

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2022

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

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

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

in

(Signature)
CHIEF EXECUTIVE OFFICER

(Signature)
DIRECTOR

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

Lu


CHIEF EXECUTIVE OFFICER


DIRECTOR

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2022

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

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

Signature

Signature
CHIEF EXECUTIVE OFFICER

Signature
DIRECTOR

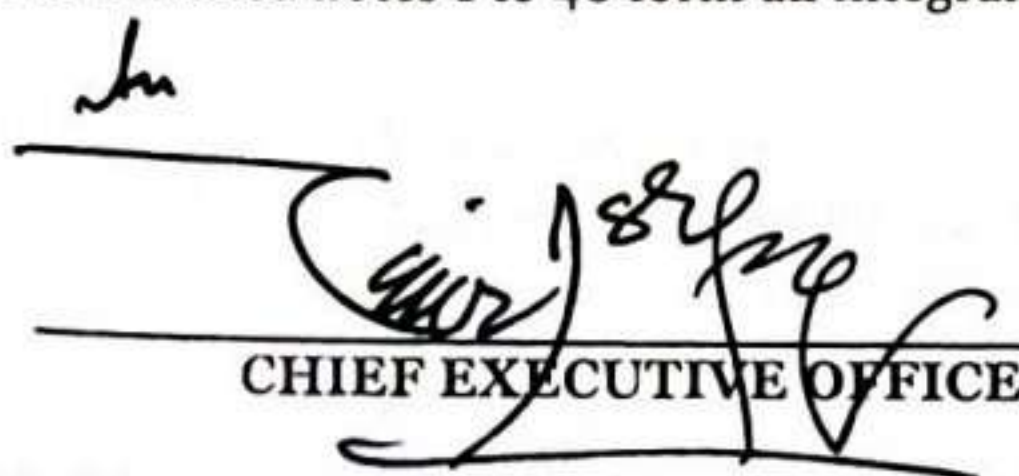
PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	2022 (Rupees)	2021 (Rupees)
Cash flows from operating activities			
Cash used in operations before working capital changes	37	(394,348,918)	(311,510,152)
Changes in working capital:			
Financing - net		(2,555,851,934)	(1,836,921,679)
Long term advances, prepayments and deposits		13,397,617	(23,017,723)
Advances, prepayments and other receivable		(29,110,265)	(1,383,924)
Investments		1,283,005,807	(881,198,887)
Trade and other payables		10,874,826	17,297,128
		(1,277,683,949)	(2,725,225,085)
Cash used in operations		(1,672,032,867)	(3,036,735,237)
Taxes paid		(563,078,888)	(361,805,498)
Finance cost paid		(2,428,445,898)	(1,795,790,354)
Net settlement with hedging counter party		(102,493,350)	(50,700,247)
Staff retirement benefits paid - gratuity		(9,253,506)	(11,649,005)
Staff retirement benefits paid - compensated absences		(775,639)	(3,900,549)
Receipt of markup on financing		3,709,772,633	2,459,246,034
Receipt of profit on deposit accounts / certificates		73,169,989	27,197,844
Receipt of markup on reverse repo transactions		94,846,704	176,608,504
Receipt of markup on treasury bills		118,611,501	48,720,720
Receipt of markup on Pakistan Investment Bonds		43,877,770	54,860,408
Receipt of markup on Term Financial Certificates		132,979,600	53,999,699
Subsidy paid		-	(2,972,706)
Increase in unearned income		(5,504,382)	14,822,387
Grant income		11,583,538	13,072,373
Net cash used in from operating activities		(596,742,795)	(2,415,025,627)
Cash flows from investing activities			
Purchase of property and equipment		(3,963,289)	(2,310,502)
Purchase of intangible assets		-	(5,367,005)
Proceeds from disposal of property and equipment		-	227,259
Net increase in available-for-sale securities		(9,809,820,526)	(689,256,200)
Net cash used in investing activities		(9,813,783,815)	(696,706,448)
Cash flows from financing activities			
Receipt of loans and borrowings - net		1,785,611,112	3,165,536,665
Lease rentals paid		(42,070,511)	(38,245,920)
Receipt of short term borrowings		9,328,264,164	1,209,771,566
Repayment of subordinated loans		(1,135,355,847)	(1,142,938,344)
Net cash generated from investing activities		9,936,448,918	3,194,123,967
Net (decrease) / increase in cash and cash equivalents		(474,077,692)	82,391,892
Cash and cash equivalents at beginning of the year		2,018,996,397	1,936,604,505
Cash and cash equivalents at end of the year	41	1,544,918,705	2,018,996,397

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


CHIEF EXECUTIVE OFFICER


DIRECTOR

PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

1 CORPORATE AND GENERAL INFORMATION

1.1. Legal status and operations

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

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

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

The Pakistan Credit Rating Agency (PACRA) has maintained the Company a rating of 'AA' (long term credit rating) and 'A1+' (short term credit rating) on December 31, 2022.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

- International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the Non-Banking Finance Companies and notified entities Regulations, 2008 (here-in-after mentioned as 'the NBFC rules and NBFC regulations');
- Directives issued by the Securities and Exchange Commission of Pakistan ("SECP"); and
- Provisions of and directives issued under the Companies Act, 2017.

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



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

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

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

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

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

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

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

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

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

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

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

These amendments are not expected to have a material impact on the Company's financial statements when they become effective.

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

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

To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

ln

The above mentioned amendments are effective for accounting periods beginning on or after January 01, 2023.

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

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

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

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

2.2.3 Exemption from applicability of certain standards

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

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

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

The SECP has deferred the applicability of International Accounting Standard (IAS) 40, 'Investment Property' through Circular No. 19 dated 13 August 2003 for Non-Banking Finance Companies (NBFCs) providing investment finance services, discounting services and housing finance services, with the direction that such companies shall continue observing the State Bank of Pakistan's BSD Circular Letter No. 11 dated 11 September 2002, regarding the application of said IAS, till further decision.

