KPMG Taseer Hadi & Co.
Chartered Accountants

Pakistan Microfinance Investment Company Limited

Financial statements

For the year ended
31 December 2020

Pakistan Microfinance Investment Company Limited
Statement of Financial Position
As at 31 December 2020

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
NON-CURRENT ASSETS			
Property and equipment	4	**16,501,572**	23,327,986
Right of use asset	5	**20,143,384**	50,346,904
Intangible assets	6	**-**	192,886
Advance for capital expenditure	7	**15,665,050**	15,583,806
Long term investments	8	**289,023,024**	379,125,357
Financing - net	9	**4,805,333,333**	8,296,707,290
Long term advances, prepayments and deposits	10	**9,431,102**	13,529,482
Deferred tax asset	11	**350,229,868**	312,518,197
		5,506,327,333	9,091,331,908
CURRENT ASSETS			
Advances, prepayments and other receivables	12	**36,539,417**	54,084,037
Markup accrued - receivable	13	**678,039,512**	885,805,862
Due from related parties	14	**8,078,024**	20,402,438
Lending to financial institutions (reverse repo)	15	**1,724,972,806**	-
Short-term investments	16	**1,328,355,583**	1,715,292,475
Advance tax - net	17	**368,011,582**	92,500,631
Current portion of financing	9	**17,560,072,515**	14,526,150,626
Cash and bank balances	18	**211,631,699**	805,933,056
		21,915,701,138	18,100,169,125
TOTAL ASSETS		**27,422,028,471**	27,191,501,033
SHARE CAPITAL AND RESERVES			
Share capital	19	**5,884,222,000**	5,884,222,000
Unappropriated profit		**808,538,625**	401,854,671
		6,692,760,625	6,286,076,671
NON-CURRENT LIABILITIES			
Subordinated loans	20	**10,939,439,409**	11,203,761,539
Loans and borrowings	21	**5,923,750,782**	6,422,417,448
Employee benefits	22	**17,682,126**	22,319,156
Derivative financial instrument	23	**22,509,638**	-
		16,903,381,955	17,648,498,143
CURRENT LIABILITIES			
Short term borrowings	24	**74,927,889**	98,102,728
Lease liability		**-**	33,837,824
Trade and other payables	25	**42,718,877**	54,719,820
Markup accrued - payable	26	**356,967,446**	781,494,168
Current portion of subordinated loans	20	**1,142,938,346**	1,142,938,346
Current portion of loans and borrowings	21	**2,208,333,333**	1,145,833,333
		3,825,885,891	3,256,926,219
TOTAL EQUITY AND LIABILITIES		**27,422,028,471**	27,191,501,033
CONTINGENCIES AND COMMITMENTS	27		

The annexed notes 1 to 44 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 31 December 2020

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Income	28	3,255,707,293	3,632,549,761
Finance cost	29	(2,201,343,278)	(2,385,579,598)
		1,054,364,015	1,246,970,163
Provision	9.4	(144,422,698)	(806,840,767)
		909,941,317	440,129,396
Administrative expenses	30	(333,044,262)	(340,835,471)
Other expenses	31	(14,589,911)	(60,423,445)
		(347,634,173)	(401,258,916)
Other income	32	18,876,153	28,785,437
Profit before taxation		581,183,297	67,655,917
Income tax expense	33	(177,750,859)	(28,332,927)
Profit for the year		403,432,438	39,322,990

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Other Comprehensive Income
For the year ended 31 December 2020

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Profit for the year		**403,432,438**	39,322,990
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability - gratuity	22.2.3	**3,251,516**	1,931,301
Related tax	11	-	(560,077)
Other comprehensive income - net of tax		**3,251,516**	1,371,224
Total comprehensive income for the year		**406,683,954**	40,694,214

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Pakistan Microfinance Investment Company Limited

Statement of Cash flows

For the year ended 31 December 2020

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities before working capital changes	34	**(262,931,283)**	(237,094,902)
Changes in working capital:			
Financing - net		**313,029,370**	(3,096,297,433)
Long term advances, prepayments and deposits		**4,098,380**	(3,747,954)
Advances, prepayments and other receivable		**17,544,620**	(36,277,615)
Short-term investments		**477,039,228**	(890,292,472)
Trade and other payables		**(12,000,943)**	9,324,662
		799,710,655	(4,017,290,812)
Cash used in operations		**536,779,372**	(4,254,385,714)
Taxes paid		**(490,973,481)**	(359,466,876)
Finance cost paid		**(2,625,870,000)**	(1,894,925,505)
Staff retirement benefits paid - gratuity		**(17,550,294)**	(5,630,277)
Staff retirement benefits paid - compensated absences		**(2,858,870)**	(845,182)
Receipt of markup on financing		**3,157,353,140**	2,768,148,437
Receipt of profit on deposit accounts / certificates		**105,786,067**	199,357,963
Receipt of markup on reverse repo transactions		**71,995,886**	129,365,566
Receipt of markup on treasury bills		**87,924,975**	68,870,575
Receipt of markup on Pakistan Investment Bonds		**32,318,750**	-
Receipt of markup on Term Financial Certificates		**8,094,822**	-
Service fee received		**-**	1,200,000
Grant income		**30,908,074**	8,081,099
Net cash generated from / (used in) operating activities		**893,908,441**	(3,340,229,914)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		**(3,029,698)**	(7,224,735)
Purchase of intangible assets		**(81,244)**	-
Proceeds from disposal of property and equipment		**-**	96,722
Investments in government securities	8	**-**	(379,125,357)
Advances for capital expenditure		**-**	(15,583,806)
Net cash used in investing activities		**(3,110,942)**	(401,837,176)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of loans and borrowings - net	37	**563,833,334**	5,668,250,781
Repayment of short term borrowings	37	**(23,174,839)**	(1,134,269)
Rental paid for building		**(36,462,415)**	(32,544,965)
Repayment of subordinated loans	37	**(264,322,130)**	(1,142,938,346)
Net cash generated from financing activities		**239,873,950**	4,491,633,201
Net (decrease) / increase in cash and cash equivalents		**1,130,671,449**	749,566,111
Cash and cash equivalents at 01 January		**805,933,056**	56,366,945
Cash and cash equivalents at 31 December	38	**1,936,604,505**	805,933,056

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital	Revenue reserve - unappropriated profit	Total equity
		(Rupees)	
Balance at 01 January 2019	5,884,222,000	361,160,457	6,245,382,457
Total comprehensive income for the year			
Profit for the year	-	39,322,990	39,322,990
Other comprehensive loss for the year-net of tax	-	1,371,224	1,371,224
Total comprehensive income for the year	-	40,694,214	40,694,214
Balance at 31 December 2019	5,884,222,000	401,854,671	6,286,076,671
Total comprehensive income for the year			
Profit for the year	-	**403,432,438**	**403,432,438**
Other comprehensive income for the year - net of tax	-	**3,251,516**	**3,251,516**
Total comprehensive income for the year	-	**406,683,954**	**406,683,954**
Balance at 31 December 2020	**5,884,222,000**	**808,538,625**	**6,692,760,625**

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

1. CORPORATE AND GENERAL INFORMATION

1.1. Legal status and operations

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

The Company is setup jointly by Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan and KfW, a German development company, to catalyze and lead the next phase of growth in the microfinance sector of Pakistan. The purpose of the Company is to provide a wide range of financial services, including wholesale funding to microfinance institutions and microfinance 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 31 December 2020.

2. BASIS OF PREPARATION

2.1. Statement of compliance

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

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

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

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

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

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

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

Further, the SECP vide S.R.O. 273(I)/2020 dated 30 March 2020 modified the effective date of applicability of International Financial Reporting Standard – Financial Instruments (IFRS 9) for Non-Banking Finance Companies for period/year ending on or after 30 June 2021; accordingly the requirements of this standard has not been considered in the preparation of these financial statements.

