a swiss consultant firm namely Celsius Pro has started work on a feasibility study and product development.

Education through Microfinance

The initiative is benefiting 950 low cost private school entrepreneurs of districts Faisalabad, Gujrat, Kasur, Mandi Bahauddin, Multan, Sheikhupura, Lahore and Gujranwala and entails adoption of a dual approach for low-cost private schools comprising technical and financial assistance. The technical assistance component consists of school owners’ training on accounts, human resource management, child safety and health, school marketing and other school management areas. Whilst the teachers’ training consists of modules related to classroom management, activity-based teaching, pedagogy, financial literacy module for children, student assessments, lesson planning, behavior management, among others. This year also marks the first time that Opportunity International (OI) an international entity that works with financial institutions in around 13 countries in the field of education- initiated work in Pakistan. It aims to help MFPs build and grow profitable education finance products along with technical capacity building in related areas. Opportunity International in collaboration with PMIC implemented OI’s education quality tools in Pakistan in 100 schools in Faisalabad, Gujranwala and Lahore. OI intends to continue and grow its partnership with PMIC in 2020 to reach out to more schools. PMIC and OI also collaborated to train the head office and branch level staff of MFIs to build their capacity to manage and grow their education loan portfolio.

PMIC is focused on creating meaningful impact through all these initiatives and plans to document results to reach out to various development agencies, and corporates to upscale the same. Taking forward our learnings and experience from the field, we envisage to scaleup livestock and insurance initiatives during 2020.

Research

Collecting and documenting impact related data can deliver important insights to development organizations about the scale and nature of their initiatives. Recognizing the importance of evidence, the research function at PMIC plans to position the organization as a knowledge center. PMIC strongly believes that research can help us better understand the most pressing issues facing the sector while also enabling diversification and designing products that are customized to the client needs. The efforts of PMIC are directed to bridge the knowledge gap that currently exists in the sector. Accordingly, research at PMIC is driven by areas identified for policy advocacy; including matters of significance for the sector.

Moreover, Pakistan also remains a market that is fairly undocumented in terms of the work that has already happened in the sector. Many institutions may not have the human or financial capital to actively and consistently engage in research for documenting impact or capturing valuable insights. This is where PMIC will play a role in informing the nature and scale of impact created by microfinance and revealing market insights for both its own strategy and those of sector players. PMIC will work with credible partners in its research initiatives, including academia and development finance institutions.

Impact Assessments

As elaborated earlier, PMIC's Microfinance Plus Products focus on integrating financial investments with innovation, value creation, risk mitigation and capacity enhancement for its borrowers and/or end clients. These initiatives are predicated on the assumption that both financing and capacity building of end-clients – or Partner Organizations as the case may be – should lead to enhanced development outcomes for them in the medium to long term. In 2019, PMIC commissioned "pre-post" evaluation studies for the following three MF Plus projects:

i. Enterprise Development Initiative – targeted towards micro-enterprise owners and cash flow assessment skills of borrowing institutions.

ii. Education through Microfinance – targeted towards low-cost private school owners and teachers

iii. Graduation from Poverty – targeted towards microfinance clients previously benefiting from a Social Safety Net program.

Following a rigorous evaluation process, Sustainable Development Policy Institute (SDPI) was selected to undertake these studies. The specific objectives of undertaking these assessments are to quantify the impact of PMIC's interventions against agreed outcome indicators and establish outcome level benchmarks and thereby, targets for future MF Plus initiatives.

It is expected that the results of these studies will not only allow PMIC to determine the actual impact versus desired outcome indicators but also help in institutionalizing these practices at partner MFI level if the positive impact can be established. Baseline data collection was completed around end of 2019 while end-line is set to be executed towards the end of 2020 for the same interventions.

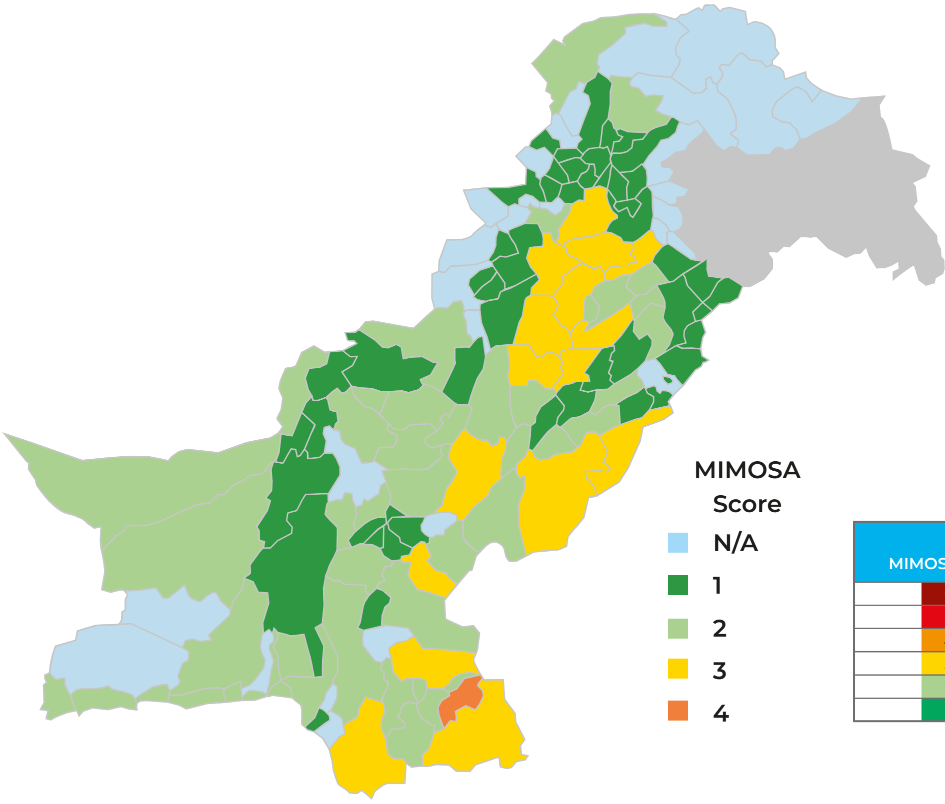
MIMOSA Study

Microfinance Index of Market Outreach and Saturation (MIMOSA) is a methodology of measuring credit penetration in a microfinance market. The saturation score is a function of both credit penetration and capacity in a particular market. PMIC co-funded the MIMOSA study undertaken for the Pakistan market; results of which were publicly disseminated in 2019.

Pakistan received a national MIMOSA score of 2.0 indicating a "normal-to-moderately underserved level". A range of penetration and saturation levels is observed across districts and provinces. Only KPK received a score of 1 (underserved) while all others scored 2. This is not because KPK has the lowest penetration – FATA and Baluchistan both have lower penetration – but because its relatively high Human Development Index

(HDI) and population density imply much higher capacity. Even Punjab, the state with the highest overall penetration level still has large areas of unmet demand, especially along the Eastern districts. Furthermore, all the large cities – i.e. Lahore, Karachi, Faisalabad etc. – are still largely underserved, given their higher capacities to absorb penetration. The study also declared regulation as "strong", market as "competitive", prevalent concerns regarding unsustainability of growth as "exaggerated" and data availability / transparency as "mitigant" against risks.

One of the drawbacks of the study was that credit bureaus were not fully functional at the time of the study which meant that client level indebtedness was estimated using survey results; this may not be completely reflective of the actual extent of multiple borrowings and/or over-indebtedness levels in the market, given that growth in last two years happened in the absence of fully functional credit bureaus.



MIMOSA Score	Market Status
6	Saturated
5	
4	
3	Normal
2	
1	Underserved

Microfinance & Enterprise Growth: Evidence from Pakistan

The Microfinance and Enterprise Growth study was commissioned by one of PMIC's shareholders, Karandaaz Pakistan, in 2018, to illustrate additionality of microfinance by assessing whether microenterprises affect job creation and growth of business for the borrower. PMIC was represented on the steering committee of this study which was finalized by mid-2019 and launched towards year-end. Additional dimensions of analysis included the usage of microloans for income generating activities versus household consumption purposes. A systematic, up-to-date and sector-wide study on these data points had not been conducted before. Results from the study indicated that jobs supported by microenterprises increased over time in addition to such enterprises demonstrating revenue growth. This study is expected to better position both PMIC to tell the positive growth story of microfinance and build more institutional relationships for the benefit of the sector.

Some of the key findings from this study are presented below.

i. On average, microenterprises in the sample earned Rs. 1.6 million as revenue which increased by 25% over the preceding year.

ii. Revenue multiplier: amount of incremental revenue generated per Rs. 1 million in loan was estimated at 4.1 times.

iii. On average, microenterprises directly supported 2.6 fulltime jobs and created 0.15 additional full-time equivalent jobs over one year.

iv. Overall, 40% of employees within the sampled survey were women while 45% were youth i.e. in the 20-34 year age group.

v. Jobs multiplier: number of jobs supported per Rs. 1 million in loan was estimated at 29.3.

vi. 12.2% of loan amount in the sample was diverted towards consumption instead of business purposes.

The MIMOSA and Microfinance and Enterprise Growth studies are among the few undertaken by stakeholders to quantitatively – and better – understand sector characteristics down to the individual client level. The latter, however, was just an evidence gathering exercise as research methodologies employed did not warrant attribution of revenue and job growth to microfinance. In this backdrop, mainstreaming of more sophisticated research practices is highly important to not only better document the interplay between financial services and development outcomes of the target market, but also to showcase it to the outside world with more robust evidence.

Risk Management

A robust risk management framework can help a company establish procedures to avoid potential threats, minimize their impact should they occur and cope with the results. PMIC recognizes the importance of the same and has established an effective risk governance structure, whereby the overall responsibility rests with the Board of Directors. Under the guidance of the BoD, PMIC's risk governance is exercised by the Board Risk Committee, Management Risk Committee and Asset & Liability Committee. Our risk policy framework spans across credit risk, market & liquidity risk, operational risk and environmental and social risk.

As part of the credit risk management function, PMIC actively monitors all its exposures on an on-going basis. PMIC's engagement with its borrowers is multi-layered and goes beyond the role of traditional lenders; whereby our staff is closely engaged with not just the management of borrower organizations but also the end clients utilizing their financial services. The field visits provide us first-hand knowledge of client behaviors and proactively address upcoming issues, if any. PMIC also solicits periodic reports from its borrowers which in addition to financial risk profile, also allow PMIC to track progress against headline social indicators.

The objective of the liquidity management policy is to ensure that PMIC is able to fulfill all its obligations in a timely manner. ALCO actively tracks upcoming maturities of financing and borrowing facilities and committed disbursements under current financing facilities. Liquidity buffers are also maintained on the balance sheet at all times, in line with the approved policy. Along with this, ALCO regularly monitors fluctuations in market interest rates and accordingly manages PMIC's asset-liability interest rate mis-match position.

PMIC's Environment and Social Risk Management Policy envisions an adequate mitigation response by the Company and its borrowers, to the challenges and risks associated with environmental and social issues, within the ambit of microfinance. Moreover, it clearly delineates an exclusion list of activities that PMIC or its borrowers may not engage in, as recommended and used by The World Bank Group and EBRD.

PMIC's board has also approved an AML/CFT policy. As per its business plan and policy, PMIC only deals with institutional clients and all transactions are conducted through banking channels. PMIC nevertheless actively screens key personnel associated with its borrower organizations against the notified list of proscribed persons. Moreover, there has been considerable emphasis placed with borrower organizations to develop effective AML/CFT policy frameworks and implementation tools, so that their businesses may be protected against potential threats.

As the sector enters into a challenging phase, we will continue to strengthen our risk management framework to enhance the level of vigilance on our portfolio while continuing to work closely with our borrowers as well.

Corporate Finance and Investment Banking

Year 2019 was an eventful year for Corporate Finance and Investment Banking (CF&IB) Department at PMIC. Significant milestones were achieved during the year both at funds arrangement and funds mobilization front.