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

The SECP has deferred the application of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' through SRO 411(1) / 2008 on such Non-Banking Finance Companies as are engaged in investment finance services, discounting services and housing finance services.

2.3 Basis of measurement and preparation

2.3.1 Accounting convention

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

2.3.2 Functional and presentation currency

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



2.4 Use of estimates and judgments

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

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

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

- (i) Note 3.3, 5 and 24 – recognition of right-of-use asset and lease liability under IFRS 16
- (ii) Note 3.5.3 and 22 - measurement of defined benefit obligations: key actuarial assumptions
- (iii) Note 3.9, 10 and 36 - recognition of deferred tax assets and estimation of income tax provision
- (iv) Note 3.6, 7 and 16 - classification of investments
- (v) Note 3.6, 11 and 35 – measurement of fair value of derivative financial statements
- (vi) Note 3.6, 19, 20 and 23 – identification and initial measurement of compound financial instruments

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Property, plant and equipment

3.1.1 Owned

Recognition and measurement

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

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

Subsequent expenditure

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

An

Depreciation

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

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

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

3.2 Intangible assets

Recognition and measurement

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

Subsequent expenditure

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

Amortization

Amortization of intangible assets, having finite useful life, is charged by applying straight line method, so as to charge the cost of assets at amortization rate as mentioned in note 6 to the financial statements. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.3 Lease Liability:

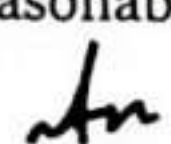
3.3.1 Lease liability and right of use of assets:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which a leased asset is available for use by the Company.

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

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



3.5.3 Defined benefit plan — Gratuity fund

The Company operates a defined benefit plan comprising an funded gratuity scheme covering all eligible employees completing the minimum qualifying period of service as specified by the scheme. Annual provisions to cover the obligations under the scheme are based on actuarial estimates and are charged to profit or loss. Actuarial valuations are carried out by a qualified actuarial expert using the Projected Unit Credit (PUC) Actuarial Cost Method. Net markup expense and other expenses related to defined 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 22.3. Any changes in these assumptions will impact the carrying value of obligations for gratuity.

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

3.5.4 Other long-term employee benefit scheme — Compensated leave absences

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

3.6 Financial instruments


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

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

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

Financial Assets

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

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

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-to-use asset, or is recorded in profit or loss if the carrying amount of right-to-use asset has been reduced to zero.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right-of-use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3-4 Lending to or borrowing from financial institutions

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

a. Sale under re-purchase agreements

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

b. Purchase under resale agreements

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

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

3-5 Employee benefits

The accounting policies for employee benefits are described below:

3.5.1 Short-term employee benefits

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

3.5.2 Defined contribution plan — Provident fund

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

ln

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

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

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

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

(b) Held to maturity financial assets

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

(c) Available-for-sale financial assets

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

(d) Financing

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

Other assets especially mentioned

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

Substandard

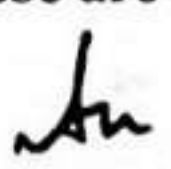
These are financing, payments against which are overdue for 180 days or more but less than a year.

Doubtful

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

Loss

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



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

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

General provision

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

Derecognition

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

Financial Liabilities

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

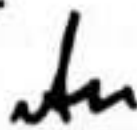
Any gain or loss on the recognition and de-recognition of the financial assets and liabilities is included in the profit or loss for the year in which it arises.

Compound instruments

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

Derivative financial instruments

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



Offsetting of financial assets and financial liabilities

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

3.7 Dividend and appropriation to reserves

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

3.8 Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to 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.

3.9 Taxation

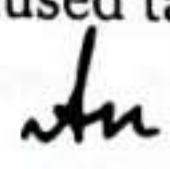
Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income as the case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

Current tax

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

Deferred tax

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



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

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

3.10 Foreign currency transactions and translation

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

3.11 Finance income and finance cost

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

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

3.12 Revenue recognition

Mark-up / income on financing

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

Income from investment

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

Service fee

Service fee is taken to the profit or loss when the Company transfer control of services under the contract, which is either at a point in time or over the time if the customers simultaneously receives and consumes the benefits provided by the Company's performance.

Handwritten signature

Income on bank deposits

Return on bank deposits are recognized on time proportionate basis.

3.13 Grant income

Restricted grant

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

3.14 Impairment

3.14.1 Financial assets

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

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

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

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

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



3.14.2 Non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash 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.

3.15 Contingent liabilities

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

3.16 Cash and cash equivalents


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

3.17 Markup bearing borrowings

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

3.18 Borrowing Cost

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



4 Property, plant and equipment

Office equipment	Computers	Furniture	Leasehold Improvements	Vehicles	Total
Rupees					

Net carrying value basis

Year ended December 31, 2022

Opening net book value (NBV) as at January 01, 2022

Additions (at cost) during the year

Depreciation charge

Closing net book value (NBV)

1,198,072	4,750,008	741,835	1,181,755	761,407	8,633,077
189,919	3,647,000	126,370	-	-	3,963,289
(621,429)	(3,852,578)	(488,046)	(1,070,207)	(610,741)	(6,643,001)
766,562	4,544,430	380,159	111,548	150,666	5,953,365

Gross carrying value basis

As at December 31, 2022

Cost

Accumulated depreciation

Net book value (NBV)

Depreciation rate per annum

4,038,675	19,619,784	8,007,147	17,294,220	4,327,588	53,287,414
(3,272,113)	(15,075,354)	(7,626,990)	(17,182,670)	(4,176,922)	(47,334,049)
766,562	4,544,430	380,157	111,550	150,666	5,953,365
20%	33.33%	20%	20%	20%	

