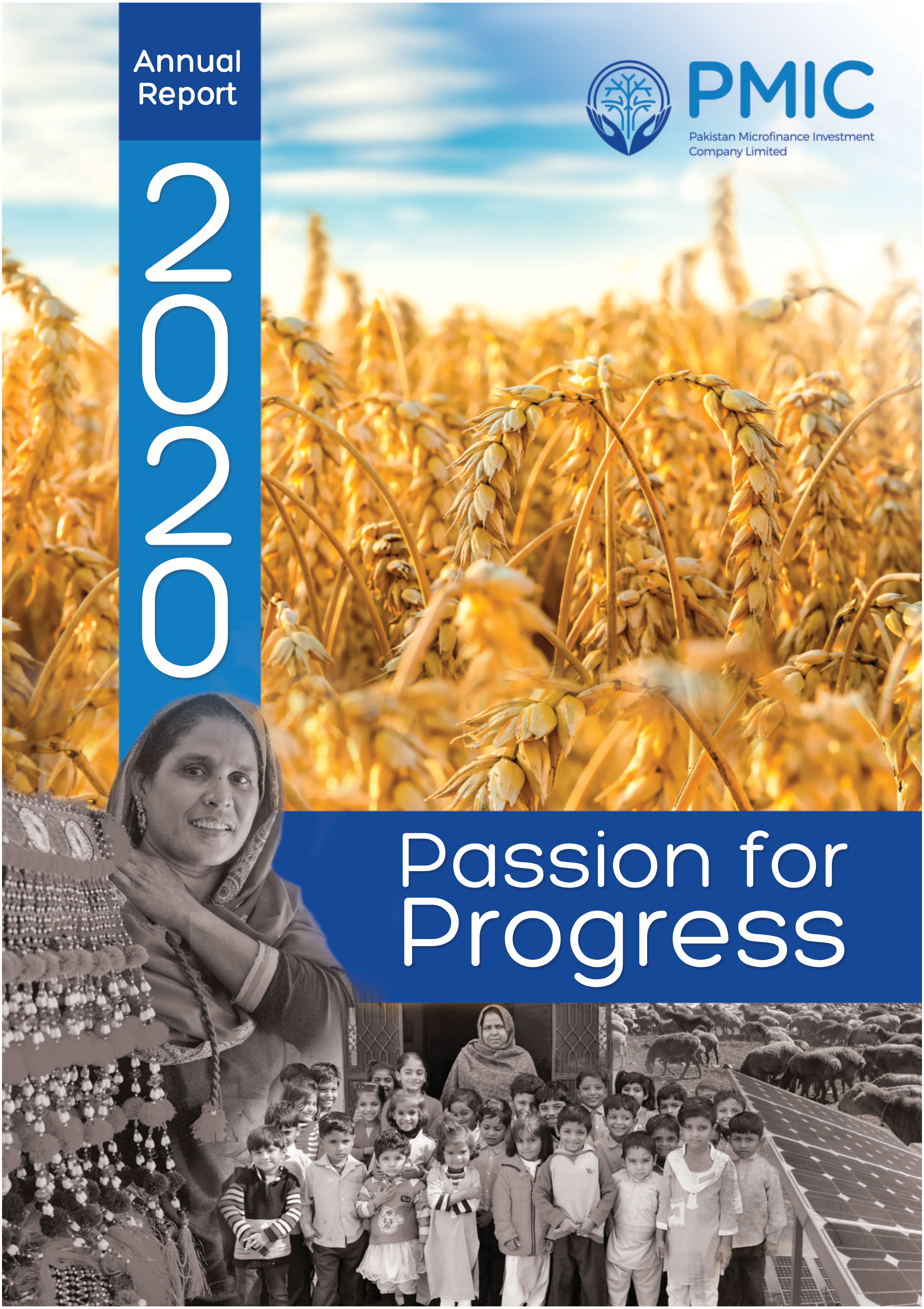


Annual Report

2020

PMIC

Pakistan Microfinance Investment Company Limited

Passion for Progress

PMIC

Pakistan Microfinance Investment Company Limited

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

Table of Content

Company Information

Board of Directors

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

Board Audit Committee

- Mr. Navid Goraya - Chairman
- Mr. Tariq Hassan - Member
- Mr. Ali Raza Bhutta - Member
- Ms. Neelum Aamir - Secretary

Board Risk Committee

- Mr. Qazi Azmat Isa - Chairman
- Mr. Naved Abid Khan - Member
- Ms. Christiane Eberhard - Member
- Muhammad Rashid Imran - Member

Board Human Resource Committee

- Mr. Naved Abid Khan - Chairman
- Mr. Qazi Azmat Isa - Member
- Mr. Tariq Hassan - Member
- Ms. Syeda Ambreen Zehra Taqvi - Secretary

*Mr. Fahad Asad Khan (FCA)	Chief Financial Officer
Mr. Yasir Masud	Company Secretary, Head of Legal & Procurement
M/s. KPMG Taseer Hadi & Co,Chartered Accountants	Auditors
M/s. Haidermota & Co	Legal Advisors

Registered Office

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

Share Registrar

M/s. CDC Share Registrar Services Limited
CDC House, 99-B, Block-B, S.M.C.H.S, Main Shahra-e-Faisal, Karachi 74400,
Tel : 0800 23275 - Fax : (+92 21) 34326053
Email : info@cdcsrsl.com

* Mr. Fahad Asad Khan Resinged in January 2021

Acronyms

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

About PMIC

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

With focus on improving employment and livelihood opportunities for marginalized segments in the country especially women and youth, PMIC is introducing need-based products, to graduate them out of abject poverty. With outreach throughout the country through partner MFPs, PMIC has already impacted the lives of 769,521 Clients. PMIC actively contributes towards formation of policies and strategies to enhance financial inclusion in the country while playing an active policy advocacy role.

Our work is guided by the following thematic areas:

Women & Youth | Rural Areas | Digital Pathways | Employment Generation

PMIC has already impacted the lives of 769,521 Clients

Brand Statement

Passion for Progress

Vision, Mission, Strategic Objectives

Our Vision

A Pakistani society where the underserved are empowered

Our Mission

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

Strategic Objectives

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

Core Values

- Respect & Integrity
- Team Work
- Transparency & Merit
- Passion, Inovation & Creativity
- Inclusion

PMIC
Pakistan Microfinance Investment Company Limited

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

The sponsoring institutions bring clarity of purpose and a commitment to PMIC's mission which envisages a Pakistani society where the underserved are empowered. In addition to capital contribution from the sponsors, PMIC also has subordinate loans available from them, which reflects the sponsors' commitment to the institution's mission. The collective goals of the three sponsors as reflected in the development objectives for PMIC map onto key targets under some of the SDGs.

Pakistan Poverty Alleviation Fund (PPAF) Established in 2000, Pakistan Poverty Alleviation Fund (PPAF) is the largest source of wholesale funds for the microfinance sector in Pakistan and lead apex institution for community-driven development in the country. Set up by the Government of Pakistan as an autonomous not-for-profit organization, PPAF enjoys facilitation and support from the Government of Pakistan, The World Bank, International Fund for Agricultural Development (IFAD), KfW Entwicklungs bank (Development Bank of Germany) and other statutory and corporate donors. PPAF aims to be the catalyst for improving the quality of life, broadening the range of opportunities and socio-economic mainstreaming of the poor and disadvantaged, especially women. The core operating units of the PPAF deliver a range of development interventions at the grassroots/community level through a network of more than 100 Partner Organizations across the country. These include social mobilization, support for livelihood, enterprise and employment, access to credit, infrastructure and energy, health, education and disaster managemen

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

The Company has three work streams, Digital Financial Services, Corporate Investment and Credit and Knowledge Management and Communications. Karandaaz Pakistan is sponsored and governed by eminent Pakistanis, and is managed by an experienced team with core expertise in international investment management and digital finance.

KFW Development Bank KFW Development Bank has been helping the German Federal Government to achieve its goals in development policy and international development cooperation for more than 50 years. In this regard, we are both an experienced bank and a development institution with financing expertise, an expert knowledge of development policy and many years of national and international experience. On behalf of the German Federal Government, and primarily the Federal Ministry for Economic Cooperation and Development (BMZ), we finance and support programs and projects that mainly involve public sector players in developing countries and emerging economies - from their conception and execution to monitoring their success. Our goal is to help our partner countries fight poverty, maintain peace, protect both the environment and the climate and shape globalization in an appropriate way.

Board of Directors

Navid Goraya

Qazi Azmat Isa

Christine Eberhard

Naved Abid Khan
Chairman

Dr. Tariq Hassan

Ali Raza Bhutta

Yasir Ashfaq

Management Team

Yasir Ashfaq
Chief Executive Officer

Saqib Siddiqui
Head of Sector Development

Neelum Aamir
Head of Internal Audit

Rizwan Sheikh
Head of Corporate Finance & Investment Banking

Muhammad Rashid Imran
Chief Risk & Compliance Officer

Asghar Memon
Head of Portfolio Management

Syeda Ambreen Zehra Taqvi
Head of Human Resources

*Fahad Asad (FCA)
Chief Financial Officer

Yasir Masud
Company Secretary
Head of Legal & Procurement

* Mr. Fahad Asad Khan Resinged in January 2021

Charirman's Message

Pakistan represents the fifth largest population in the world, while less than a quarter of this population has access to inclusive financial services. To elevate the quality and state of the economy, the microfinance sector needs to play an increasingly larger and impactful role. While the sector has recently touched over 7 million clients, this only represents roughly one third of the potential client base. The microfinance sector's larger and more impactful role will be possible as microfinance institutions start improving their liquidity positions, enhancing their compliance and risk management frameworks and recognizing the role of technology to bring efficiency, speed, and creativity to their customer base.

At PMIC, our goal is to ensure that our end customers from the lowest segments of society can have access to the same suite of financial products as those from the upper segments. We believe this is a major step in bridging the financial access gap between the rich and the poor. Since the Covid-19 pandemic, we have continued to expand and innovate our capital base and financial products while continuing to lend to an increasing customer base. During the last year, we successfully launched Pakistan's first social impact fund for the microfinance sector in collaboration with the National Investment Trust. In addition, we continue to bring new customer segments into our portfolio with a special focus on fulfilling the credit funding gap in KPK and Baluchistan. It is difficult to comment on the year in review without noticing the global impact and upheaval brought about by the Covid-19 pandemic. Covid-19 affected virtually every economy and society globally, some more so than others. The pandemic also affected certain sectors greater than others and while this pandemic proved to be a greater test for the microfinance sector, PMIC played a proactive and leading role as the apex institution for the sector and stepped up to stabilize and support the sector, as and when required.

We focused on consolidating our portfolio, maintained liquidity, and focused on building a strong platform for post pandemic growth. As an apex institution, PMIC's entire focus centered around supporting institutions to survive the impact of Covid-19, sustaining their financial health, and strengthening their endurance to weather such shocks through institutional adjustments of their financial and social impact models. Our proactive market stabilizing actions of allowing our microfinance institutional borrowers to defer principal payments had a ripple effect on the ability of our customers to provide similar moratoriums to its end individual clients, while also ensuring that no jobs were lost. PMIC's close collaboration and engagement with the regulator and key stakeholders during this time also ensured that the sector navigated the challenges successfully. Considering the circumstances in 2020, I am delighted at the excellent state of our portfolio quality, our financial health, robust profitability, and social impact, all while ensuring each one of our employees remained safe and healthy throughout this period.