Debt Management and Structured Leveraging

In a short period of time, PMIC's CF&IB has achieved significant progress in establishing partner relationships with Banks, International Investors & multilateral entities and have arranged commercial funding at highly efficient cost to support the projected growth of PMIC's lending portfolio.

In addition, a structured transaction was completed during the year to utilize World Bank's "Financial Inclusion Infrastructure Project (FIIP)" facility through State Bank of Pakistan using a leading Bank's risk underwriting commitment.

Financial Advisory Services

In accordance with PMIC's mission to act as catalyst between commercial lenders and microfinance players, PMIC launched its Financial (Debt) Advisory services for Microfinance institutions & Banks and made its mark by winning two valuable Financial Advisory mandates for leading Microfinance Banks in Debt Capital Market dominated by Commercial Banks. PMIC successfully led the Tier II Term Finance Certificate transaction for Khushhali Microfinance Bank, which was participated by UBL, MCB and BAFL. This was the largest Tier II transaction (commercial) for any Microfinance Bank in the country.

In addition, PMIC also executed Subordinated Term Loan facility for FINCA Microfinance Bank, which contributed towards Tier II Capital for complying with the Capital Adequacy Ratio (CAR) requirement prescribed by SBP, and enabled the Bank to meet financing requirements of over 240,000 MF clients across Pakistan.

Digital Finance

PMIC intends to support and lead the digital transformation of the MF sector in Pakistan. As of today, digital pathways are non-existent in most MFIs; small size and fragmentation makes it exceptionally difficult for MFIs to justify making a critical mass investment into IT infrastructure, data warehousing and technical support. PMIC will contribute in the initiative by providing financial support for "Digital Transformation" of the sector players. Ultimate aim is to deploy necessary resources for real time connectivity with various information & service providers for better customer risk & compliance due diligence and seamless disbursement & Recoveries through Branchless Banking service providers, eventually leading to time and cost efficiencies in the MF Sector.

Capital Markets

Globally, Micro Finance initiatives are supported by impact investors through Bonds and Securitization structures, which is not the case in Pakistan. Pakistani Micro Finance players always relied on Commercial Banks and International MIVs to fund their growth and hence remained submissive in expanding business reach. However, PMIC believes that a separate asset class can be introduced through Capital Market initiatives that can crowd in funding from institutions, corporates and retail and offer Social Development returns along with market based Commercial returns. PMIC is committed to introducing series of initiative-based value Bonds and Funds through Capital Market platforms and developing this important vehicle to fund the future growth of the sector.

Key Partnerships

PMIC and GharPar

PMIC and GharPar Tech Pvt Limited signed an MOU aimed at skill development of aspiring women entrepreneurs with the aim to foster women empowerment and enhance financial inclusion. The agreement aims to empower 1,500 women through their women empowerment and inclusion program during the next year.

PMIC and Punjab Skills Development Fund (PSDF)

PMIC joined hand with PSDF with the aim to work together towards provision of skills and business development trainings for microfinance beneficiaries. The partnership would also result in providing access to finance to graduates of PSDF's programs, creating new clientele for microfinance sector.

PMIC and Alfalah Insurance Sign Agreement

PMIC, Thardeep Microfinance Foundation (TMF) and Alfalah Insurance Company have signed an agreement to pilot an innovative technology laden micro insurance product, which uses animal facial recognition technology and digital platform to provide insurance cover for large animals.

Events

PRIME Launch

PMIC and KFW launched the PRIME - PMIC-KfW Renewable Energy Initiative through Microfinance to support financing of quality verified solar home solutions in Pakistan. PRIME is a Euro 15 Million loan program that will be used to finance Solar Home Solutions (SHS) to the poor and off-grid areas in Pakistan for 200,000 households, thereby advancing the 7th Sustainable Development Goal of 'Affordable and Clean Energy for All'. A diverse group of stakeholders attended the launch event, drawing a crowd of over 150 including dignitaries, regulators, delegates from the private sector, development agencies, government, commercial banks, development rural support programs, microfinance providers, local and international NGOs among others.

Bankers Meeting

PMIC hosted a "Bankers Meeting" in Karachi and also celebrated the successful closure of Khushhali Bank's Tier II issue of Rs. 1.4 bn, which is the highest ever Tier II transaction (commercial) for any Microfinance bank in Pakistan. The meeting was attended by Group Heads, Corporate Heads, Financial Institutions Head and other senior management from NBP, HBL, UBL, MCB, ABL, BAF, Citibank, Standard Chartered Bank, BoP, Habib Metropolitan Bank, Bank Al Habib, Askari Bank, JS Bank, Arif Habib Investments, Khushhali Bank, ASA Microfinance and Advance Microfinance Bank.

GIIN Membership

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

Male Champions of Change (MCC) Initiative

Male Champions of Change (MCC) Pakistan unites male corporate leaders in encouraging women's participation at all levels of employment and is modelled on an Australian initiative, a powerful coalition to achieve gender equality. Being implemented in Pakistan for the first time, PMIC has successfully completed Phase 1 and Phase 2 of the initiative which included leadership shadow, focus groups, data collection and gap analysis through maturity assessment. The implementation phase of the initiative will be initiated in 2020 focusing on PMIC's key priorities on women participation and empowerment.

PMIC SAP ERP (S/4HANA) Implementation Kickoff

PMIC formally kicked-off Implementation of world renowned ERP platform SAP S4/Hanna in collaboration with SAP Pakistan and TallyMarks Consulting. The SAP ERP Implementation is a significant step towards PMIC's Digital Transformation in line with its business plan and ambitions for empowering the underserved. This project will lead to enhanced business efficiency, workflow automation and integration – resulting in quicker turn arounds and greater business insights and controls.

PMIC
Pakistan Microfinance Investment
Company Limited

Our People & Culture

PMIC Celebrates Completion of 3 years

On completion of 3 years of PMIC, PMIC employees and Board members celebrated the occasion with cake cutting. Chairman PMIC, Naved Abid Khan, congratulated the team and shared his appreciation for the various milestones achieved by PMIC. He provided his commitment that while there is a long road to go, we will work together towards this journey to success.

Strategy Meeting 2019

In efforts to formulate PMIC's future strategy and explore scalable and financially sustainable innovative products and options to expand our business, a strategic thinking exercise was initiated where all PMIC team members were encouraged to participate and present their business ideas to the MANCOM. Following a rigorous screening process, shortlisted ideas were further presented to the MANCOM in an off-site Strategy meeting held in Nathiagali. After thorough deliberation, ideas and teams were finalized for further development of PMIC's business strategy for submission to the Board.

All team members who had shared valuable ideas to the business strategy were appreciated with recognition cards.

Woman's Day Celebration 2019

PMIC team celebrated Woman's day with female guest speakers invited from NRSP, Kashf Foundation and BRAC who shared business success stories.

Team Building Activity 2019: Mabali Island

PMIC team celebrated away-day at Mabali Island where everyone participated enthusiastically in various fun-filled outdoor activities. These activities helped in understanding each other and building a strong professional bond.

Summer Internship Programs 2019

As part of employer branding strategy PMIC onboarded a batch of interns in its flagship summer internship program from top Universities in Pakistan. The program was comprehensively structured where the interns, in addition to daily tasks, goals and knowledge sessions, were also given a challenging project regarding Sustainable Development Goals (SDGs) which were presented to the Management Committee of PMIC.

Independence Day Celebration & Clean Green Pakistan Initiative

This year, PMIC celebrated Pakistan's Independence Day through a series of activities with commitment towards the CLEAN GREEN PAKISTAN INITIATIVE. As part of the first activity, PMIC staff pledged commitment to the Clean Green Pakistan initiative by putting up their commitments onto PMIC's Commitment Wall with the aim to make an important contribution to 'Beat Plastic' and 'Clean the Environment' in the country! Taking forward these activities, PMIC team distributed environment friendly reusable bags to the general public at Trail 5 in Islamabad in support of the government's ban on use of plastic bags in Islamabad.

Quarterly Review Meetings

PMIC held its quarterly review meeting in April & July 2018 where all departments shared an update on their work assignments, projects and defined objectives for the year 2019.

Town Hall Meetings

Town Halls were conducted by CEO on PMIC Company Strategy and updates from BoD meeting.

Corporate Values Awareness Sessions

Corporate values support the Organization's vision and help to build and strengthen the culture. In order to create an understanding of PMIC's 5 core values; Respect & Integrity, Teamwork, Transparency & Merit, Inclusion and Passion, Innovation & Creativity, awareness session was held with PMIC team.

Kids Day @ PMIC

PMIC celebrated a Kids day @ PMIC office, an event where we requested all the employees to bring their kids to work to give them a peek into the working world. It was a fun filled program which surely energized the kids and gave them a chance to explore their parent's workplace & work life.

Code of Conduct Awareness Sessions

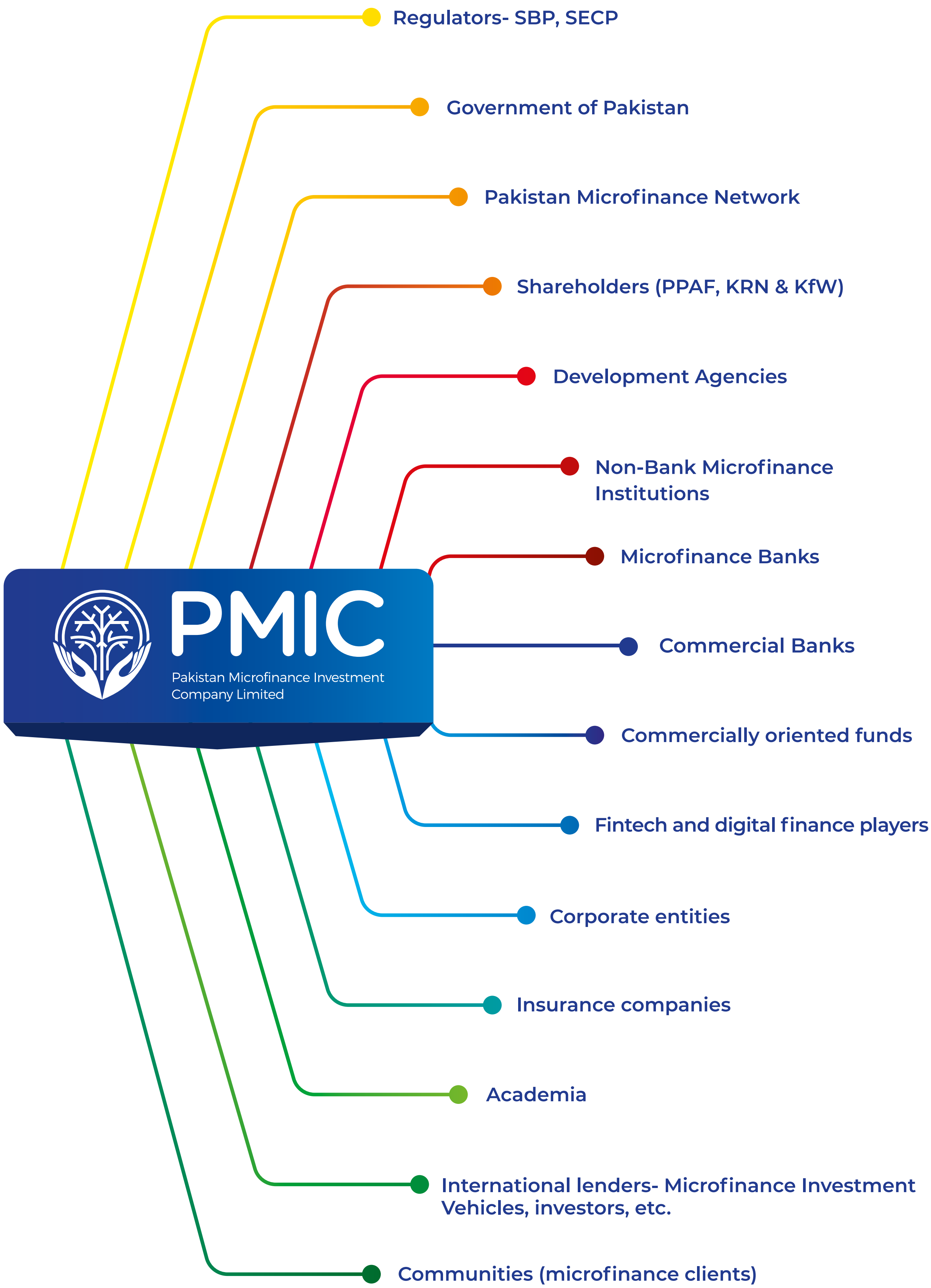
Considering PMIC's Code of Conduct policy, awareness sessions were conducted to provide insight & guidance on existing policy.