Net carrying value basis

Year ended December 31, 2021

Opening net book value (NBV) as at January 01, 2021

Additions (at cost) during the year

Disposals (at NBV)

Depreciation charge

Closing net book value (NBV)

1,840,566	6,182,882	2,210,606	4,640,599	1,626,919	16,501,572
146,002	2,073,000	91,500	-	-	2,310,502
(31,028)	-	-	-	-	(31,028)
(757,468)	(3,505,874)	(1,560,271)	(3,458,844)	(865,512)	(10,147,969)
1,198,072	4,750,008	741,835	1,181,755	761,407	8,633,077

Gross carrying value basis

As at December 31, 2021

Cost

Accumulated depreciation

Net book value (NBV)

Depreciation rate per annum

3,848,756	15,972,784	7,880,777	17,294,220	4,327,588	49,324,125
(2,650,684)	(11,222,776)	(7,138,942)	(16,112,465)	(3,566,181)	(40,691,048)
1,198,072	4,750,008	741,835	1,181,755	761,407	8,633,077
20%	33.33%	20%	20%	20%	

Ln

5 RIGHT OF USE ASSET

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

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

6 INTANGIBLE ASSETS

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

6.1 This represents computer softwares of the Company.

Handwritten signature

	Note	2022 (Rupees)	Restated 2021 (Rupees)
7 LONG TERM INVESTMENTS			
Held to maturity			
Pakistan Investment Bonds	7.1	144,200,502	238,565,746
Term Finance Certificates			
- Askari Bank Limited	7.2	100,000,000	100,000,000
- U Microfinance Bank Limited	7.3	383,333,333	500,000,000
Finance certificates - U Microfinance Bank		(233,333,333)	(116,666,667)
		<u>394,200,502</u>	<u>721,899,079</u>

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

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

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

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

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

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

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

8 FINANCING - NET

Financing to microfinance institutions and microfinance banks - markup bearing:

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

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

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

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

8.3 Particulars of non-performing financing	Note	Provision rate	2022			2021		
			Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
			(Rupees)			(Rupees)		
Category of classification								
Other assets especially mentioned (OAEM)		0%	161,185,267	-	-	-	-	-
Sub-standard		25%	-	-	-	51,725,642	12,931,411	12,931,411
Doubtful		50%	-	-	-	-	-	-
Loss	8.5	100%	798,856,409	788,131,850	788,131,850	747,130,767	747,130,767	747,130,767
			960,041,676	788,131,850	788,131,850	798,856,409	760,062,178	760,062,178
			Specific	General	Total	Specific	General	Total
			(Rupees)			(Rupees)		
8.4 Particulars of provision against non-performing financing								
Balance at January 01			760,062,178	482,813,333	1,242,875,511	747,130,767	434,981,448	1,182,112,215
Provision charge			28,069,672	207,755,595	235,825,267	12,931,411	47,831,885	60,763,296
Balance at December 31			788,131,850	690,568,928	1,478,700,778	760,062,178	482,813,333	1,242,875,511

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

9 Long term advances, prepayments and deposits

- Considered good
Advances to employees
Less: Current portion

Long term prepayment - transaction charges
Less: Current portion

Security deposits

Note	2022 (Rupees)	2021 (Rupees)
9.1	29,955,309	50,579,658
12	(21,612,029)	(24,338,714)
	8,343,280	26,240,944
12	5,694,651	703,079
	(1,361,175)	(369,650)
	4,333,476	333,429
9.2	6,004,720	5,504,720
	18,681,476	32,079,093

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

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

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

10 Deferred tax asset

The deferred tax asset comprises of temporary differences relating to:

Accelerated tax depreciation & Amortization
Loss allowance on financing to microfinance institutions
Deferred liability - Leases
Loss allowance on investments
Capital contribution under below-market loan
Deferred liability - employee benefits

2022 (Rupees)	2021 (Rupees)
4,135,744	3,014,028
487,971,257	360,433,898
3,655,372	669,337
(11,748,955)	93,840
(38,305,652)	(37,863,265)
5,546,650	4,113,936
451,254,416	330,461,774

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

Opening balance
Credited to statement of profit or loss
Charged to other comprehensive income
Charged to equity
Closing balance

330,461,774	308,086,813
132,967,890	22,374,961
(6,362,412)	-
(5,812,836)	-
451,254,416	330,461,774

11 Derivative financial instrument

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

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

12 Advances, prepayments and other receivables

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

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

- 12.2 These represent advances given to employees for official purposes.

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

Signature

13 Markup accrued - receivable

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

- 13.1 This represents markup accrued on financing to microfinance institutions and banks as mentioned in note 8 to these financial statements.
- 13.2 This represents markup income on non-performing loans as disclosed in Note 8.3 which has been suspended in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.
- 13.3 This represents fee receivable in respect of guarantee obtained from Askari Bank Limited and Bank Alfalah against the finance facility from State Bank of Pakistan as mentioned in note 21 to these financial statements.