As we look towards navigating 2021, as economies and borders gradually start to open further with increased vaccination rates, we also expect that business will return to its pre-pandemic volumes. PMIC will continue to focus around helping its borrowers achieve sustainable, long term growth. We continue to further invest in the development of new financial and non-financial products and tap various capital channels to fund our future growth and impact. I look forward to a positive and successful 2021 and wish each one of our stakeholders the best wishes for the year.

Naved Abid Khan
Chairman of the Board

CEO's Message

Considering the impact of Covid-19 pandemic, the year 2020 was a challenging year not just for PMIC, but across the globe. The economies across the world have faced the burden of increased healthcare expenditures, lockdowns, business closures and social distancing protocols to ensure health, safety and security of the people. Pakistan has been no exception, but fortunately the situation has not been as bad as in some of the other countries in the region. However, the economic slowdown has resulted in a large portion of the population slipping back below the poverty line and a lot more people now on the borderline and unemployed.

The pandemic had impacted the entire microfinance sector and PMIC's portfolio. However, PMIC showed resilience and worked hard to provide adequate support to MFPs and their respective clients. This support included rescheduling of principal repayments for 17 borrowers falling due in 2020 for a period of 12 months amounting to PKR 10.3 billion. While at the same time, PMIC ensured that it stays current in its obligations to its lenders to give them a signal of the sector's financial strength.

We worked closely with all the stakeholders in the financial services domain such as regulators, government departments, development agencies, financiers, commercial banks and microfinance networks to provide support to MFIS and MFBs. The ultimate objective was to support microfinance clients in those difficult times when they needed liquidity and continued access to financial services. Internally, we developed a comprehensive Business Continuation Plan to ensure that all organizational activities are carried out in an effective and efficient manner online. PMIC adopted Work-from-Home (WFH) strategy for its employees so that business activities could be carried out without risking employees' health and wellbeing. Regular communication, knowledge management and sharing of information and experiences played a vital role addressing numerous challenges posed by the crisis.

During this year, PMIC's portfolio stood at PKR 23.5 billion, spread amongst 24 MFPs who have lent onwards to serve more than 750,000 microfinance clients, of which 83% were women, while 62% of this portfolio was deployed in rural areas. With the slowdown in the growth, we revisited our business plan, developed various scenarios with varying degree of financial and portfolio quality stresses, developed a remote monitoring regime with new formats and information templates as well as regular senior management and team meetings to ensure stability in portfolio and our clients.

Strong communication with staff was a key element during the pandemic hit year, that helped PMIC play a leadership role for its borrowers and other players in the microfinance industry of Pakistan. We also played a lead role in advocacy related activities, including sharing of best practices through webinars, notes, case studies and market sentiments. With the prevalent Covid-19 situation, it is important for microfinance providers to consolidate their financial position through building reserves and additional liquidity while also reviewing their operational and institutional processes. While the sector players focused on consolidation during 2020, a prudent approach during the phase, we do see a moderate growth opportunity during the latter half of 2021. It is imperative for sector players to realign their products with the evolving financial needs of clients, especially in light of the impact this pandemic has had on their financial health.

We also used the time to relook at our strategy to align it with the evolving needs of its borrowers by developing and introducing new products. These included credit enhancement facility, guarantee mechanisms, advisory services and capital market products to ensure our support once the economy starts to revive and the demand for credit goes up. To introduce alternate financing avenues for the sector, Social Impact Fund has been designed with NIT as that will invest into microfinance players' capital market instruments. The Fund will be embedded with social and market based financial returns and will be offered to retail and institutional investors for subscription. Further, an "Institution Development Fund", a pool to encourage startups and new market entrant to avail PMIC financing with a relaxed eligibility criterion is being rolled out.

CEO's Message

Human race has progressed only by working hard, taking new challenges, and discovering new paths, this is what I expect from my team for the next year. Together as a team, we strive to achieve bigger goals, which will help strengthen PMIC and ultimately benefit Pakistan and financially excluded segment of the society. I would like to conclude by extending gratitude to my team at PMIC and will take this opportunity to thank our borrowing institutions, Board of Directors, PPAF, Karandaaz Pakistan, FDCO, KfW, SBP, SECP, PMN and the larger network of stakeholders for their continuous support to PMIC.

Yasir Ashfaq
Chief Executive Officer

The Board of Directors of Pakistan Microfinance Investment Company Limited (PMIC) is pleased to present the annual audited financial statements for the period ended December 31, 2020.

Economic Review[1]

During 2020, the Covid-19 pandemic caused major disruptions to economic activity in Pakistan. In response, the government introduced several targeted strategies, such as smart lockdowns, implementation of Standard Operating Procedures (SOPs) and disbursement of cash grants to those living at the bottom of the pyramid. These interventions were largely successful in curtailing the spread and economic impact of the pandemic. Additionally, measures at the economic level by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) also helped in reviving the economy. These included an accommodating monetary policy, lower policy rates and relaxation to companies in certain regulatory or compliance practices, especially deferment of loans, that helped the poor clients.

SBP also responded with several additional measures in 2020 to combat these disruptions, including concessional financing to companies that do not lay off workers, one-year extension in principal payments and doubling of the period for rescheduling of loans from 90 to 180 days. The SBP has projected Pakistan's GDP growth rate to be 2.1% for FY21.

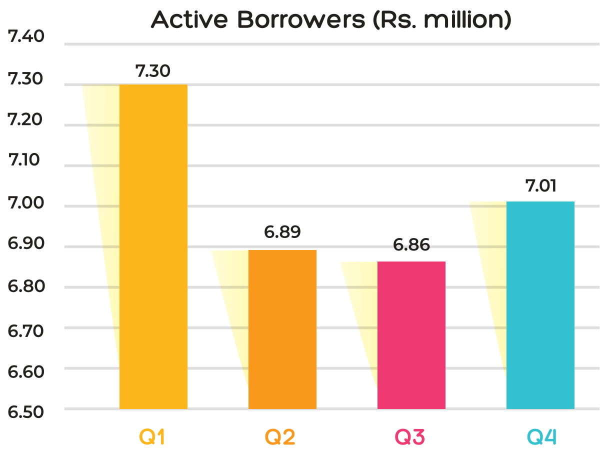
Consumer Price Index (CPI) inflation increased by 8% on year-on-year basis in December 2020. Projected inflation is expected to be in the range of 7% - 9% in FY21. In response to the Covid-19 pandemic and stunting growth, policymakers reduced the policy rate throughout the year, closing at a policy rate of 7% by December 2020, to stimulate economic growth. SBP has also subsequently maintained the policy rate at 7% in January 2021 as an accommodating stance of the monetary policy.

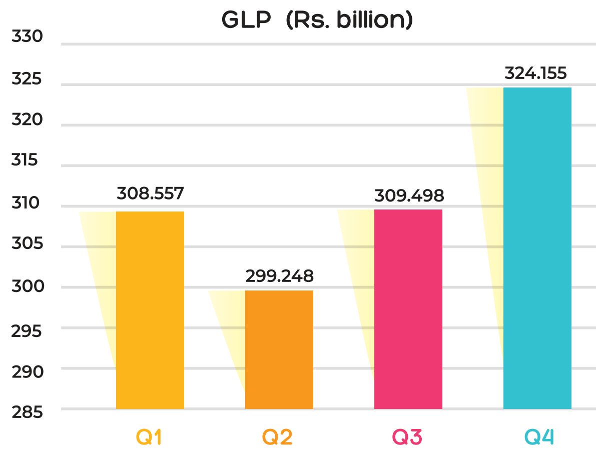
During the second half of 2020, the current account remained in surplus at USD 1.1 billion, compared to a deficit of over USD 2 billion during the same period in 2019. This was mainly driven by increase in worker's remittances and the level of exports increasing to pre-Covid levels. SBP's foreign exchange reserves have risen to USD 13 billion, their highest level since December 2017. During the first half of FY21, USD 5,688 million of external inflows were received from multiple sources, including USD 1.1 Billion from ADB and USD 744 Million from World Bank. The government also received USD 500 million as a new loan from the Industrial and Commercial Bank of China (ICBC) in January 2021. The Asian Development Bank (ADB) has in January 2021 also announced a new five-year loan program estimated at approximately USD 10 billion for Pakistan to help in expanding economic opportunities in the country.

At year-end 2020, sector Gross Loan Portfolio (GLP) was Rs. 324 billion which increased by 6% from year-end 2019 GLP of Rs. 306 billion. This was far lower than the average year-on-year increase of 36% in GLP over the previous 5 years (2014-2019). Active borrowers at end-2020 stood at 7 million while the same were 7.2 million in 2019 showing a 3% decrease; this was unprecedented over the last 13 years in Pakistan's microfinance history. For year-end 2020, the approximate total number of female active borrowers for the sector was 3,502,943, as compared to approximately 3,697,471 at year-end 2019. In Q2 of 2020, there was a dip in both active borrowers and GLP as well. These shocks were primarily driven by the Covid-19 pandemic as it suppressed local economic activity and prompted the regulators to sanction loan deferments. However, there was a quick revival of GLP and active clients in both Q3 and Q4, recovery is still ongoing.

Owing to the onset of Covid-19 and the resultant slashing of policy rate from 13.25% to 7% over Mar-Dec 2020 period. These actions played a role in the early resumption of disbursements.

1 Pakistan Bureau of Statistics, State Bank of Pakistan (Monetary Policy Statements), Economic A!airs Division (Foreign Economic Assistance Bulletins)

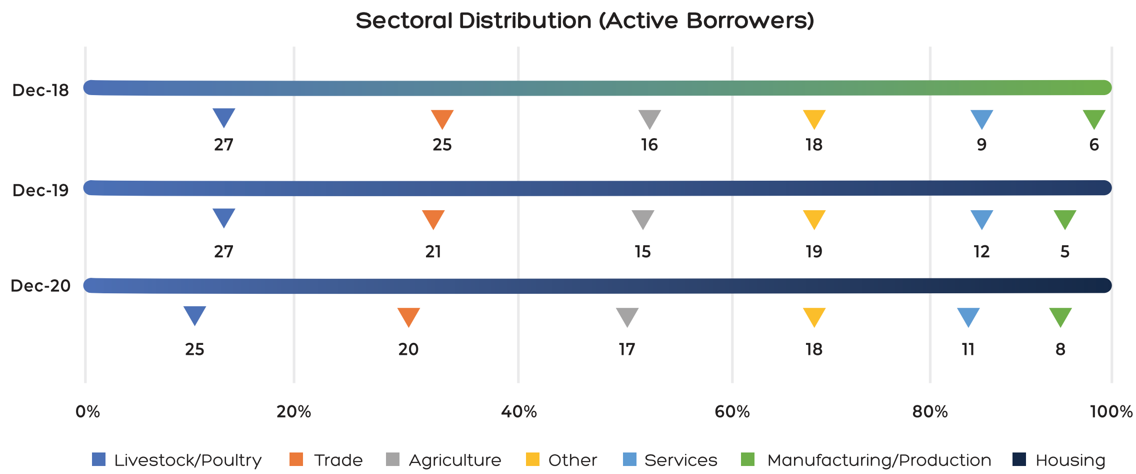




The penetration rate of the sector decreased by more than 1% in 2020. Moreover, KPK and Baluchistan continue to have low penetration, while Punjab and Sindh are highly penetrated.