Culture Sessions

Head of HR and CEO conducted meetings with MANCOM Team where multiple initiatives were discussed and aligned for structured development of culture of PMIC while keeping in mind our corporate values.

Lunch with Chairman

Chairman PMIC, Naved Abid Khan, visited PMIC where meetings were held with respective Heads of Departments on current developments of each function. A luncheon was also held with the entire PMIC team which provided a great opportunity for everyone to interact with the Chairman and discuss about their experience at PMIC and prospects of Microfinance industry.


PMIC
Pakistan Microfinance Investment Company Limited
Regulators- SBP, SECP
Government of Pakistan
Pakistan Microfinance Network
Shareholders (PPAF, KRN & KfW)
Development Agencies
Non-Bank Microfinance Institutions
Microfinance Banks
Commercial Banks
Commercially oriented funds
Fintech and digital finance players
Corporate entities
Insurance companies
Academia
International lenders- Microfinance Investment Vehicles, investors, etc.
Communities (microfinance clients)

PMIC

Pakistan Microfinance Investment Company Limited

Financial Statements

- Auditors' Report
- Audited Financial Statements 2019

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

INDEPENDENT AUDITORS' REPORT

To the members of Pakistan Microfinance Investment Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Pakistan Microfinance Investment Company Limited (the Company), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss. the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of the profit, the comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants (IESBA Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

KPMG

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 controls 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause 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 represents the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

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

-sd-

KPMG Taseer Hadi & Co.
Chartered Accountants
Islamabad

Date: 24 March 2020

Pakistan Microfinance Investment Company Limited
Statement of Financial Position
As at 31 December 2019

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
NON-CURRENT ASSETS			
Property and equipment	4	23,327,986	26,103,984
Right of use asset	5	50,346,904	-
Intangible assets	6	192,886	523,553
Advance for capital expenditure	7	15,583,806	-
Long term investments	8	379,125,357	-
Financing - net	9	8,296,707,290	8,894,884,583
Long term advances, prepayments and deposits	10	13,529,482	9,781,528
Deferred tax asset	11	312,518,197	71,925,709
		9,091,331,908	9,003,219,357
CURRENT ASSETS			
Advances, prepayments and other receivables	12	54,084,037	37,903,614
Markup accrued - receivable	13	885,805,862	513,952,339
Due from related parties	14	20,402,438	9,256,300
Short-term investments	15	1,715,292,475	825,000,000
Advance tax - net	16	92,500,631	2,519,247
Current portion of financing	9	14,526,150,626	11,638,516,667
Cash and bank balances	17	805,933,056	56,366,945
		18,100,169,125	13,083,515,112
TOTAL ASSETS		27,191,501,033	22,086,734,469
SHARE CAPITAL AND RESERVES			
Share capital	18	5,884,222,000	5,884,222,000
Unappropriated profit		401,854,671	361,160,457
		6,286,076,671	6,245,382,457
NON-CURRENT LIABILITIES			
Subordinated loans	19	11,203,761,539	12,346,699,884
Loans and borrowings	20	6,422,417,448	1,783,333,333
Employee benefits	21	22,319,156	12,241,552
		17,648,498,143	14,142,274,769
CURRENT LIABILITIES			
Short term borrowings	22	98,102,728	99,236,997
Lease liability	23	33,837,824	-
Trade and other payables	24	54,719,820	45,395,158
Deferred grant		-	4,000,000
Markup accrued - payable	25	781,494,168	290,840,075
Current portion of subordinated loans	19	1,142,938,346	1,142,938,346
Current portion of loans and borrowings	20	1,145,833,333	116,666,667
		3,256,926,219	1,699,077,243
TOTAL EQUITY AND LIABILITIES		27,191,501,033	22,086,734,469
CONTINGENCIES AND COMMITMENTS	26		

The annexed notes 1 to 41 form an integral part of these financial statements.

-sd-
CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Profit or Loss
For the year ended 31 December 2019

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Income - gross		3,632,549,761	1,739,127,088
Sales tax		-	(165,517)
Income - net	27	3,632,549,761	1,738,961,571
Finance cost	28	(2,385,579,598)	(925,627,592)
		1,246,970,163	813,333,979
Provision	9.5	(806,840,767)	(115,888,750)
		440,129,396	697,445,229
Administrative expenses	29	(340,835,471)	(307,471,550)
Other expenses	30	(60,423,445)	(7,870,222)
		(401,258,916)	(315,341,772)
Other income	31	28,785,437	16,669,917
Profit before taxation		67,655,917	398,773,374
Income tax expense	32	(28,332,927)	(121,919,981)
Profit for the year		39,322,990	276,853,394

The annexed notes 1 to 41 form an integral part of these financial statements.

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CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Other Comprehensive Income
For the year ended 31 December 2019

	Note	31 December 2019	31 December 2018
		(Rupees)	(Rupees)
Profit for the year		**39,322,990**	276,853,394
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefits liability - gratuity	21.2.3	1,931,301	(1,172,112)
Related tax	11	(560,077)	328,191
Other comprehensive income - net of tax		1,371,224	(843,921)
Total comprehensive income for the year		**40,694,214**	276,009,473

The annexed notes 1 to 41 form an integral part of these financial statements.

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CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Cash Flow Statement
For the year ended 31 December 2019

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities before working capital changes	33	**(237,094,902)**	(310,573,123)
Changes in working capital:			
Financing - net		**(3,096,297,433)**	(9,268,250,000)
Long term advances, prepayments and deposits		**(3,747,954)**	(303,410)
Advances, prepayments and other receivable		**(36,277,615)**	3,531,753
Lending to financial institutions		**-**	-
Short-term investments		**(890,292,472)**	125,000,000
Trade and other payables		**9,324,662**	(25,692,310)
		(4,017,290,812)	(9,165,713,967)
Cash used in operations		**(4,254,385,714)**	(9,476,287,090)
Taxes paid		**(359,466,876)**	(151,318,308)
Finance cost paid		**(1,894,925,505)**	(723,864,763)
Staff retirement benefits paid - gratuity		**(5,630,277)**	(15,925,720)
Staff retirement benefits paid - compensated absences		**(845,182)**	-
Receipt of markup on financing		**2,768,148,437**	1,278,125,327
Receipt of profit on deposit accounts / certificates		**199,357,963**	80,205,715
Receipt of markup on reverse repo transactions		**129,365,566**	67,156,238
Receipt of markup on treasury bills		**68,870,575**	-
Receipt of markup on PIBs		**-**	-
Rent paid		**(32,544,965)**	-
Service fee received		**1,200,000**	128,296,175
Grant income		**8,081,099**	18,480,767
Net cash used in operating activities		**(3,372,774,879)**	(8,795,131,658)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		**(7,224,735)**	(5,736,213)
Purchase of intangible assets		**-**	-
Proceeds from disposal of property and equipment		**96,722**	-
Investments in government securities	8	**(379,125,357)**	-
Advances for capital expenditure		**(15,583,806)**	1,611,000
Net cash used in investing activities		**(401,837,176)**	(4,125,213)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of loans and borrowings - net	36	**5,668,250,781**	1,900,000,000
Receipt of short term borrowings	36	**(1,134,269)**	99,236,997
Repayment of subordinated loans	36	**(1,142,938,346)**	6,789,638,230
Net cash generated from financing activities		**4,524,178,166**	8,788,875,227
Net increase / (decrease) in cash and cash equivalents		**749,566,111**	(10,381,645)
Cash and cash equivalents at 01 January		**56,366,945**	66,748,590
Cash and cash equivalents at 31 December		**805,933,056**	56,366,945

The annexed notes 1 to 41 form an integral part of these financial statements.

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CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Changes in Equity
For the year ended 31 December 2019

	Share Capital	Revenue Reserve - unappropriated profit	Total equity
		(Rupees)	
Balance at 01 January 2018	**5,884,222,000**	**85,150,985**	**5,969,372,985**
Total comprehensive income for the year			
Profit for the year	-	276,853,394	**276,853,394**
Other comprehensive loss for the year - net of tax	-	(843,921)	**(843,921)**
Total comprehensive income for the year	-	276,009,473	**276,009,473**
Balance at 31 December 2018	**5,884,222,000**	**361,160,457**	**6,245,382,457**
Total comprehensive income for the year			
Profit for the year	-	**39,322,990**	**39,322,990**
Other comprehensive income for the year - net of tax	-	**1,371,224**	**1,371,224**
Total comprehensive income for the year	-	**40,694,214**	**40,694,214**
Balance at 31 December 2019	**5,884,222,000**	**401,854,671**	**6,286,076,671**

The annexed notes 1 to 41 form an integral part of these financial statements.

-sd-
CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

Pakistan Microfinance Investment Company Limited
Notes to the Financial statements
For the year ended 31 December 2019

1. CORPORATE AND GENERAL INFORMATION

1.1. Legal status and operations

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

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

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

The Pakistan Credit Rating Agency (PACRA) has maintained the Company a rating of 'AA' (long term credit rating) and 'A1+' (short term credit rating) on 31 December 2019.

2. BASIS OF PREPARATION

2.1. Statement of compliance

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

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

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

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

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

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

The SECP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' through Circular No. 19 dated 13 August 2003 for Non-Banking Finance Companies (NBFCs) providing investment finance services, discounting services and housing finance services, with the direction that such companies shall continue observing the State Bank of Pakistan's BSD Circular

Pakistan Microfinance Investment Company Limited
Notes to the Financial statements
For the year ended 31 December 2019

Letter No. 11 dated 11 September 2002, regarding the application of said IASs, till further decision. In addition, the SECP has also deferred the application of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' through SRO 411(1) / 2008 on such Non-Banking Finance Companies as are engaged in investment finance services, discounting services and housing finance services.

Further, the Securities and Exchange Commission of Pakistan (SECP) vide S.R.O. 1332(I)/2019 dated 07 November 2019 modified the effective date for applicability of International Financial Reporting Standard - Financial Instruments (IFRS 9) for Non-Banking Finance Companies for period/year ending on or after 30 June 2020; accordingly the requirements of this standard has not been considered in the preparation of these financial statements.

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

2.2 Basis of measurement and preparation

2.2.1 Accounting convention

These financial statements have been prepared under historical cost convention except for employee benefits which are measured at the present value of the defined benefit liability, determined through actuarial valuation on each reporting date.

2.2.2 Functional and presentation currency

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

2.3 Use of estimates and judgments

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

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

Information about assumptions and estimation uncertainties or where judgment was exercised in application of accounting policies that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ended 31 December 2019 is included in the following notes:

(i) Note 3.1, 4 and 5 – useful life, reassessed value, residual value and depreciation method of property and equipment and right of use asset;
(ii) Note 3.2 and 6 - useful lives, residual values and amortization method of intangible assets;
(iii) Note 3.4 and 21 - measurement of defined benefit obligations: key actuarial assumptions;
(iv) Note 25 recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and
(v) Note 3.8, 11, 16 and 32- recognition of deferred tax assets and estimation of income tax provision
(vi) Note 3.18 and 23 – recognition of lease liability

2.4 Measurement of fair values

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

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

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the approved accounting and reporting 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.