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

2.2 Basis of measurement and preparation

2.2.1 Accounting convention

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

2.2.2 Functional and presentation currency

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

2.3 Use of estimates and judgments

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

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

Information about assumptions and estimation uncertainties or where judgment was exercised in application of accounting policies that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the period ended 31 December 2020 is included in the following notes:

(i) Note 3.1 and 4 – useful life, reassessed value, residual value and depreciation method of property and equipment;
(ii) Note 3.2 and 6 - useful lives, residual values and amortization method of intangible assets;
(iii) Note 5 – recognition of right-of-use asset and lease liability under IFRS 16
(iv) Note 3.4 and 22 - measurement of defined benefit obligations: key actuarial assumptions;
(v) Note 27 recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and; and
(vi) Note 3.8, 11 and 33 - recognition of deferred tax assets and estimation of income tax provision

2.4 Measurement of fair values

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

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

2.5 Standards, interpretations, and amendments to the approved accounting and reporting standards:

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2021:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16) – the International Accounting Standards Board (the Board) has issued amendments to IFRS 16 (the amendments) to provide practical relief for lessees in accounting for rent concessions. The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. Under the standard's previous requirements, lessees assess whether rent concessions are lease modifications and, if so, apply the specific guidance on accounting for lease modifications. This generally involves remeasuring the lease liability using the revised lease payments and a revised discount rate. In light of the effects of the COVID-19 pandemic, and the fact that many lessees are applying the standard for the first time in their financial statements, the Board has provided an optional practical expedient for lessees. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all the following criteria are met:

  - the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

  - any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

  - there is no substantive change to the other terms and conditions of the lease.

- Interest Rate Benchmark Reform – Phase 2 which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 is applicable for annual financial periods beginning on or after 1 January 2021, with earlier application permitted. The amendments introduce a practical expedient to account for modifications of financial assets or financial liabilities if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate. A similar practical expedient will apply under IFRS 16 for lessees when accounting for lease modifications required by IBOR reform. The amendments also allow a series of exemptions from the regular, strict rules around hedge accounting for hedging relationships directly affected by the interest rate benchmark reforms. The amendments apply retrospectively with earlier application permitted. Hedging relationships previously discontinued solely because of changes resulting from the reform will be reinstated if certain conditions are met.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) effective for the annual period beginning on or after 1 January 2022 amends IAS 1 by mainly adding paragraphs which clarifies what comprise the cost of fulfilling a contract, Cost of fulfilling a contract is relevant when determining whether a contract is onerous. An entity is required to apply the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Restatement of comparative information is not required, instead the amendments require an entity to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The above amendments are not likely to have an impact on the Company's financial statements.

- **Annual Improvements to IFRS standards 2018-2020:**

The following annual improvements to IFRS standards 2018-2020 are effective for annual reporting periods beginning on or after 1 January 2022.

IFRS 9 – The amendment clarifies that an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf, when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability.

IFRS 16 – The amendment partially amends Illustrative Example 13 accompanying IFRS 16 by excluding the illustration of reimbursement of leasehold improvements by the lessor. The objective of the amendment is to resolve any potential confusion that might arise in lease incentives.

IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for the annual period beginning on or after 1 January 2022. Clarifies that sales proceeds and cost of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management e.g. when testing etc., are recognized in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

- Reference to the Conceptual Framework (Amendments to IFRS 3) - Reference to the Conceptual Framework, issued in May 2020, amended paragraphs 11, 14, 21, 22 and 23 of and added paragraphs 21A, 21B, 21C and 23A to IFRS 3. An entity shall apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in IFRS Standards, issued in March 2018.

- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) - In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the Board issued amendments to IFRS 4 Insurance Contracts in 2017. The two optional solutions raised some considerations which required detailed analysis and management judgement. On the issue of IFRS 17 (Revised) Insurance Contracts in June 2020, the end date for applying the two options under the IFRS 4 amendments was extended to 1 January 2023, aligned with the effective date of IFRS 17.

- Classification of liabilities as current or non-current (Amendments to IAS 1) effective for the annual period beginning on or after 1 January 2022. 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.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) – The amendment amends accounting treatment on loss of control of business or assets. The amendments also introduce new accounting for less frequent transaction that involves neither cost nor full step-up of certain retained interests in assets that are not businesses. The effective date for these changes has been deferred indefinitely until the completion of a broader review.

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 and equipment

3.1.1 Owned

Recognition and measurement

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

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

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

Subsequent expenditure

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

Depreciation

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

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

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

3.2 Intangible assets

Recognition and measurement

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

Subsequent expenditure

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

Amortization

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

3.3 Reverse repurchase agreements

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

3.4 Employee benefits

The accounting policies for employee benefits are described below:

3.4.1 Short-term employee benefits

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

3.4.2 Defined contribution plan – Provident fund

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

3.4.3 Defined benefit plans

The Company operates the following defined benefit plans:

Gratuity

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

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

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

Compensated leave absences

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

3.5 Financial instruments

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

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

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

Financial Assets

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

Financial Liabilities

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

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

Derivative financial instruments

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

Offsetting of financial assets and financial liabilities

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

3.6 Share capital and dividend

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

3.7 Provisions

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

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

3.8 Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

3.9 Foreign currency transactions and translation

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

3.10 Finance income and finance cost

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

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

3.11 Revenue recognition

Mark-up / income on financing

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

Income from investment

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

Service fee

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

Income on bank deposits

Return on bank deposits are recognized on time proportionate basis.

3.12 Grant income

Restricted grant

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

3.13 Investments

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

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

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

Held for trading

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

Held to maturity

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

Premium or discount on acquisition of held to maturity investments is amortized through profit or loss over the remaining period till maturity.

Available for sale

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

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

3.14 Financing

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

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

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

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

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

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

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

In addition to above, a general provision is maintained at 1.25% - 5.0% (31 December 2019: 1% - 1.5%) of the outstanding balance of financing net of classified financing; based on the internal risk rating of the individual borrowers.

General provision - Change in estimate

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 be impacted by COVID-19, however, the potential impact of the economic stress is difficult to predict with any degree of certainty. Accordingly, the Company has raised the general provision rates for each slab under Company's internal risk rating model to 1.25% - 5.0% form 1% - 1.5%. as a result of this change, additional general provision amounting to Rs. 118 million has been recognized in the statement of profit or loss. Had there been no change in the general provision rates, the general provision expense for the year would be lower by Rs. 118 million and the profit before tax would have been higher by the same amount. If there is no change in the value of financing, the effect of this change on expected general provision for future years will be the same.

3.15 Impairment

3.15.1 Financial assets:

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

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

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

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

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

3.15.2 Non-financial assets:

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

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

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

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

3.16 Contingent liabilities

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

3.17 Cash and cash equivalents

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

3.18 Lease Liability:

3.18.1 Lease liability of right of use of assets:

Company had recognized lease at present value of the remaining lease payments using company initial borrowing rate of 11.26%. On subsequent measurement they are measured at amortized cost using effective interest rate method.

3.18.2 Lease liability of right of use of assets:

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

3.19 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.

3.20 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 AND EQUIPMENT

	Office equipment	Computers	Furniture	Leasehold improvements	Vehicles	Total
			(Rupees)			
COST						
Balance at 01 January 2019	3,222,505	8,766,405	7,391,046	17,069,270	4,327,588	40,776,814
Additions	203,098	6,629,206	352,431	40,000	-	7,224,735
Disposals	-	(1,011,750)	-	-	-	(1,011,750)
Balance at 31 December 2019	3,425,603	14,383,861	7,743,477	17,109,270	4,327,588	46,989,799
Additions	**345,550**	**2,453,398**	**45,800**	**184,950**	-	**3,029,698**
Disposals	-	**(122,000)**	-	-	-	**(122,000)**
Balance at 31 December 2020	**3,771,153**	**16,715,259**	**7,789,277**	**17,294,220**	**4,327,588**	**49,897,497**
ACCUMULATED DEPRECIATION						
Balance at 01 January 2019	591,760	4,800,570	2,517,907	5,792,948	969,645	14,672,830
Depreciation	658,103	3,497,505	1,521,900	3,419,190	865,512	9,962,210
Disposals	-	(973,227)	-	-	-	(973,227)
Balance at 31 December 2019	1,249,863	7,324,848	4,039,807	9,212,138	1,835,157	23,661,813
Depreciation	**680,724**	**3,329,529**	**1,538,864**	**3,441,483**	**865,512**	**9,856,112**
Disposals	-	**(122,000)**	-	-	-	**(122,000)**
Balance at 31 December 2020	**1,930,587**	**10,532,377**	**5,578,671**	**12,653,621**	**2,700,669**	**33,395,925**
Carrying amounts						
At 31 December 2019	2,175,740	7,059,013	3,703,670	7,897,132	2,492,431	23,327,986
At 31 December 2020	**1,840,566**	**6,182,882**	**2,210,606**	**4,640,599**	**1,626,919**	**16,501,572**
Rates of depreciation per annum	**20%**	**33.33%**	**20%**	**20%**	**20%**	

5 RIGHT OF USE ASSET

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Cost		80,550,422	80,550,422
Depreciation			
Balance at 01 January		30,203,518	-
Charge for the year	30	30,203,520	30,203,518
Balance at 31 December		60,407,038	30,203,518
Net book value		20,143,384	50,346,904
Depreciation rate per annum		37.5%	37.5%