Broad features of the GLP have remained largely consistent over CY20, with proportion of borrowers from rural areas comprising 62% of total (CY19: 53%) and female clients comprising 50% (CY19: 51%). Moreover, microfinance banks (MFBs) continue to enjoy almost 73% market share in terms of GLP. Similarly, sector-wise distribution of portfolio has also remained consistent with the past trends other than minor deviations. Historically the share of active borrowers for agriculture sector kept decreasing for the past 10 years from a peak of 29% in 2009 to a low of 15% in 2019. In 2020 however, agriculture sector saw its share of active borrowers slightly increase by 2%. Share of manufacturing/production sector also featured an uptick of 3%.

Compared to 2019 the PAR-30 (Portfolio at Risk - 30 Days) for the sector has decreased from 4.8% to 3.7%. Additionally, PAR of Non-Banking Microfinance Companies (NBMFCs) increased over the same period; it remained lower than 5%, however, it is also to be noted that due to the current deferment regime, true picture of portfolio quality is difficult to assess. As the deferred portfolio becomes due in coming months, more clarity will entail as to portfolio quality. Profitability of the



sector also came slightly under pressure in CY20 largely owing to slow growth over the first three quarters. Non-performing loan levels remained comparable to 2019. However, write-offs increased over the same period. Cost of funds decreased due to the decline in policy rate, while operating expenses witnessed an upward trend. This could be attributed to slow growth with constant fixed expenses, increase in provisioning also explain squeezing of margins.

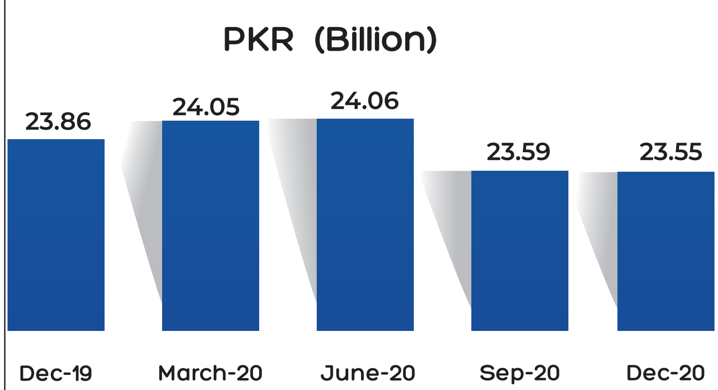
Experiences of 2020 in terms of delinquency have also highlighted the need for better and stronger controls in addition to sectoral and geographic portfolio diversification; sector players are expected to learn from these experiences and enhance their control mechanisms and strategies accordingly. For deepening and expanding financial inclusion into low-to-no-penetrated areas, digitization, innovation and setting up of new institutions is required.

1 Pakistan Bureau of Statistics, State Bank of Pakistan (Monetary Policy Statements), Economic Affairs Division (Foreign Economic Assistance Bulletins)

I. Operational and Financial Review

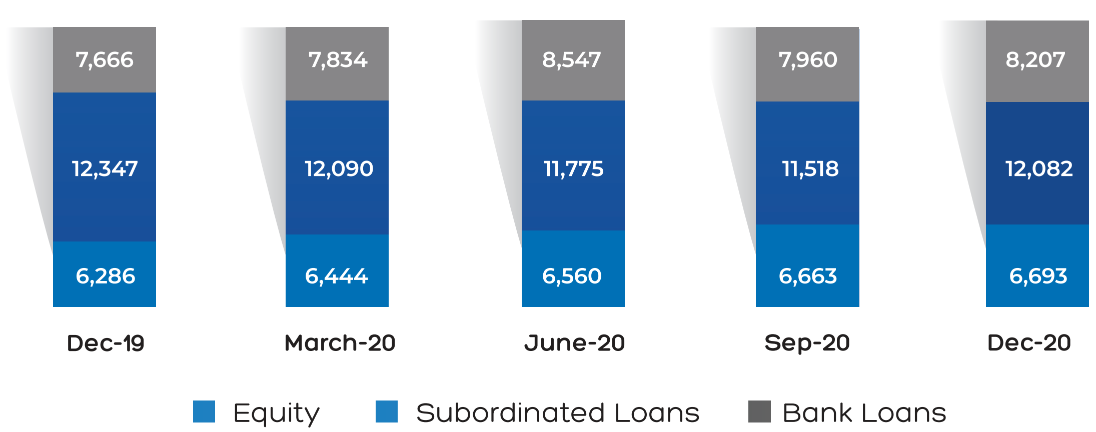
The financial results of PMIC are as follows. Covid-19 and the resultant economic and policy level changes had a consequent effect on PMIC. The company had gross financing exposure as at December 31, 2020 with 24 partner financial institutions including three MFBs. The financing portfolio remained at almost the same level i.e., Rs. 23.86 billion at the start of 2020 to Rs.23.55 billion by the end of the year.PMIC also raised funds from commercial banks during 2020, closing the year at Rs. 8.2 billion of commercial borrowings. During the year, PMIC also successfully completed draw down of the first tranche of USD 5.5 Million of the Subordinated Loan Agreement between PMIC and KfW for PMIC-KfW Renewable Energy project (PRIME),which signifies the confidence and support of our shareholders. Growth in 2021 will be driven by commercial funding, including multiple capital market transactions. The company remains well capitalized at December 2020, with Rs. 6.69 billion equity and subordinated loans of Rs 12.08 billion.

	2020 (Rupees)	2019 (Rupees)	Variation %
Income	3,255,707,293	3,255,707,293	-10%
Finance cost	(2,201,343,278)	(2,385,579,598)	-8%
	1,054,364,015	1, 246,970,163	-15%
Administrative expenses	(333,044,262)	(340,835, 471)	-2%
Profit before taxation	581,183,297	67,655,917	759%
Profit after taxation	403,432,438	39,322,990	926%
Earning per share	68.56	6.68	926%



Company's net income before provision was recorded at Rs. 1,054 Million for the year 2020, as compared to Rs. 1,246 Million in 2019. The difference was caused by both lower volumes of financings, and lower policy rates. Profit for the year was recorded at Rs. 403 Million, an increase of Rs. 364 Million from last year, primarily as provisioning was built for non-performing portfolio in 2019 (BRAC-Pakistan, due to regulatory action). Administrative expenses remained well within budget and were recorded at Rs. 333 million for the year 2020, this included various one-off capacity building costs and staff trainings. Return on equity was accordingly 6% for the year.

Sources Of Funds



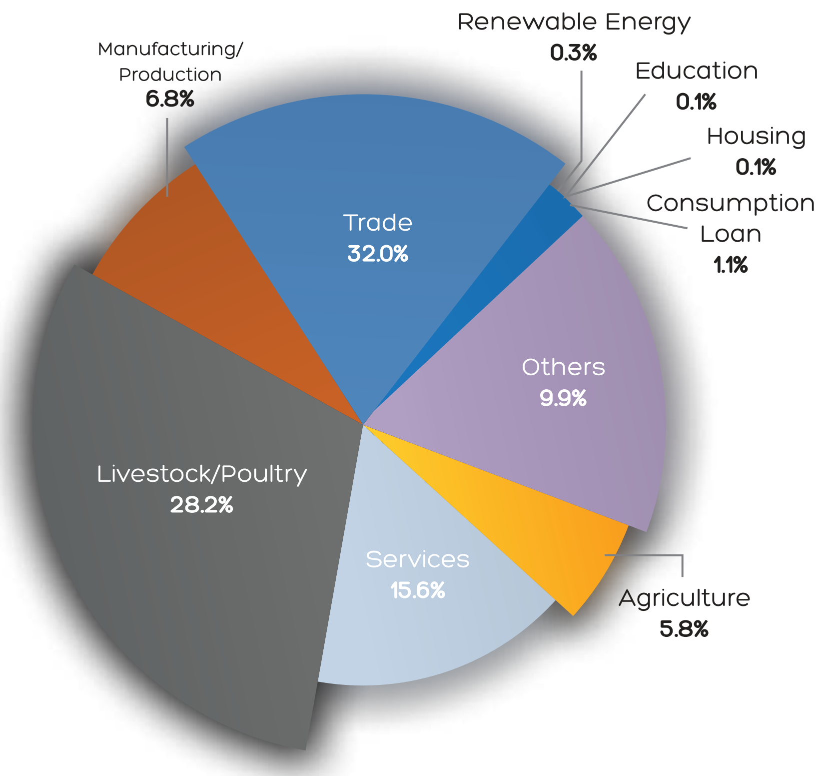
PMIC also maintained an effective and robust internal control system during the year. Implementation of world class SAP Enterprise Resource System (ERP) continued with the project going live in March, 2021.

ii. Business and Outreach Review

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

Covid-19 pandemic adversely impacted the global economy and Pakistan was not an exception, although fortunately the severity was much less than majority of the other countries. Despite slowdown in growth and adverse implications on sectors portfolio, due to close coordination and follow up with borrowers and generous relief on repayment, PMIC managed 100% repayments of principal and mark-up due in the year 2020. The deferments provided by PMIC contributed to provision for relief by NBMFCs to end-clients.

During the year, credit disbursements from PMIC to borrowing institutions were utilized to serve more than 750,000 microfinance clients, of which 83% were women. 62% of the portfolio at year-end was outstanding in rural areas, in line with PMIC's objective to serve those in marginalized areas and enhance development outcomes. PMIC's model of financing is in line with it's vision to enhance employment and income generating opportunities as almost 39% of the portfolio was extended for trade/manufacturing and production purposes, with exposures in agriculture and livestock aggregated at 34%. Loans to services sector stood at 16% at year-end while 1.7% of portfolio was deployed in Education, Renewable Energy, Housing and Consumer loans. PMIC will continue to focus its lending in segments that generate employment opportunities and increase revenues of small and micro enterprises. Additionally, PMIC aims to use its lending to stimulate digital growth, create access to renewable energy and expand access to formal finance for theunderserved, especially women.



PMIC is keen to promote financial inclusion across Pakistan and acknowledges the increasing funding requirements of the microfinance sector. PMIC offers both fund and non-fund-based credit offering for its clients. New products to cater short term financing needs of the borrowers and Islamic mode of financing are in pipeline. On Corporate Finance and Investment Banking front, PMIC focused on three key areas to respond to challenges posed by Covid-19 pandemic and beyond.

1. Ensure adequate liquidity on PMIC and its borrowers' Balance Sheets to manage perceived cashflow challenges espcially during Covid-19 and to comply with all commercial and business

2. Explore partnership arrangements with multilateral development finance entities to share sector's credit risk and provide much needed business strength to microfinance institutions during stress period. pe

3. Develop strategic investment vehicles in partnership with industry leaders, to connect the sector with local Capital Market, which is most critical to ensure sustainable growth of microfinance industry players post Covid scenario. obligations.

