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**PAKISTAN MICROFINANCE
INVESTMENT COMPANY LIMITED**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

EY Ford Rhodes
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INDEPENDENT AUDITOR'S REPORT

To the members of Pakistan Microfinance Investment Company Limited

Report on the Audit of 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 2021, 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 the explanations given to us, the statement of financial position, statement of profit or loss, statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of the profit and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board of Accountant's *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.

Other Matters

- a) The financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements, before any adjustment for the prior year restatements described in note 44 of the 2021 financial statements, on 05 April 2021.
- b) As part of our audit of financial statements for the year ended 31 December 2021, we also audited the adjustments described in note 44 that were applied to amend the financial statements for the years ended 31 December 2020 during the rectification of prior period error. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2020 of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the years ended 31 December 2020 taken as a whole.

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



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and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional 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 control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going 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 the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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Report on Other Legal and Regulatory Requirements

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

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Ahsan Shahzad,

Chartered Accountants

Place: Islamabad

Date: 01 April 2022

UDIN: AR202110079r2xfudzqV

Pakistan Microfinance Investment Company Limited
Statement of Financial Position
As at 31 December 2021

		31 December 2021 (Rupees)	31 December 2020 (Rupees)
NON-CURRENT ASSETS			
Property and equipment	4	8,633,077	16,501,572
Right of use asset	5	103,692,138	20,143,384
Intangible assets	6	15,223,155	-
Advance for capital expenditure		-	15,665,050
Long term investments	7	838,565,746	289,023,024
Financing - net	8	12,921,187,500	4,805,333,333
Long term advances, prepayments and deposits	9	32,079,093	9,431,102
Deferred tax asset	10	330,461,774	308,086,813
Derivative financial instrument	11	56,192,000	-
		<u>14,306,034,483</u>	<u>5,464,184,278</u>
CURRENT ASSETS			
Advances, prepayments and other receivables	12	37,923,341	36,539,417
Markup accrued - receivable	13	643,692,789	678,039,512
Due from related parties	14	8,486,049	8,078,024
Lending to financial institutions (reverse repo)		-	1,724,972,806
Short-term investments	15	2,356,804,399	1,328,355,583
Advance tax - net	16	515,086,671	368,011,582
Current portion of financing	8	11,220,376,731	17,560,072,515
Cash and bank balances	17	2,018,996,397	211,631,699
		<u>16,801,366,377</u>	<u>21,915,701,138</u>
TOTAL ASSETS		<u>31,107,400,860</u>	<u>27,379,885,416</u>
SHARE CAPITAL AND RESERVES			
Share capital	18	5,884,222,000	5,884,222,000
Contribution by Shareholder - net of tax		92,699,720	103,177,827
Unappropriated profit		<u>1,295,720,834</u>	<u>808,538,625</u>
		<u>7,272,642,554</u>	<u>6,795,938,452</u>
NON-CURRENT LIABILITIES			
Subordinated loans	19	9,617,540,714	10,652,160,363
Loans and borrowings	20	9,004,843,002	5,923,750,782
Employee benefits	21	21,132,912	17,682,126
Derivative financial instrument	11	-	22,509,638
Subsidy payable	22	150,553,851	141,958,164
Lease Liabilities	23	43,908,018	-
Unearned income	32.2	<u>14,822,387</u>	<u>-</u>
		<u>18,852,800,884</u>	<u>16,758,061,073</u>
CURRENT LIABILITIES			
Short term borrowings	24	1,284,699,455	74,927,889
Trade and other liabilities	25	60,016,005	42,718,877
Markup accrued - payable	26	172,520,739	356,967,446
Current portion of lease liability	23	36,587,598	-
Current portion of subordinated loans	19	1,135,355,847	1,142,938,346
Current portion of loans and borrowings	20	<u>2,292,777,778</u>	<u>2,208,333,333</u>
		<u>4,981,957,422</u>	<u>3,825,885,891</u>
TOTAL EQUITY AND LIABILITIES		<u>31,107,400,860</u>	<u>27,379,885,416</u>
CONTINGENCIES AND COMMITMENTS			
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The annexed notes 1 to 46 form an integral part of these financial statements.


CHIEF EXECUTIVE OFFICER


DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Profit or Loss
For the year ended 31 December 2021

		31 December 2021	31 December 2020
	Note	(Rupees)	(Rupees)
Income	28	2,793,499,350	3,255,707,293
Finance cost	29	(1,774,718,215)	(2,178,833,640)
		1,018,781,135	1,076,873,653
Provision	8.4	(60,763,296)	(144,422,698)
		958,017,839	932,450,955
Administrative expenses	30	(374,838,166)	(333,044,262)
Other expenses	31	(14,299,529)	(14,589,911)
		(389,137,695)	(347,634,173)
Other income	32	21,829,451	18,876,153
Fair value gain / (loss) on derivative	33	78,701,638	(22,509,638)
		669,411,233	581,183,297
Profit before taxation		669,411,233	581,183,297
Income tax expense	34	(192,355,448)	(177,750,859)
Profit for the year		477,055,785	403,432,438

The annexed notes 1 to 46 form an integral part of these financial statements.


CHIEF EXECUTIVE OFFICER


DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Other Comprehensive Income
For the year ended 31 December 2021

	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
Profit for the year		477,055,785	403,432,438
Other comprehensive income for the year			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of defined benefit liability - gratuity	21.2.3	(675,270)	3,251,516
Related tax		-	-
		(675,270)	3,251,516
<i>Items that will be reclassified to profit or loss</i>			
Remeasurement of available for sale-Treasury Bills		323,587	-
Related tax		-	-
		323,587	-
Other comprehensive (loss) / income - net of tax		(351,683)	3,251,516
Total comprehensive income for the year		476,704,102	406,683,954

The annexed notes 1 to 46 form an integral part of these financial statements.


CHIEF EXECUTIVE OFFICER


DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Changes in Equity
For the year ended 31 December 2021

	Share capital	Revenue reserve - unappropriated profit	Capital reserve - Contribution by Shareholder - net of tax	Total equity
	(Rupees)			
Balance at 01 January 2020	5,884,222,000	401,854,671	-	6,286,076,671
<i>Total comprehensive income for the year</i>				
Profit for the year	-	403,432,438	-	403,432,438
Other comprehensive loss for the year-net of tax	-	3,251,516	-	3,251,516
<i>Total comprehensive income for the year</i>	-	406,683,954	-	406,683,954
Contribution by KfW	-	-	145,320,882	145,320,882
Deferred tax on contribution by KfW	-	-	(42,143,055)	(42,143,055)
	-	-	103,177,827	103,177,827
Balance at 31 December 2020 - Restated	<u>5,884,222,000</u>	<u>808,538,625</u>	<u>103,177,827</u>	<u>6,795,938,452</u>
<i>Total comprehensive income for the year</i>				
Profit for the year	-	477,055,785	-	477,055,785
Other comprehensive income for the year - net of tax	-	(351,683)	-	(351,683)
<i>Total comprehensive income for the year</i>	-	476,704,102	-	476,704,102
Excess finance costs under subordinated loan arrangement	-	10,478,107	(10,478,107)	-
Balance at 31 December 2021	<u>5,884,222,000</u>	<u>1,295,720,834</u>	<u>92,699,720</u>	<u>7,272,642,554</u>

The annexed notes 1 to 46 form an integral part of these financial statements.