6 INTANGIBLE ASSETS

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Cost		992,000	992,000
Amortization			
Balance at 01 January		799,114	468,447
Charge for the year	30	192,886	330,667
Balance at 31 December		992,000	799,114
Net book value		-	192,886
Amortization rate per annum		33%	33%

6.1 This represents accounting software of the Company.

7 ADVANCE FOR CAPITAL EXPENDITURE

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Advance for implementation of SAP	7.1	15,665,050	15,583,806

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

8 LONG TERM INVESTMENTS

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Held to maturity			
Pakistan Investment Bonds	8.1	189,023,024	379,125,357
Term Finance Certificates - Askari Bank Limited	8.2	100,000,000	-
		289,023,024	379,125,357

8.1 The face value of these Pakistan Investment Bonds (PIBs) is Rs. 200 million (31 December 2019: Rs. 410 million). These carry effective markup rates ranging from 11.60% to 11.79% (31 December 2019: 11.57% to 13.94%) per annum having maturity period of 21 months (31 December 2019: period ranging from 22 months to 34 months) from the date of investment made in 2019. These PIBs will mature on 19 September 2022. PIBs with a face value of Rs. 210 million (31 December 2019: Nil) with remaining maturity of less than twelve months at the end of the year are classified as short term investments. Also refer note 16.3 to the financial statements.

8.2 These carry effective markup rate of 3 Month KIBOR plus 1.2% (31 December 2019: Nil) per annum having maturity period of 10 years from the date of investment made in March 2020.

9 FINANCING - NET

Financing to microfinance institutions and microfinance banks - markup bearing:

	Note	31 December 2020 Number	31 December 2020 (Rupees)	31 December 2019 Number	31 December 2019 (Rupees)
	9.1	46	23,547,518,063	43	23,860,547,433
Less:					
General provision	9.4		(434,981,448)		(317,058,750)
Specific provision	9.4		(747,130,767)		(720,630,767)
Current maturity			(17,560,072,515)		(14,526,150,626)
			4,805,333,333		8,296,707,290

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

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

9.2 General provision is maintained at 1.25% - 5.0% (31 December 2019: 1% - 1.5%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers. In view of the COVID 19, management expect that certain degree of customers would be impacted, however, it is difficult to estimate potential effect on advances portfolio with any degree of certainty. However, an additional general provision of Rs. 118 million, as of 31 December 2020 is recognized in the financial statements based on management's assessment of asset quality and credit risk.

			31 December 2020			31 December 2019		
		Provision rate	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
9.3 Particulars of non-performing financing	Note			(Rupees)			(Rupees)	
Category of classification								
Other assets especially mentioned (OAEM)		0%	-	-	-	9,000,000	-	-
Sub-standard		25%	-	-	-	36,000,000	9,000,000	9,000,000
Doubtful		50%	-	-	-	-	-	-
Loss	9.5	100%	747,130,767	747,130,767	747,130,767	711,630,767	711,630,767	711,630,767
			747,130,767	747,130,767	747,130,767	756,630,767	720,630,767	720,630,767

	31 December 2020			31 December 2019		
	Specific	General	Total	Specific	General	Total
9.4 Particulars of provision against non-performing financing		(Rupees)			(Rupees)	
Balance at 01 January	720,630,767	317,058,750	1,037,689,517	-	230,848,750	230,848,750
Provision charge	26,500,000	117,922,698	144,422,698	720,630,767	86,210,000	806,840,767
Balance at 31 December	747,130,767	434,981,448	1,182,112,215	720,630,767	317,058,750	1,037,689,517

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

9.6 The coronavirus (COVID-19) has been evolving as a strain to the global economy including that of Pakistan. Therefore, to dampen the adverse effects of COVID-19 and to enable the microfinance sector continue to fulfil their role in funding the real economy SECP has provided the relaxation to lending NBFCs including NBMFCs under Regulation 67A of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 through its Circular Letter No. 9 of 2020 dated 31 March 2020. In accordance with this circular, NBFCs, upon written request from borrower received before 30 June 2020, could defer repayment of principal for one year provided borrower continues to service the markup amount in accordance with agreed terms and conditions. The said circular also clarified that the above-mentioned deferment does not affect the credit history of the borrower and is not to be reported as restructuring in ECIB. Further, the financing facilities of such borrowers, who are unable to service the mark-up amount or need deferment exceeding one year, may be rescheduled / restructured upon their request. If the rescheduling / restructuring is done within 90 days of the loans being overdue in case of microfinance and within 180 days of the loan being overdue in case of other financing facility, such facilities could continue to be treated as regular and reported in the ECIB accordingly. NBFCs could not classify as "Doubtful" in case of microfinance and "Substandard" in case of other financing facilities as per Schedule X of NBFC regulations of such borrowers who had requested for deferment unless the payment obligations were past due by 90 days in case of microfinance and 180 days in case of other finance facility. The aforesaid treatment was available for loans which were regular on 15 February 2020 and became non-performing subsequently. Accordingly, pursuant to the regulatory relief given by SECP to dampen the effects of COVID-19, the Company has restructured / deferred 17 loans amounting to Rs. 10.3 billion (2019: Nil).

10 LONG TERM ADVANCES, PREPAYMENTS AND DEPOSITS - Considered good

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Advances to employees	10.1	13,206,674	29,501,194
Less: Current portion	12	(9,733,453)	(22,299,265)
		3,473,221	7,201,929
Long term prepayment - transaction charges		1,072,811	1,442,481
Less: Current portion	12	(369,650)	(369,648)
		703,161	1,072,833
Security deposits	10.2	5,254,720	5,254,720
		9,431,102	13,529,482

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

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

11 DEFERRED TAX ASSET

	Net balance at 01 January	Recognized in: Statement of profit or loss	Recognized in: Statement of other comprehensive income	Net balance at 31 December
31 December 2020				
Taxable temporary differences				
Property and equipment	-	-	-	-
	-	-	-	-
Deductible temporary differences				
Property and equipment	351,495	1,578,798	-	1,930,293
Leases	1,506,628	(296,575)	-	1,210,053
Intangible assets	5,540	(5,540)	-	-
Employee benefits	6,472,555	(2,195,575)	-	4,276,980
Pre-incorporation expenses	3,252,019	(3,252,019)	-	-
Financing - net	300,929,960	41,882,582	-	342,812,542
	312,518,197	37,711,671	-	350,229,868
Deferred tax asset	312,518,197	37,711,671	-	350,229,868
31 December 2019				
Taxable temporary differences				
Property and equipment	(131,287)	131,287	-	-
	(131,287)	131,287	-	-
Deductible temporary differences				
Property and equipment	-	351,495	-	351,495
Leases	-	1,506,628	-	1,506,628
Intangible assets	5,349	191	-	5,540
Employee benefits	1,134,237	5,898,395	(560,077)	6,472,555
Pre-incorporation expenses	6,279,760	(3,027,741)	-	3,252,019
Financing - net	64,637,650	236,292,310	-	300,929,960
	72,056,996	241,021,278	(560,077)	312,518,197
Deferred tax asset	71,925,709	241,152,565	(560,077)	312,518,197

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
12 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			
Advances			
- Supplier	12.1	1,640,466	2,054,814
- Employees	12.2	800	1,368,467
- Against MF Plus initiatives		1,881,907	-
- Current portion of long term advances to employees	10	9,733,453	22,299,265
		13,256,626	25,722,546
Prepayments			
- Insurance		3,316,329	3,252,592
- Subscriptions		2,289,255	2,339,556
- Current portion of long term prepayment - transaction charges	10	369,650	369,648
		5,975,234	5,961,796
Other receivables	12.3	17,307,557	22,399,695
		36,539,417	54,084,037

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. 17,294,957 (31 December 2019: 18,387,095) receivable from State Bank of Pakistan on account of guarantee fee reimbursable as mentioned in note 20 to these financial statements.