2.5 Standards, interpretations and amendments to the approved accounting standards

New accounting standards / amendments and IFRSs interpretations that are effective for the year ended 31 December 2019.

"IFRS 15: 'Revenue from Contracts with Customers" This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date: IAS 18 Revenue, IAS 11 Construction contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue-barter Transaction involving Advertising Services.	'Effective from 01 January 2019 (SECP has adopted for local application from accounting period beginning on or after 01 July 2018).

Pakistan Microfinance Investment Company Limited
Notes to the Financial statements
For the year ended 31 December 2019

The Company has adopted the requirements of IFRS 15 'Revenue from contracts with customers' from 01 January 2019 and a number of interpretations and amendments to standards, which have had an insignificant effect on the financial statements of the Company.

"IFRS 16: Leases" This standard has introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.	Effective from 01 January 2019 (SECP has adopted for local application from accounting period beginning on or after 01 July 2018).

Detailed disclosure of the effect of IFRS 16 are given in the notes 3 to these financial statements.

The following standards, amendments and interpretations thereto as notified under the Companies Act, 2017 are either not relevant to the Company's operations or are not likely to have a significant impact on the Company's financial statements:

"IFRIC 23 Uncertainty over Income Tax Treatments". It clarifies the accounting for income tax treatments that are yet to be accepted by tax authorities, whilst also aiming to enhance transparency.	Effective for accounting period beginning on or after 01 January 2019.

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2020:

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

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

- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process - this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

- Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 1 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The amendments are not likely to affect the financial statements of the Company.

- IFRS 14 Regulatory Deferral Accounts - (effective for annual periods beginning on or after 1 July 2019) provides interim guidance on accounting for regulatory deferral accounts balances while IASB considers more comprehensive guidance on accounting for the effects of rate regulation. In order to apply the interim standard, an entity has to be rate regulated – i.e. the establishment of prices that can be charged to its customers for goods or services is subject to oversight and/or approved by an authorized body. The term ‘regulatory deferral account balance’ has been chosen as a neutral descriptor for expense (income) or variance account that is included or is expected to be included by the rate regulator in establishing the rate(s) that can be charged to customers and would not otherwise be recognized as an asset or liability under other IFRSs. The standard is not likely to have any effect on Company’s financial statements.

- IFRS 9 ‘Financial Instruments’ and amendment – Prepayment Features with Negative Compensation – for Banks and DFIs / MFBs, the effective date of the standard has been extended to annual periods beginning on or after 30 June 2020 by the Securities and Exchange Commission of Pakistan (SECP) vide S.R.O. 1332(I)/2019 dated 07 November 2019. IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Company is currently in the process of determining the impact of adoption of IFRS 9 on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

i IFRS 15: Revenue from Contracts with Customers’

IFRS 15: Revenue from Contracts with Customers’ which became applicable from 01 January 2019, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations on its

Pakistan Microfinance Investment Company Limited
Notes to the Financial statements
For the year ended 31 December 2019

effective date: IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreement for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – barter Transaction involving Advertising Services. The adoption of IFRS 15 has insignificant impact on the Company's financial statements.

ii. IFRS 16 'Leases'

The Company has initially adopted IFRS 16 'Leases' from January 01, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company applied IFRS 16 using the modified retrospective approach, under which the Company has recognized lease liabilities at the date of initial recognition for leases previously classified as operating lease under IAS 17 at the present value of the remaining lease payments using the Company's incremental borrowing rate and recognizing right of use assets at the date of initial application for leases. The Company has chosen to measure the right of use assets at an amount equal to the lease liabilities adjusted by the amount of prepaid lease payments relating to the operating lease recognized in the statement of financial position as at 31 December 2018.

Accordingly, no adjustment to equity has been made in these financial statements on adoption of the new policy and the comparative figures presented for 2018 have not been restated, i.e., it is presented, as previously reported, under IAS 17 and related interpretations.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining whether an arrangement contains a Lease'. The Company now assesses whether a contract is, or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company used the following practical expedients when applying IFRS 16, to leases previously classified as operating leases under IAS 17.

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

Amounts recognized in profit or loss for the year under new policy

	Rupees
Interest on lease liabilities	5,929,559
Depreciation of right of use assets	30,203,518
	36,133,077

If IFRS 16 was not applicable then rental cost of Rs 30,937,806 would have been recognized in administrative expense. Accordingly, profit before tax has decreased by Rs 5,195,271 for the year ended 31 December 2019 as a result of the adoption of IFRS 16.

iii. The Company has changed its accounting policy for valuation of employee benefits - net defined benefit liability of compensated leave absences, which is now determined based on actuarial estimates. Actuarial valuation is carried out using the Projected Unit Credit Method. This change in accounting policy is required to be applied retrospectively as per the requirements of the transitional provisions of IAS 19 "Employees Benefits". However, the financial statements have not been restated as the effect of retrospective application of this change in accounting policy is not material.

3.1 Property 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 expenditures are transferred to the respective item of property and equipment when available for intended use.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognized in profit or loss.

Subsequent expenditure

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

Right of use assets

Right of use asset is calculated as the initial amount of the lease liability in terms of rentals for premises at the lease contract commencement date. The right of use asset is subsequently depreciated using the straight line method over a period of five years or actual remaining lease term.

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.

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

3.2 Intangible assets

Recognition and measurement

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

Subsequent expenditure

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

Amortization

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

3.3 Reverse repurchase agreements

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

3.4 Employee benefits

The accounting policies for employee benefits are described below:

3.4.1 Short-term employee benefits

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

3.4.2 Defined contribution plan – Provident fund

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

3.4.3 Defined benefit plans

The Company operates the following defined benefit plans:

Gratuity

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

The present value of the obligation for gratuity depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge for the year include the discount rate, expected increase in eligible salary and mortality rate as per note 21.2.4. Any changes in these assumptions will impact the carrying amount of obligations for gratuity.

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

Compensated leave absences

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

The Company recognises provision for compensated leave absences on the unveiled balance of privilege leaves of all its eligible employees. The calculation of defined benefit liability is performed annually by a qualified actuary using the Projected Unit Credit (PUC) and related expense to the defined benefit plan are recognized in the profit or loss.

For details related to change in accounting policy refer note 3 and 21.1.5.

3.5 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. These are derecognized when the Company ceases to be the party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or historical cost as the case may be.

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

Financial assets

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

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Financial liabilities include subordinate loans, loans and borrowings, short term borrowings and other liabilities which are stated at their nominal value. Financial charges are accounted for on accrual basis.

Any gain or loss on the recognition and de-recognition of the financial assets and liabilities is included in the profit or loss for the year in which it arises.

Derivative financial instruments

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

Offsetting of financial assets and financial liabilities

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

3.6 Share capital and dividend

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

3.7 Provisions

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

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

3.8 Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

3.9 Foreign currency transactions and translation

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

3.10 Finance income and finance cost

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

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

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3.11 Revenue recognition

Mark-up / income on financing

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

Income from investment in Term Deposit Receipts, Treasury Bills and Reverse Repo transactions

Mark-up / return on investments is recognized on time proportion basis using effective interest method. Where 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.

Income from investment in Pakistan Investment Bonds

The interest on the Pakistan Investment Bonds is recognized on time proportion basis using effective interest method. Where securities are purchased at premium or discount, the related premiums or discounts are amortized through the profit or loss over the remaining period of maturity of said investment. Gain or loss on sale of investment is accounted for in the period in which the sale occurs.

Service fee

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

Income on bank deposits

Return on bank deposits are recognized on time proportionate basis.

3.12 Grant income

Restricted grant

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

3.13 Investments

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

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

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

Held for trading

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

Held to maturity

Investments with fixed maturity, where management has both the intent and the ability to hold till maturity, are classified as held to maturity. Subsequent to initial recognition at cost, these investments are measured at amortized cost, less provision for impairment in value, if any, and amortized cost is calculated taking into account effective interest rate method. Profit on held to maturity investments is recognized on a time proportion basis taking into account the effective yield on the investments.

Available for sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, such investments are measured at fair value. The surplus / (deficit) arising on revaluation is shown in the balance sheet below equity which is taken to the profit and loss account when actually realised upon disposal.

Premium or discount on securities classified as available-for-sale and held-to-maturity is amortised using effective interest method and taken to the profit and loss account.

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

3.14 Financing

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

Other assets especially mentioned

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

Substandard

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

Doubtful

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

Loss

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

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

Other assets especially mentioned 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

In addition to above, a general provision is maintained at 1% - 1.5% (31 December 2018: 1% - 1.5%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers.

3.15 Impairment

3.15.1 Financial assets:

Financial assets not classified at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on the terms that the Company would not consider otherwise and indication that a debtor will enter bankruptcy.

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

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

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

3.15.2 Non-financial assets:

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

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

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

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

3.16 Contingent liabilities

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

3.17 Cash and cash equivalents

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

3.18 Lease liability

3.18.1 Lease liability of right of use assets

The Company has recognized lease liabilities at the date of initial recognition of IFRS - 16, for leases previously classified as operating leases under IAS 17 at the present value of the remaining lease payments using the Company's incremental borrowing rate of 11.26%. Lease liabilities are then measured at their amortized cost using the effective interest method.

3.18.2 Lease liabilities - right of use assets – vehicles

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as assets subject to finance lease. These are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment (if any). Financial charges are allocated over the period of the lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to owned assets.

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3.19 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition mark-up bearing borrowings are stated at original cost less subsequent repayments.

3.20 Borrowing costs

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

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4 PROPERTY AND EQUIPMENT

	Office equipment	Computers	Furniture	Leasehold improvements	Vehicles	Capital work in progress	Total
							(Rupees)
COST							
Balance at 01 January 2018	1,151,330	7,403,776	6,920,544	17,017,217	2,547,734	567,450	**35,608,051**
Additions	2,071,175	1,362,629	470,502	52,053	1,779,854	-	**5,736,213**
CWIP charged to expenses	-	-	-	-	-	(567,450)	**(567,450)**
Balance at 31 December 2018	3,222,505	8,766,405	7,391,046	17,069,270	4,327,588	-	**40,776,814**
Additions	**203,098**	**6,629,206**	**352,431**	**40,000**	**-**	**-**	**7,224,735**
Disposals	-	**(1,011,750)**	**-**	**-**	**-**	**-**	**(1,011,750)**
Balance at 31 December 2019	**3,425,603**	**14,383,861**	**7,743,477**	**17,109,270**	**4,327,588**	**-**	**46,989,799**
ACCUMULATED DEPRECIATION							
Balance at 01 January 2018	168,816	1,954,139	1,092,766	2,388,639	254,773	-	5,859,133
Depreciation	422,944	2,846,431	1,425,141	3,404,309	714,872	-	8,813,697
Balance at 31 December 2018	591,760	4,800,570	2,517,907	5,792,948	969,645	-	14,672,830
Depreciation	**658,103**	**3,497,505**	**1,521,900**	**3,419,190**	**865,512**	**-**	**9,962,210**
Disposals	-	**(973,227)**	**-**	**-**	**-**	**-**	**(973,227)**
Balance at 31 December 2019	**1,249,863**	**7,324,848**	**4,039,807**	**9,212,138**	**1,835,157**	**-**	**23,661,813**
Carrying amounts							
At 31 December 2018	2,630,745	3,965,835	4,873,139	11,276,322	3,357,943	-	26,103,984
At 31 December 2019	**2,175,740**	**7,059,013**	**3,703,670**	**7,897,132**	**2,492,431**	**-**	**23,327,986**
Rates of depreciation per annum	**20%**	**33.33%**	**20%**	**20%**	**20%**	**-**	

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5 RIGHT OF USE ASSET

Right of use asset has been measured at the amount equal to the lease liability, plus the amount of prepaid lease rentals.