In order to manage liquidity requirements, PMIC proactively engaged with commercial banks and procured funding arrangements to cover possible cashflow eventualities. PMIC did not avail any relaxation from Banks (allowed due to Covid-19) in terms of deferment of principal payment owed to Lenders. On the other hand, PMIC extended principle and mark up deferments to majority of its borrowers to support their cashflows, and still maintained strong risk coverage on its balance sheet.

Despite a volatile market during 2020, PMIC was successful in consummating its first Cross Currency Swap transaction with a leading authorized derivative dealer and hedged 10 years currency exposure against foreign currency subordinated loan from KfW.

To incentivize commercial funding into the microfinance sector, PMIC launched its Credit Ensure Facility (CEF) in 2020. The facility acts as credit enhancer and provides partial guarantee up to 50% of the loss incurred on outstanding principle of Banks facility to MFB/NBMFC. The facility is structured to minimize perceived risk premium and generate multiplier effect for the sector by leveraging PMIC exposure to attract more funding for growth of portfolio.

Significant inroads were made in developing an alternate resource platform for the microfinance sector through capital market. PMIC in collaboration with National Investment Trust Limited (NITL) entered into a Memorandum of Understanding (MoU) to launch Pakistan's first "Social Impact Fund (SIF) for the sector. The core objective of the fund is to provide growth capital to MFBs & NBMFCs. SIF will be listed unit, scheme under Fixed Income Mutual Fund structure that will mobilize large scale private sector capital from prospective institutional and retail investors and invest into capital market instruments raised by high-impact Microfinance Providers (MFPs). Social Impact fund will introduce impact finance concept in the market and offer double bottom line returns to its investors i.e. market based financial return along with measurable social

Going forward, PMIC aims to spearhead capital market activity in the Microfinance Sector. Focus will be working in its capacity as a Financial and Social Impact Advisor for issuance of financial instruments of sector players. PMIC plans to structure innovative financing solutions to launch social initiative based thematic/ impact bonds.

PMIC also aims to contribute to digital transformation of sector players by partnering with technology platforms and FINTECH firms. Contributing to the digitization will accelerate growth of the sector, penetrate the potential market of 20 Million end clients and achieve National Financial Inclusion targets of Government of Pakistan.

In line with its objectives, PMIC designs and implements "Microfinance Plus" initiatives that focus on integrating financial investments with innovation, value creation, risk mitigation and capacity enhancement for the end borrowers and the microfinance providers. Microfinance Plus interventions are designed holistically to consider the effect on the entire ecosystem i.e. the market, the institutions and most importantly the microfinance clients. PMIC continued to deploy the microfinance plus projects, however Covid-19 and subsequent lockdowns badly impacted project implementation. In this regard, PMIC did manage to implement some interventions with strict adherence to SOPs and by adopting technology laden solutions. The LCPS project, which promotes affordable quality education through Low-Cost Private Schools benefitted close to 700 schools. The PMIC-KFW Renewable Energy through Microfinance (PRIME) program, which focuses on provision of clean energy through Solar Home Solutions, resulted in selling of 14,576 solar solution components through microfinance, with total 20 KiloWatts. The Livestock Productivity Enhancement Initiative - LPEI, includes trainings on livestock management and dairy best practices and microcredit loans, benefitted over 20,000 farmers, while the crop productivity enhancement initiative - CPEI, which includes training on productivity enhancement and provision of microcredit loans, benefitted over 10,500 small farmers. In order to help generate employment and increase incomes of micro and low-end small entrepreneurs, PMIC deployed Enterprise development initiative - EDI - benefitting around 11,500 entrepreneurs. PMIC also initiated work on deploying technology laden solutions for livestock micro insurance. The technology platforms will greatly help in scaling up livestock micro insurance in Pakistan. With regards to social safety net programmes, PMIC has graduated close to 24,000 clients out of poverty through provision of microfinance for beneficiaries of BISP, PMIFL and PPAF's LEP programmes. PMIC is focused on creating meaningful impact through all these initiatives and plans to document results to reach out to various development agencies, and corporates to upscale the same.

iii. Board Committees

The following Board Committees functioned actively during the year.

Committee	Number of Meetings Held
Board Audit Committee (BAC)	4
Board Risk Committee (BRC)	6
Board Human Resource Committee (BHRC)	4

iv. Management Committees

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

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

v. Credit Rating

PMIC's long-term rating of "AA" and short-term rating of "A 1+" has been maintained by The Pakistan Credit Rating Company Limited (PACRA). The ratings reflect company's financial strength and strong shareholder support

vi. Pattern of Shareholding

The shareholding as at December 31, 2020 is as follows.

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

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

Sr #	Name	Title
1	Mr. Naved Abid Khan	Chairman
2	Mr. Qazi Azmat Isa	Director
3	Ms. Christine Eberhard	Director
4	Mr. Navid Yousaf Goraya	Director
5	Dr. Tariq Hassan	Director
6	Mr. Ali Raza Bhutta	Director
7	Mr. Yasir Ashfaq	CEO/ Director

vii. Auditors

The present Auditors, M/s KPMG Taseer Hadi & Co. Chartered Accountants shall stand as retired after having completed 5 years at PMIC. The Code of Corporate Governance (CCG) (applicable on Listed Companies) prescribes that auditors of financial sectors having completed 5 years shall be changed. Following the recommendation of the CCG (although not applicable on PMIC) and as per bestpractice, PMIC changed its current external auditor. The Board of Directors, on the recommendation of the Audit Committee, recommended the appointment of EY Ford Rhodes, as auditors of the Company for the year ending December 31,2021.

Outlook

The trajectory of the ongoing Covid-19 pandemic is difficult to predict, given the prevalence of cases, new variants and the uncertainties and challenges in rolling out of vaccinations. Global recovery is also improving; however, it is not possible to predict anything with certainty. These factors could impact the economic recovery in the country at the pace that is desired at the moment.

The country is expected to see stabilization as the year progresses into the second quarter of 2021. SBP has maintained the GDP growth rate at 2.4%. The situation will further be impacted by the terms and conditions that have been agreed with IMF for its facility. Amidst the current scenario, the microfinance industry is expected to focus on cautious growth and recoveries from the deferred portfolios. However, the potential for expansion still remains high especially in low penetrated geographies.

Acknowledgement

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

-sd-

Chief Executive Officer
Date:
Place:

-sd-

Director
Date:
Place:

THRIVING AMONGST CHALLENGES

ZAIB ELAHI

Zaib, got married at a young age, her husband was a laborer earning Rs 10,000 a month. Her kids were unable to study due to limited means. As fate would have it, her husband, the sole bread winner was diagnosed with terminal tuberculosis and succumbed to illness a few weeks later. Devastated and emotionally wrecked, Zaib found herself helpless with 4 young kids and no means of income. She started doing odd jobs to put food on the table and her two sons started working as well. One of her sons started working in a small beverages company.

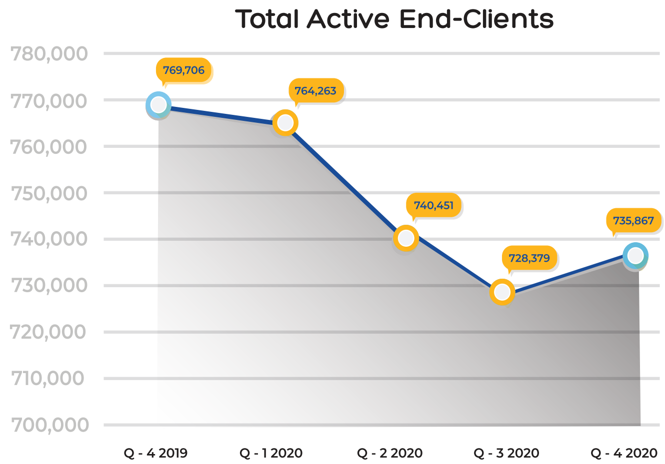
The elder son grew proficient in operating a beverages plant and consulted his mother about starting their own business. Zaib had approached AGAHE and got a loan to setup their own beverages business under her son's supervision. They started working day and night and were able to fill 10 crates of beverage bottles a day. The business further got its certification from the food department thereby opening avenues for supplying beverage bottles to nearby stores/markets. Since then, there has been no looking back as their business has picked up really well.
Looking ahead, she plans to expand further by installing a chiller to increase storage capacity, while setting up a small tea and food stall for her younger son. She has transformed her family's fortunes and brought financial independence through sheer hard work and AGAHE Pakistan's help.

PMIC applauds the efforts put in by AGAHE Pakistan in supporting such hardworking women, who remain resilient in the face of challenges and become an inspiration for other women in Pakistan.

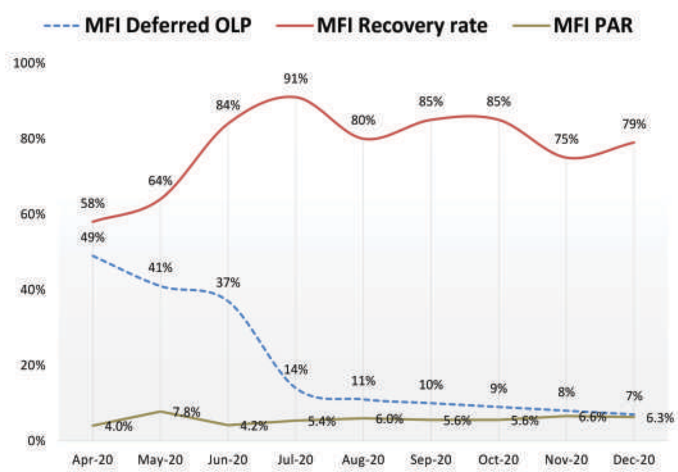
Wholesale Lending and Portfolio Management

PMIC is positioned as the only dedicated wholesale apex institution for the microfinance sector of Pakistan, working with the aim of increasing financial inclusion, generating positive social and economic impact for microfinance clients and for developing financial ecosystem in the country. The whole-sale lending business is carried out by lending to MFIs and MFBs which are regulated by SECP and SBP, respectively. As of December 2020, PMIC exposure stood at PKR 23.5 billion with 24 active borrowers. In time, anticipation and putting in place measures had greatly helped counteract and mitigate if not eliminate possible effects of Covid-19.

Microfinance Portfolio Characteristics



Covid-19 Pandemic resulted in a country wide lockdown for health and safety purposes. Subsequently, the microfinance sector observed a decline in its clientele as operations were restricted and the MFPs halted their growth plans. However, with the support of the regulators, PMIC, other financiers and gradual uplift of the lockdown, microfinance sector began to revive and an increase in clients from the third quarter of the year was observed. A lot of data collection, desk review and online interaction with borrowers allowed PMIC to monitor the progress of its borrowers during these pressing times. A snapshot of the progress over 2020 in terms of end-clientele is depicted in the graph.