14 Due from related parties - unsecured

		2022	2021
	Note	(Rupees)	(Rupees)
Grant income receivable - KfW	14.1	23,014,950	8,486,049

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

14.2 Ageing of related party balances	Not due	Past due 0-30 days	Past due 31-365 days	Total gross amount due
Balance as at December 31, 2022				
KfW	23,014,950	-	-	23,014,950
Balance as at December 31, 2021				
KfW	8,486,049	-	-	8,486,049

Am

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

Note	2022 (Rupees)	2021 (Rupees)
15.1	1,000,255,511	-

Repurchase agreement lendings (Reverse repo) - with financial institution

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

16 Short-term investments

Note	2022 (Rupees)	Restated 2021 (Rupees)
------	------------------	------------------------------

Held to maturity

Term deposit certificates

Treasury Bills

Pakistan Investment Bonds

Current Portion of Term Finance certificates - U Microfinance Bank Limited

	-	500,000,000
16.1	289,556,999	970,965,550
16.2	99,002,075	196,259,062
16.3	233,333,333	116,666,667
	621,892,407	1,783,891,279

Available for Sale

Term Finance certificates - U Microfinance Bank Limited

Treasury Bills

16.3	197,787,600	500,000,000
16.4	10,307,844,340	189,579,787
	10,505,631,940	689,579,787

Fair value through Profit and Loss

Social Impact fund

16.5	219,416,467	-
	11,346,940,814	2,473,471,066

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

An

- 16.2 The face value of these Pakistan Investment Bonds (PIBs) amounts to Rs. 100,000,000. These carry effective markup rate of 8.66% (2021: 200,000,000, interest rates ranging between 11.59% to 11.78%) per annum. These PIBs have maturity period of 26 months from the date of investment. (2021: maturing on September 19, 2022). Also refer note 7.1 to these financial statements.
- 16.3 These carry effective markup rate of 6 month KIBOR plus 1.35% (2021: 6 month KIBOR plus 1.35%) per annum having maturity in June 2025. 50% of these are secured against lien on government assets of a similar tenor and remaining 50% is secured against first pari passu charge on the Issuer's Book Debts, Advances and Receivables with 25% margin. The fair value of TFC is calculated using available market rates. For categorization of fair value, please refer to note 43 to these financial statements. Also refer to note 7.3 to these financial statements.
- 16.4 The redemption value of these Treasury Bills amounts to Rs. 10,700,000,000 (2021: Rs. 200,000,000). These carry effective markup rates ranging from 10.85% to 16.70% (2021: 11.28% to 11.48%) per annum having maturity period ranging between 76 days to 364 days (2021: 167 days) from the date of investment. The fair value of Treasury Bills are calculated using available market rates. For fair value categorization kindly refer to note 43.1 to these financial statements.
- 16.5 This company has made an investment in mutual fund managed by National Investment Trust under Social Impact Fund. The fund was officially launched on May 12, 2022 and invested PKR 200 million. The objective of this fund is to develop and promote alternate funding channels and bridge the gap between Capital Market investors and Microfinance practitioners using commercially viable and scalable innovative platforms.

17 Advance tax - net

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

18 Cash and bank balances

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

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

ju

19 Share capital

19.1 Authorized share capital

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

19.2 Issued, subscribed and paid up capital

2022 (Number of Shares)	2021 (Number of Shares)		2022 (Rupees)	2021 (Rupees)
5,884,222	5,884,222	Ordinary shares of Rs. 1,000 each fully paid in cash	5,884,222,000	5,884,222,000

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

19.2.2 All ordinary shares rank equally with regard to the Company's residual assets. Holders of these shares are entitled to dividends as declared from time to time and are entitled to votes in proportion to their shareholding at the meetings of the Company. Number of shares outstanding at the end of the period were same as number of shares outstanding at the beginning of the period.

19.2.3 Pattern of Shareholding

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

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

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

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

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

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

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

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

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

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

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

Am

21 Loans and borrowings - secured

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

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

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

Am

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

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

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

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

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

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

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

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

An

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

22.1 **Net defined benefit liability -
Compensated leave absences**

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

Present value of defined benefit obligation	16,808,031	14,185,985
---	------------	------------

Movement in net defined benefit liability

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

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

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

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

Administrative expenses	32	3,397,685	3,338,327
-------------------------	----	-----------	-----------

Am

22.1.2 Key actuarial assumptions

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

	2022	2021
Discount rate (per annum)	14.25%	12.25%
Salary increase rate (per annum)	15.00%	10.00%
Leave accumulation factor (per	10 days	10 days
Normal retirement age (years)	60	60
Effective salary increase date	1-Jan-23	1-Jan-22
Mortality rate	SLIC 2001-2005	SLIC 2001-2005
Duration	10.19	11.84 years

22.1.3 Sensitivity analysis

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

	2022		2021	
	(Rupees)		(Rupees)	
	Increase	Decrease	Increase	Decrease
Discount rate	(1,590,514)	1,835,907	(1,547,193)	1,812,738
Salary increase rate	1,998,028	(1,748,974)	1,940,699	(1,674,824)

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

22.2 Net defined benefit liability-gratuity

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

The amounts recognized in the statement of financial position are as follows:	Note	2022 (Rupees)	2021 (Rupees)
Present value of defined benefit obligation		50,627,243	38,578,342
Benefits Payable		490,600	
Fair value of plan assets		(42,722,450)	(31,631,415)
Net liability	22.2.1.1	8,395,393	6,946,927

Movement in net defined benefit liability

Net liability at January 01		6,946,927	2,933,919
Charge for the year recognized in the statement of profit or loss		13,788,441	14,986,743
Re-measurement recognized in the statement of other comprehensive income		(3,086,468)	675,270
Benefits Paid on behalf of fund		(2,306,580)	(11,649,005)
Contributions		(6,946,927)	-
Net liability at December 31	22.2.1.1	8,395,393	6,946,927

Am

22.2.1.1 **Reconciliation of liability recognised in the statement of financial position**

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

22.2.1.2 **Plan assets comprise of:**

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

22.2.2 **Charge for the year recognized in the statement of profit or loss**

	Note	2022	2021
		(Rupees)	(Rupees)
Current service cost		13,534,269	15,283,028
Interest cost		254,172	(296,285)
		13,788,441	14,986,743

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

Administrative expenses	32	13,788,441	14,986,743
-------------------------	----	------------	------------

22.2.3 **Re-measurement recognized in the statement of other comprehensive income**