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
13 MARKUP ACCRUED - RECEIVABLE			
Markup receivable on financing	13.1	834,658,709	941,439,555
Suspended mark-up income	13.2	(197,906,838)	(94,953,696)
		636,751,871	846,485,859
Profit on deposit accounts and term deposit certificates		2,700,000	13,547,571
Profit on investment in Treasury Bills		7,219,409	13,322,602
Profit on reverse repo transaction		3,098,699	-
Profit on Term Finance Certificates - Askari Bank Limited		338,092	-
Profit on investment in Pakistan Investment Bonds		27,931,441	12,449,830
		41,287,641	39,320,003
		678,039,512	885,805,862

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

13.2 This represents markup income on non-performing loans as disclosed in Note 9.3 which has been suspended in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
14 DUE FROM RELATED PARTIES - Unsecured			
Grant income receivable - KfW	14.1	8,078,024	20,402,438

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

14.2 Age analysis of due from related parties:

	Not due	Amount past due			Maximum amount outstanding at any time during the year
		Past due 0-30 days	Past due 31-365 days	Total gross amount due	
Balance at 31 December 2020		(Rupees)			(Rupees)
Name of related party					
KfW	8,078,024	-	-	8,078,024	12,592,393
Balance at 31 December 2019					
Name of related party					
Pakistan Poverty Alleviation Fund	-	-	-	-	1,200,000
KfW	20,402,438	-	-	20,402,438	28,483,537
	20,402,438	-	-	20,402,438	29,683,537

	Note	31 December 2020	31 December 2019
		(Rupees)	(Rupees)
15 LENDING TO FINANCIAL INSTITUTIONS (REVERSE REPO) - Considered good			
Repurchase agreement lendings (Reverse repo) - with financial institution		1,724,972,806	-

15.1 These carry effective markup rates ranging from 7.06% to 7.10% (2019: nil) per annum having maturity in January 2021.

	Note	31 December 2020	31 December 2019
16 SHORT-TERM INVESTMENTS		(Rupees)	(Rupees)
Held to maturity			
Term deposit certificates	16.1	900,000,000	1,250,000,000
Treasury Bills	16.2	239,159,500	465,292,475
Pakistan Investment Bonds	16.3	189,196,083	-
		1,328,355,583	1,715,292,475

16.1 These carry markup at the rate of 7.3% (31 December 2019: 14.25% to 14.50%) per annum having maturity period of around 1 month (31 December 2019: ranging from one month to twelve months) from the date of investment. These term deposit certificates matured on 15 January 2021.

16.2 The redemption value of these Treasury Bills is Rs. 250,000,000 (31 December 2019: Rs. 520,505,000). These carry effective markup rates ranging from 6.45% to 6.55% (31 December 2019: 12.72% to 14.10%) per annum having maturity period of six months to twelve months (31 December 2019: six months to twelve months) from the date of investment.

16.3 The face value of these Pakistan Investment Bonds (PIBs) is Rs. 210,000,000. These carry effective markup rates ranging from 13.66% to 13.99% (31 December 2019: Nil) per annum. These PIBs are maturing on 12 July 2021. Also refer note 8.1 to these financial statements.

17 ADVANCE TAX - NET

	Note	**31 December 2020 (Rupees)**	31 December 2019 (Rupees)
Balance at 01 January		**92,500,631**	2,519,247
Current tax charge	33	**(215,462,530)**	(269,485,492)
Income tax paid / withheld during the year		**490,973,481**	359,466,876
Balance at 31 December		**368,011,582**	92,500,631

18 CASH AND BANK BALANCES

	Note	**31 December 2020 (Rupees)**	31 December 2019 (Rupees)
Cash in hand		-	75,000
Cash at banks - Local currency			
- Deposit accounts	18.1	**211,631,299**	805,857,656
- Current account		**400**	400
		211,631,699	805,858,056
		211,631,699	805,933,056

18.1 These represent deposit accounts with banks carrying markup ranging from 5.5 - 8% (31 December 2019: 10% - 11.5%) per annum.

19 SHARE CAPITAL

	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Authorized capital		
6,500,000 ordinary shares of Rs. 1,000 each	**6,500,000,000**	6,500,000,000

Issued, subscribed and paid up share capital

31 December 2020 (Number of shares)	31 December 2019 (Number of shares)		**31 December 2020 (Rupees)**	31 December 2019 (Rupees)
5,884,222	5,884,222	Ordinary shares of Rs.1,000 each fully paid in cash	**5,884,222,000**	5,884,222,000

Shareholders	Nature of relationship	Number of shares at 31 December 2020	Number of shares at 31 December 2019	Percentage of shareholding at 31 December 2020	Percentage of shareholding at 31 December 2019
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%

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

20	**SUBORDINATED LOANS - Unsecured**	**Note**	**31 December 2020 (Rupees)**	31 December 2019 (Rupees)
	Subordinated loan from PPAF	**20.1**	**8,403,761,541**	9,546,699,885
	Subordinated loan from KARADAAZ	**20.2**	**2,800,000,000**	2,800,000,000
	Subordinated loan from KfW	**20.3**	**878,616,214**	-
			12,082,377,755	12,346,699,885
	Less: Current portion of subordinated loans		**(1,142,938,346)**	(1,142,938,346)
			10,939,439,409	11,203,761,539

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 17 November 2016 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 15 years and carries markup of 6-months KIBOR plus 1% (31 December 2019: 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 MFIs and MFBs 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 28 December 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% (31 December 2019: 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 MFIs and MFBs for different sectors and to enhance the capitalization of the Company.

20.3 This represents the first tranche of non-revolving subordinated loan of USD 15,000,000 under the agreement between KfW (an associated undertaking) and the Company dated 30 December 2019 with prior approval of SECP for disbursement of each tranche to the Company. The loan tenure is 10 years with principal and markup bullet repayment at the time of maturity. The Company has entered into cross currency swap agreement with Habib Bank Limited. 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. Loan is translated at the exchange rate of Rs. 159.75/USD converting the liability of USD 5,500,000 to Rs. 878.6 million and the interest rate is converted from USD 1% per annum to a 6-monthly KIBOR minus 1.75%. Also refer note 23.1.

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.

21 LOANS AND BORROWINGS - Secured

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Term Finance			
JS Bank Limited		**625,000,000**	750,000,000
United Bank Limited		**116,666,668**	233,333,334
Askari Bank Limited - I		**375,000,000**	500,000,000
Askari Bank Limited - II		**437,500,000**	500,000,000
Allied Bank Limited - I		**300,000,000**	300,000,000
Allied Bank Limited - II		**500,000,000**	-
National Bank of Pakistan - I		**1,200,000,000**	2,000,000,000
National Bank of Pakistan - II		**1,000,000,000**	-
MCB Bank Limited		**1,000,000,000**	1,000,000,000
State Bank of Pakistan - I	21.3	**1,784,917,447**	1,784,917,447
State Bank of Pakistan - II	21.4	**293,000,000**	-
Bank Alfalah Limited		**500,000,000**	500,000,000
		8,132,084,115	7,568,250,781
Less: Current portion of loans and borrowings		**(2,208,333,333)**	(1,145,833,333)
		5,923,750,782	6,422,417,448

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

Term Finance Facility	**31 December 2020**			
	Markup	**Total facility amount (Rupees)**	**Instalments outstanding**	**Date of final repayment**
JS Bank Limited	**6mK + 0.48%**	**750,000,000**	**05 half yearly**	**07-Mar-23**
United Bank Limited	**6mK + 0.50%**	**350,000,000**	**02 half yearly**	**08-Oct-21**
Askari Bank Limited - I	**6mK + 0.40%**	**500,000,000**	**06 half yearly**	**07-Nov-23**
Askari Bank Limited - II	**6mK + 0.50%**	**500,000,000**	**07 half yearly**	**13-Feb-24**
Allied Bank Limited - I	**6mK + 0.45%**	**300,000,000**	**06 half yearly**	**03-Dec-23**
Allied Bank Limited - II	**6mK + 0.70%**	**500,000,000**	**06 half yearly**	**24-Mar-25**
National Bank of Pakistan - I	**3mK + 0.85%**	**2,000,000,000**	**03 half yearly**	**28-Feb-22**
National Bank of Pakistan - II	**3mK + 0.85%**	**1,000,000,000**	**05 half yearly**	**01-Apr-23**
MCB Bank Limited	**6mK + 0.75%**	**1,000,000,000**	**06 half yearly**	**28-Mar-24**
State Bank of Pakistan - I	**6mK - 1.00%**	**2,000,000,000**	**Bullet repayment**	**25-Jun-22**
State Bank of Pakistan - II	**6mK - 1%**	**628,000,000**	**Bullet repayment**	**24-Dec-25**
Bank Alfalah Limited	**6mK + 0.80%**	**500,000,000**	**08 half yearly**	**05-Nov-24**

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

21.3 This represents outstanding balance amounting to Rs. 1,784,917,447 (31 December 2019: Rs. 1,784,917,447) of the unsecured term finance loan facility of Rs. 2,000 million carrying markup of 6-months KIBOR minus 100 bps (31 December 2019: 6-months KIBOR minus 100 bps) for the tenor of three 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. The associated cost of guarantee is claimable from State Bank of Pakistan.