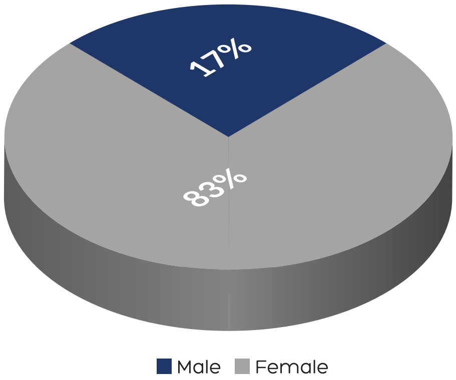
PMIC borrowers deferred outstanding loan portfolio, that was 49% in April 2020, due to the lockdown, closure of field branches, offices and restriction on social interaction has reduced to 7% by December 2020. The MFPs following the moratorium offered by the regulators, State Bank of Pakistan and SECP, allowed deferment of loans to the clients for up to 12 months. PMIC borrowers followed a more prudent approach to deferments by allowing a month-on-month relaxation to clients till September 2020. Some of the MFBs experienced high PAR however, overall performance of the sector has remained far better than what was expected in March 2020 when Covid-19 hit Pakistan. It is the resilience, adaptability and the survival instincts of the clients and the MFPs, the proactive response from the regulators and the financiers that have allowed the microfinance sector to excel during these testing times.

PMIC team believes in keeping constant contact with its clients and borrowers and collect first-hand information from the field. Despite the Covid-19 lock down, health and safety concerns, restrictions on travel and social distancing protocols, PMIC team continued its efforts to engage with end clients. While following all the SOPs related to social interaction and travel, all tiers of PMIC team visited more than 360 clients and 42 branches of the borrowers in Punjab.

This interaction allowed PMIC team to have a better understanding of the plight of clientele, their challenges and their true zeal to adapt and survive during the worst of times. It also helped PMIC to formulate it's response, policies and products to best suit the needs of the clients and borrowers who were facing challenges in maintaining liquidity and portfolio quality.

Women Empowerment

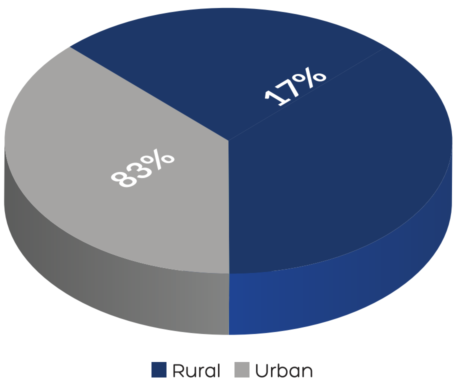
An 83% deployment of loans to women under the PMIC funded portfolio of its borrowers is a true reflection of our commitment to empower women through financial inclusion. These numbers are primarily driven by a higher percentage of women in the NBMFI segment of the sector while the MFBs have a much smaller number of women clients. However, PMIC continues to convince and ensure greater focus on women clients in the portfolio as well as women representation in the management and Boards of its borrowing institutions.



Active Clients - Gender Breakup

Geographic Mix

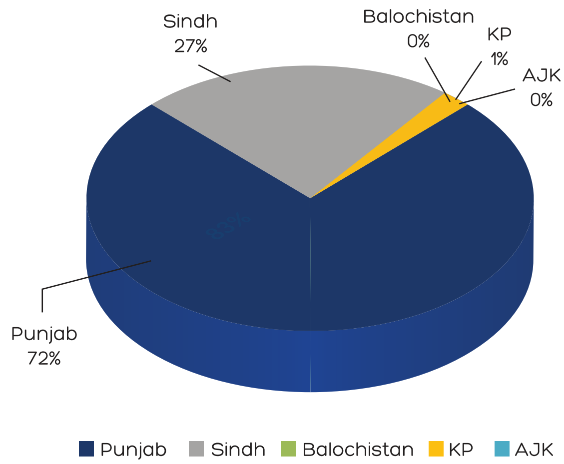
As of December 2020, PMIC had deployed 62% of its portfolio in rural areas and efforts would continue to further reach underdeveloped and marginalized communities, this however will not compromise our focus on economically active areas.



Geographic Breakup

Provincial Distribution

Despite efforts to increase penetration of microfinance in Baluchistan, GB, AJK and KPK, the numbers are still are not encouraging.



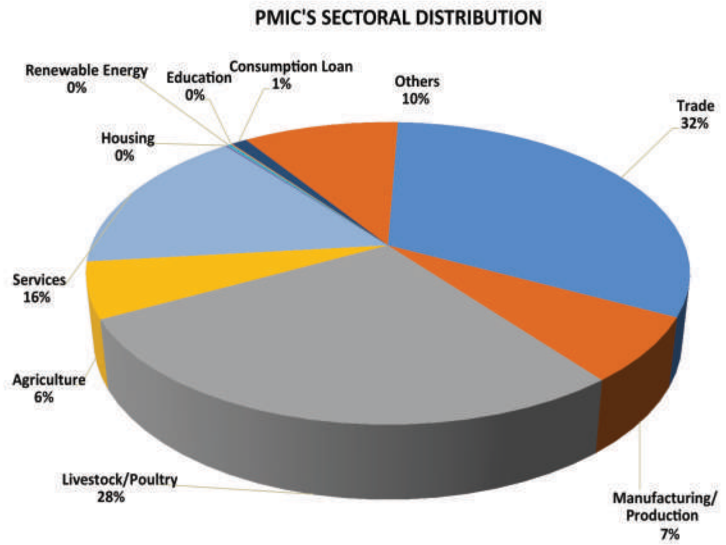
Provincial Distribution

During the last year, the efforts were not as profound as the MF sector had gone into a consolidation phase. PMIC would continue to explore all possibilities and avenues to ensure progress in these areas during the next 12 months. While the MFPs have more concentration in Punjab, PMIC has ensured flow of its portfolio towards Southern and poverty-stricken areas of the province with low financial penetration. A similar approach has been followed in Sindh where portfolio continues to be deployed in the areas like Tharparkar, Badin and other districts that fall below the provincial average of Human Development Index.

High poverty rates and low development indicators show a need for appropriate interventions in Baluchistan, KPK, GB and AJK. As, PMIC is focused on both gender and geographical diversity, it will continue to explore avenues for new MFIs/MFBs and facilitating the penetration of existing ones in the less penetrated districts/provinces.

Sectoral Distribution

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



Priority Lending For Underserved Economic Groups And Regions

PMIC's intime anticipation and putting in place measures that counteracted and mitigated if noteliminate all possible effects of Covid-19, to reach out to 735,867 clients, with presence in 74 districts by the end of December2020.

Indicators to track	2020 Update
Proportion of PMIC's portfolio deployment in rural areas	62%
Proportion of youth clients in PMIC's portfolio	83%
Proportion of women clients in PMIC's portfolio	36%
PMIC's Loan Portfolio deployment in Extreme Poverty Zones	PKR 2.9 billion

Sub-ordinate Loan Financing

During the period under review, PMIC concluded its second sub- loan financing facility with Khushali Microfinance Bank (KMBL) - total three transactions with KMBL and FINCA, under subordinated/Tier-2 capital product. This would enable to further diversify loan portfolio and contribute to PMIC's business strategy of providing a range of financial services to MFBs and MFIs. PPTFC/Tier II or Subordinated credit facilities from PMIC will contribute towards the financial soundness of the microfinance sector and reinforce industry's capital structure. PMIC is also exploring other institutions to offer sub-loans/Tier-2 financing.

Going Forward

PMIC is keen to promote financial inclusion across Pakistan and acknowledges the increasing funding requirements of the microfinance sector at large. PMIC believes in flexibility, efficiency, access to information and collaborations with its clients, borrowers, regulators and other stakeholders to limit the impact of Covid-19. PMIC offers both financial and non-financial services to it's borrowers. New products to cater short term financing needs of the borrowers, Islamic mode of financing and onboarding fin-techs to promote financial inclusion. Some of the developments are asfollows.

Institutions Development Fund

PMIC will encourage new players to participate more actively in bringing about financial inclusion and to facilitate the provision of financial services to underserved communities across Pakistan. Start-ups and organizations in their nascent stages in Pakistan require an institution or source of funding that supports them and offers a path to prosperity. In the wake of Covid-19, financial institutions pivoting towards digitization and searching for innovative solutions for tapping the underserved market have gained a new impetus. In order to play a proactive role, PMIC is planning to launch a fund for institutional development to provide support to companies that would not normally meet the eligibility criteria. The fund will encourage lending to new organizations that work on:

- **Women's financial inclusion**
- **Provision of financial services in KP and Baluchistan**
- **Startups that deploy digital financial services**
- **Mechanisms and technologies to reduce the cost of delivery of financial services**

The institutions supported through this pool would later graduate to PMIC's normal lending window and contribute to the objective of promoting innovation and financial inclusion.

Islamic Finance

In order to catalyze growth in the microfinance sector and diversify its product base, PMIC is committed to provide institutional support to the microfinance industry and develop parallel financing products based on Islamic Shariah principles. The main objective is to support the Islamic microfinance industry players to strengthen and scale-up provision of sustainable and responsible access to finance in Pakistan. Islamic microfinance has huge potential in Pakistan and PMIC is committed to proactively develop products and systems to support the Islamic microfinance. In this regard, hiring of consultant is in process for development of Shariah Compliant products catering to the needs of microfinance institutions and other Islamic finance institutions.

WOMEN OF STRENGTH

RUBY JAMEEL

Ruby Jameel belongs to Sindh and is now settled in Lahore with her husband and two children. Her husband worked as a cobbler and they struggled to make both ends meet. She has been a client of CSC Empowerment and Inclusion Programme CEIP - one of PMIC's Borrower) for 10 years and had started helping her husband in his business.

Ruby's cousin had once asked her about referring some women from her vicinity, who could put stones on embroidered kurtas. With the intention of helping the family, she setup a group of women for availing this business opportunity. She started taking orders from her cousin and passed them down to women in her neighborhood, sharing the earnings with them. Ruby received semi-finished kurtas which she passed down to these women for beading/stoning. She earned PKR. 10,000 a week from which she paid PKR. 6,000 to her women helpers and earned PKR. 4000 as her profit.

The beading business, which she started 3 years back with CEIP's loan, had brought a lot of good fortune to Ruby's family. Her children had started going to school. Ruby hopes to become a wholesaler for this embroidery business so that she could increase her profit margin substantially and generate employment opportunities for other women.

PMIC appreciates the role CEIP's team played in helping Ruby setup and grow her business. PMIC also salutes such women of strength which are not only helping their family but also benefiting other women to stand up on their feet and become financially independent.

As a triple bottom line company, PMIC designs and implements microfinance plus initiatives that focus on integrating financial investments with innovation, value creation, risk mitigation and capacity enhancement for the end borrowers and microfinance providers to generate greater social and economic impact and cater to 7 out of the 15 Sustainable Development Goals SDGs.

In 2020, Covid-19 pandemic hampered the deployment of microfinance plus initiatives, which focused on small farmers, microentrepreneurs, education finance and development of eco system to support microfinance. Most of these interventions involved trainings or awareness sessions in groups comprising of 20-30 individuals in the field and class-room settings. PMIC being cognizant of its business practices kept the association active with its clients and borrowers by switching to online mode of interacting with borrowers and clients and imparting knowledge, thus guaranteeing the clients that PMIC supports their ingenuities through thick and thin.