Actuarial (gain) on obligation	(3,163,114)	(2,981,265)
Actuarial loss on assets	76,646	3,656,535
	(3,086,468)	675,270

Am

22.2.4 Sensitivity analysis

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

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

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

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

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

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

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

22.2.6 Key actuarial assumptions

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

	2022	2021
Discount rate (per annum)	14.25%	12.25%
Salary increase rate (per annum)	15.00%	10.00%
Return on planned asset (per annum)	14.25%	12.25%
Normal retirement age (years)	60	60
Effective salary increase date	1-Jan-23	01 January 2021
Mortality rate	SLIC 2001-2005	SLIC 2001-2005
Duration	10.24	11.88 years

22.3 Risk associated with defined benefit plans

22.3.1 Salary risk - (linked to inflation risk)

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

22.3.2 Demographic risks

- **Mortality Risk** - The risk that the actual mortality experience is different than the assumed mortality. This effect is more pronounced in schemes where the age and service distribution is on the higher side.
- **Withdrawal Risk** - The risk of actual withdrawals is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.

tu

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

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

24	Lease liability	Note	2022 (Rupees)	2021 (Rupees)
	Lease liability	24.1	42,713,993	80,495,616
	Current portion of lease liability		(42,713,993)	(36,587,598)
			<u>-</u>	<u>43,908,018</u>

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

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

24.2 Maturity Analysis

Gross lease liabilities - minimum lease payments:

Not later than 1 year	42,713,993	36,587,598
Later than 1 year but not later than 5 years	-	43,908,108
Later than 5 years	-	-
	<u>42,713,993</u>	<u>80,495,706</u>

Lu

25	Un-earned income			2022	Restated
				(Rupees)	2021 (Rupees)
	Deferred Grant			9,318,005	14,822,387
	Current portion of deferred grant			(2,909,926)	-
				<u>6,408,079</u>	<u>14,822,387</u>
26	Short term borrowings - secured	Note		2022	2021
				(Rupees)	(Rupees)
	Allied Bank Limited - Running Finance	26.1		499,963,619	498,371,855
	Allied Bank Limited- Repurchase transaction	26.2		9,663,000,000	289,123,400
	Bank of Punjab- Repurchase transaction			-	497,204,200
	UBL-Repurchase transaction	26.3		450,000,000	-
				<u>10,612,963,619</u>	<u>1,284,699,455</u>
26.1	This represent utilized amount of running finance facility amounting to Rs. 500 million (2021: Rs. 500 million) and carries markup rate of 3-months KIBOR plus 0.40% (2021: 3-months KIBOR plus 0.40%) per annum, payable on quarterly basis. This facility is secured against first pari passu charge over present and future advances / receivables and investments of the Company along with 20% margin.				
26.2	This represent repo borrowing transaction amounting to Rs. 9,663 million (2021: Rs. 289 million) and carries markup rate of 16.05% (2021: 10.75%) per annum having maturity in March 2023. This facility is secured against government securities having face value amounting to Rs. 10,000 million.				
26.3	This represent repo borrowing transaction amounting to Rs. 450 million (2021: Rs. Nil) and carries markup rate of 16.3% (2021: Nil) per annum having maturity in January 2023. This facility is secured against government securities having face value amounting to Rs. 500 million.				
27	Trade and other liabilities	Note		2022	2021
				(Rupees)	(Rupees)
	Creditors and employees			2,009,245	2,095,558
	Accrued expenses	27.1		68,579,662	57,725,743
	Payable to provident fund			34,329	-
	Income tax deducted at source			267,595	194,704
				<u>70,890,831</u>	<u>60,016,005</u>
27.1	These represent accruals made in respect of operational expenses of the Company including variable compensations.				
27.2	Payable to employees' provident fund	Note		2022	2021
				(Rupees)	(Rupees)
	Balance at January 01			-	1,677,457
	Contribution / withheld during the year			24,894,352	20,015,520
				<u>(24,860,023)</u>	<u>(21,692,977)</u>
	Payments during the year			34,329	-
	Balance at December 31			<u>34,329</u>	<u>-</u>
28	Markup accrued - payable				
	Markup payable on subordinated loans	28.1		377,544,882	61,188,815
	Markup payable on swap arrangement with HBL			368,056	233,736
	Markup payable on loans and borrowings	28.2		442,928,415	111,098,188
				<u>820,841,353</u>	<u>172,520,739</u>

Am

- 28.1 This represents markup payable in respect of the subordinated loans mentioned in note 20 to these financial statements.
- 28.2 This represents markup payable in respect of the loans and borrowings as mentioned in note 21 to these financial statements.

29 Contingencies and commitments

(a) Contingencies

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

(b) Commitments

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

30 Income

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

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

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

Am

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

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

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

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

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

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

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

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

Handwritten signature

33 Other expenses

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

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

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

34 Other income

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

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

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

35 Fair value gain on derivative financial instrument

		2022	2021
	Note	(Rupees)	(Rupees)
Mark to Market gain on derivative	11	146,764,738	78,701,638

36 INCOME TAX EXPENSE

Income tax:			
- Current		428,762,505	214,730,409
- Prior		29,617,987	-
		<u>458,380,492</u>	<u>214,730,409</u>
Deferred tax	10	(132,967,890)	(22,374,961)
		<u>325,412,602</u>	<u>192,355,448</u>

An

36.1

Relationship between
accounting profit and tax expense is as follows:
Accounting profit for the year

Applicable tax rate

Tax charge

Super Tax @ 4%

Tax effect of permanent differences

Tax effect of change in rate

Prior year effect

Others

	2022 (Rupees)	2021 (Rupees)
	958,197,509	669,411,233
	29.00%	29.00%
	277,877,278	194,129,258
	42,621,618	-
	25,759,007	5,906,281
	(50,803,454)	(8,351,342)
	29,617,987	-
	340,166	671,251
	<u>325,412,602</u>	<u>192,355,448</u>