	01 January 2019
	(Rupees)
Present value of the future lease payments	60,453,230
Prepayments reclassified as right of use assets	20,097,192
	80,550,422

	Note	31 December 2019	31 December 2018
5.1 Right of use asset		(Rupees)	(Rupees)
Balance at 01 January		80,550,422	-
Depreciation charge for the year	29	(30,203,518)	-
Balance at 31 December		50,346,904	-

5.2 The right of use asset is depreciated at 37.50% (31 December 2018: Nil) per annum.

	Note	31 December 2019	31 December 2018
6 INTANGIBLE ASSETS		(Rupees)	(Rupees)
Cost			
Balance at 01 January		992,000	992,000
Additions during the year		-	-
Balance at 31 December		992,000	992,000
Amortization			
Balance at 01 January		468,447	137,778
Charge for the year		330,667	330,669
Balance at 31 December		799,114	468,447
Net book value	6.1	192,886	523,553
Amortization rate per annum		33%	33%

6.1 This represents accounting software of the Company.

	Note	31 December 2019	31 December 2018
7 ADVANCE FOR CAPITAL EXPENDITURE			
Advance for implementation of SAP	7.1	15,583,806	-

7.1 This represents amount extended for the implementation of SAP ERP.

	Note	31 December 2019	31 December 2018
8 LONG TERM INVESTMENTS		(Rupees)	(Rupees)
Held to maturity			
Pakistan Investment Bonds	8.1	379,125,357	-

8.1 The face value of these Pakistan Investment Bonds is Rs. 410,000,000 (31 December 2018: Nil). These carry effective markup rates ranging from 11.57% to 13.94% (31 December 2018: Nil) per annum having maturity period ranging from 22 months to 35 months (31 December 2018: Nil) from the date of investment.

9 FINANCING - NET

Financing to microfinance institutions and microfinance banks - Markup bearing:

	Note	31 December 2019		31 December 2018	
		Number	(Rupees)	Number	(Rupees)
	9.1	46	23,860,547,433	43	20,764,250,0000
Less:					
General provision	9.2		(317,058,750)		(230,848,750)
Specific provision	9.4		(720,630,767)		-
Current maturity			(14,526,150,626)		(11,638,516,667)
			8,296,707,290		8,894,884,583

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9.1 This includes unsecured loans extended to FINCA Microfinance Bank Limited and Khushali Microfinance Bank Limited, amounting to Rs. 800 million each (31 December 2018: Nil), under subordinated debts agreement during 2019 on following terms:

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

9.2 General provision is maintained at 1% - 1.5% (31 December 2018: 1% - 1.5%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers.

9.3 As per the Company's request, SECP has granted relaxation of regulation 17 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 relating to enhancement of fund based per party limit for Kashf Foundation up to Rs. 4.1 billion, valid till 31 December 2019.

9.4 Particulars of non-performing financing

	Note	Provision rate	31 December 2019 Amount outstanding	31 December 2019 Provisions required	31 December 2019 Provisions held	31 December 2018 Amount outstanding	31 December 2018 Provisions required	31 December 2018 Provisions held
			(Rupees)			(Rupees)		
Category of classification								
Other assets especially mentioned (OAEM)		0%	9,000,000	-	-	-	-	-
Sub-standard		25%	36,000,000	9,000,000	9,000,000	-	-	-
Doubtful		50%	-	-	-	-	-	-
Loss	9.6	100%	711,630,767	711,630,767	711,630,767	-	-	-
			756,630,767	720,630,767	720,630,767	-	-	-

9.5 Particulars of provision against non-performing financing

	31 December 2019 Specific	31 December 2019 General	31 December 2019 Total	31 December 2018 Specific	31 December 2018 General	31 December 2018 Total
	(Rupees)			(Rupees)		
Balance at 01 January	-	230,848,750	230,848,750	-	114,960,000	114,960,000
Provision charge	720,630,767	86,210,000	806,840,767	-	115,888,750	115,888,750
Balance at 31 December	720,630,767	317,058,750	1,037,689,517	-	230,848,750	230,848,750

9.6 This represents financing amounting to Rs. 711.6 million to BRAC-Pakistan (BRAC-PK) as at 31 December 2019. The financing was Rs. 850 million at 28 February 2019 against BRAC-PK. During the period 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 ended 30 June 2019 and partially against principal for the quarter ended 30 September 2019. In addition, Rs. 29.2 million in respect of markup due for the quarter ended 31 March 2019 was also received. On 05 March 2019, Securities and Exchange Commission of Pakistan (SECP) issued show cause notice to BRAC-PK for revocation of license. On 04 April 2019, SECP revoked BRAC-PK's license and its operations were suspended. On 27 May 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 law suit for liquidation of BRAC-PK. Considering the above mentioned factors and uncertainty regarding the recoverability of receivable amount, the portfolio has been classified on subjective basis and accordingly 100% provision has been made. The Company has also filed a recovery lawsuit in Islamabad High court in December 2019.

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10 LONG TERM ADVANCES, PREPAYMENTS AND DEPOSITS - Considered good	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Advances to employees	10.1	29,501,194	15,923,399
Less: Current portion	12	(22,299,265)	(11,772,313)
		7,201,929	4,151,086
Long term prepayment - transaction charges		1,442,481	494,378
Less: Current portion	12	(369,648)	(118,656)
		1,072,833	375,722
Security deposits	10.2	5,254,720	5,254,720
		13,529,482	9,781,528

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

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

11 DEFERRED TAX ASSET

	Net balance at 01 January	Recognised in: Statement of Profit or loss	Recognised in: Statement of other comprehensive income	Net balance at 31 December
	(Rupees)			(Rupees)
31 December 2019				
Taxable temporary differences				
Property and equipment	(131,287)	131,287	-	-
	(131,287)	131,287	-	-
Deductible temporary differences				
Property and equipment	-	351,495	-	351,495
Leases	-	1,506,628	-	1,506,628
Intangible assets	5,349	191	-	5,540
Employee benefits	1,134,237	5,898,395	(560,077)	6,472,555
Pre-incorporation expenses	6,279,760	(3,027,741)	-	3,252,019
Financing - net	64,637,650	236,292,310	-	300,929,960
	72,056,996	241,021,278	(560,077)	312,518,197
Deferred tax asset	71,925,709	241,152,565	(560,077)	312,518,197
31 December 2018				
Taxable temporary differences				
Property and equipment	(719,806)	588,519	-	(131,287)
	(719,806)	588,519	-	(131,287)
Deductible temporary differences				
Intangible assets	5,730	(381)	-	5,349
Employee benefits	2,177,364	(1,371,318)	328,191	1,134,237
Pre-incorporation expenses	10,092,472	(3,812,712)	-	6,279,760
Financing - net	34,488,000	30,149,650	-	64,637,650
	46,763,566	24,965,239	328,191	72,056,996
Deferred tax asset	46,043,760	25,553,758	328,191	71,925,709

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		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
12	**ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**			
	Advances			
	- Supplier	12.1	2,054,814	1,263,664
	- Employees	12.2	1,368,467	293,078
	- Current portion of long term advances to employees	10	22,299,265	11,772,313
			25,722,546	13,329,055
	Prepayments			
	- Rent	12.4 & 5	-	20,097,192
	- Insurance		3,252,592	2,663,748
	- Subscriptions		2,339,556	1,694,963
	- Current portion of long term prepayment - transaction charges	10	369,648	118,656
			5,961,796	24,574,559
	Other receivables	12.3	22,399,695	-
			54,084,037	37,903,614

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. 18,387,095 (31 December 2018: Nil) receivable from State Bank of Pakistan on account of guarantee fee reimbursable as mentioned in note 20 to these financial statements.

12.4 Due to adoption of IFRS 16, prepaid rent is classified as part of right of use asset.

		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
13	**MARKUP ACCRUED - RECEIVABLE**			
	Markup receivable on financing	13.1	941,439,555	494,199,914
	Suspended mark-up income	13.2	(94,953,696)	-
			846,485,859	494,199,914
	Profit on deposit accounts and term deposit certificates		13,547,571	19,752,425
	Profit on investment in Treasury Bills		13,322,602	-
	Profit on investment in Pakistan Investment Bonds		12,449,830	-
			39,320,003	19,752,425
			885,805,862	513,952,339

13.1 This represents markup accrued on financing to microfinance institutions and banks as mentioned in note 9 to these financial statements.

13.2 This represents markup income on non-performing loans as disclosed in note 9.4 which has been suspended in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
14	**DUE FROM RELATED PARTIES - Unsecured**			
	Service fee receivable		-	1,200,000
	Grant income receivable - KfW	14.1	20,402,438	8,056,300
			20,402,438	9,256,300

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 Age analysis of due from related parties:

	Not Due	Amount past due			Maximum amount outstanding at any time during the year
		Past due 0-30 days	Past due 31-365 days	Total gross amount due	
Balance at 31 December 2019			(Rupees)		(Rupees)
Name of related party					
Pakistan Poverty Alleviation Fund	-	-	-	-	1,200,000
KfW	20,402,438	-	-	20,402,438	28,483,537
	20,402,438	-	-	20,402,438	29,683,537
Balance at 31 December 2018					
Name of related party					
Pakistan Poverty Alleviation Fund	1,200,000	-	-	1,200,000	135,939,497
KfW	8,056,300	-	-	8,056,300	8,056,300
	9,256,300	-	-	9,256,300	143,995,797

	Note	31 December 2019	31 December 2018
15 SHORT-TERM INVESTMENTS		(Rupees)	(Rupees)
Held to maturity			
Term deposit certificates with banks	15.1	1,250,000,000	825,000,000
Treasury Bills	15.2	465,292,475	-
		1,715,292,475	825,000,000

15.1 These carry markup rates ranging from 14.25% to 14.50% (31 December 2018: 8.50% to 10.50%) per annum having maturity period ranging from one month to twelve months (31 December 2018: one month to twelve months) from the date of investment.

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15.2 The redemption value of these Treasury Bills is Rs. 520,505,000 (31 December 2018: Nil). These carry effective markup rates ranging from 12.72% to 14.10% (31 December 2018: nil) per annum having maturity period ranging from six months to twelve months (31 December 2018: Nil) from the date of investment.

16 ADVANCE TAX - NET

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Balance at 01 January		**2,519,247**	(1,325,323)
Current tax charge	32	**(269,485,492)**	(147,473,738)
Income tax paid / withheld during the year		**359,466,876**	151,318,308
Balance at 31 December		**92,500,631**	2,519,247

17 CASH AND BANK BALANCES

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Cash in hand		**75,000**	**10,622**
Cash at banks - Local currency			
- Deposit accounts	17.1	**805,857,656**	**56,355,723**
- Current account		**400**	**600**
		805,858,056	**56,356,323**
		805,933,056	**56,366,945**

17.1 These represent deposit accounts with banks carrying markup ranging from 10% - 11.5% (31 December 2018: 8% to 9%) per annum.

18 SHARE CAPITAL

	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Authorized capital		
6,500,000 ordinary shares of Rs.1,000 each	**6,500,000,000**	6,500,000,000

Issued, subscribed and paid up share capital

31 December 2019 (Number of Shares)	31 December 2018 (Number of shares)		31 December 2019 (Rupees)	31 December 2018 (Rupees)
5,884,222	5,884,222	Ordinary shares of Rs.1,000 each fully paid in cash	**5,884,222,000**	5,884,222,000

Shareholders	Nature of relationship	Number of shares 31 December 2019	Number of shares 31 December 2018	Percentage of shareholding 31 December 2019	Percentage of shareholding 31 December 2018
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%

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

19 SUBORDINATED LOANS - Unsecured

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Subordinated loan from PPAF	19.1	**9,546,699,885**	10,689,638,230
Subordinated loan from KARANDAAZ	19.2	**2,800,000,000**	2,800,000,000
		12,346,699,885	13,489,638,230
Less: Current portion of subordinated loans		**(1,142,938,346)**	(1,142,938,346)
		11,203,761,539	12,346,699,884

19.1 This represents the outstanding balance of subordinated loans, under the agreement between Pakistan Poverty Alleviation Fund (an associated undertaking) and the Company dated 17 November 2016 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 15 years and carries markup of 6-months KIBOR plus 1% (31 December 2018: 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.