CHIEF EXECUTIVE OFFICER


DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Cash flows
For the year ended 31 December 2021

		31 December 2021 (Rupees)	31 December 2020 (Rupees)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities before changes in operating assets and liabilities	35	(311,510,152)	(262,931,283)
<i>Changes in operating assets and liabilities:</i>			
Financing - net		(1,836,921,679)	313,029,370
Long term advances, prepayments and deposits		(23,017,723)	4,098,380
Advances, prepayments and other receivable		(1,383,924)	17,544,620
Investments		(881,198,887)	477,039,228
Trade and other payables		17,297,128	(12,000,943)
		(2,725,225,085)	799,710,655
Cash used in operations		(3,036,735,237)	536,779,372
Taxes paid		(361,805,498)	(490,973,481)
Staff retirement benefits paid - gratuity		(11,649,005)	(17,550,294)
Staff retirement benefits paid - compensated absences		(3,900,549)	(2,858,870)
Receipt of markup on financing		2,459,246,034	3,157,353,140
Receipt of profit on deposit accounts / certificates		27,197,844	105,786,067
Receipt of markup on reverse repo transactions		176,608,504	71,995,886
Receipt of markup on treasury bills		48,720,720	87,924,975
Receipt of markup on Pakistan Investment Bonds		54,860,408	32,318,750
Receipt of markup on Term Financial Certificates		53,999,699	8,094,822
Net settlement with hedging counterparty		(50,700,247)	(3,902,260)
Finance cost paid		(1,795,790,354)	(2,621,967,740)
Net markup received		974,142,608	837,603,640
Subsidy (paid)/ received		(2,972,706)	141,958,164
Increase in unearned income		14,822,387	-
Grant income		13,072,373	30,908,074
Net cash generated (used in) / from operating activities		(2,415,025,627)	1,035,866,605
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(2,310,502)	(3,029,698)
Purchase of intangible assets		(5,367,005)	(81,244)
Proceeds from disposal of property and equipment		227,259	-
Investments in available-for-sale securities		(689,256,200)	-
Net cash used in investing activities		(696,706,448)	(3,110,942)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of loans and borrowings - net	38	3,165,536,665	421,875,170
Receipt/ (repayment) of short term borrowings- net	38	1,209,771,566	(23,174,839)
Rental paid for building		(38,245,920)	(36,462,415)
Capital contribution from KfW		-	145,320,882
Repayment of subordinated loans	38	(1,142,938,344)	(409,643,012)
Net cash generated from financing activities		3,194,123,967	97,915,786
Net increase in cash and cash equivalents		82,391,892	1,130,671,449
Cash and cash equivalents at 01 January		1,936,604,505	805,933,056
Cash and cash equivalents at 31 December	39	2,018,996,397	1,936,604,505

The annexed notes 1 to 46 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the period ended 31 December 2021

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 2021.

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

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

The SECP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' (SECP has directed NBFCs to apply IFRS 9 'Financial Instruments' with effect for reporting periods/ year ending on or after 30 June 2022) and International Accounting Standard (IAS) 40, 'Investment Property' through Circular No. 19 dated 13 August 2003 for Non-Banking Finance Companies (NBFCs) providing investment finance services, discounting services and housing finance services, with the direction that such companies shall continue observing the State Bank of Pakistan's BSD Circular Letter No. 11 dated 11 September 2002, regarding the application of said IASs, till further decision. In addition, the SECP has deferred the application of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' through SRO 411(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. 800 (I)/2021 dated 22 June 2021 modified the effective date of applicability of International Financial Reporting Standard – Financial Instruments (IFRS 9) for Non-Banking Finance

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the period ended 31 December 2021

Companies for period/year ending on or after 30 June 2022; accordingly, the requirements of this standard have 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 in accordance with approved accounting standards, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates, judgements and underlying assumptions are continually reviewed and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. 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 2021 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 3.18, 5 and 23 – recognition of right-of-use asset and lease liability under IFRS 16
- (iv) Note 3.4 and 21 - measurement of defined benefit obligations: key actuarial assumptions
- (v) Note 27 & 8 recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
- (vi) Note 3.8, 10 and 34 - recognition of deferred tax assets and estimation of income tax provision
- (vii) Note 3.13, 7 and 15 - classification of investments
- (viii) Note 2.4, 3.5, 11 and 33 – measurement of fair value of derivative financial statements
- (ix) Note 2.4, 3.5, 19 and 22 – identification and initial measurement of compound financial instruments
- (x) Note 2.4 & 41 – categorization of fair value hierarchy of assets and liabilities

2.4 Measurement of fair values

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

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



Pakistan Microfinance Investment Company Limited
Notes to the financial statements
For the period ended 31 December 2021

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 and amendments to the approved accounting and reporting standards:

The following amendments to existing standards have become applicable to the Company for accounting periods becoming on or after 01 January 2021 but are considered not to be either relevant or not have any significant impact on these financial statements:

- **Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16:**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

- **Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16:**

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

These amendments had no impact on the financial statements of the Company, except for potential insignificant impact on financial instruments, not requiring disclosures. 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

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the period ended 31 December 2021

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. The Company intends to use the practical expedients, available under (IBOR) reform, in future periods if they become applicable.

The following International Financial Reporting Standards as notified under the Act and the amendments to existing standards thereto will be effective for accounting periods on or after 01 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) effective for the annual period beginning on or after 01 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 amendment is not likely to have an impact on the Company's financial statements.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for the annual period beginning on or after 01 January 2022. Clarifies that sales proceeds and cost of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management e.g., when testing etc., are recognized in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. The amendment is not likely to have an impact on the Company's financial statements.
- 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, effective for the annual period beginning on or after 01 January 2022. 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 01 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by References to the Conceptual Framework in IFRS Standards, issued in March 2018. The amendment is not likely to have an impact on the Company's financial statements.
- Classification of liabilities as current or non-current (Amendments to IAS 1) effective for the annual period beginning on or after 01 January 2023. These amendments in the standards have been added to further clarify when a liability is classified as current. The standard also amends the aspect of classification of liability as non-current by requiring the assessment of the entity's right at the end of the reporting period to defer the settlement of liability for at least twelve months after the reporting period. An entity shall apply those amendments retrospectively in accordance with IAS 8. The amendment is not likely to have an impact on the Company's financial statements.
- IAS 41 Agriculture – Taxation in fair value measurements. As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes

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the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 01 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

- IFRS 16 Leases - As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 16 Leases. The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.
- Definition of Accounting Estimates - Amendments to IAS 8. In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 01 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2. In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 01 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

- The SECP, through SRO 800(I)/2021 dated 22 June 2021, has notified that IFRS 9, Financial Instruments, is applicable for accounting periods ending on or after 30 June 2022. IFRS 9, Financial Instruments addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'expected credit losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL approach has an impact on all assets of the Company which are exposed to credit risk. The Company is in the process of assessing the full impact of this standard and the Company awaits final guidelines from pertinent regulators for application of some aspects of IFRS 9.
- 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.