36.2

The Company's tax assessments for the tax years 2018 and 2019 were reopened by the assessing officer raising an aggregate income tax demand of Rs. 58.44 million (Rs. 21.97 million for 2018 and Rs. 36.47 million for 2019) on account of super tax and default surcharge on mark-up income and business income. The Company filed an appeal with Commissioner Inland Revenue (Appeals) [CIR(Appeals)] who upheld the order of assessing officer and raised demand for only for tax year 2019. The Company filed an appeal to the Honorable Appellate Tribunal Inland Revenue, Islamabad Bench, Islamabad (ATIR) against the order of CIR(Appeals). The ATIR has concluded proceeding of assessment year 2019 in favour of the Company by annulling the orders passed by lower authorities. The Company is confident that year 2018 assessment will also be decided in its favour as arguments are same for the concerned assessment year.

37

Cash generated from operations

Profit before taxation

Adjustments for non cash items and others:

Depreciation on property and equipment

Depreciation on ROUA

Amortization on intangible assets

Financial charges on lease liability

Net provision on financing

Leave encashment

Mark to market gain on derivative

financial instrument

Forex exchange loss on KfW loan

Staff retirement benefit - gratuity

Markup on financing

Income from deposit accounts / certificates

Income on reverse repo transactions

Income on Treasury Bills investment

Income on Pakistan Investment Bonds

Interest on investment in TFCs

Finance cost

Grant income

Gain on disposal of fixed assets

Gain recognized on the modification of lease liability

Note	2022 (Rupees)	2021 (Rupees)
	958,197,509	669,411,233
	6,643,000	10,147,969
	38,334,460	33,104,901
	7,010,682	5,808,900
	10,234,915	2,087,881
	235,825,267	60,763,296
	3,397,685	3,338,327
	(146,764,738)	(78,701,638)
	193,691,833	63,291,762
	13,788,441	14,986,743
	(4,371,013,386)	(2,425,937,063)
	(73,012,455)	(24,655,378)
	(97,073,324)	(173,509,806)
	(185,841,974)	(66,133,785)
	(38,756,223)	(46,016,094)
	(132,784,806)	(57,247,224)
	3,214,003,043	1,711,426,453
	(26,112,439)	(13,480,398)
	-	(196,231)
	(4,116,408)	-
	<u>(394,348,918)</u>	<u>(311,510,152)</u>

An

38 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Note	2022			2021		
		Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
		(Rupees)			(Rupees)		
Managerial remuneration		34,678,158	-	105,437,598	30,154,920	-	100,218,789
Performance bonus		6,000,000	-	18,612,597	5,000,000	-	15,188,573
Other perks and benefits		2,410,740	-	26,765,469	1,988,658	-	22,700,590
Contribution to provident fund		2,427,471	-	7,218,486	2,110,844	-	7,015,315
Gratuity		2,889,846	-	8,903,825	2,512,910	-	8,646,243
Meeting fee	38.2		4,410,000		-	4,672,500	-
		<u>48,406,215</u>	<u>4,410,000</u>	<u>166,937,975</u>	<u>41,767,332</u>	<u>4,672,500</u>	<u>153,769,510</u>
Number of persons		<u>1</u>	<u>2</u>	<u>27</u>	<u>1</u>	<u>2</u>	<u>28</u>

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

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

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

39 EMPLOYEES PROVIDENT FUND

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

Am

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

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

41 CASH AND CASH EQUIVALENTS

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

Am

42 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties comprise associated undertakings, directors as well as their close family members, companies with common directorship, executives, key management personnel and major shareholders. Balances with related parties are disclosed in notes 9.1, 12.2, 14.1, 19 and 22 to these financial statements. Below is the list of related parties with whom the Company has entered into transactions during the year:

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

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

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

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

	2022 (Rupees)	2021 (Rupees)
Transactions with associated undertakings		
Grant income recognized during the year	26,112,439	13,480,398
Grant income received during the year	11,583,538	13,072,373
Subordinated loan repaid during the year	1,135,355,847	1,142,938,344
Markup on subordinated loan charged during the year	1,359,700,875	895,188,274
Markup on subordinated loan paid during the year	1,043,344,809	1,058,984,056
Transactions with other related parties		
Employer contribution payable to provident fund	17,171	-
Total contribution paid to provident fund	24,860,008	20,015,520
Total contribution paid to gratuity fund	9,253,506	11,649,005
Transactions with key management personnel		
Remuneration and allowance		
Short term benefits	119,409,314	111,244,567
Defined contribution plan	6,262,483	6,070,995
Defined benefit plan	7,552,601	7,449,903
	<u>133,224,398</u>	<u>124,765,465</u>

Au

	<u>2022</u>	<u>2021</u>
	(Rupees)	(Rupees)
Loan to key management personnel		
Loan to CEO/ Directors	8,965,530	16,650,270
Loan to other key management personnel	10,531,686	20,976,653
	<u>19,497,216</u>	<u>37,626,923</u>
Movement of loan to CEO/Key management personnel		
Opening Balance	37,626,923	8,895,100
Disbursements	-	47,885,120
Repayments during the year	(18,129,707)	(19,153,297)
Closing Balance	<u>19,497,216</u>	<u>37,626,923</u>

43 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A Measurement of fair values