21.3.1 The Company has provided a guarantee of Rs. 2,000 million (31 December 2019: Rs. 2,000 million) against the finance facility obtained from State Bank of Pakistan (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 (31 December 2019: Rs. 2,500 million inclusive of 20% margin).

21.4 This represents outstanding balance amounting to Rs. 293 million (31 December 2019: Nil) from the unsecured term finance loan facility of Rs. 628 million carrying markup of 6-months KIBOR minus 100 bps (31 December 2019: Nil) 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 State Bank of Pakistan. The associated cost of guarantee is claimable from State Bank of Pakistan.

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 (31 December 2019: Nil).

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
22 EMPLOYEE BENEFITS			
Net defined benefit liability			
- Compensated leave absences	22.1	**14,748,207**	12,488,287
- Gratuity	22.2	**2,933,919**	9,830,869
		17,682,126	22,319,156

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
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		**14,748,207**	12,034,351
	Benefits payable		**-**	453,936
	Liability at 31 December		**14,748,207**	12,488,287
	Movement in net defined benefit liability			
	Net liability at 01 January		**12,488,287**	8,190,707
	Charge for the year recognized in the statement of profit or loss	22.1.1	**5,118,790**	5,142,762
	Payments made during the year		**(2,858,870)**	(845,182)
	Net liability at 31 December		**14,748,207**	12,488,287
22.1.1	**Charge for the year recognized in the statement of profit or loss**			
	Current service cost		**4,294,155**	4,521,893
	Interest cost		**1,272,746**	1,091,299
	Experience adjustment on defined benefit liability		**(448,111)**	(470,430)
			5,118,790	5,142,762
	Expense is recognized in the following line item in the statement of profit or loss			
	Administrative expenses	30	**5,118,790**	5,142,762

22.1.2 Key actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2020 using the projected unit credit method with the following assumptions:

	31 December 2020	31 December 2019
Discount rate (per annum)	**11.75%**	13.75%
Salary increase rate (per annum)	**10.25%**	11.75%
Leave accumulation factor (per annum)	**10 days**	10 days
Normal retirement age (years)	**60**	60
Effective salary increase date	**01 January 2021**	01 January 2020
Mortality rate	**SLIC 2001-2005**	SLIC 2001-2005
Duration	**13.40 years**	13.58 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:

	31 December 2020 (Rupees)		31 December 2019 (Rupees)	
	Increase	**Decrease**	Increase	Decrease
Discount rate	**(1,763,147)**	**2,088,635**	(1,946,168)	1,322,821
Salary increase rate	**2,220,737**	**(1,895,616)**	1,429,069	(2,052,739)

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**	**31 December 2020 (Rupees)**	31 December 2019 (Rupees)
Present value of defined benefit obligation		**34,941,130**	27,893,029
Fair value of plan assets		**(32,007,211)**	(18,062,160)
Net liability	**22.2.1.1**	**2,933,919**	9,830,869
Movement in net defined benefit liability			
Net liability at 01 January		**9,830,869**	4,050,845
Charge for the year recognized in the statement of profit or loss		**13,904,860**	13,341,602
Re-measurement recognized in the statement of other comprehensive income		**(3,251,516)**	(1,931,301)
Payments made during the year		**(7,719,425)**	(1,579,432)
Contributions		**(9,830,869)**	(4,050,845)
Net liability at 31 December	**22.2.1.1**	**2,933,919**	9,830,869

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

31 December 2020	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability / (asset)
		(Rupees)	
Balance at 01 January	27,893,029	(18,062,160)	9,830,869
Charge for the year	16,590,451	-	16,590,451
Expected return on plan assets	-	(2,685,591)	(2,685,591)
Charge to profit or loss net of return on plan assets	16,590,451	(2,685,591)	13,904,860
Experience adjustments on defined benefit liability	(1,579,925)	(1,671,591)	(3,251,516)
Benefits paid	(7,962,425)	7,962,425	-
Benefits paid on behalf of the fund	-	(7,719,425)	(7,719,425)
Contributions to gratuity fund	-	(9,830,869)	(9,830,869)
Balance at 31 December	34,941,130	(32,007,211)	2,933,919
31 December 2019			
Balance at 01 January	17,827,326	(13,776,481)	4,050,845
Charge for the year	15,355,927	-	15,355,927
Expected return on plan assets	-	(2,014,325)	(2,014,325)
Charge to profit or loss net of return on plan assets	15,355,927	(2,014,325)	13,341,602
Experience adjustments on defined benefit liability	(2,468,792)	537,491	(1,931,301)
Benefits paid	(2,821,432)	2,821,432	-
Benefits paid on behalf of the fund	-	(1,579,432)	(1,579,432)
Contributions to gratuity fund	-	(4,050,845)	(4,050,845)
Balance at 31 December	27,893,029	(18,062,160)	9,830,869

22.2.1.2 ***Plan assets comprise of:***

	31 December 2020		31 December 2019	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	(Rupees)		(Rupees)	
Pakistan Investment Bonds (PIBs)	17,500,000	17,886,534	17,500,000	15,806,484
Treasury Bills			-	-
Cash at bank	14,120,677	14,120,677	2,255,676	2,255,676
	31,620,677	32,007,211	19,755,676	18,062,160

	Note	31 December 2020	31 December 2019
		(Rupees)	(Rupees)
22.2.2 Expense is recognized in the following line item in the statement of profit or loss			
Administrative expenses	30	13,904,860	13,341,602

22.2.3	Re-measurement recognized in the statement of other comprehensive income	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
	Actuarial gain on obligation		(1,579,925)	(2,468,792)
	Actuarial (gain) / loss on assets		(1,671,591)	537,491
			(3,251,516)	(1,931,301)

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:

	31 December 2020 (Rupees)		31 December 2019 (Rupees)	
	Increase	**Decrease**	Increase	Decrease
Discount rate	(4,335,049)	5,141,894	(4,505,471)	3,046,767
Salary increase rate	5,272,723	(4,510,426)	3,144,915	(4,638,668)

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

	31 December 2020 (Rupees)		31 December 2019 (Rupees)	
	Increase	**Decrease**	Increase	Decrease
Withdrawal rate	2,849	(2,918)	1,057,192	(1,067,985)

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 2021	419,193
FY 2022	435,547
FY 2023	461,308
FY 2024	497,382
FY 2025	616,237
FY 2026 to FY 2030	5,595,738
FY 2031 and above	177,556,678

22.2.6 Key actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2020 using the projected unit credit method with the following assumptions:

	31 December 2020	31 December 2019
Discount rate (per annum)	**11.75%**	11.75%
Salary increase rate (per annum)	**10.25%**	11.75%
Return on planned asset (per annum)	**10.25%**	11.75%
Normal retirement age (years)	**60**	60
Effective salary increase date	**01 January 2021**	01 January 2020
Mortality rate	**SLIC 2001-2005**	SLIC 2001-2005
Duration	**13.40 years**	14.07 years

22.1.5 Risk associated with defined benefit plans

22.1.5.1 Salary risk - (linked to inflation risk)

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

22.1.5.2 Demographic risks

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

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

23	DERIVATIVE FINANCIAL INSTRUMENT	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
	Mark to Market loss	23.1	22,509,638	-

23.1 This represents mark to market loss on cross currency interest rate swap. The Company entered into a cross currency interest rate swap agreement on 01 December 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.

24	SHORT TERM BORROWINGS - Secured	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
	Allied Bank Limited - Running Finance	24.1	74,927,889	98,102,728

24.1 This represent utilized amount of running finance facility amounting to Rs. 100 million (31 December 2019: Rs. 100 million) and carries markup rate of 3-months KIBOR plus 0.40% (31 December 2019: 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.

25	TRADE AND OTHER PAYABLES	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
	Creditors and employees		3,870,257	11,554,559
	Accrued expenses	25.1	36,989,202	40,605,323
	Payable to provident fund	25.2	1,677,457	28,030
	Income tax deducted at source		181,961	2,531,908
			42,718,877	54,719,820

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

25.2	**Payable to employees' provident fund**	**Note**	**31 December 2020 (Rupees)**	31 December 2019 (Rupees)
	Balance at 01 January		**28,030**	-
	Contribution / withheld during the year		**17,755,668**	17,211,822
	Payments during the year		**(16,106,241)**	(17,183,792)
	Balance at 31 December		**1,677,457**	28,030

26 MARKUP ACCRUED - PAYABLE

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
	Markup payable on subordinated loans	**26.1**	**226,018,323**	440,584,438
	Markup payable on loans and borrowings	**26.2**	**129,423,641**	316,374,935
	Guarantee fee payable	**26.3**	**1,525,482**	24,534,795
			356,967,446	781,494,168

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

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

26.3 This represents fee payable in respect of guarentee obtained from Askari Bank Limited against the finance facility from State Bank of Pakistan as mentioned in note 21.3 to these financial statements.