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Further, the following new standards have been issued by the IASB, which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

Standard	Effective date (annual periods beginning on or after)
IFRS 1: First-time Adoption of International Financial Reporting Standards	01 January 2004
IFRS 17: Insurance Contracts	01 January 2023

The Company expects that the adoption of the above standards will have no material effect on the Company's financial statements, in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Property and equipment

3.1.1 Owned

Recognition and measurement

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

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

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

Subsequent expenditure

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

Depreciation

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

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

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

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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 Lending to or borrowing from financial institutions

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

a. Sale under re-purchase agreements

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

b. Purchase under resale agreements

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

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

3.4 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,



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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 plan – Gratuity fund

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 21.1.2. Any changes in these assumptions will impact the carrying value of obligations for gratuity.

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

3.4.4 Other long-term employee benefit scheme – Compensated leave absences

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

3.5 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 and subsequent measurement 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 is 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.

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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.

Compound instruments

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

Derivative financial instruments

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

Offsetting of financial assets and financial liabilities

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

3.6 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.

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Current tax

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

Deferred tax

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

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

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

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

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

3.9 Foreign currency transactions and translation

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

3.10 Finance income and finance cost

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

Finance costs comprise of markup expense on subordinated loans, borrowings, unwinding of subsidy payable, bank charges and foreign exchange loss on any foreign currency denominated loan/ borrowing. Borrowing costs (except on subordinated loan from KfW and unwinding subsidy payable) that are not

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directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using contractual rates. Unwinding of subsidy payable and finance cost on subordinated loan are recognized in profit or loss using effective markup method.

3.11 Revenue recognition

Mark-up / income on financing

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

Income from investment

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

Service fee

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

Income on bank deposits

Return on bank deposits are recognized on time proportionate basis.

3.12 Grant income

Restricted grant

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

3.13 Investments

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

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

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

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Held for trading

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

Held to maturity

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

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

Available for sale

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

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of security is also considered as an objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Non-Banking Finance Companies and Notified Entities Regulations, 2008. 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 comprises of installment finance facilities extended to microfinance institutions and banks. Financing is stated net of provision for non-performing financing, if any, determined as per requirements of NBFC rules and regulations, and the policy of the Company. The outstanding principal and mark-up of the financing, payments against which are overdue for 90 days or more are classified as non-performing loans (NPLs). The unrealized interest / profit / mark-up / service charges on NPLs is suspended and credited to interest suspense account. Further the NPLs are classified into following categories as prescribed in the Regulations.

Other assets especially mentioned

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

Substandard

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

Doubtful

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

Loss

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

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



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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

The Risk Management function of the Company regularly conducts assessments of the portfolio to identify borrowers most likely to be affected due to changes in the business and economic environment. The Company expects that its borrowers will continue to be impacted by COVID-19, increase in policy rate by the State Bank of Pakistan and decline in purchasing power of general public, however, owing to various regulatory measures and proactive relief offered by these borrowers to end borrowers, the potential impact is difficult to predict with any degree of certainty. Accordingly, management continues to maintain the general provision rates for each slab under Company's internal risk rating model to 1.25% - 5.0% (31 December 2020: from 1.25% - 5%) on financing net of specific provisions.

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.

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3.15.2 Non-financial assets:

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

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

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

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

3.16 Contingent liabilities

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

3.17 Cash and cash equivalents

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

3.18 Lease Liability:

3.18.1 Lease liability of right of use of assets:

Company had recognized lease at present value of the remaining lease payments using company initial borrowing rate of 7.91%. 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.

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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.

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4 PROPERTY AND EQUIPMENT

	Office equipment	Computers	Furniture	Leasehold improvements	Vehicles	Total
(Rupees)						
COST						
Balance at 01 January 2020	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
Additions	146,002	2,073,000	91,500	-	-	2,310,502
Transfers from CWIP						
Disposals	(68,399)	(2,815,475)	-	-	-	(2,883,874)
Balance at 31 December 2021 *	3,848,756	15,972,784	7,880,777	17,294,220	4,327,588	49,324,125

ACCUMULATED DEPRECIATION

Balance at 01 January 2020	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
Depreciation	757,468	3,505,874	1,560,271	3,458,844	865,512	10,147,969
Disposals	(37,371)	(2,815,475)	-	-	-	(2,852,846)
Balance at 31 December 2021	2,650,684	11,222,776	7,138,942	16,112,465	3,566,181	40,691,048
Carrying amounts						
At 31 December 2020	1,840,566	6,182,882	2,210,606	4,640,599	1,626,919	16,501,572
At 31 December 2021	1,198,072	4,750,008	741,835	1,181,755	761,407	8,633,077
Rates of depreciation per annum	20%	33.33%	20%	20%	20%	

*This includes fully depreciated assets, currently in use, with an aggregate cost of Rs. 5.4 million (2020: Rs. 3.5 million).

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the year ended 31 December 2021

5 RIGHT OF USE ASSET

		31 December 2021	31 December 2020
	Note	(Rupees)	(Rupees)
Cost			
Balance at 01 January		80,550,422	80,550,422
Additions during the year	23.2	116,653,655	-
Balance at 31 December		197,204,077	80,550,422
Depreciation			
Balance at 01 January		60,407,038	30,203,518
Charge for the year	30	33,104,901	30,203,520
Balance at 31 December		93,511,939	60,407,038
Net book value		103,692,138	20,143,384
Depreciation rate per annum		37.5%	37.5%

6 INTANGIBLE ASSETS

Cost			
Balance at 01 January		992,000	992,000
Additions during the year	6.1	21,032,055	-
Balance at 31 December		22,024,055	992,000
Amortization			
Balance at 01 January		992,000	799,114
Charge for the year	30	5,808,900	192,886
Balance at 31 December		6,800,900	992,000
Net book value		15,223,155	-
Amortization rate per annum		33%	33%

6.1 This represents cost of the implementation of SAP ERP.

7 LONG TERM INVESTMENTS

Held to maturity

Pakistan Investment Bonds	7.1	238,565,746	189,023,024
Term Finance Certificates			
- Askari Bank Limited	7.2	100,000,000	100,000,000
- Ufone Microfinance Bank Limited	7.3	500,000,000	-
		838,565,746	289,023,024

7.1 The face value of these Pakistan Investment Bonds (PIBs) amounts to Rs. 250 million (31 December 2020: Rs. 200 million). These carry effective markup rates ranging from 8.66% to 11.51% (31 December 2020: 11.59% to 11.78%) per annum having maturity period ranging between twenty six to thirty seven months (31 December 2020: maturity period ranging between thirty five to thirty seven months) from the date of investment.