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

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

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

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

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

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

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

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

An

43.1 Classifications and fair values

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

On-balance sheet financial instruments		2022					Fair value			
		Carrying value				Total	Level 1	Level 2	Level 3	Total
	Note	Held to maturity	Available for sale	Loans and receivables	Other financial liabilities	(Rupees)				
December 31, 2022										
Financial assets measured at fair value										
Long term investment - Term Finance Certificates	7	483,333,333	197,787,600	-	-	681,120,933	197,787,600	-	-	197,787,600
Short term investment - Treasury Bills	16	289,556,999	10,307,844,340	-	-	10,597,401,339	-	10,307,844,340	-	10,307,844,340
Derivative Financial Instrument	11	-	-	-	205,810,758	205,810,758	-	205,810,758	-	205,810,758
		<u>772,890,332</u>	<u>10,505,631,940</u>	<u>-</u>	<u>205,810,758</u>	<u>11,484,333,030</u>	<u>197,787,600</u>	<u>10,513,655,098</u>	<u>-</u>	<u>10,711,442,698</u>
Financial liabilities measured at fair value										
Subordinated loan - KfW	20	-	-	-	936,251,640	936,251,640	-	678,110,104	-	678,110,104
Subsidy payable	23	-	-	-	158,363,723	158,363,723	-	96,584,511	-	96,584,511
		<u>-</u>	<u>-</u>	<u>-</u>	<u>1,094,615,363</u>	<u>1,094,615,363</u>	<u>-</u>	<u>774,694,615</u>	<u>-</u>	<u>774,694,615</u>
Restated										
2021										
On-balance sheet financial instruments		Carrying value					Fair value			
		Held to maturity	Available for sale	Loans and receivables	Other financial liabilities/assets	Total	Level 1	Level 2	Level 3	Total
December 31, 2021										
Financial assets measured at fair value										
Long term investment - Term Finance Certificates	7	600,000,000	500,000,000	-	-	1,100,000,000	-	500,000,000	-	500,000,000
Short term investment - Treasury Bills	16	970,965,550	189,579,787	-	-	1,160,545,337	-	189,579,787	-	189,579,787
Derivative Financial Instrument	11	-	-	-	56,192,000	56,192,000	-	56,192,000	-	56,192,000
		<u>1,570,965,550</u>	<u>689,579,787</u>	<u>-</u>	<u>56,192,000</u>	<u>2,316,737,337</u>	<u>-</u>	<u>745,771,787</u>	<u>-</u>	<u>745,771,787</u>
Financial liabilities measured at fair value										
Subordinated loan - KfW	20	-	-	-	692,073,365	692,073,365	-	633,987,779	-	633,987,779
Subsidy payable	23	-	-	-	150,553,851	150,553,851	-	133,250,554	-	133,250,554
		<u>-</u>	<u>-</u>	<u>-</u>	<u>842,627,216</u>	<u>842,627,216</u>	<u>-</u>	<u>767,238,333</u>	<u>-</u>	<u>767,238,333</u>

43.2 Treasury Bills: Pakistan revaluation (PKRV) rate is average of the yield-to-maturity on government securities traded in the secondary market and determined at the end of day. The yield-to-maturity on government securities is quoted by the six brokerage houses keeping in view the yield-to-maturity on government securities traded in the secondary market.

Derivative Financial Instrument: The revaluation by counterparty is carried out on the basis of projected assessment of PKR to USD interest rate parity.

Sub debt KfW: The revaluation is done using international bond valuation with maturity tenor similar to kfw loan.

Subsidy Payable: The revaluation is done using incremental borrowing rate for the entity at reporting date.

43.3 Measurement of fair values

The financial assets and liabilities of the Company approximate their carrying values. A number of Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

i. Non - derivative financial assets

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

ii. Non - derivative financial liabilities

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

C FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

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

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

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

43.4 Credit risk

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



i. **Concentration of credit risk**

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

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

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

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

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

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

Handwritten signature

ii- Impairment losses

The Company records general provision against financing at 1% - 20% (2021:1.25% - 5.0%) of the outstanding balance of financing, net of specific provision. The movement in general provision in respect of financing during the year was as follows:

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

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

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

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

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

iii. Credit quality of financial assets

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

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

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

An

		2022 (Rupees)	2021 (Rupees)
Financing - gross*			
Counterparties with credit rating	A	2,200,000,000	1,800,000,000
Counterparties with credit rating	A-	4,600,000,000	4,100,250,000
Counterparties with credit rating	A+	-	1,400,000,000
Counterparties with credit rating	BBB	12,178,000,000	7,900,000,000
Counterparties with credit rating	BB+	-	450,000,000
Counterparties with credit rating	BBB-	600,000,000	2,700,000,000
Counterparties with credit rating	BBB+	1,800,000,000	100,000,000
Counterparties with credit rating	AA+	-	500,000,000
Counterparties with credit rating	SIP3	1,600,000,000	
Counterparties without credit rating		4,962,291,676	6,434,189,742
		<u>27,940,291,676</u>	<u>25,384,439,742</u>
Long term advances and deposits			
Counterparties without credit rating		<u>14,348,000</u>	<u>31,745,664</u>
Advances and other receivable			
Counterparties without credit rating		<u>50,851,944</u>	<u>31,920,015</u>
Derivative financial instrument			
Counterparty with credit rating	AAA	<u>205,810,758</u>	<u>56,192,000</u>
Markup accrued - receivable			
Counterparties with credit rating	A3	631,664,377	306,677,853
Counterparties with credit rating	A2	278,161,959	91,649,695
Counterparties with credit rating	A1	85,522,193	32,794,631
Counterparties with credit rating	AA	747,123	493,562
Counterparties with credit rating	A1+	-	14,682,192
Counterparties with credit rating	AA-	2,643,699	
Counterparties without credit rating		396,957,473	203,475,809
		<u>1,395,696,824</u>	<u>649,773,742</u>
Due from related parties			
Counterparties with credit rating	A1+	<u>23,014,950</u>	<u>8,486,049</u>
Lending to financial institutions (reverse repo)			
Counterparties without credit rating		<u>1,000,255,511</u>	<u>-</u>
Short term investment - Pakistan Investment Bonds			
Counterparties without credit rating		<u>99,002,075</u>	<u>196,259,062</u>
Short term investment - Term Finance Certificates			
Counterparties with credit rating	AA-	<u>197,787,600</u>	<u>500,000,000</u>
Short term investment - Treasury Bills			
Counterparties without credit rating		<u>10,597,401,339</u>	<u>1,160,545,337</u>
Short term investment - Term deposit certificates			
Counterparties with credit rating	A1+	<u>-</u>	<u>500,000,000</u>
Cash at bank			
Counterparties with credit rating	A1+	544,608,955	1,514,785,851
Counterparties with credit rating	A1	54,239	504,210,546
		<u>544,663,194</u>	<u>2,018,996,397</u>