Intervention	Clients reached till 2020	Contribution to Sustainable Development Goals
Renewable Energy (PRIME)	14,576 units	SDG 7 - Affordable and clean energy
Livestock Productivity Enhancement	20,040	SDG 1 - No poverty and SDG 2 - Zero hunger
Enterprise Development through Trainings and Larger Loans	13,737	SDG 8 - Good jobs and economic growth and SDG 10 - Reduced inequalities
Crop Productivity Enhancement Initiative	16,619	SDG 1 - No poverty and SDG 2 - Zero hunger
Education through Microfinance	698 schools	SDG 4 - Girl Education
Graduation of clients from Social Safety Nets to Microfinance	27,072	SDG 1 - No poverty, SDG 2 - Zero hunger and SDG 8 - Good jobs and Economic growth

Despite the pandemic, PMIC continued to work on microfinance plus projects while using technology based solutions and also by keeping a constant communique with end borrowers to create awareness under different interventions. In line with its business strategy, PMIC spent close to PKR 34 million out of its income to deploy projects under its renewable energy, education, graduation out of poverty and farmer centric initiatives. PMIC is focused on creating meaningful impact through initiatives in the below areas and plans to document results to focus on areas with highest benefits to the clients and reach out to various development agencies and corporates to support up scaling the same. In the last four years, PMIC's microfinance plus initiatives have benefitted more than 100,000 microfinance clients.

PMIC-KfW Renewable Energy Initiative through Microfinance (PRIME)

PRIME is a Euro 15 Million KfW supported program to finance Solar Home Solutions (SHS) for the poor and off-grid areas in Pakistan for 200,000 households, thereby advancing the 7th Sustainable Development Goal of Affordable and Clean Energy for All. The program aims to build capacity of microfinance providers catalyze market development and financing of high-quality solar products, building eco system for solar energy deployment in poor and off grid areas of the country.

PRIME was launched in November 2019 with 7 microfinance institutions and 9 suppliers qualified for the supply of products under the program. The initiative continued to be deployed through 2020 and has resulted in sale of 14,576 units These units were provided to clients residing in both off grid as well as semi-grid areas of Sindh and Punjab. The activities during the year included training of MFP staff, client awareness sessions and provision of solar home solutions through financing. While the uptake of the solar home solutions was hampered by the restriction of field activities lower levels of disbursements by MFPs and slowdown in the supply of products as a result of import restrictions from China and delays in clearance of containers at the Karachi port, PMIC team utilized that period in further development of the program

In order to support the liquidity needs of the Solar vendors, discussion is underway to introduce vendor financing product under PRIME. The arrangement would allow the vendors to get financing and other related financial instruments to support their working capital needs, import financing through LCs, bank guarantees and other financing needs to support initiatives under PRIME

Crop Productivity Enhancement Initiative - CPEI

The CPEI project, catering to the 1st and 2nd SDG of No poverty and Zero Hunger helps provide access to finance for subsistence farmers through a well-designed loan product. It also builds their capacity through specialized trainings and awareness sessions and provides farmers with access to market and creation of backward and forward linkages. The initiative has benefitted around 16,619 subsistence farmers in 10 districts of Punjab and Sindh, including Sheikhupura, Nankana Sahib, Gujranwala, Vehari, Muzaffargarh, Sanghar, Nawabshah, Matyari, Umerkot and Mirpurkhas. The specialized trainings, provided under the program, focused on land preparation, effective application of necessary inputs (fertilizer, environment friendly pesticides and micronutrients), effective and efficient water application procedures and latest crop harvesting techniques by leading institutions, including the US-Pakistan Centre for Advanced Studies in Water - USPCASW, Agri extension services department of Fauji Fertilizer Company - FFC and Bakhabar Kissan. The capacity building of small farmers in improving their crop cultivation practices is resulting in improved crop yield and incomes. Collaborations with Agri Research Institutions, Universities like NARC, PARC, Sindh Agriculture University, Faisalabad Agriculture University and other extension departments have been made to strengthen the initiative and bring the knowledge generated by these institutions to the small farmers.

Livestock Productivity Enhancement Initiative - LPEI

The LPEI initiative focuses on farmers keeping livestock for fattening as well as milking purposes and responds to the 1st and 2nd SDG of "No poverty" and Zero Hunger". The initiative helped build access to finance through larger sized loans, built capacity of farmers through trainings and awareness sessions,connected them with Government's extension service departments for vaccination and established their linkages with market entities for sale of milk/animals. The project has benefitting 20,040 small farmers till date in 21 districts across Punjab and Sindh through 8 microfinance institutions. The trainings imparted to farmers, focused on increasing milk production and animal weight, proper feed and water, importance of treating animal diseases through veterinary medicines, vaccination of animals and replacement of unhealthy/unproductive animals. These trainings have helped small farmers improve animalproductivity and ultimately resulting in increased incomes.

Enterprise Development Initiative through Trainings and Larger Loans - EDI

In response to SDG 8 "Good jobs and economic growth" and SDG 10 "Reduced inequalities", PMIC has deployed the EDI initiative to help micro and small entrepreneurs expand their businesses, build capacities and have access to larger loans. The EDI initiative predominantly focused on women entrepreneurs and has benefitted around 13,737 micro and low-end small entrepreneurs in Pakistan. The initiative has been deployed through 7 borrowers in 17 districts of Punjab and Sindh. Institutions like PSDF, Gharpar and Uber partnered with MFPs to deliver trainings to clients to strengthen their businesses and income generating ventures.

Livestock Micro Insurance - LMI

PMIC's portfolio has more than 25% share in the livestock sector. PMIC has made valiant efforts in introducing livestock insurance as a risk mitigation tool for clients engaged with the livestock sector. In this regard, PMIC in collaboration with Alfalah Insurance Company, TPL Insurance and Asia Insurance has worked on the development and deployment of a technology based insurance product that could help in reducing the administrative procedures, paperwork involved with policy issuance, bring efficiency in claim settlement aswell as remove the need for animal tagging through an animal facial recognition software. This would ultimately result in making the insurance more affordable and accessible for farmers. The products pilot with Alfalah Insurance and Thardeep Microfinance Foundation was hampered by Covid-19, but the product would be scaled up in 2021.

Further, PMIC, in partnership with KfW and National Disaster and Risk Management Fund - NDRMF worked on introducing disaster risk insurance in Pakistan. In this regard, a Swiss consultant firm namely Celsius Pro was hired to work on a feasibility study and product development.

Education Through Microfinance

The initiative responds to SDG 4 "Quality Education" and entails adoption of a dual approach for supporting education through financing and capacity building of low-cost private schools. The technical assistance component consists of school owners training on management of accounts, human resource, child safety and health, school marketing and other school improvement areas. Whilst the teachers training consists of modules related to classroom management, activity-based teaching, pedagogy, financial literacy module for children, student assessments, lesson planning and behavior management among others.

The intervention was deployed in collaboration with Opportunity International - OI and Kashf Foundation in 2020, and 3 sessions of School Leadership Professional Development Program for school owners were organized. Similarly, trainings of 3,500 teachers were carried out on pedagogical skills and curriculum delivery. The project benefited 698 schools in Punjab catering to 131,000 students of which 71,000 were girls. Although, the expansion of the program was halted as a result of closure of schools throughout the year because of Covid-19, plans are already set in motion with Opportunity International to expand the outreach of the program in 2021 with a more refined and comprehensive program to support LCPS.

Graduation Out Of Poverty

Graduation out of poverty project helps bring poor clients within the realms of financial services through provision of microcredit loans. The project focuses on poor clients, which have previously been part of social safety net programmes such as Prime Minister interest Free Loans (PMIFL) initiative, Benazir Income Support Programme (BISP) or PPAF's Livelihood Enhancement Programme (asset transfer facility). Some of these clients, along with loans are also provided with capacity building trainings, exposure to market, collective bargaining options and mentoring through inclusion in larger groups of people with similar businesses. PMIC over the course of 4 years has graduated more than 27,000 such individuals out of poverty. Project also involves close coordination with PPAF, especially with regards to being an important element of the National Poverty Graduation Program.

Other Initiatives

While the implementation of most of the MF Plus initiatives was affected by Covid-19 related restrictions, Sector Development team utilized this period to rethink its strategy of rolling out MF Plus initiatives. To improve the scaling up of MF Plus initiatives, PMIC is planning to launch a Challenge Fund for Microfinance Plus initiatives. It aims to support innovation, product development and digitalization of its MF Plus initiatives by attracting startups, service providers and other stakeholders in bringing fresh perspective in scaling up the initiatives. The Challenge fund would be launched during the second half of the year 2021 and would provide both grants and technical assistance support to the qualifying entities to accelerate financial inclusion, penetration of financial service in low penetrated areas of the country using technology and innovative solutions.

PMIC is focused on creating meaningful impact through all these initiatives and hence commissioned SDPI to carry out a base line study on 3 initiatives i.e. Graduation out of poverty, Enterprise Development and Education through LCPS. The studies have been conducted and initial reports suggest a high level of client satisfaction on the initiatives.

Similarly, SDD in collaboration with the Research Department is documenting key success factors of microfinance providers that have performed better than other institution during the Covid crisis and have been able to maintain better portfolio quality and financial discipline among its clients. The document would be circulated among practitioners as part of PMIC's knowledge management initiative.

Interaction with borrowers has been a major factor in the performance of PMIC over the years. Roundtable events, management visits to field, interaction with clients and MFI management have always added value to our policy formulation and decision making. Before the Covid restrictions set in, 3 round table events and field visits were made and later we switched to virtual mode and organized multiple webinars, meetings and knowledge sharing events with the MFPs using digital platforms. These allowed PMIC and the management of MFPs to get a different perspective of how institutions are coping with the situation, client needs and responses from different avenues and through linkages.

As the situation of Covid- 19 improved in November 2020, PMIC in collaboration with Pakistan Microfinance Network organized the Annual Microfinance Conference with the theme of "Sustaining Resilience, Microfinance in a Post Pandemic Era". Experts from the microfinance, banking, regulators, financiers, development agencies, insurance, digital platforms and other stakeholders shared their thoughts on the theme. The attendance at the event was largely through digital streaming with attendance kept to a limit with compliance of Covid SOPs.

PMICs aim is to uplift the social and economic conditions of its clients by promoting financial inclusion in Pakistan to alleviate poverty and contribute to broad based development.

Saqib khan a transgender with a B.Sc. (Hons) in Economics is a true example of PMICs vision and mission.

Saqib Khan decided to start his own tailoring work after being turned down for employment multiple times. He offers services to locals and jobs to transgenders. Saqib received a motorbike on installments through Apni Sawari Loan under CEIPs Transition project funded by PMIC, which empowers transgenders.

Saqib feels privileged that despite being a transgender, PMICs vision of inclusiveness has helped him own a bike.

Saqib Khan says: I am independent and self-sufficient now and can manage my daily chores myself for running my tailoring shop. I encourage all transgenders around to get educated and start a livelihood of their own with PMICs support like myself,for their self-respect, dignity and inclusiveness in society.

EMPOWERED TO SUCCEED

SAQIB KHAN

Risk Management

A comprehensive & preventative risk management framework helps an institution establish procedures to timely anticipate, gauge, and avert potential threats in addition to preparing against imminent ones. It is also a necessity to minimize impacts of shocks when they take place and respond for better management and survival. PMIC recognizes the importance of such a framework which does not only span over its lending business, but the whole organization and the sector as well.