7.2 This represents investment in rated, unsecured, subordinated and privately placed Term Finance Certificates issued by Askari Bank Limited with a face value of Rs. 1,000,000 each, carrying markup of 3-months KIBOR plus 120 bps for the tenor of 10 years (30 June 2020: 3-months KIBOR plus 120 bps for tenure of 10 years) payable on quarterly basis, while principal redemption will be made in the last four quarters of the issue term. The investment will mature in March 2030.

7.3 Total investment in TFC instrument amounts to Rs. 1,000 million, out of which Rs. 500 million is classified as 'Available-for-sale' under short term investment category. This carries effective markup rate of 6 month KIBOR plus 1.35% per annum (31 December 2020: Nil) having maturity in June 2025. Refer to note 15.4 to these financial statements.

8 FINANCING - NET

Financing to microfinance institutions and microfinance banks - markup bearing:

		31 December 2021	31 December 2020
	Note	Number (Rupees)	Number (Rupees)
Financing - Gross	8.1	47	43
		25,384,439,742	23,547,518,063
Less:			
Current maturity		(11,220,376,731)	(17,560,072,515)
		14,164,063,011	5,987,445,548
General provision	8.2	(482,813,333)	(434,981,448)
Specific provision	8.3	4	3
		(760,062,178)	(747,130,767)
Total Provision		(1,242,875,511)	(1,182,112,215)
		12,921,187,500	4,805,333,333

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the year ended 31 December 2021

8.1 This includes unsecured loans extended to FINCA Microfinance Bank Limited amounting to Rs. 800 million (31 December 2020: Rs. 800 million) and Khushhali Microfinance Bank Limited amounting to Rs. 1,400 million (31 December 2020: Rs. 800 million) under subordinated debts agreement. Loan terms are mentioned below:

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

8.2 General provision is maintained at 1.25% to 5.0% (31 December 2020: 1.25% to 5.0%) of the outstanding balance of financing net of specific provision, based on the internal risk rating of the individual borrowers and as per the provision rates approved by Board of Directors.

8.3 Particulars of non-performing financing

Category of classification	Note	Provision rate	Amount outstanding	Provisions required (Rupees)	Provisions held
Other assets especially mentioned (OAE)		0%	-	-	-
Sub-standard		25%	51,725,642	12,931,411	-
Doubtful		50%	-	-	-
Loss	8.5	100%	747,130,767	747,130,767	747,130,767
			798,856,409	760,062,178	747,130,767

8.4 Particulars of provision against non-performing financing

	Specific	General	Total
Balance at 01 January	747,130,767	434,981,448	1,182,112,215
Provision charge	12,931,411	47,831,885	60,763,296
Balance at 31 December	760,062,178	482,813,333	1,242,875,511

8.5 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.

		31 December 2021 (Rupees)	31 December 2020 (Rupees)
9	LONG TERM ADVANCES, PREPAYMENTS AND DEPOSITS - Considered good		
		Note	
	Advances to employees	9.1	50,579,658
	Less: Current portion	12	(24,338,714)
			26,240,944
	Long term prepayment - transaction charges		703,079
	Less: Current portion	12	(369,650)
			333,429
	Security deposits	9.2	5,504,720
			32,079,093

- 9.1 These represent markup free advances against salaries extended to employees; repayable within a period of maximum twenty four to thirty six months from the month of disbursement, in accordance with the human resource policy of the Company.
- 9.2 This represents security deposits against leased premises and employee fuel cards.
- 9.3 Long-term advances include advances to Key Management Personnel of Rs 37,626,923 (2020: Rs 8,895,100).

10 DEFERRED TAX ASSET

31 December 2021	Recognized in				Net balance at 31 December
	Net balance at 01 January	Statement of profit or loss	Statement of other comprehensive income	Equity	
	-----Rupees-----				
Deductible temporary differences					2,955,957
Property and equipment	1,930,293	1,025,664	-	-	669,337
Leases	1,210,053	(540,716)	-	-	58,071
Intangible assets	-	58,071	-	-	4,113,936
Employee benefits	4,276,980	(163,044)	-	-	93,840
Investments	-	93,840	-	-	360,433,898
Provision against Financing	342,812,542	17,621,356	-	-	(37,863,265)
Capital contribution under below-market loan	(42,143,055)	4,279,790	-	-	330,461,774
	308,086,813	22,374,961	-	-	

31 December 2020	Recognized in				Net balance at 31 December (Restated)
	Net balance at 01 January	Statement of profit or loss	Statement of other comprehensive income	Equity (Restated)	
	-----Rupees-----				
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)	-	-	-
Provision against Financing	300,929,960	41,882,582	-	-	342,812,542
Capital contribution under below-market loan	-	-	-	(42,143,055)	(42,143,055)
	312,518,197	37,711,671	-	(42,143,055)	308,086,813

		31 December 2021	31 December 2020
		(Rupees)	(Rupees)
11	DERIVATIVE FINANCIAL INSTRUMENT		
	Fair value gain / (loss)	55,958,264	(22,644,439)
		233,736	134,801
	Less: Current portion classified as markup payable	56,192,000	(22,509,638)

- 11.1 This represents mark to market gain (2020: 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 19.3 to these financial statements.

Pakistan Microfinance Investment Company Limited
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	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
12 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			
Advances			
- Supplier	12.1	2,022,468	1,640,466
- Employees	12.2	1,115,290	800
- Against MF Plus initiatives		648,925	1,881,907
- Current portion of long term advances to employees	9	24,338,714	9,733,453
		<u>28,125,397</u>	<u>13,256,626</u>
Prepayments			
- Insurance		1,939,381	3,316,329
- Subscriptions		556,537	2,289,255
- Current portion of long term prepayment - transaction charges	9	369,650	369,650
		<u>2,865,568</u>	<u>5,975,234</u>
Other receivables	12.3	6,932,376	17,307,557
		<u>37,923,341</u>	<u>36,539,417</u>

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. 838,823 (31 December 2020: Rs. 17,294,957) receivable from State Bank of Pakistan on account of guarantee fee reimbursable as mentioned in note 20.3.1 to these financial statements.

	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
13 MARKUP ACCRUED - RECEIVABLE			
Markup receivable on financing	13.1	928,334,302	834,658,709
Suspended mark-up income	13.2	(324,891,402)	(197,906,838)
		<u>603,442,900</u>	<u>636,751,871</u>
Profit on deposit accounts and term deposit certificates		157,534	2,700,000
Profit on investment in Treasury Bills		24,632,474	7,219,409
Profit on reverse repo transaction		-	3,098,699
Profit on Term Finance Certificates - Askari Bank Limited		493,562	338,092
Profit on Term Finance Certificates - U Bank Limited		3,092,055	-
Profit on investment in Pakistan Investment Bonds		11,874,264	27,931,441
		<u>40,249,889</u>	<u>41,287,641</u>
		<u>643,692,789</u>	<u>678,039,512</u>

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

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

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the year ended 31 December 2021

14 DUE FROM RELATED PARTIES - Unsecured

Grant income receivable - KFW

Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
14.1	8,486,049	8,078,024

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). Reimbursement claims are lodged against related expenses as per terms of the agreement.