27 CONTINGENCIES AND COMMITMENTS

(a) Contingencies

27.1 There are no material contingencies as at 31 December 2020 (31 December 2019: Nil).

27.2 For contingency related to tax matter refer note 33.2.

(a) Commitments

27.3 SAP implementation commitment amounts to Rs. 5.94 million (2019: Rs. 8.34 million).

28	**INCOME**	**Note**	**31 December 2020 (Rupees)**	31 December 2019 (Rupees)
	Markup on financing	**28.1**	**2,947,619,152**	3,215,388,078
	Income from deposit accounts / certificates		**94,938,498**	193,153,109
	Income on reverse repo transactions		**75,094,586**	129,365,566
	Income on Treasury Bills investment		**81,821,782**	82,193,177
	Income on Pakistan Investment Bonds		**47,800,361**	12,449,831
	Interest on investment in Term Finance Certificates		**8,432,914**	-
			3,255,707,293	3,632,549,761

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

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
29	**FINANCE COST**			
	Markup on subordinated loans	29.1	1,324,953,997	1,658,466,747
	Markup on loans and borrowings	29.2	839,015,709	720,395,256
	Amortized transaction cost		369,670	306,897
	Bank charges		305,875	262,998
	Mark to market loss on derivative	29.3	22,509,638	-
	Guarantee fee		49,984,545	24,534,795
	Less: Guarantee fee to be reimbursed by State Bank of Pakistan		(35,796,156)	(18,387,095)
			14,188,389	6,147,700
			2,201,343,278	2,385,579,598

29.1 This represent markup on subordinated loans from Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan and KfW as mentioned in note 20 to these financial statements.

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

29.3 This represents mark to market loss on derivative entered with HBL on 01 December 2020 on foreign currency loan as disclosed in note 20 to these financial statements.

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
30	**ADMINISTRATIVE EXPENSES**			
	Salaries, wages and other benefits	30.1	209,648,963	194,082,311
	Traveling and conveyance	30.2	13,317,227	22,379,990
	Legal and professional fees		4,449,736	6,874,612
	Advertisement and promotion		7,017,543	9,494,853
	Utilities		2,869,503	3,006,854
	Telecommunication and postage		1,751,016	1,839,496
	Director's fee		6,590,000	6,300,000
	Printing and stationery		888,884	827,108
	Repair and maintenance		4,203,029	4,247,765
	Auditors' remuneration	30.3	2,708,400	1,670,000
	Insurance		2,068,667	1,966,280
	Office supplies and meeting expenses		2,003,257	2,606,830
	IT Expenses		10,431,690	4,333,824
	Miscellaneous		1,547,450	1,447,834
	Depreciation on property and equipment	4	9,856,112	9,962,210
	Depreciation on ROU assets	5	30,203,520	30,203,518
	Amortization	6	192,886	330,667
	Financial charges on lease liability		2,624,591	5,929,559
	Consultancy and outsourcing arrangements	30.4	18,520,894	19,118,615
	Trainings and workshops		2,150,894	14,213,145
			333,044,262	340,835,471

30.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 27,901,484 (31 December 2019: Rs. 27,090,275)

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

		31 December 2020	31 December 2019
30.3	**Auditors' remuneration**	**(Rupees)**	(Rupees)
	Audit fee	**990,000**	880,000
	Other services	**1,623,400**	560,000
	Out of pocket expenses	**95,000**	230,000
		2,708,400	1,670,000

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

		31 December 2020	31 December 2019
31	**OTHER EXPENSES**	**(Rupees)**	(Rupees)
	Crop value chain	**402,500**	7,596,400
	Livestock micro-insurance	**379,500**	12,036,109
	Solar home solutions	**10,817,911**	17,319,236
	Enterprise development	**2,990,000**	23,471,700
		14,589,911	60,423,445

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

		Note	31 December 2020	31 December 2019
32	**OTHER INCOME**		**(Rupees)**	(Rupees)
	Grant income (KfW)	32.1	**18,583,660**	20,427,237
	Grant Income (Sona Welfare Foundation)	32.2	**-**	4,000,000
	Advisory and arrangement fee	32.3	**250,000**	4,000,000
	Others		**42,493**	358,200
			18,876,153	28,785,437

32.1 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).

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

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

		Note	31 December 2020	31 December 2019
33	**INCOME TAX EXPENSE**		**(Rupees)**	(Rupees)
	Income tax:			
	- Current		**215,462,530**	256,897,453
	- Prior		**-**	12,588,039
			215,462,530	269,485,492
	Deferred tax	17	**(37,711,671)**	(241,152,565)
			177,750,859	28,332,927

		31 December 2020	31 December 2019
		(Rupees)	(Rupees)
33.1	**Relationship between accounting profit and tax expense is as follows:**		
	Accounting profit for the year	581,183,297	67,655,917
	Applicable tax rate	29%	29%
	Tax charge	168,543,156	19,620,216
	Tax effect of permanent differences	6,527,795	-
	Tax effect of change in rate	-	(3,875,328)
	Prior year effect	-	12,588,039
	Others	2,679,908	-
		177,750,859	28,332,927

33.2 The Company's tax assessments for the tax years 2018 and 2019 have been 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 has filed an appeal with the Honorable Appellate Tribunal Inland Revenue, Islamabad Bench, Islamabad (ATIR) after the tax assessment orders had been confirmed by Commissioner Inland Revenue (Appeals) [CIR (Appeals)]. The matter is pending adjudication while stay against recovery of tax demand is granted.

34 CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES

	31 December 2020	31 December 2019
Profit before taxation	581,183,297	67,655,917
Adjustments for non cash items and others:		
Depreciation on property and equipment	9,856,112	9,962,210
Depreciation on ROU assets	30,203,520	30,203,518
Amortization	192,886	330,667
Provision	144,422,698	806,840,767
Provision for leave encashment	4,664,854	5,142,762
Mark to market loss on derivative financial instrument	22,509,638	-
Provision for staff retirement benefit - gratuity	13,904,860	13,341,602
Markup on financing	(2,947,619,152)	(3,215,388,078)
Income from deposit accounts / certificates	(94,938,498)	(193,153,109)
Income on reverse repo transactions	(75,094,586)	(129,365,566)
Income on Treasury Bills investment	(81,821,782)	(82,193,177)
Income on Pakistan Investment Bonds	(47,800,361)	(12,449,831)
Interest on investment in TFCs	(8,432,914)	-
Finance cost	2,201,343,278	2,385,579,598
Suspended mark-up income	-	94,953,696
Financial charges on lease liability	2,624,591	5,929,559
Grant income	(18,583,660)	(24,427,237)
Gain on disposal of fixed assets	-	(58,200)
Experience adjustment on defined benefit liability	453,936	-
	(262,931,283)	(237,094,902)

35 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Note	**31 December 2020**			31 December 2019		
		Chief Executive	**Directors**	**Executives**	Chief Executive	Directors	Executives
			(Rupees)			(Rupees)	
Managerial remuneration		**27,665,064**	**-**	**96,571,536**	25,615,800	-	98,390,620
Performance bonus		**4,000,000**	**-**	**4,398,098**	-	-	8,382,913
Other perks and benefits	35.1	**1,723,704**	**-**	**17,723,980**	1,611,096	-	17,543,466
Contribution to provident fund		**1,936,554**	**-**	**6,439,128**	1,793,106	-	6,887,343
Gratuity		**2,305,422**	**-**	**7,793,102**	2,134,650	-	8,303,676
Meeting fee	35.2	**-**	**6,590,000**	**-**	-	6,300,000	-
		37,630,744	**6,590,000**	**132,925,844**	31,154,652	6,300,000	139,508,018
Number of persons		**1**	**2**	**29**	1	2	31

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

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

35.3 Key management personnel includes employees, other than the chief executive and directors, whose basic salary exceeds Rs. 1,200,000 (31 December 2019: Rs. 1,200,000) per annum.

36 EMPLOYEES PROVIDENT FUND

	Note	***Provident fund***	
		Unaudited	*Unaudited*
		31 December 2020	31 December 2019
		(Rupees)	(Rupees)
Details of the Employees' Provident Fund are as follows:			
Size of the fund - (total assets)		**29,028,830**	33,525,272
Cost of investments made	36.1	**24,617,307**	31,617,307
Fair value of investments		**25,808,523**	33,497,242
Cash at bank	36.1	**1,566,417**	1,548,204
Percentage of investments made (%)		**85%**	94%

	31 December 2020		31 December 2019	
36.1 Breakup of investment - at cost:	**(Rupees)**	**%**	(Rupees)	%
Investment in government securities	**24,617,307**	**94%**	31,617,307	95%
Cash at bank	**1,566,417**	**6%**	1,548,204	5%
	26,183,724	**100%**	33,165,511	100%

36.2 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.