19.1.1 The purpose of the loan is mainly to pilot and upscale microenterprise financing through MFIs and MFBs for different sectors and to enhance the capitalization of the Company.

19.2 This represents the outstanding balance of subordinated loans, under the agreement between Karandaaz Pakistan (an associated undertaking) and the Company dated 28 December 2017 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 10 years and currently carrying markup of 6-months KIBOR plus 1% (31 December 2018: 6-months KIBOR plus 1%) per annum payable quarterly starting from June 2027. The loan is subordinated to other indebtedness of the Company.

19.2.1 The purpose of the loan is mainly to pilot and upscale microenterprise financing through MFIs and MFBs for different sectors and to enhance the capitalization of the Company.

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20	LOANS AND BORROWINGS - Secured	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
	JS Bank Limited - Term Finance		**750,000,000**	750,000,000
	United Bank Limited - Term Finance		**233,333,334**	350,000,000
	Askari Bank Limited - Term Finance I		**500,000,000**	500,000,000
	Askari Bank Limited - Term Finance II		**500,000,000**	-
	Allied Bank Limited - Term Finance		**300,000,000**	300,000,000
	National Bank of Pakistan - Term Finance		**2,000,000,000**	-
	MCB Bank Limited - Term Finance		**1,000,000,000**	-
	State Bank of Pakistan - Term Finance	20.3	**1,784,917,447**	-
	Bank Alfalah Limited - Term Finance		**500,000,000**	-
			7,568,250,781	1,900,000,000
	Less: Current portion of loans and borrowings		**(1,145,833,333)**	(116,666,667)
			6,422,417,448	1,783,333,333

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

Borrowing Facility		31 December 2019			
		Markup	Total facility amount	Number of installments outstanding	Date of final repayment
			(Rupees)		
JS Bank Limited	Term Finance	**6mK + 0.48%**	**750,000,000**	**06 half yearly**	**07-Mar-23**
United Bank Limited	Term Finance	**6mK + 0.50%**	**350,000,000**	**06 half yearly**	**08-Oct-21**
Askari Bank Limited	Term Finance I	**6mK + 0.40%**	**500,000,000**	**08 half yearly**	**07-Nov-23**
Askari Bank Limited	Term Finance II	**6mK + 0.50%**	**500,000,000**	**08 half yearly**	**13-Feb-24**
Allied Bank Limited	Term Finance	**6mK + 0.45%**	**300,000,000**	**06 half yearly**	**03-Dec-23**
National Bank of Pakistan	Term Finance	**3mK + 0.85%**	**2,000,000,000**	**06 half yearly**	**27-Aug-22**
MCB Bank Limited	Term Finance	**6mK + 0.75%**	**1,000,000,000**	**06 half yearly**	**28-Mar-24**
State Bank of Pakistan	Term Finance	**6mK - 1.00%**	**2,000,000,000**	**Bullet repayment**	**25-Jun-22**
Bank Alfalah	Term Finance	**6mK + 0.80%**	**500,000,000**	**08 half yearly**	**04-Nov-24**

Borrowing Facility		31 December 2018			
		Markup	Total facility amount	Number of installments outstanding	Date of final repayment
			(Rupees)		
JS Bank Limited	Term Finance	6mK + 0.48%	750,000,000	06 half yearly	07-Mar-23
United Bank Limited	Term Finance	6mK + 0.50%	350,000,000	06 half yearly	08-Oct-21
Askari Bank Limited	Term Finance I	6mK + 0.40%	500,000,000	08 half yearly	07-Nov-23
Allied Bank Limited	Term Finance	6mK + 0.45%	300,000,000	06 half yearly	03-Dec-23

20.2 These loans and borrowings are secured against present and future current and non-current receivables of the Company with 20% - 25% margin.

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20.3 This represents the outstanding balance of the unsecured term finance loan facility of Rs. 2,000 million carrying markup of 6-months KIBOR minus 100 bps for the tenor of three years (31 December 2018: Nil) 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. The associated cost of guarantee is claimable from State Bank of Pakistan.

20.3.1 The Company has provided a guarantee of Rs. 2,000 million (31 December 2018: Nil) against the finance facility obtained from State Bank of Pakistan. This guarantee has been obtained from Askari Bank Limited and is secured against first pari passu charge on receivables/ microcredit advances of the Company for Rs. 2,500 million inclusive of 20% margin (31 December 2018: Nil).

20.4 Unutilized facility

The Company entered into an agreement with Allied Bank Limited, on 04 October 2019, for an additional term finance facility up to Rs. 500 million. No drawdown has been made from this borrowing arrangement until the reporting date and drawdown is expected in year 2020. The tenure of this facility is 05 years and carries a markup of 6-months KIBOR plus 0.70% per annum payable semi-annually. The principal repayments will be made in 6 half yearly equal installments. This facility is secured against hypothecation over present and future book debts / advances, receivables and investments of the Company.

21 EMPLOYEE BENEFITS

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Net defined benefit liability			
- Compensated leave absences	21.1	12,488,287	8,190,707
- Gratuity	21.2	9,830,869	4,050,845
		22,319,156	12,241,552

21.1 Net defined benefit liability-compensated leave absences

The amounts recognized in the statement of financial position are as follows:	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Present value of defined benefit obligation		12,034,351	8,190,707
Benefits payable		453,936	-
Liability at 31 December		12,488,287	8,190,707
Movement in net defined benefit liability			
Net liability at 01 January		8,190,707	-
Charge for the year recognized in the statement of profit or loss	21.1.1	5,142,762	8,597,373
Payments made during the year		(845,182)	(406,666)
Net liability at 31 December		12,488,287	8,190,707

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	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
21.1.1 Charge for the year recognized in the statement of profit or loss			
Current service cost		**4,521,893**	8,597,373
Markup expense		**1,091,299**	-
Experience adjustment on defined benefit liability		**(470,430)**	-
		5,142,762	8,597,373
Expense is recognized in the following line item in the statement of profit or loss			
Administrative expenses	**29**	**5,142,762**	8,597,373

21.1.2 Key Actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2019 using the projected unit credit method with the following assumptions:

	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Discount rate (per annum)	**13.75%**	N/A
Salary increase rate (per annum)	**11.75%**	N/A
Leave accumulation factor (per annum)	**10 days**	N/A
Normal retirement age (years)	**60**	N/A
Effective salary increase date	**01 January 2020**	N/A
Mortality rate	**SLIC 2001-2005**	N/A
Duration	**13.58 years**	N/A

21.1.3 Sensitivity analysis

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

	31 December 2019	31 December 2019
	(Rupees)	
	Increase	Decrease
Discount rate	**(1,946,168)**	**1,322,821**
Salary increase rate	**1,429,069**	**(2,052,739)**

21.1.3.1 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.

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21.1.4 Risk associated with defined benefit liability - compensated leave absences

21.1.4.1 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.

21.1.4.2 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.

21.1.5 During the year, the Company has changed its policy for compensated leave absences provision, which is now determined based on actuarial estimates, resulting in increase in net defined benefit liability of compensated leave absences by Rs. 1,045,130 at 31 December 2018. This increase has been adjusted against current year charge. Since the effect of this change in accounting policy is not material, accordingly comparative financial statements have not been restated.

21.2 Net defined benefit liability-gratuity

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

	Note	31 December 2019	31 December 2018
The amounts recognized in the statement of financial position are as follows:		**(Rupees)**	(Rupees)
Present value of defined benefit obligation	**21.2.2.1**	**27,893,029**	17,827,326
Fair value of plan assets	**21.2.2.2**	**(18,062,160)**	(13,776,481)
Net liability		**9,830,869**	4,050,845
Movement in net defined benefit liability			
Net liability at 01 January		**4,050,845**	7,257,880
Charge for the year recognized in the statement of profit or loss	**21.2.2**	**13,341,602**	11,546,573
Re-measurement recognized in the statement of other comprehensive income	**21.2.3**	**(1,931,301)**	1,172,112
Payments made during the year		**(1,579,432)**	(667,840)
Contributions		**(4,050,845)**	(15,257,880)
Net liability at 31 December		**9,830,869**	4,050,845

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	Note	31 December 2019	31 December 2018
21.2.2 Charge for the year recognized in the statement of profit or loss		**(Rupees)**	(Rupees)
Current service cost		**13,171,693**	11,622,358
Markup income		**169,909**	(75,785)
		13,341,602	11,546,573
Expense is recognized in the following line item in the statement of profit or loss			
Administrative expenses	29	**13,341,602**	11,546,573
21.2.2.1 Movement in fair value of plan obligation			
Present value of obligation at 01 January		**17,827,326**	7,257,880
Current service cost		**13,171,693**	11,622,358
Interest cost		**2,184,234**	744,326
Benefits paid		**(2,821,432)**	(667,840)
Actuarial gain on obligation		**(2,468,792)**	(1,129,398)
Present value of obligation at 31 December		**27,893,029**	17,827,326
21.2.2.2 Movement in fair value of plan asset			
Balance at 01 January		**13,776,481**	-
Expected return on plan assets		**2,014,325**	820,111
Contributions		**4,050,845**	15,257,880
Benefits paid on behalf of the fund		**1,579,432**	667,840
Benefits paid		**(2,821,432)**	(667,840)
Re-measurement of plan assets		**(537,491)**	(2,301,510)
Balance at 31 December		**18,062,160**	13,776,481

Plan assets comprise of:

	31 December 2019		31 December 2018	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	(Rupees)		(Rupees)	
Pakistan Investment Bonds (PIBs)	**17,500,000**	**15,806,484**	7,000,000	5,456,160
Treasury Bills	-	-	7,863,224	7,835,234
Cash at bank	**2,255,676**	**2,255,676**	485,087	485,087
	19,755,676	**18,062,160**	15,348,311	13,776,481

	31 December 2019	31 December 2018
21.2.3 Re-measurement recognized in the statement of other comprehensive income	**(Rupees)**	(Rupees)
Actuarial gain on obligation	**(2,468,792)**	(1,129,398)
Actuarial loss on assets	**537,491**	2,301,510
Actuarial (gain) / loss recognized	**(1,931,301)**	1,172,112

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21.2.4 Key Actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2019 using the projected unit credit method with the following assumptions:

	31 December 2019	31 December 2018
Discount rate (per annum)	**11.75%**	13.75%
Expected increase in eligible salary (per annum)	**11.75%**	13.75%
Return on planned asset (per annum)	**11.75%**	13.75%
Duration (years)	**14.07**	14.96
Normal retirement age (years)	**60**	60
Effective salary increase date	**01 January 2020**	01 January 2019
Mortality rate	**SLIC 2001-2005**	SLIC 2001-2005

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

21.2.5 Risks associated with defined benefit plan

21.2.5.1 Salary risk- (linked to inflation risk)

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

21.2.5.2 Demographic risks

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

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

21.2.6 Sensitivity analysis

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

	31 December 2019 (Rupees)	
	Increase	Decrease
Discount rate	(4,505,471)	3,046,767
Salary increase rate	3,144,915	(4,638,668)
Withdrawal rate	1,057,192	(1,067,985)

21.2.6.1 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.

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

	(Rupees)
FY 2020	359,099
FY 2021	372,438
FY 2022	393,573
FY 2023	422,052
FY 2024	460,134
FY 2025 to FY 2030	4,855,386

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22 SHORT TERM BORROWINGS - Secured	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Allied Bank Limited - Running Finance	22.1	98,102,728	99,236,997

22.1 This represent utilized amount of running finance facility amounting to Rs. 100 million (31 December 2018: Rs. 100 million) and carries markup rate of 3-months KIBOR plus 0.40% (31 December 2018: 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.