14.2 Age analysis of due from related parties:

	Not due	Amount past due		Total gross amount due	Maximum amount outstanding at any time during the year (Rupees)
		Past due 0-30 days	Past due 31-365 days		
<u>Balance at 31 December 2021</u>					
Name of related party					
KFW	8,486,049	-	-	8,486,049	14,022,504
<u>Balance at 31 December 2020</u>					
Name of related party					
KFW	8,078,024	-	-	8,078,024	12,592,393

15 SHORT-TERM INVESTMENTS

Held to maturity

Term deposit certificates
Treasury Bills
Pakistan Investment Bonds

Available for sale

Term Finance certificates - U Microfinance bank
Treasury Bills

Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
15.1	500,000,000	900,000,000
15.2	970,965,550	239,159,500
15.3	196,259,062	189,196,083
	1,667,224,612	1,328,355,583
15.4	500,000,000	-
15.5	189,579,787	-
	689,579,787	-
	2,356,804,399	1,328,355,583

Pakistan Microfinance Investment Company Limited

Notes to the financial statements

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- 15.1** This carries markup at the rate of 11.5% (31 December 2020: 7.3%) per annum having maturity in March 2022 (31 December 2020: January 2021).
- 15.2** The redemption value of these Treasury Bills amounts to Rs. 1,000,000,000 (31 December 2020: Rs. 250,000,000). These carry effective markup rates ranging from 7.42% to 8.28% (31 December 2020: 6.45% to 6.55%) per annum having maturity period ranging between 13 days to 69 days (31 December 2020: six months to twelve months) from the date of investment.
- 15.3** The face value of these Pakistan Investment Bonds (PIBs) amounts to Rs. 200,000,000. These carry effective markup rates ranging from 11.59% to 11.78% (31 December 2020: 210,000,000, interest rates ranging between 13.60% to 13.97%) per annum. These PIBs are maturing on 19 September 2022. Also refer note 7.1 to these financial statements.
- 15.4** These carry effective markup rate of 6 month KIBOR plus 1.35% (31 December 2020: Nil) per annum having maturity in June 2025. 50% of these are secured against lien on government assets of a similar tenor and remaining 50% is secured against first pari passu charge on the Issuer's Book Debts, Advances and Receivables with 25% margin. The fair value of TFC is calculated using available market rates. For categorization of fair value, please refer to note 41 to these financial statements. Also refer to note 7.3.
- 15.5** The redemption value of these Treasury Bills amounts to Rs. 200,000,000 (31 December 2020: Rs. Nil). These carry effective markup rates ranging from 11.28% to 11.48% (31 December 2020: Nil) per annum having maturity period of 167 days (31 December 2020: Nil) from the date of investment. The fair value of Treasury Bills are calculated using available market rates. Refer to note 41.8 for fair value categorization.

		31 December 2021 (Rupees)	31 December 2020 (Rupees)
16	ADVANCE TAX - NET		
	Balance at 01 January	368,011,582	92,500,631
	Current tax charge	(214,730,409)	(215,462,530)
	Income tax paid / withheld during the year	361,805,498	490,973,481
	Balance at 31 December	515,086,671	368,011,582

17 CASH AND BANK BALANCES

Cash in hand		27,068	-
Cash at banks - Local currency		-	-
- Deposit accounts	17.1	2,018,959,141	211,631,299
- Current account		10,188	400
		2,018,969,329	211,631,699
		2,018,996,397	211,631,699

- 17.1** These represent deposit accounts with banks carrying markup ranging from 5% - 12.5% (31 December 2020: 5.5 - 8%) per annum.

	31 December 2021 (Rupees)	31 December 2020 (Rupees)
18	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 2021 (Number of shares)	31 December 2020 (Number of shares)	31 December 2021 (Rupees)	31 December 2020 (Rupees)
5,884,222	5,884,222	5,884,222,000	5,884,222,000

Ordinary shares of Rs.1,000
each fully paid in cash

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

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Shareholders	Nature of relationship	Number of shares at 31 December 2021	Number of shares at 31 December 2020	Percentage of shareholding at 31 December 2021	Percentage of shareholding at 31 December 2020
Pakistan Poverty Alleviation Fund	Associated undertaking	2,883,256	2,883,256	49.00%	49.00%
Karandaaz Pakistan	Associated undertaking	2,224,243	2,224,243	37.80%	37.80%
KfW	Associated undertaking	776,719	776,719	13.20%	13.20%
Directors	Director	4	4	0.00%	0.00%
Total		5,884,222	5,884,222	100.00%	100.00%

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

		31 December 2021 (Rupees)	31 December 2020 (Rupees)
19 SUBORDINATED LOANS - Unsecured	Note		
Subordinated loan from PPAF	19.1	7,260,823,196	8,403,761,541
Subordinated loan from KARANDAAZ	19.2	2,800,000,000	2,800,000,000
Subordinated loan from KfW	19.3	692,073,365	591,337,168
		10,752,896,561	11,795,098,709
Less: Current portion of subordinated loans		(1,135,355,847)	(1,142,938,346)
		9,617,540,714	10,652,160,363

- 19.1 This represents the outstanding balance of subordinated loans, under the agreement between Pakistan Poverty Alleviation Fund (an associated undertaking) and the Company dated 17 November 2016 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 15 years and carries markup of 6-months KIBOR plus 1% (31 December 2020: 6-months KIBOR plus 1%) per annum payable quarterly. The principal repayments have started from October 2018. The loan is subordinated to other indebtedness of the Company.

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

- 19.2 This represents the outstanding balance of subordinated loans, under the agreement between Karandaaz Pakistan (an associated undertaking) and the Company dated 28 December 2017 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 10 years and is currently carrying markup of 6-months KIBOR plus 1% (31 December 2020: 6-months KIBOR plus 1%) per annum payable quarterly starting from June 2027. The loan is subordinated to other indebtedness of the Company.

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

- 19.3 This represents the first tranche amounting to USD 5.5 million, of total non-revolving subordinated loan of USD equivalent Euro 15 million, under the agreement between KfW (an associated undertaking) and the Company dated 30 December 2019, with prior approval of SECP for disbursement of each tranche to the Company. The receipt was translated at the exchange rate of Rs. 159.75/USD; i.e. Rs. 878.6 million. Markup rate is 1% per annum. The agreement tenure is 10 years with principal and markup bullet repayment at the time of maturity on 30 December 2029. The Company has also entered into cross currency swap agreement with Habib Bank Limited, in respect of above mentioned subordinated loan. Refer to notes, 22 and 44 to these financial statements.