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

	Liabilities			
	Loans and borrowings and short term borrowings	**Subordinated loans**	**Lease Liability**	**Total**
		(Rupees)	**(Rupees)**	
Balance at 01 January 2020	**7,666,353,509**	**12,346,699,885**	**33,837,824**	**20,046,891,218**
Changes from financing cash flows				
Proceeds from loans and borrowings - net	**563,833,334**	**-**	**-**	**563,833,334**
Repayments of short term borrowings	**(23,174,839)**	**-**	**-**	**(23,174,839)**
Rental paid for the building	**-**	**-**	**(36,462,415)**	**(36,462,415)**
Repayments of subordinated loans	**-**	**(264,322,130)**	**-**	**(264,322,130)**
Total changes from financing cash flows	**540,658,495**	**(264,322,130)**	**(36,462,415)**	**239,873,950**
Other changes				
Financial charges on lease liability	**-**	**-**	**2,624,591**	**-**
Balance at 31 December 2020	**8,207,012,004**	**12,082,377,755**	**-**	**20,286,765,168**
Balance at 01 January 2019	1,999,236,997	13,489,638,230	60,453,230	15,549,328,457
Changes from financing cash flows				
Proceeds from loans and borrowings - net	5,668,250,781	-	-	5,668,250,781
Proceeds from short term borrowings	(1,134,269)	-	-	(1,134,269)
Rental paid for the building	-	-	(32,544,965)	(32,544,965)
Proceeds from subordinated loans	-	(1,142,938,345)	-	(1,142,938,345)
Total changes from financing cash flows	5,667,116,512	(1,142,938,345)	(32,544,965)	4,491,633,202
Other changes				
Financial charges on lease liability	-	-	5,929,559	5,929,559
Balance at 31 December 2019	7,666,353,509	12,346,699,885	33,837,824	20,040,961,659

	Note	31 December 2020	31 December 2019
38 CASH AND CASH EQUIVALENTS		**(Rupees)**	(Rupees)
Lending to financial institutions (reverse repo)	15	**1,724,972,806**	-
Cash and bank balances	18	**211,631,699**	805,933,056
		1,936,604,505	805,933,056

39 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties comprise associated undertakings, directors as well as their close family members, companies with common directorship, executives, key management personnel and major shareholders. Balances with related parties are disclosed in notes 10.1, 12.2, 14.1, 18, 19, 21 and 24 to these financial statements. Below is the list of related parties with whom the Company has entered into transactions during the year:

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

39.1 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

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

	31 December 2020	31 December 2019
Transactions with associated undertakings	**(Rupees)**	(Rupees)
Grant income recognized during the year	**18,583,660**	20,427,237
Subordinated loan received during the year	**878,616,214**	-
Subordinated loan repaid during the year	**1,142,938,346**	1,142,938,346
Markup on subordinated loan charged during the year	**1,320,018,011**	1,658,466,747
Markup on subordinated loan paid during the year	**1,535,617,852**	1,470,357,768
Transactions with other related parties		
Employee contribution payable to provident fund	**826,945**	14,015
Employer contribution payable to provident fund	**826,945**	14,015
Total contribution paid to provident fund	**17,202,133**	17,387,727
Total contribution paid to gratuity fund	**17,174,454**	4,050,845
Transactions with key management personnel		
Remuneration and allowance including staff retirement benefits	**112,834,142**	109,280,765

40 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

40.1 Classifications and fair values

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

On-balance sheet financial instruments		31 December 2020							
		Carrying value				Fair value			
		Held to maturity	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2020	**Note**				(Rupees)				
Financial assets not measured at fair value	40.2								
Long term investment - Pakistan Investment Bonds	8	189,023,024	-	-	189,023,024	-	-	-	-
Long term investment - Term Finance Certificates	8	100,000,000	-	-	100,000,000	-	-	-	-
Financing - net	9	-	22,365,405,848	-	22,365,405,848	-	-	-	-
Long term advances and deposits	10 & 40.4	-	8,727,941	-	8,727,941	-	-	-	-
Advances and other receivable	12 & 40.4	-	28,922,917	-	28,922,917	-	-	-	-
Markup accrued - receivable	13	-	678,039,512	-	678,039,512	-	-	-	-
Due from related parties	14	-	8,078,024	-	8,078,024	-	-	-	-
Lending to financial institutions (reverse repo)	15	1,724,972,806	-	-	1,724,972,806	-	-	-	-
Short term investment - Pakistan Investment Bonds	16	189,196,083	-	-	189,196,083	-	-	-	-
Short term investment - Treasury Bills	16	239,159,500	-	-	239,159,500	-	-	-	-
Short term investment - Term deposit certificates	16	900,000,000	-	-	900,000,000	-	-	-	-
Cash and bank balances	18	-	211,631,699	-	211,631,699	-	-	-	-
		3,342,351,413	23,300,805,941	-	26,643,157,354	-	-	-	-
Financial liabilities not measured at fair value	40.2								
Subordinated loan	20	-	-	12,082,377,755	12,082,377,755	-	-	-	-
Loans and borrowings	21	-	-	8,132,084,115	8,132,084,115	-	-	-	-
Short term borrowings	24	-	-	74,927,889	74,927,889	-	-	-	-
Trade and other payables	25 & 40.5	-	-	5,547,714	5,547,714	-	-	-	-
Markup accrued - payable	26	-	-	356,967,446	356,967,446	-	-	-	-
		-	-	20,651,904,919	20,651,904,919	-	-	-	-

40 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

On-balance sheet financial instruments

		31 December 2019							
		Carrying value				Fair value			
		Held to maturity	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2019	**Note**				(Rupees)				
Financial assets not measured at fair value	40.2								
Long term investment - Pakistan Investment Bonds	8	379,125,357	-	-	379,125,357	-	-	-	-
Financing - net	9	-	22,822,857,916	-	22,822,857,916	-	-	-	-
Long term advances and deposits	10 & 40.4	-	12,456,649	-	12,456,649	-	-	-	-
Advances, prepayments and other receivable	12 & 40.4	-	44,698,960	-	44,698,960	-	-	-	-
Markup accrued - receivable	13	-	885,805,862	-	885,805,862	-	-	-	-
Due from related parties	14	-	20,402,438	-	20,402,438	-	-	-	-
Short term investment - Term deposit certificates	16	1,250,000,000	-	-	1,250,000,000	-	-	-	-
Short term investment - Treasury Bills	16	465,292,475	-	-	465,292,475	-	-	-	-
Cash and bank balances	18	-	805,933,056	-	805,933,056	-	-	-	-
		2,094,417,832	24,592,154,881	-	26,686,572,713	-	-	-	-
Financial liabilities not measured at fair value	40.2								
Subordinated loan	20	-	-	12,346,699,885	12,346,699,885	-	-	-	-
Loans and borrowings	21	-	-	7,568,250,781	7,568,250,781	-	-	-	-
Short term borrowings	24	-	-	98,102,728	98,102,728	-	-	-	-
Lease liability				33,837,824	33,837,824				
Trade and other payables	25 & 40.5	-	-	11,582,589	11,582,589	-	-	-	-
Markup accrued - payable	26	-	-	781,494,168	781,494,168	-	-	-	-
		-	-	20,839,967,975	20,839,967,975	-	-	-	-

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

40.3 It excludes long term prepayment - transaction charges.

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

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

40.6 Measurement of fair values

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

i. Non - derivative financial assets

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

ii. Non - derivative financial liabilities

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

B FINANCIAL RISK MANAGEMENT

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

Risk management framework

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

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

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

40.7 Credit risk

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

i. Concentration of credit risk

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

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Long term investment - Pakistan Investment Bonds	8	**189,023,024**	379,125,357
Long term investment - Term Finance Certificates	8	**100,000,000**	-
Financing - gross*	9	**23,547,518,063**	23,860,547,433
Long term advances and deposits	10 & 40.4	**8,727,941**	12,456,649
Advances and other receivable	12 & 40.4	**28,922,917**	44,698,960
Markup accrued - receivable	13	**678,039,512**	885,805,862
Due from related parties	14	**8,078,024**	20,402,438
Lending to financial institutions (reverse repo)	15	**1,724,972,806**	-
Short term investment - Pakistan Investment Bonds	16	**189,196,083**	-
Short term investment - Treasury Bills	16	**239,159,500**	465,292,475
Short term investment - Term deposit certificates	16	**900,000,000**	1,250,000,000
Cash and bank balances	18	**211,631,699**	805,858,056
		27,825,269,569	27,724,187,230