23 LEASE LIABILITY	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Lease liability - right of use assets	23.2	33,837,824	-

23.1 Lease liability	01 January 2019 (Rupees)
Operating lease commitments	69,007,380
Discounted using the incremental borrowing rate	60,453,230

23.1.1 The Company has recognized a lease liability under IFRS - 16 at 01 January 2019, for the lease previously classified as operating lease under IAS - 17 at the present value of the remaining lease payments using the incremental borrowing rate of 11.26%.

23.2 Lease liability	31 December 2019 (Rupees)
Within one year	33,837,824
Total undiscounted lease commitments	36,462,415
Discounted lease liability using the incremental borrowing rate	33,837,824

24 TRADE AND OTHER PAYABLES	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Creditors and employees		11,554,559	9,493,327
Accrued expenses	24.1	40,605,323	35,694,727
Payable to provident fund	24.2	28,030	-
Income tax deducted at source		2,531,908	41,588
Sales tax payable		-	165,516
		54,719,820	45,395,158

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

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24.2 Payable to employees' provident fund	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Balance at 01 January		-	10,544,638
Contribution / withheld during the year		17,211,822	15,871,684
Payments during the year		(17,183,792)	(26,416,322)
Balance at 31 December		28,030	-

25 MARKUP ACCRUED - PAYABLE

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Markup payable on subordinated loans	25.1	440,584,438	252,475,459
Markup payable on loans and borrowings	25.2	316,374,935	38,364,616
Guarantee fee payable	25.3	24,534,795	-
		781,494,168	290,840,075

25.1 This represents markup payable in respect of the subordinated loans mentioned in note 19 to these financial statements.

25.2 This represents markup payable in respect of the loans and borrowings as mentioned in note 20 to these financial statements.

25.3 This represents fee payable in respect of guarantee obtained from Askari Bank Limited against the finance facility from State Bank of Pakistan as mentioned in note 20.3 to these financial statements.

26 CONTINGENCIES AND COMMITMENTS

26.1 There are no material contingencies and commitments at the reporting date (31 December 2018: Nil) except contingency for BRAC-Pakistan lawsuit as disclosed in note 9.6 and lease commitments as disclosed in note 23.2.

27 INCOME - NET	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Markup on financing	27.1	3,215,388,078	1,600,392,044
Income from deposit accounts / certificates		193,153,109	70,378,806
Income on reverse repo transactions		129,365,566	67,156,238
Income on Treasury Bills investment		82,193,177	-
Income on Pakistan Investment Bonds		12,449,831	-
Service fee		-	1,200,000
		3,632,549,761	1,739,127,088
Sales tax		-	(165,517)
		3,632,549,761	1,738,961,571

27.1 This represents markup on financing to microfinance institutions and banks as mentioned in note 9 to these financial statements.

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		Note	31 December 2019	31 December 2018
28	**FINANCE COST**	**Note**	**(Rupees)**	(Rupees)
	Markup on subordinated loans	**28.1**	**1,658,466,747**	871,814,031
	Markup on loans and borrowings	**28.2**	**720,395,256**	53,568,822
	Amortized transaction cost		**306,897**	98,871
	Bank charges		**262,998**	145,868
	Guarantee fee		**24,534,795**	-
	Less: Guarantee fee to be reimbursed by State Bank of Pakistan		**(18,387,095)**	-
			6,147,700	-
			2,385,579,598	925,627,592

28.1 This represent markup on subordinated loans from Pakistan Poverty Alleviation Fund (PPAF) and Karandaaz Pakistan as mentioned in note 19 to these financial statements.

28.2 This represent markup on loans and borrowings as mentioned in note 20 to these financial statements.

		Note	31 December 2019	31 December 2018
29	**ADMINISTRATIVE EXPENSES**	**Note**	**(Rupees)**	(Rupees)
	Salaries, wages and other benefits	**29.1**	**194,082,311**	182,087,941
	Rent	**29.2**	**-**	30,148,374
	Traveling and conveyance	**29.3**	**22,379,990**	18,091,677
	Legal and professional fees		**6,874,612**	2,568,832
	Advertisement and promotion		**9,494,853**	9,927,847
	Utilities		**3,006,854**	2,082,220
	Telecommunication and postage		**1,839,496**	1,827,142
	Director's fee		**6,300,000**	3,300,000
	Printing and stationery		**827,108**	1,447,799
	Repair and maintenance		**4,247,765**	5,685,214
	Auditors' remuneration	**29.3**	**1,670,000**	3,580,000
	Insurance		**1,966,280**	2,043,798
	Office supplies and meeting expenses		**2,606,830**	3,231,604
	IT Expenses		**4,333,824**	1,667,330
	Miscellaneous		**1,447,834**	470,834
	Depreciation on property and equipment	**4**	**9,962,210**	8,813,696
	Depreciation on ROU assets	**5.1**	**30,203,518**	-
	Amortization	**6**	**330,667**	330,669
	Financial charges on lease liability		**5,929,559**	-
	Consultancy and outsourcing arrangements	**29.4**	**19,118,615**	22,082,964
	Trainings and workshops		**14,213,145**	8,083,609
			340,835,471	307,471,550

29.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 27,560,705 (31 December 2018: Rs. 28,079,787)

29.2 Due to adoption of IFRS 16, rental cost is not recognized in administrative expense as mentioned in note 3 (ii) to these financial statements.

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

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	31 December 2019	31 December 2018
	(Rupees)	(Rupees)
29.4 Auditors' remuneration		
Audit fee	**880,000**	800,000
Other services	**560,000**	2,730,000
Out of pocket expenses	**230,000**	50,000
	1,670,000	3,580,000

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

	31 December 2019	31 December 2018
	(Rupees)	(Rupees)
30 OTHER EXPENSES		
Crop value chain	**7,596,400**	3,640,222
Livestock micro-insurance	**12,036,109**	-
Solar home solutions	**17,319,236**	2,757,000
Enterprise development	**23,471,700**	1,473,000
	60,423,445	7,870,222

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

	Note	31 December 2019	31 December 2018
		(Rupees)	(Rupees)
31 OTHER INCOME			
Grant income (KfW)	31.1	**20,427,237**	10,170,003
Grant Income (Sona Welfare Foundation)	31.2	**4,000,000**	4,994,000
Advisory and arrangement fee	31.3	**4,000,000**	-
Others		**358,200**	1,505,914
		28,785,437	16,669,917

31.1 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).

31.2 Grant income is recognized under the agreement with Sona Welfare Foundation (SWF) dated 04 May 2018 for implementation of Crop Value Chain project

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

	Note	31 December 2019	31 December 2018
		(Rupees)	(Rupees)
32 INCOME TAX EXPENSE			
Income tax:			
- Current		**256,897,453**	145,709,357
- Prior		**12,588,039**	1,764,381
		269,485,492	147,473,738
Deferred tax	16	**(241,152,565)**	(25,553,757)
		28,332,927	121,919,981

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	31 December 2019	31 December 2018
	(Rupees)	(Rupees)
32.1 Relationship between accounting profit and tax expense is as follows:		
Accounting profit for the year	**67,655,917**	398,773,374
Applicable tax rate	**29%**	29%
Tax charge	**19,620,216**	115,644,278
Tax effect of permanent differences	**-**	4,511,322
Tax effect of change in rate	**(3,875,328)**	-
Prior year effect	**12,588,039**	1,764,381
	28,332,927	121,919,981

33 CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES

	31 December 2019	31 December 2018
Profit before taxation	**67,655,917**	**398,773,374**
Adjustments for non cash items and others:		
Depreciation on property and equipment	**9,962,210**	8,813,696
Depreciation on ROU assets	**30,203,518**	-
Amortization	**330,667**	330,669
Provision	**806,840,767**	115,888,750
Provision for leave encashment	**5,142,762**	8,190,707
Provision for staff retirement benefit - gratuity	**13,341,602**	11,546,573
Markup on financing	**(3,215,388,078)**	(1,600,392,044)
Income from deposit accounts / certificates	**(193,153,109)**	(95,832,199)
Income on reverse repo transactions	**(129,365,566)**	(67,156,238)
Income on Treasury Bills investment	**(82,193,177)**	-
Income on Pakistan Investment Bonds	**(12,449,831)**	-
Service fee	**-**	(1,200,000)
Finance cost	**2,385,579,598**	925,627,592
Suspended mark-up income	**94,953,696**	-
Financial charges on lease liability	**5,929,559**	-
Grant income	**(24,427,237)**	(15,164,003)
Gain on disposal of fixed assets	**(58,200)**	-
	(237,094,902)	(310,573,123)

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34 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

		31 December 2019			31 December 2018		
		Chief Executive	**Directors**	**Executives**	Chief Executive	Directors	Executives
	Note		**(Rupees)**			(Rupees)	
Managerial remuneration		**25,615,800**	**-**	**94,977,956**	24,396,000	-	84,143,261
Performance bonus		**5,082,500**	**-**	**9,271,913**	3,800,000	-	7,598,500
Other perks and benefits	**34.1**	**1,611,096**	**-**	**17,098,087**	1,652,824	-	11,336,739
Contribution to provident fund		**1,793,112**	**-**	**6,656,347**	1,707,720	-	5,642,807
Gratuity		**6,403,950**	**-**	**26,409,942**	2,166,000	-	-
Meeting fee	**34.2**	**-**	**6,300,000**	**-**	-	3,300,000	-
		40,506,458	**6,300,000**	**154,414,245**	33,722,544	3,300,000	108,721,307
Number of persons		**1**	**2**	**34**	1	2	27

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

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

34.3 Key management personnel includes employees, other than the chief executive and directors, whose basic salary exceeds Rs. 1,200,000 (31 December 2018: Rs. 1,200,000) per annum.

35 EMPLOYEES PROVIDENT FUND

Details of the Employees' Provident Fund are as follows:

		Provident fund	
	Note	**Unaudited 31 December 2019**	Unaudited 31 December 2018
		(Rupees)	(Rupees)
Size of the fund - (total assets)		**33,525,272**	26,358,488
Cost of investments made	**35.1**	**31,617,307**	23,897,418
Fair value of investments		**33,497,242**	26,358,488
Cash at bank	**35.1**	**1,548,204**	-
Percentage of investments made (%)		**94%**	91%

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35.1 Breakup of investment - at cost:

	31 December 2019	
	(Rupees)	%
Investment in government securities	31,617,307	95%
Cash at bank	1,548,204	5%
	33,165,511	100%

	31 December 2018	
	(Rupees)	%
Investment in government securities	23,897,418	100%
	23,897,418	-

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

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

	Liabilities		
	Loans and borrowings and short term borrowing	Subordinated loans	Total
		(Rupees)	
Balance at 01 January 2019	**1,999,236,997**	**13,489,638,230**	**15,488,875,227**
Changes from financing cash flows			
Proceeds from loans and borrowings - net	**5,668,250,781**	**-**	**-**
Repayments of short term borrowings	**(1,134,269)**	**-**	**(1,134,269)**
Repayments of subordinated loans	**-**	**(1,142,938,345)**	**(1,142,938,345)**
Total changes from financing cash flows	**5,667,116,512**	**(1,142,938,345)**	**(1,144,072,614)**
Total equity-related other changes	**-**	**-**	**-**
Balance at 31 December 2019	**7,666,353,509**	**12,346,699,885**	**20,013,053,394**
Balance at 01 January 2018	-	6,700,000,000	6,700,000,000
Changes from financing cash flows			
Proceeds from loans and borrowings - net	1,900,000,000	-	1,900,000,000
Proceeds from short term borrowings	99,236,997	-	99,236,997
Proceeds from subordinated loans	-	6,789,638,230	6,789,638,230
Total changes from financing cash flows	1,999,236,997	6,789,638,230	8,788,875,227
Total equity-related other changes	-	-	-
Balance at 31 December 2018	1,999,236,997	13,489,638,230	15,488,875,227