The fair value of the subordinated loan has been calculated with reference to the present value of future cash outflows using a discount rate of 5.46% (being the Company's estimate for market rate of interest for a similar instrument (in respect of currency, term, type of interest rate and other factors) with a similar credit rating). Under the terms of loan agreement with KfW, the subsidy will be spent as per prior approval of KfW. Also refer note to the financial statements 22.1

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The difference between the fair value of subordinated loan and subsidy payable has been recognized in equity as a 'Contribution by a shareholder'. The Company has also entered into cross currency swap agreement with Habib Bank Limited, in respect of above mentioned subordinated loan. Refer to notes , 22 and 44 to these financial statements.

	31 December 2021	31 December 2020
	(Rupees)	(Rupees)
Opening Balance	591,337,168	-
Fair value of subordinated loan from KfW - Restated	-	591,345,954
Less: Transaction cost	-	(8,786)
	591,337,168	591,337,168
Finance cost	37,444,434	-
	628,781,602	591,337,168
Exchange loss	63,291,763	-
	692,073,365	591,337,168

- 19.3.1 The purpose of the loans is mainly to support the Company's capital base aimed at provision of loans to Microfinance partners in Pakistan for the purpose of providing financing in respect to the energy project. For assessment of fair value, please refer to note 41 to these financial statements.

20	LOANS AND BORROWINGS - Secured	Note	31 December 2021	31 December 2020
			(Rupees)	(Rupees)
	Term Finance			
	JS Bank Limited		375,000,000	625,000,000
	United Bank Limited		-	116,666,668
	Askari Bank Limited - I		250,000,000	375,000,000
	Askari Bank Limited - II		312,500,000	437,500,000
	Allied Bank Limited - I		200,000,000	300,000,000
	Allied Bank Limited - II		500,000,000	500,000,000
	Allied Bank Limited - III		1,000,000,000	-
	National Bank of Pakistan - I		400,000,000	1,200,000,000
	National Bank of Pakistan - II		600,000,000	1,000,000,000
	National Bank of Pakistan - III		1,000,000,000	-
	MCB Bank Limited		833,333,333	1,000,000,000
	State Bank of Pakistan - I	20.3	1,784,917,447	1,784,917,447
	State Bank of Pakistan - II	20.4	317,000,000	293,000,000
	State Bank of Pakistan - III	20.5	499,870,000	-
	Bank Alfalah Limited		375,000,000	500,000,000
	Habib Bank Limited		2,000,000,000	-
	Bank of Punjab		350,000,000	-
	Habib Metropolitan		500,000,000	-
			11,297,620,780	8,132,084,115
	Less: Current portion of loans and borrowings		(2,292,777,778)	(2,208,333,333)
			9,004,843,002	5,923,750,782

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

Term Finance Facility	31 December 2021			
	Markup	Total facility amount	Instalments outstanding	Date of final repayment
	(Rupees)			
JS Bank Limited	6mK + 0.48%	750,000,000	03 half yearly	09-Mar-23
Askari Bank Limited - I	6mK + 0.40%	500,000,000	04 half yearly	08-Nov-23
Askari Bank Limited - II	6mK + 0.50%	500,000,000	05 half yearly	14-Feb-24
Allied Bank Limited - I	6mK + 0.45%	300,000,000	04 half yearly	04-Dec-23
Allied Bank Limited - II	6mK + 0.70%	500,000,000	06 half yearly	24-Mar-25
Allied Bank Limited - III	6mK + 0.60%	1,000,000,000	06 half yearly	24-May-26
National Bank of Pakistan - I	3mK + 0.85%	2,000,000,000	01 half yearly	28-Feb-22
National Bank of Pakistan - II	3mK + 0.85%	1,000,000,000	03 half yearly	30-Jun-23
National Bank of Pakistan - III	3mK + 0.85%	1,000,000,000	9 half yearly	31-Dec-26
MCB Bank Limited	6mK + 0.75%	1,000,000,000	05 half yearly	29-Mar-24
State Bank of Pakistan - I	6mK - 1.00%	2,000,000,000	Bullet repayment	30-Jun-24
State Bank of Pakistan - II	6mK - 1.00%	628,000,000	Bullet repayment	31-Dec-23
State Bank of Pakistan - III	6mK - 1.00%	1,535,950,000	Bullet repayment	29-Nov-26
Bank Alfalah Limited	6mK + 0.80%	500,000,000	06 half yearly	05-Nov-24
Habib Bank Limited	3mK + 0.70%	2,000,000,000	06 half yearly	20-Apr-26
Bank of Punjab	6mK + 0.75%	350,000,000	05 half yearly	30-Jun-24
Habib Metropolitan Bank	6mK + 0.75%	500,000,000	05 half yearly	31-Dec-24

Term Finance Facility	31 December 2020			
	Markup	Total facility amount	Instalments outstanding	Date of final repayment
	(Rupees)			
JS Bank Limited	6mK + 0.48%	750,000,000	05 half yearly	09-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	08-Nov-23
Askari Bank Limited - II	6mK + 0.50%	500,000,000	07 half yearly	14-Feb-24
Allied Bank Limited - I	6mK + 0.45%	300,000,000	06 half yearly	04-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	30-Jun-23
MCB Bank Limited	6mK + 0.75%	1,000,000,000	06 half yearly	29-Mar-24
State Bank of Pakistan - I	6mK - 1.00%	2,000,000,000	Bullet repayment	30-Jun-22
State Bank of Pakistan - II	6mK - 1.00%	628,000,000	Bullet repayment	24-Dec-25
Bank Alfalah Limited	6mK + 0.80%	500,000,000	08 half yearly	05-Nov-24

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

20.3 This represents outstanding balance amounting to Rs. 1,784,917,447 (31 December 2020: Rs. 1,784,917,447) of the unsecured term finance loan facility of Rs. 1,784,917,447 million carrying markup of 6-months KIBOR minus 100 bps (31 December 2020: 6-months KIBOR minus 100 bps) for the tenor of five years (2020: 3 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 facility term was extended for further two years. The loan is provided against the targets set by State Bank of Pakistan (SBP). The associated cost of guarantee is claimable from SBP.

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For the year ended 31 December 2021

- 20.3.1** The Company has provided a guarantee of Rs. 2,000 million (31 December 2020: Rs. 2,000 million) against the finance facility obtained from SBP. This guarantee has been obtained from Askari Bank Limited and is secured against first pari passu charge on receivables / microcredit advances of the Company of Rs. 2,500 million inclusive of 20% margin (31 December 2020: Rs. 2,500 million inclusive of 20% margin).
- 20.4** This represents outstanding balance amounting to Rs. 317 million (31 December 2020: Rs. 293 million) from the unsecured term finance loan facility of Rs. 628 million carrying markup of 6-months KIBOR minus 100 bps (31 December 2020: 6-months KIBOR minus 100 bps) for the tenor of five years starting from 2020 payable on half yearly basis i.e. 30 June and 31 December, while payment of principal will be made in the last four quarters of the loan period or in bullet form. The loan is provided against the targets set by SBP. The associated cost of guarantee is claimable from SBP.
- 20.4.1** 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 2020: Rs. 837.33 million inclusive of 25% margin).
- 20.5** This represents outstanding balance amounting to Rs. 500 million (31 December 2020: Nil) from the unsecured term finance loan facility of Rs. 1,535.93 million carrying markup of 6-months KIBOR minus 100 bps (31 December 2020: Nil) for the tenor of five years starting from Nov-2021 payable on half yearly basis i.e. 30 June and 31 December, while payment of principal will be made in the last four quarters of the loan period or in bullet form. The loan is provided against the targets set by SBP. The associated cost of guarantee is claimable from SBP.
- 20.5.1** The Company has provided a guarantee against the finance facility of Rs. 1,535.93 million obtained from SBP. This guarantee has been obtained from Bank Alfalah Limited and is secured against first pari passu charge on present and future assets (excluding land and buildings) of Rs. 2,267 million inclusive of 25% margin (31 December 2020: Nil).