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

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

	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Related parties	**8,078,024**	20,402,438
Banks and financial institutions	**27,401,321,580**	27,267,503,826
Others	**415,869,965**	436,280,966
	27,825,269,569	27,724,187,230

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

ii- Impairment losses

The Company records general provision against financing at 1.25% - 5.0% (31 December 2019: 1% - 1.5%) of the outstanding balance of financing, net of specific provision. The movement in general provision in respect of financing during the year was as follows:

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Balance at 01 January		**317,058,750**	230,848,750
Provision made during the year	9.4	**117,922,698**	86,210,000
Balance at 31 December		**434,981,448**	317,058,750

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

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Balance at 01 January		720,630,767	-
Provision made during the year	9.4	26,500,000	720,630,767
Balance at 31 December		747,130,767	720,630,767

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

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

iii. Credit quality of financial assets

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

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

	Ratings	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Long term investment - Pakistan Investment Bonds			
Counterparties without credit rating		189,023,024	379,125,357
Financing - gross*			
Counterparties with credit rating	A	2,300,000,000	800,000,000
Counterparties with credit rating	A-	3,425,000,000	3,600,000,000
Counterparties with credit rating	A+	800,000,000	800,000,000
Counterparties with credit rating	BBB	6,415,000,000	-
Counterparties with credit rating	BB+	325,000,000	-
Counterparties with credit rating	BBB-	2,170,000,000	2,790,000,000
Counterparties with credit rating	BBB+	762,500,000	837,500,000
Counterparties without credit rating		7,350,018,063	15,033,047,433
		23,547,518,063	23,860,547,433
Long term advances and deposits			
Counterparties without credit rating		8,727,941	12,456,649
Advances and other receivable			
Counterparties without credit rating		28,922,917	44,698,960
Markup accrued - receivable			
Counterparties with credit rating	A3	297,849,186	135,410,456
Counterparties with credit rating	A2	86,426,438	141,929,830
Counterparties with credit rating	A1	37,736,825	15,363,036
Counterparties with credit rating	AA	338,092	-
Counterparties with credit rating	A1+	2,700,000	4,191,220
Counterparties without credit rating		252,988,972	588,911,320
		678,039,512	885,805,862

	Ratings	31 December 2020 (Rupees)	31 December 2019 (Rupees)
Due from related parties			
Counterparties with credit rating	A1+	8,078,024	20,402,438
Long term investment - Term Finance Certificates			
Counterparties without credit rating	AA	100,000,000	-
Short term investment - Pakistan Investment Bonds			
Counterparties without credit rating		189,196,083	-
Short term investment - Treasury Bills			
Counterparties without credit rating		239,159,500	465,292,475
Lending to financial institutions (reverse repo)			
Counterparties without credit rating		1,724,972,806	-
Short term investment - Term deposit certificates			
Counterparties with credit rating	A1+	900,000,000	800,000,000
Counterparties with credit rating	A1	-	450,000,000
		900,000,000	1,250,000,000
Cash at bank			
Counterparties with credit rating	A1+	199,429,323	790,632,010
Counterparties with credit rating	A1	12,202,377	15,226,046
		211,631,700	805,858,056

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

40.8 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)				
31 December 2020					
Subordinated loan	12,082,377,755	17,063,710,916	2,049,878,739	8,528,180,298	6,485,651,879
Loans and borrowings	8,132,084,115	9,133,709,035	2,754,550,961	6,379,158,074	-
Short term borrowings	74,927,889	74,927,889	74,927,889	-	-
Trade and other payables	5,547,714	5,547,714	5,547,714	-	-
Markup accrued - payable	356,967,446	356,967,446	356,967,446	-	-
	20,651,904,919	26,634,863,000	5,241,872,749	14,907,338,372	6,485,651,879

	Carrying amount	Contractual cash flows	Maturity up to one year	Maturity after one year and up to five years	Maturity after five years
	(Rupees)				
31 December 2019					
Subordinated loan	12,346,699,885	22,404,319,054	2,833,623,497	9,520,973,288	10,049,722,269
Loans and borrowings	7,568,250,781	10,069,378,727	2,163,618,147	7,905,760,580	-
Short term borrowings	98,102,728	98,102,728	98,102,728	-	-
Lease liability	33,837,824	36,462,415	36,462,415	-	-
Trade and other payables	11,582,589	11,582,589	11,582,589	-	-
Markup accrued - payable	781,494,168	781,494,168	781,494,168	-	-
	20,839,967,975	33,401,339,681	5,924,883,544	17,426,733,868	10,049,722,269

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

The contractual cash flows relating to subordinated loans, loans and borrowing and short term borrowings have been determined on the basis of expected mark up rates. The mark up rates have been disclosed in note 18, 19 and 21 to these financial statements.

40.9 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.

40.9.1 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:

	31 December 2020	31 December 2019
	(Rupees)	(Rupees)
Subordinated loan from KfW	**878,616,214**	-

The following significant exchange rate applied during the year:

	Average rates		Balance sheet date rate	
	2020	2019	**2020**	2019
US Dollars	**157.53**	154.95	**160.11**	154.95

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.

	31 December 2020	31 December 2019
	(Rupees)	(Rupees)
Increase in 10% USD rate	**(87,861,621)**	-
Decrease in 10% USD rate	**87,861,621**	-

40.9.2 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:

	31 December 2020 Effective rate %	31 December 2019 Effective rate %	**31 December 2020 (Rupees)**	31 December 2019 (Rupees)
Fixed rate instruments				
Financial assets	**5.5 - 13.94**	10 - 14.5	**3,242,351,413**	2,094,417,832
Financial liabilities	**KIBOR - 1.75**		**(22,509,638)**	-
			3,219,841,775	2,094,417,832
Variable rate instruments				
Financial assets	**KIBOR - 1.75 to**	**KIBOR - 1 to**	**23,859,149,362**	24,666,405,089
Financial liabilities	**KIBOR +**	**KIBOR +**	**(20,289,389,759)**	(20,013,053,394)
	1 to 4.5	**1 to 4.5**	**3,569,759,603**	4,653,351,695

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. 238.6 million (31 December 2019: Rs. 246.7 million) and increased / decreased markup expense by Rs. 202.9 million (31 December 2019: Rs. 200.1 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for previous year.

40.9.3 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.

41 Statutory minimum capital requirement and management of capital

Capital requirements applicable to the Company are set and regulated by the Securities and Exchange Commission of Pakistan ("SECP"). These requirements are put in place to ensure sufficient solvency margins. The Company manages its capital requirements by assessing its capital structure against the required level on a regular basis at the reporting date, the minimum equity requirement as per the NBFC Regulations for the non deposit taking NBFC is Rs. 100 million (31 December 2019: 100 million). As at 31 December 2020, the Company's total equity is Rs. 6,693 million (31 December 2019: Rs. 6,286 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.

41 NUMBER OF EMPLOYEES	**31 December 2020**	31 December 2019
Number of employees at reporting date	**39**	35
Average number of employees during the year	**37**	36

42 IMPACT OF COVID-19 ON THE FINANCIAL STATEMENTS

On 30 January 2020, the World Health Organization (WHO) declared the outbreak a "Public Health Emergency of International Concern" and on 11 March 2020, the WHO declared the COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe. Many countries, including Pakistan, have taken stringent steps to help contain further spread of the virus. While these events and conditions have resulted in general economic uncertainty, however, to dampen the adverse effects of COVID-19 and to enable the Microfinance sector continue to fulfil their role in funding the real economy, SECP issued Circular Letter No.9 of 2020 dated 31 March 2020 provided the relaxation to Lending NBFCs including NBMFCs under Regulation 67A of the Non-Banking Finance Companies and Notified Entities Regulations,2008 where NBFCs can defer/restructure principal/markup amount by one year. Management has evaluated the impact of COVID-19 and concluded that there are no material implications of COVID-19 on the operations of the Company that require specific disclosure in the financial statements except for those already disclosed in notes 9.2 and 9.6 of these financial statements.

43 GENERAL

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

44 APPROVAL OF FINANCIAL STATEMENTS

44.1 These financial statements were authorized for issue by the Board of Directors of the Company in its meeting held on 11 March 2021.

CHIEF EXECUTIVE OFFICER

DIRECTOR