During the pandemic PMIC has accordingly established an effective risk governance structure, the overall responsibility of which rests with PMICs Board of Directors. Risk governance is exercised by the Board Risk Committee (BRC), Management Risk Committee (MRC) and Asset & Liability Committee (ALCO). The policy framework includes comprehensive documents namely, Risk Appetite Framework, Environmental & Social Risk Management Guidelines, and the Risk Policy which covers credit risk, market and liquidity risk and the sector as well.

As part of the credit risk management function, continual monitoring of all PMICs exposures takes place actively. This includes multi-layered engagement with its borrowers that goes beyond the role of traditional lending. PMIC has its own risk rating module which is utilized to conduct risk profiling of borrowers by ascribing rating to them across specific dimensions including but not limited to financial performance, governance and management quality, operations, controls and environmental and social risk management.

PMIC has always been closely engaged with not only the management of borrowing institutions, but also their end-clients. Field engagements included visits to head offices and branches in addition to clients localities for independent assessment of their needs, behavior and feedback for their lenders and assessing their survival needs during Covid-19. Such visits provided direct insight of ground realities in an ever-changing environment. Emerging issues were documented and analyzed for timely mitigation and corrective measures.

Portfolio and financial reports were also periodically solicited from its borrowers which were utilized for financial risk profiling. Identified financial risks were internally discussed at MRC and BRC levels and the devised mitigants were prescribed to borrowing institutions. This is turn, also built risk management capacity of PMIC borrowers.

The company manages liquidity risks under its policy to ensure fulfillment of all financial obligations in a timely manner. The Asset-Liability Committee (ALCO) proactively tracks upcoming maturities of financial obligations, and scheduled disbursements under agreed facilities. Furthermore, liquidity buffers are always maintained on the balance sheet. ALCO also regularly monitors and attempts to forecast fluctuations in policy and market interest rates, and accordingly manages the asset-liability interest rate mismatch.

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

The company also has an approved AML/CFT policy as per which, and the business plan, PMIC only deals with institutional clients whereby all transactions are executed via banking channels. Nevertheless, key personnel either in managements or boards of borrowing institutions are actively screened for being in the notified list of proscribed persons. Considerable emphasis has also been placed with borrower organizations to develop robust AML/CFT policy frameworks and implementation tools, to ensure their protection against potential threats.

While Pakistan's microfinance sector has borne many storms in the past, last year was uniquely challenging to the sector in context of the pandemic. COVID-imposed threats to the economy in general, and to microfinance in particular, drove the regulators to sanction loan deferments at both wholesale and retail levels. Consequently, PMIC received rescheduling of loan requests from a majority of its borrowers in April 2020. The company was considerate in providing relief to struggling MFPs. PMIC promptly processed all the requests and deferred the portfolio for four quarters. This provided them with sufficient breathing space to manage their portfolios and liquidity positions during their tough months.

As the sector is still going through a challenging phase, PMIC continues to strengthen and adapt both its own and its borrowers' risk management frameworks to enhance organizational and sectoral stability and sustainability. Covid-related delinquency challenges throughout 2020 unearthed gaps in control of a few microfinance providers while robust controls in others. Last year experiences also rendered the need for sectoral and geographic diversification of portfolios This may only be realized by expansion into untapped markets via new products, investment in low-to-no-penetrated areas, digitization, innovation and setting up adaptable risk management systems. PMIC will continue to work on these fronts with its borrowing institutions in the coming year and beyond

SUCCESS STORY OF

FALAK NAZ

Falak Naz, a 40-year-old resident of Sultan Chang village in Tando Adam, Sindh was born in a very poor family. She had an accident at an early age and lost one of her hands. Due to her disability, she was married off to a widower with 4 children. Her husband was the sole breadwinner of this family of 6 and his income was insufficient. Falak's family was living in extreme poverty.

Amidst all of this turmoil, Falak wanted to assist her husband in increasing her family income and get out of the vicious cycle of poverty. Falak saw people, in her vicinity, borrow loans from SAFCO to set up their businesses. So, in August 2011, she got her first loan of PKR 22,000, which she used to purchase a calf - later sold with a good profit margin. In December 2015, she took another loan PKR 25,000 from SAFCO and opened a grocery store, which greatly helped in increasing family income.

During this time, Falak faced another challenge when her husband suffered a heart attack and fell critically ill. All of Falak's savings were spent on her husband's treatment. Considering her good credit history, SAFCO kept lending microcredit loans to Falak, so that she could revive her income. Her last loan amounted to PKR 70,000 which she used to grow her business and helped her sons to set-up new income streams.

Falak has been a true depiction of strong Pakistani women who, despite setbacks, remained resilient in the face of challenges. PMIC and its partners are committed to eradicate poverty through microfinance and microfinance plus interventions.

Coporate Finance and Investment Banking

On Corporate Finance and Investment Banking front, a robust response strategy was implemented in 2020 to respond to challanges posed by Covid-19 pandemic in 2020. Key focus areas of the strategy were as follows.

Financial Inclusion and Infrastructure Project" (FIIP)

Despite the challenges posed by Covid-19 pandemic in 2020, PMIC proactively engaged with the stakeholders especially commercial banks and multilateral entities and kept them abreast with the fast-changing developments in the microfinance sector, both at the level of borrowers and clients. Commercial banks showed confidence in PMIC's financial strength and extended long term credit facilities to support the liquidity constraints of Microfinance Institutions in testing times. In addition, PMIC also utilized the 2nd tranche of State Bank of Pakistan's "Line of Credit Facility" under World Bank's "Financial Inclusion and Infrastructure Project" (FIIP). It is pertinent to highlight that during the year, PMIC did not avail any relaxation from SECP (allowed due to Covid-19) in terms of deferment of principal payment owed to lenders. On the other hand, PMIC extended principle and mark up deferments to majority of its borrowers to support their cashflows, and still maintained strong risk coverage on its balancesheet.

Cross Currency Swap

Despite a volatile market during 2020, PMIC was successful in consummating its first Cross Currency Swap transaction with a leading authorized derivative dealer and hedged the 1st Tranche of Euro 15 million foreign currency subordinated loan from KFW for ten (10) years. The proceeds of the loan will be utilized under the PRIME initiative to support access to clean energy in the off and poor grid areas of the country.

Credit Risk Hedging Arrangment

In light of perceived risk of the sector which escalated due to Covid-19, PMIC put more weightage on prudently managing the portfolio risk. In this regard, risk sharing mechanisms with multilateral entities were explored during the year which would allow PMIC to manage its concentration and portfolio risk and provide additional growth capital to MFIs without enhancing credit risk on PMICs own Balance Sheet.

Social Impact Fund

Realizing the need for development of alternate liquidity channels for the sector, PMIC in collaboration with National Investment Trust Limited (NITL) entered into a Memorandum of Understanding (MoU) to launch Pakistan's first "Social Impact Fund - SIF". SIF will be "perpetual" and "Open End" sector specific Mutual Fund that will be dedicated to finance strategic social initiatives such as women empowerment, agriculture value chains, MSME development, renewable energy etc.

The fund will pool in investment from institutional clients, Banks, Non-Bank financial Institutions, Large Business houses, retail and high net-worth investors and invest into capital market instruments (i.e. rated Term Finance Certificates and Commercial Papers) of high-impact Microfinance Institutions and Microfinance Banks. SIF is designed to be a sustainable platform, offering attractive rates of risk-adjusted returns to impact investors who are interested in a double bottom line.

Way Forward

Covid-19 pandemic has highlighted the need to find new ways to reach and interact with customers. Going forward, PMIC plans to structure innovative financing solutions especially leveraging the capital market platform for the sector. Focus will be working in its capacity as a Financial and Social Impact Fund Advisor for issuance of financial instruments of sector players tolaunch social initiative based thematic/impact bonds.

Interdependencies of borrowers and clients with their environment are likely to become increasingly important given the fast-paced changing business and general environment. PMIC is empirically considering such interdependencies of supply chain disruptions through resilience.

PMIC also aims to contribute to digital transformation of sector players by partnering with technology platforms and FINTECH firms. Contributing to the digitization will accelerate growth of the sector, penetrate the potential market of 20 million end clients and achieve National Financial Inclusion targets of Government of Pakistan.





PMIC
Pakistan Microfinance Investment Company Limited

Our People & Our Culture





Our People & Our Culture

During 2020, the focus of the institution was on the health and safety of its employees along with its business. All organizational activities were geared to ensure that the staff remains safe during the lockdowns and throughout the year. The organization immediately designed and embarked upon a Business Continuity Plan which allowed PMIC to operate remotely. The procedures and approval mechanisms were redesigned to function on virtual basis through email, mails, ZOOM, Skype and WhatsApp. The management kept a regular interaction with the employees through virtual meetings ensuring motivation, information flow and generating a sense of a family coming together and standing by each other during difficult times. Even when we resumed operations from the office premises, reduced presence at the office to ensure social distancing, wearing of masks, temperature checks as well as regular disinfection of office was the new normal. The details of some of the activities we carried out during the year are as under;

Womens Day 2020

On 11th March 2020, PMIC celebrated Women's day in line with 2020 IWD theme - Each for Equal. The event celebrated and recognized the entrepreneurial spirit and accomplishments of women in the Microfinance Sector. Women beneficiaries from PMIC funded Microfinance Institutions were invited to share their perspective with the PMIC Board and team. The beneficiaries were resilient examples who have used their microfinance loans to challenge stereotypes and have adopted non-conventional roles such as joining a ride hailing service as a driver, operating a pick and drop transport service and setting up a vocational training center. These diverse and accomplished women shared their life journey, role of microfinance in helping them overcome challenges, lessons learnt and their plans. Through their commitment and resolve, they have inspired many more women to become drivers, trainers, beauticians, and businesswomen among others. Moreover, these women have been able to educate their children, an encouraging example was that one of the beneficiaries daughter recently completed her studies to become a dentist.

During the event, Chairman PMIC Mr. Naved A. Khan and Board members reiterated PMIC's commitment to enhance access to finance for women and improve their socioeconomic standing in the society. They praised the commitment of these women to embrace non-conventional roles and emphasized on the resolve to pursue initiatives that lead to financial empowerment of women.

Covid-19 Pandemic Awareness Sessions

In March 2020 before the Covid-19 lockdown started, PMIC arranged an awareness session on the Covid-19 Pandemic for its employees. The session was conducted by Ms. Zia S. Hasan, Director - NShield Solutions (First Female Director and Entrepreneur in Nano-Automotive Industry in Pakistan) - with extensive experience in Health, Safety and Environment

The session provided PMIC employees with an introductory overview of the Covid-19 Virus. The session provided information on WHOs recent updates on Covid-19, mode of transmission among humans, incubation period and symptoms of disease progression, myths and misconceptions, hygiene and prevention (hand washing demonstration, use of sanitizers, way to cough and sneeze without spreading germs, door handles cleanliness etc).

She also shared advise on social distancing, Covid-19 control practices at the workplace, WHO traveling guidelines for frequent travellers and treatment. Moreover, the staff had an opportunity to ask questions and gain clarity on the approach to keep themselves and their families safe during the pandemic

Working from Home During Covid-19 Lockdown

To keep the team safe and adhere to the Govts lockdown instructions, PMIC started working from home from 24th March 2020 onwards. Business Continuity plan (BCP) was adopted, and processes were carried out as defined in the BCP.