21	EMPLOYEE BENEFITS	Note	31 December 2021	31 December 2020
			(Rupees)	(Rupees)
	- Compensated leave absences	21.1	14,185,985	14,748,207
	- Gratuity	21.2	6,946,927	2,933,919
			<u>21,132,912</u>	<u>17,682,126</u>

21.1 Net other long-term liability - Compensated leave absences

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

Present value of obligation	14,185,985	14,748,207
Benefits payable	-	-
Liability at 31 December	<u>14,185,985</u>	<u>14,748,207</u>

Movement in net other long-term liability

Net liability at 01 January	14,748,207	12,488,287
Charge for the year recognized in the statement of profit or loss	21.1.1	3,338,327
Payments made during the year		(3,900,549)
Net liability at 31 December		<u>14,185,985</u>



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21.1.1 Charge for the year recognized in the statement of profit or loss	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
Current service cost		3,223,784	4,294,155
Interest cost		1,311,788	1,272,746
Past service cost (change in rules)		(86,639)	-
Experience adjustment on defined benefit liability		(1,110,606)	(448,111)
		<u>3,338,327</u>	<u>5,118,790</u>
Expense is recognized in the following line item in the statement of profit or loss			
Administrative expenses	30	<u>3,338,327</u>	<u>5,118,790</u>

21.1.2 Key actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2021 using the projected unit credit method with the following assumptions:

	31 December 2021	31 December 2020
Discount rate (per annum)	10.25%	11.75%
Salary increase rate (per annum)	10.00%	10.25%
Leave accumulation factor (per annum)	10 days	10 days
Normal retirement age (years)	60	60
Effective salary increase date	01 January 2022	01 January 2021
Mortality rate	SLIC 2001-2005	SLIC 2001-2005
Duration	11.87 years	13.40 years

21.1.3 Sensitivity analysis

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

	31 December 2021 (Rupees)		31 December 2020 (Rupees)	
	Increase	Decrease	Increase	Decrease
Discount rate	<u>(1,547,193)</u>	<u>1,812,738</u>	<u>(1,763,147)</u>	<u>2,088,635</u>
Salary increase rate	<u>1,940,699</u>	<u>(1,674,824)</u>	<u>2,220,737</u>	<u>(1,895,616)</u>

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

21.2 Net defined benefit liability-gratuity

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

The amounts recognized in the statement of financial position are as follows:	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
Present value of defined benefit obligation		38,578,342	34,941,130
Fair value of plan assets		(31,631,415)	(32,007,211)
Net liability	21.2.1.1	<u>6,946,927</u>	<u>2,933,919</u>

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Movement in net defined benefit liability

Net liability at 01 January	2,933,919	9,830,869
Charge for the year recognized in the statement of profit or loss	-	-
Re-measurement recognized in the statement of other comprehensive income	14,986,743	13,904,860
Payments made during the year	-	-
Contributions	675,270	(3,251,516)
Net liability at 31 December	(11,649,005)	(7,719,425)
	-	(9,830,869)
21.2.1.1	<u>6,946,927</u>	<u>2,933,919</u>

21.2.1.1 Reconciliation of liability recognised in the statement of financial position

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability / (asset)
31 December 2021	(Rupees)		
Balance at 01 January	34,941,130	(32,007,211)	2,933,919
Charge for the year	18,267,482	-	18,267,482
Expected return on plan assets	-	(3,280,739)	(3,280,739)
Charge to profit or loss net of return on plan assets	18,267,482	(3,280,739)	14,986,743
Experience adjustments on defined benefit liability	(2,981,265)	3,656,535	675,270
Benefits paid	(11,649,005)	11,649,005	-
Benefits paid on behalf of the fund	-	(11,649,005)	(11,649,005)
Contributions to gratuity fund	-	-	-
Balance at 31 December	<u>38,578,342</u>	<u>(31,631,415)</u>	<u>6,946,927</u>

31 December 2020

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	<u>34,941,130</u>	<u>(32,007,211)</u>	<u>2,933,919</u>

21.2.1.2 Plan assets comprise of:

	31 December 2021		31 December 2020	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	(Rupees)		(Rupees)	
Pakistan Investment Bonds (PIBs)	17,500,000	15,429,586	17,500,000	17,886,534
Treasury Bills				
Cash at bank	16,210,829	16,210,829	14,120,677	14,120,677
	<u>33,710,829</u>	<u>31,631,415</u>	<u>31,620,677</u>	<u>32,007,211</u>

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		31 December 2021 (Rupees)	31 December 2020 (Rupees)
21.2.2 Charge for the year recognized in the statement of profit or loss	Note		
Current service cost		15,283,028	13,843,237
Interest cost		(296,285)	612,623
		<u>14,986,743</u>	<u>14,455,860</u>

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

Administrative expenses	30	<u>14,986,743</u>	<u>13,904,860</u>
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21.2.3 Re-measurement recognized in the statement of other comprehensive income

Actuarial gain on obligation	(2,981,265)	(1,579,925)
Actuarial (gain) / loss on assets	<u>3,656,535</u>	<u>(1,671,591)</u>
	<u>675,270</u>	<u>(3,251,516)</u>

21.2.4 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 2021 (Rupees)		31 December 2020 (Rupees)	
	Increase	Decrease	Increase	Decrease
Discount rate	<u>(4,225,758)</u>	<u>4,941,300</u>	<u>(4,335,049)</u>	<u>5,141,894</u>
Salary increase rate	<u>5,095,220</u>	<u>(4,420,373)</u>	<u>5,272,723</u>	<u>(4,510,426)</u>

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

	31 December 2021 (Rupees)		31 December 2020 (Rupees)	
	Increase	Decrease	Increase	Decrease
Withdrawal rate	<u>4,529</u>	<u>(4,632)</u>	<u>2,849</u>	<u>(2,918)</u>

21.2.4.1 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.

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

	(Rupees)
FY 2022	451,883
FY 2023	488,727
FY 2024	540,936
FY 2025	774,040
FY 2026	675,338
FY 2027 to FY 2031	50,603,586
FY 2032 and above	<u>195,863,115</u>

21.2.6 Key actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2021 using the projected unit credit method with the following assumptions:

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	31 December 2021	31 December 2020
Discount rate (per annum)	10.25%	11.75%
Salary increase rate (per annum)	10.00%	10.25%
Return on planned asset (per annum)	12.25%	10.25%
Normal retirement age (years)	60	60
Effective salary increase date	01 January 2021	01 January 2021
Mortality rate	SLIC 2001-2005	SLIC 2001-2005
Duration	11.87 years	13.40 years

21.2.7 Risk associated with defined benefit plans

21.2.7. Salary risk - (linked to inflation risk)

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

21.2.7. 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.