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37 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 10.1, 12.2, 14.1, 18, 19, 21 and 24 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%

37.1 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

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

	31 December 2019	31 December 2018
Transactions with associated undertakings	**(Rupees)**	(Rupees)
Service fee charged during the year	**-**	1,200,000
Grant income recognized during the year	**20,427,237**	10,170,003
Subordinated loan received during the year	**-**	6,809,000,000
Subordinated loan repaid during the year	**1,142,938,346**	19,361,770
Markup on subordinated loan charged during the year	**1,658,466,747**	871,814,031
Markup on subordinated loan paid during the year	**1,470,357,768**	708,415,818
Transactions with other related parties		
Employee contribution payable to provident fund	**14,015**	-
Employer contribution payable to provident fund	**14,015**	-
Total contribution paid to provident fund	**17,387,727**	7,935,841
Total contribution paid to gratuity fund	**4,050,845**	15,257,880
Transactions with key management personnel		
Remuneration and allowance including staff retirement benefits	**194,920,703**	108,721,307

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38 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

38.1 Classifications and fair values

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

On-balance sheet financial instruments		31 December 2019							
		Carrying values				Fair value			
		Held to maturity	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2019	Note	(Rupees)							
Financial assets not measured at fair value	38.2								
Financing - net	9	-	22,822,857,916	-	22,822,857,916	-	-	-	-
Long term advances and deposits	10 & 38.3	-	12,456,649	-	12,456,649	-	-	-	-
Advances and other receivable	12 & 38.3	-	44,698,960	-	44,698,960	-	-	-	-
Markup accrued - receivable	13	-	885,805,862	-	885,805,862	-	-	-	-
Due from related parties	14	-	20,402,438	-	20,402,438	-	-	-	-
Long-term investments - Pakistan Investment Bonds	8	379,125,357	-	-	379,125,357	-	394,534,407	-	394,534,407
Short-term investments - Treasury Bills	15	465,292,475	-	-	465,292,475	-	478,214,995	-	478,214,995
Short-term investments - Term Deposit Receipts	15	1,250,000,000	-	-	1,250,000,000	-	-	-	-
Cash and bank balances	17	-	805,933,056	-	805,933,056	-	-	-	-
		2,094,417,832	24,592,154,881	-	26,686,572,713	-	872,749,402	-	872,749,402
Financial liabilities not measured at fair value	38.2								
Subordinated loan	19	-	-	12,346,699,885	12,346,699,885	-	-	-	-
Loans and borrowings	20	-	-	7,568,250,781	7,568,250,781	-	-	-	-
Short term borrowings	22	-	-	98,102,728	98,102,728	-	-	-	-
Lease liability	23	-	-	33,837,824	33,837,824	-	-	-	-
Trade and other payables	24 & 38.4	-	-	106,536,285	106,536,285	-	-	-	-
Markup accrued - payable	25	-	-	290,840,075	290,840,075	-	-	-	-
		-	-	20,444,267,578	20,444,267,578	-	-	-	-

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38 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

On-balance sheet financial instruments		31 December 2018							
		Carrying values				Fair value			
		Held for trading	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2018	**Note**				(Rupees)				
Financial assets not measured at fair value	**38.2**								
Financing - net	9	-	20,533,401,250	-	20,533,401,250	-	-	-	-
Long term advances and deposits	10 & 38.3	-	9,405,806	-	9,405,806	-	-	-	-
Advances, prepayments and other receivable	12 & 38.3	-	11,772,313	-	11,772,313	-	-	-	-
Markup accrued - receivable	13	-	513,952,339	-	513,952,339	-	-	-	-
Due from related parties	14	-	9,256,300	-	9,256,300	-	-	-	-
Short-term investments - Term Deposit Receipts	15	-	825,000,000	-	825,000,000	-	-	-	-
Cash and bank balances	17	-	56,366,945	-	56,366,945	-	-	-	-
		-	21,959,154,953	-	21,959,154,953	-	-	-	-
Financial liabilities not measured at fair value	**38.2**								
Subordinated loan	19	-	-	13,489,638,230	13,489,638,230	-	-	-	-
Loans and borrowings	20	-	-	1,900,000,000	1,900,000,000	-	-	-	-
Short term borrowings	22	-	-	99,236,997	99,236,997	-	-	-	-
Trade and other payables	24 & 38.4	-	-	9,493,327	9,493,327	-	-	-	-
Markup accrued - payable	25	-	-	290,840,075	290,840,075	-	-	-	-
		-	-	15,789,208,629	15,789,208,629	-	-	-	-

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

38.3 It excludes prepaid expenses, advances to suppliers and advances to employees for official purposes.

38.4 It excludes accrued expenses, income tax deducted at source, mark-up suspended and sales tax payable.

38.5 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.

B FINANCIAL RISK MANAGEMENT

The Company has exposure to following risk from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

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

The Company’s risk management policies are established to identify and 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.

38.6 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:

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	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Financing - gross*	9	23,860,547,433	20,764,250,000
Long term advances and deposits	10 & 38.3	12,456,649	9,405,806
Advances and other receivable	12 & 38.3	44,698,960	11,772,313
Markup accrued - receivable	13	885,805,862	513,952,339
Due from related parties	14	20,402,438	9,256,300
Short-term investments - Pakistan Investment Bonds	8	379,125,357	-
Short-term investments - Treasury Bills	15	-	-
Short-term investments - Term Deposit Receipts	15	-	825,000,000
Cash and bank balances	17	805,858,056	56,356,323
		26,008,894,755	22,189,993,081

**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:

	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Related parties	20,402,438	9,256,300
Banks and financial institutions	25,552,211,351	22,159,558,662
Others	436,280,966	21,178,119
	26,008,894,755	22,189,993,081

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

ii- Impairment losses

The Company records general provision against financing at 1% - 1.5% (31 December 2018: 1% - 1.5%) 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	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Balance at 01 January		230,848,750	114,960,000
Provision made during the year	9.5	86,210,000	115,888,750
Balance at 31 December		317,058,750	230,848,750

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:

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	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Balance at 01 January		**-**	-
Provision made during the year	**9.5**	**720,630,767**	-
Balance at 31 December		**720,630,767**	-

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

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

	Ratings	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Financing - gross*			
Counterparties with credit rating	**A+**	**800,000,000**	-
Counterparties with credit rating	**A**	**800,000,000**	1,250,000,000
Counterparties with credit rating	**A-**	**3,600,000,000**	-
Counterparties with credit rating	**BBB+**	**837,500,000**	4,825,000,000
Counterparties with credit rating	**BBB**	**2,790,000,000**	2,437,500,000
Counterparties without credit rating		**15,033,047,433**	12,251,750,000
		23,860,547,433	20,764,250,000
Long term advances and deposits			
Counterparties without credit rating		**12,456,649**	9,405,806
Advances and other receivable			
Counterparties without credit rating		**44,698,960**	11,772,313
Markup accrued - receivable			
Counterparties with credit rating	**A1+**	**4,191,220**	478,533
Counterparties with credit rating	**A1**	**15,363,036**	32,152,797
Counterparties with credit rating	**A2**	**141,929,830**	-
Counterparties with credit rating	**A3**	**135,410,456**	168,060,545
Counterparties without credit rating		**588,911,320**	313,260,465
		885,805,862	513,952,339
Due from related parties			
Counterparties with credit rating	**A1+**	**20,402,438**	8,056,300
Counterparties without credit rating		**-**	1,200,000
		20,402,438	9,256,300
Short-term investments - Pakistan Investment Bonds			
Counterparties without credit rating		**379,125,357**	-

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

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	Ratings	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Short-term investments - Treasury Bills			
Counterparties without credit rating		**-**	-
Short-term investments - Term Deposit Receipts			
Counterparties with credit rating	A1+	**800,000,000**	325,000,000
Counterparties with credit rating	A1	**450,000,000**	500,000,000
		1,250,000,000	825,000,000
Cash at bank			
Counterparties with credit rating	A1+	**790,632,010**	55,047,976
Counterparties with credit rating	A1	**15,226,046**	1,308,347
		805,858,056	56,356,323

38.7 Liquidity risk

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

Exposure to liquidity risk

There were no defaults on loans payable during the year.

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

	Carrying amount	Contractual cash flows	Maturity up to one year	Maturity after one year and upto five years	Maturity after five years
	(Rupees)				
31 December 2019					
Subordinated loan	**12,346,699,885**	**22,404,319,054**	**2,833,623,497**	**9,520,973,288**	**10,049,722,269**
Loans and borrowings	**7,568,250,781**	**10,069,378,727**	**2,163,618,147**	**7,905,760,580**	**-**
Short term borrowings	**98,102,728**	**98,102,728**	**98,102,728**	**-**	**-**
Lease liability	**33,837,824**	**36,462,415**	**36,462,415**	**-**	**-**
Trade and other payables	**106,536,285**	**106,536,285**	**106,536,285**	**-**	**-**
Markup accrued - payable	**290,840,075**	**290,840,075**	**290,840,075**	**-**	**-**
	20,444,267,578	**33,005,639,284**	**5,529,183,147**	**17,426,733,868**	**10,049,722,269**
31 December 2018					
Subordinated loan	13,489,638,230	20,242,782,671	2,173,276,126	7,726,562,871	10,342,943,674
Loans and borrowings	1,900,000,000	2,458,440,095	231,262,393	2,096,800,510	130,377,192
Short term borrowings	99,236,997	99,236,997	99,236,997	-	-
Trade and other payables	9,493,327	9,493,327	9,493,327	-	-
Markup accrued - payable	290,840,075	290,840,075	290,840,075	-	-
	15,789,208,629	23,100,793,165	2,804,108,918	9,823,363,381	10,473,320,866

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 18, 19 and 21 to these financial statements.

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38.8 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.

38.8.1 Foreign currency risk

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

38.8.2 Markup rate risk

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

i. Exposure to markup rate risk

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

	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
	Effective rate %	Effective rate %	**(Rupees)**	(Rupees)
Fixed rate instruments				
Financial assets	**10 - 14.5**	8 - 9	**2,521,150,131**	881,355,723
Variable rate instruments				
Financial assets	**KIBOR - 1 to**	KIBOR +	**23,860,547,433**	20,764,250,000
Financial liabilities	**KIBOR +**	1 to 3.5	**(19,816,847,938)**	(15,290,401,233)
	1 to 4.5		**4,043,699,495**	5,473,848,767

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 profit or loss account.

iii. Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in markup rates at the reporting date would have increased / decreased markup income by Rs. 217.4 million (31 December 2018: Rs. 75.1 million) and increased / decreased markup expense by Rs. 185.3 million (31 December 2018: Rs. 120.1 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.

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38.8.3 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.

38.9 Statutory minimum capital requirement and management of capital

Capital requirements applicable to the Company are set and regulated by the Securities and Exchange Commission of Pakistan ("SECP"). These requirements are put in place to ensure sufficient solvency margins. The Company manages its capital requirements by assessing its capital structure against the required level on a regular basis at the reporting date, the minimum equity requirement as per the NBFC Regulations for the non deposit taking NBFC is Rs. 100 million (31 December 2018: 100 million). As at 31 December 2019, the Company's total equity is Rs. 6,286 million (31 December 2018: Rs. 6,245 million).

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

	31 December 2019	31 December 2018
39 NUMBER OF EMPLOYEES		
Number of employees at reporting date	**35**	35
Average number of employees during the year	**36**	33

40 GENERAL

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

40.2 Corresponding figures have been rearranged where necessary for better presentation.

41 APPROVAL OF FINANCIAL STATEMENTS

41.1 These financial statements were authorized for issue by the Board of Directors of the Company in its meeting held on 11 March, 2020.

-sd-
CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR


Khopraa

PMIC

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PMIC

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