An

Liquidity risk

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

Exposure to liquidity risk

There were no defaults on loans payable during the year.

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

Carrying amount	Contractual cash flows	Maturity up to one year	Maturity after one year and up to five years	Maturity after five years
(Rupees)				

December 31, 2022

Subordinated loan	9,861,718,989	16,785,024,772	2,559,595,212	8,934,598,936	5,290,830,624
Loans and borrowings	13,083,231,892	18,247,173,304	4,445,956,019	13,801,217,285	-
Short term borrowings	10,612,963,619	10,612,963,619	10,612,963,619	-	-
Lease liability	42,713,993	46,277,563	46,277,563	-	-
Trade and other payables	2,043,574	2,043,574	2,043,574	-	-
Markup accrued - payable	820,841,352	820,841,352	820,841,352	-	-
Subsidy payable	158,363,723	158,363,723	45,233,515	68,325,471	44,804,736
	<u>34,581,877,142</u>	<u>46,672,687,907</u>	<u>18,532,910,854</u>	<u>22,804,141,692</u>	<u>5,335,635,360</u>

December 31, 2021

Subordinated loan	10,752,896,561	15,636,951,014	2,057,085,500	6,972,717,337	6,607,148,178
Loans and borrowings	11,297,620,780	14,029,880,264	3,348,186,139	10,681,694,125	-
Short term borrowings	1,284,699,455	1,284,699,455	1,284,699,455	-	-
Lease liability	80,495,616	88,348,075	42,070,512	46,277,563	-
Trade and other payables	2,095,558	2,095,558	2,095,558	-	-
Markup accrued - payable	172,520,739	172,520,739	172,520,739	-	-
Subsidy payable	150,553,851	208,711,743	37,789,090	120,810,938	50,111,715
	<u>23,740,882,560</u>	<u>31,423,206,848</u>	<u>6,944,446,993</u>	<u>17,821,499,963</u>	<u>6,657,259,893</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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

fu

43.6 Market risk

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

43.6.1 Foreign currency risk

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

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

Transactional exposure in respect of non functional currency monetary items

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

Transactional exposure in respect of non functional currency expenditure and revenues

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

Exposure to forex risk on year end monetary balances:

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

The following significant exchange rate applied during the year:

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

Foreign Currency Sensitivity Analysis

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

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

43.6.2 Interest rate risk

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

i. **Exposure to markup rate risk**

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

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

ii. **Fair value sensitivity analysis for fixed rate instruments**

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

iii. **Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in markup rates at the reporting date would have increased / decreased markup income by Rs. 291.66 million (2021: Rs. 285.03 million) and increased / decreased markup expense by Rs. 225.09 million (2021: Rs. 218.57 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for previous year.

43.6.3 **Other market price risk**

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

44 **Statutory minimum capital requirement and management of capital**

Capital requirements applicable to the Company are set and regulated by the Securities and Exchange Commission of Pakistan ("SECP"). These requirements are put in place to ensure sufficient solvency margins. The Company manages its capital requirements by assessing its capital structure against the required level on a regular basis at the reporting date, the minimum equity requirement as per the NBFC Regulations for the non deposit taking NBFC is Rs. 100 million (2021: 100 million). As at December 31, 2022, the Company's total equity is Rs. 7,915 million (2021: Rs. 7,273 million).

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

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

Am

46 GENERAL

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

47 CORRESPONDING FIGURES

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

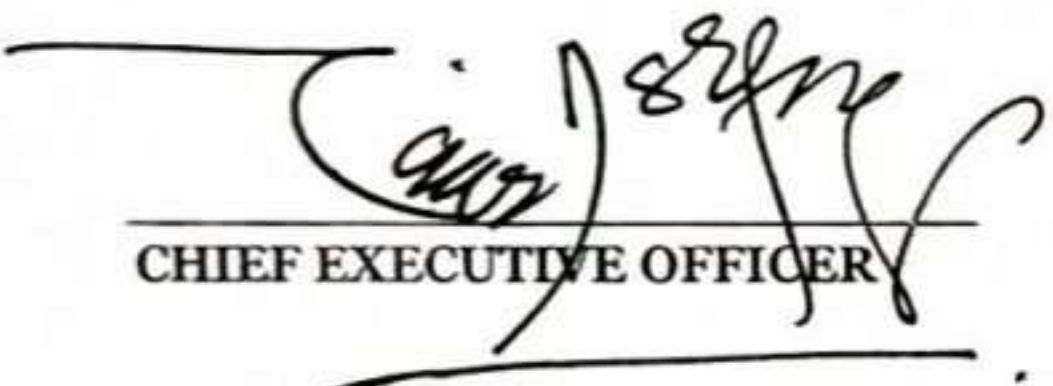
There were certain restatements made in corresponding figures to correct classification of the current and non-current portion of investments. Please refer to note 7.3.


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

48 APPROVAL OF FINANCIAL STATEMENTS

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

In


CHIEF EXECUTIVE OFFICER


DIRECTOR