Support Staff Movement to PMIC Head Count

During lockdown PMIC's support staff were the front-line workers, they showed dedication, commitment and loyalty to the organization by continuing to work, visiting office, residences, and banks for completion of essentials tasks. To recognize support staff's contributions to PMIC's mission and goal, PMIC regularized support staff to PMIC headcount in the year 2009. These team members were previously serving PMIC through a third-party service provider, but exhibited highest degree of commitment and courage by continuing to serve despite lock down.

Their passion and positivity enabled PMIC to operate effectively during lockdown and teams working from home. This team managed urgent mails, bank paperwork and several other essential services. PMIC Team and Board members acknowledged and appreciated their. efforts and contributions during this difficult time.

Donation to Prime Ministers Covid-19 Fund

PMIC Team played its role in providing help to the Pakistani people in need. PMIC team contributed 1 day's salary to Prime Minister's Covid-19 fund, which targeted to provide relief to people who lost their livelihood during the lockdown.

Motivation Call during Lockdown

During the lock down, PMIC Team continued to work from home. CEO and Senior Management kept the PMIC team engaged through online meetings via Skype for Business or Zoom. The meetings provided with an opportunity to check on team members and their families and ask how they were doing during the lockdown. CEO PMIC specially took charge of the meetings and shared the latest happenings and the future of Business amid Covid-19 pandemic. These team calls provided an opportunity to give positive updates to the team, which gave a boost to team motivation and reassurance.

Conclusion of 360 Degree Leadership Training

Even though the team was working from home, PMIC kept the development of team members continued. Moving forward with a planned training program by virtual sessions which was focused on enhancing leadership competencies of PMIC leadership team.

PMIC Health, Safety and Security Committee Formulated

In wake of the pandemic, PMIC formulated a Health, Safety and Security (HSS) Committee. The objective of the Health, Safety and Security committee is to stay active, review all situations, gather information, plan and propose a solution or plan of action to the CEO, in case of any crisis or emergency faced by PMIC and its employees due to national or international events.

PMIC Office Premises Re-Opening After Lockdown

A dry run of opening office premises was conducted from 29th May to 2nd June 2020, PMIC staff was given safety packs which included masks & sanitizer (face shields and medication were added for official travel).

PMIC office opened regularly from August and HSS committee kept reviewing the latest on Covid-19 in Pakistan to ensure safety and security of all team members.

Resuming Official Travel Field Visits

After resuming office, PMIC devised strict SOPs to ensure that PMIC Team continues with monitoring and evaluation by arranging their field visits while ensuring their safety. For this purpose, PMIC Senior Management Team took the lead and went on their first field visit in August 2020, to set an example of leading the way for the Team.

Training on Diversity & Inclusion and Gender Equality

In September 2020, PMIC in collaboration with MCC (Male Champions of Change) organized a full day training for PMIC team members on Diversity & Inclusion and Gender Equality. The aim was to raise awareness about Diversity and Inclusion and Gender Equality within the organization's leadership and help comprehend its importance as a society. Our CEO, Yasir Ashfaq, expressed his utmost support for advancing equality between women and men.

Team Hike and Breakfast

To close the year on a healthy and positive note, and promote team building in a spacious environment, a team hike was arranged at Trail 6 Islamabad.

PMIC management ensured that SOPs were followed for the whole initiative. Team was glad to meet everyone, and they enjoyed an outdoor hike and breakfast together.

Strategic Partners

- Regulators- SBP, SECP
- Government of Pakistan
- Pakistan Microfinance Network
- Shareholders (PPAF, KRN & KfW)
- Development Agencies
- Non-Bank Microfinance Institutions
- Microfinance Banks
- Commercial Banks
- Commercially Oriented Funds
- Fintech and Digital Finance Players
- Corporate Entities
- Insurance Companies
- Academia
- International lenders Microfinance Investment Vehicles, Investors, etc.
- Communities (microfinance clients)
- Capital Market Players

PMIC
Pakistan Microfinance Investment Company Limited

Parveen Akhtar is an established entrepreneur and running a successful business of stitching and embroidery accessories from the confines of her home in Vehari city. This was accomplished through a microfinance loan that she had taken from Agahe Pakistan many years ago.

Married at a young age into a large family with limited means, she recalls the days when her husband, who was a daily wage earner would often walk into the house with little or no income. During good days, most of his earnings were spent on other family members, including his parents who were old and under regular medical treatment at the time. Parveen Akhtar would often sleep on an empty stomach, along with her children which was extremely painful for her as a mother. She contemplated leaving her husband at times, who although was a hardworking man, but seldom had the means to support a large family. She dreamed of giving her kids the gift of education, but could not afford even a decent meal for them, let alone sending them to school.

Her constant quest for a better quality of life led her to Agahe Pakistan, when she stumbled upon a credit officer who was in the neighborhood. From a young age, Parveen was skilled in decorative works, which are further used to accessorize bridal clothing.

She transformed the idea into a reality by successfully applying for a microfinance loan from Agahe Pakistan, and with the assistance of her young girls, she soon managed to establish a name for herself in the nearby markets. Within a short span of time, Parveen Akhtar was

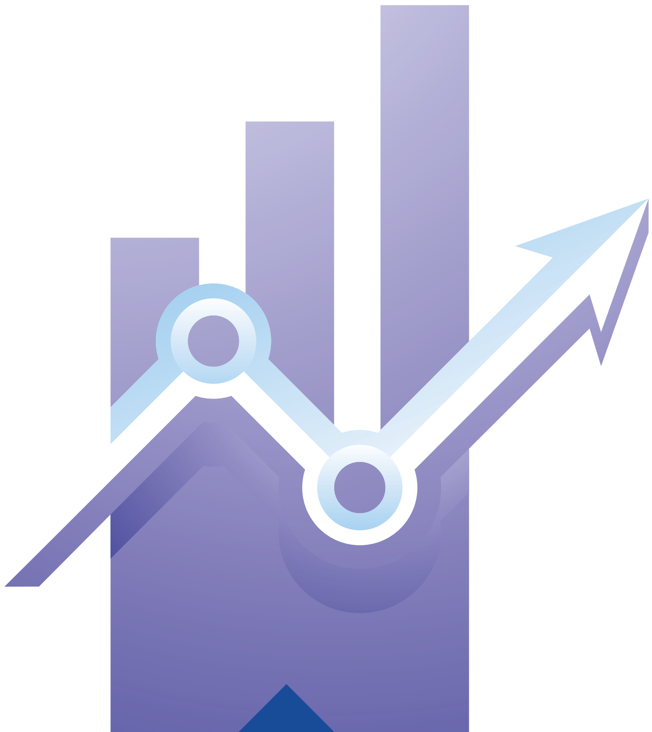
OPPORTUNITY MEETS PREPARATION

PARVEEN AKHTAR

receiving orders from renowned tailors/shops across the city, who would adorn garments with accessories made in her house. Little did she know that with an initial investment of just Rs. 30,000, she would be able to secure her familys future. As the business began to grow, so did the need to manage it efficiently. In 2019, Parveen and other microentrepreneurs from the community were imparted trainings on business development, skill enhancement, financial literacy & book-keeping by expert trainers under the Enterprise Development Initiative implemented by Pakistan Microfinance Investment Company (PMIC) and Agahe Pakistan.

She has become a source of inspiration for other women in the neighborhood, and gives back to the community by voluntarily training at least 10-15 girls on a regular basis. She is grateful to Agahe Pakistan for supporting her when most needed, and for continuously working towards financial inclusion of vulnerable communities.

Pakistan Microfinance Investment Company Limited



FINANCIAL STATEMENTS

- Auditors' Report
- Audited Financial Statements 2020

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

INDEPENDENT AUDITORS' REPORT

To the members of Pakistan Microfinance Investment Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Pakistan Microfinance Investment Company Limited (the Company), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the profit, the comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis of Opinion

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

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

KPMG

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

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

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KPMG Taseer Hadi & Co.
Chartered Accountants
Islamabad
Date: 05 April 2021

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.

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CHIEF EXECUTIVE OFFICER

-sd-
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.

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CHIEF EXECUTIVE OFFICER

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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.

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CHIEF EXECUTIVE OFFICER

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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.

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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.

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CHIEF EXECUTIVE OFFICER

-sd-
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 suchcompanies 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(1) / 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 Companys 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 financialstatements, 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 orbefore 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 t o 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 init ially 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 advance s for capital expenditures which are stated at cost less impairment loss, if any. Cost compris es 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 liabili ties 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 inthe 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-fortrading, 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 object ive 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 aresult 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 improvement	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 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		9747,130,767)		(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).

		Note	31 December 2020	31 December 2019
10	LONG TERM ADVANCES, PREPAYMENTS AND DEPOSITS - Considered good		(Rupees)	(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

		Recognized in		
	Net balance at 01 January	Statement of profit or loss	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	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: Past due 0-30 days	Amount past due: Past due 31-365 days	Total gross amount due	Maximum amount outstanding at any time during the year
			(Rupees)		(Rupees)
Balance at 31 December 2020					
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.

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
17 ADVANCE TAX - NET			
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			
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.

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

Issued, subscribed and paid up share capital

31 December 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	Directors	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.

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
20	SUBORDINATED LOANS - Unsecured			
	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	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	31 December 2019
22	EMPLOYEE BENEFITS		(Rupees)	(Rupees)
	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:

	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
The amounts recognized in the statement of financial position are as follows:			
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 recogised in the stament 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.

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
23	DERIVATIVE FINANCIAL INSTRUMENT			
	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.

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
24	SHORT TERM BORROWINGS - Secured			
	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.

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
25	TRADE AND OTHER PAYABLES			
	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.

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
25.2	**Payable to employees' provident fund**			
	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**			
	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).

		Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
28	**INCOME**			
	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.

29 FINANCE COST	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
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.

30 ADMINISTRATIVE EXPENSES	Note	31 December 2020 (Rupees)	31 December 2019 (Rupees)
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.

			31 December 2020	31 December 2019
32	**OTHER INCOME**	Note	(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.

			31 December 2020	31 December 2019
33	**INCOME TAX EXPENSE**	Note	(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
33.1 Relationship between accounting profit and tax expense is as follows:	(Rupees)	(Rupees)
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 31 December 2020	*Unaudited* 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%

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36.1 Breakup of investment - at cost:

	31 December 2020 (Rupees)	31 December 2020 %	31 December 2019 (Rupees)	31 December 2019 %
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

38 CASH AND CASH EQUIVALENTS

	Note	31 December 2020 (Rupees)	31 December 2019 (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	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 (Rupees)	31 December 2019 (Rupees)
Transactions with associated undertakings		
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

Pakistan Microfinance Investment Company Limited
Notes to the financial statements
For the year ended 31 December 2020

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	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 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 (Rupees)	31 December 2019 (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 4.5	KIBOR - 1 to KIBOR + 1 to 4.5	23,859,149,362	24,666,405,089
Financial liabilities			(20,289,389,759)	(20,013,053,394)
			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.

-sd-
CHIEF EXECUTIVE OFFICER

-sd-
DIRECTOR

PMIC

Pakistan Microfinance Investment Company Limited

PMIC

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