	31 December 2021 (Rupees)	31 December 2020 (Rupees)
22 SUBSIDY PAYABLE		
Opening balance	141,958,164	-
Initial recognition	-	141,958,164
Unwinding of subsidy payable	13,089,826	-
Payments during the year	(2,972,706)	-
Effect of change in estimate for cash outflows	(1,521,433)	-
	<u>150,553,851</u>	<u>141,958,164</u>

- 22.1** Under the subordinated loan agreement described in note 19.3, the present value of future expected cash outflows for subsidy amounts to Rs. 141,958,164, using a discount rate of 8.69%. The gross subsidy amount was calculated at weighted average rate/ per annum applicable to other subordinated loans less the rate payable in cross currency swap entered for the tranche where Company has disbursed loan to the customers. Where loan is not yet disbursed to the customers by the Company, subsidies amount is the return accrued by placing and maintaining the disbursed loan amount on the Company's bank account designated for the loan minus the amount in Pak Rupees which is payable in cross currency swap with respect to loan tranche (Refer to note 11.1).

		31 December 2021 (Rupees)	31 December 2020 (Rupees)
23 LEASE LIABILITY			
Opening balance		-	33,658,697
Additions during the year	23.2	78,407,735	-
Finance cost		2,087,881	2,803,718
Repayments		-	(36,462,415)
Closing balance		<u>80,495,616</u>	<u>-</u>

23.1 Closing balance consist of:

Current	<u>36,587,598</u>	<u>-</u>
Non-current	<u>43,908,018</u>	<u>-</u>

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

		31 December 2021
		(Rupees)
23.3	Maturity Analysis	
	Within one year	36,587,598
	After one year but not more than two years	43,908,018
		<u>80,495,616</u>

		31 December 2021	31 December 2020
		(Rupees)	(Rupees)
24	SHORT TERM BORROWINGS - Secured		
	Allied Bank Limited - Running Finance	498,371,855	74,927,889
	Allied Bank Limited- Repurchase transaction	289,123,400	-
	Bank of Punjab- Repurchase transaction	497,204,200	-
		<u>1,284,699,455</u>	<u>74,927,889</u>

- 24.1 This represent utilized amount of running finance facility amounting to Rs. 500 million (31 December 2020: Rs. 100 million) and carries markup rate of 3-months KIBOR plus 0.40% (31 December 2020: 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.

- 24.2 This represent repo borrowing transaction amounting to Rs. 289 million (31 December 2020: Rs. Nil) and carries markup rate of 10.75% (31 December 2020: Nil) per annum having maturity in January 2022. This facility is secured against government securities having face value amounting to Rs. 300 million.

- 24.3 This represent repo borrowing transaction amounting to Rs. 497 million (31 December 2020: Rs. Nil) and carries markup rate of 10.75% (31 December 2020: Nil) per annum having maturity in January 2022. This facility is secured against government securities having face value amounting to Rs. 500 million.

		31 December 2021	31 December 2020
		(Rupees)	(Rupees)
25	TRADE AND OTHER PAYABLES		
	Creditors and employees	2,095,558	3,870,257
	Accrued expenses	57,725,743	36,989,202
	Payable to provident fund	-	1,677,457
	Income tax deducted at source	194,704	181,961
		<u>60,016,005</u>	<u>42,718,877</u>

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

		31 December 2021	31 December 2020
		(Rupees)	(Rupees)
25.2	Payable to employees' provident fund		
	Balance at 01 January	1,677,457	28,030
	Contribution / withheld during the year	20,015,520	17,755,668
	Payments during the year	(21,692,977)	(16,106,241)
	Balance at 31 December	<u>-</u>	<u>1,677,457</u>

26	MARKUP ACCRUED - PAYABLE		
	Markup payable on subordinated loans	61,188,815	225,883,522
	Current portion of derivative financial instrument	233,736	134,801
	Markup payable on loans and borrowings	111,098,188	129,423,641
	Guarantee fee payable	-	1,525,482
		<u>172,520,739</u>	<u>356,967,446</u>

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

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

27 CONTINGENCIES AND COMMITMENTS

(a) Contingencies

27.1 There are no material contingencies as at 31 December 2021 (31 December 2020: Nil).

27.2 For contingency related to tax matter refer note 34.2 to these financial statements.

(b) Commitments

27.3 Procurement commitment amounts to Rs. 2.38 million for purchase of IT equipment (2020: Nil)

28 INCOME	Note	31 December 2021	31 December 2020
		(Rupees)	(Rupees)
Markup on financing	28.1	2,425,937,063	2,947,619,152
Income from deposit accounts / certificates		24,655,378	94,938,498
Income on reverse repo transactions		173,509,806	75,094,586
Income on Treasury Bills investment		66,133,785	81,821,782
Income on Pakistan Investment Bonds		46,016,094	47,800,361
Interest on investment in Term Finance Certificates		57,247,224	8,432,914
		<u>2,793,499,350</u>	<u>3,255,707,293</u>

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

29 FINANCE COST	Note	31 December 2021	31 December 2020
		(Rupees)	(Rupees)
Markup/ unwinding effect on balance from associates	29.1	944,201,102	1,320,916,936
Markup on loans and borrowings	29.2	702,258,331	839,015,709
Markup on repurchase transactions	24	779,922	-
Markup on derivative financial instruments	11	50,799,182	4,037,061
Amortized transaction cost		369,732	369,670
Bank charges		793,103	305,875
Foreign exchange loss on subordinated loan		63,291,762	-
Guarantee fee		54,297,095	49,984,545
Less: Guarantee fee to be reimbursed by State Bank of Pakistan		(42,072,014)	(35,796,156)
		<u>12,225,081</u>	<u>14,188,389</u>
		<u>1,774,718,215</u>	<u>2,178,833,640</u>

29.1 This represent (a) markup on subordinated loans from Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan and KfW as mentioned in note 19 to these financial statements, and (b) unwinding of subsidy payable.

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

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		31 December 2021	31 December 2020
		(Rupees)	(Rupees)
30 ADMINISTRATIVE EXPENSES	Note		
Salaries, wages and other benefits	30.1	229,466,588	209,648,963
Traveling and conveyance	30.2	16,334,874	13,317,227
Legal and professional fees		3,773,148	4,449,736
Advertisement and promotion		10,018,626	7,017,543
Utilities		3,625,524	2,869,503
Telecommunication and postage		1,784,635	1,751,016
Director's fee		4,672,500	6,590,000
Printing and stationery		1,365,647	888,884
Repair and maintenance		4,200,995	4,203,029
Auditors remuneration	30.3	3,526,000	2,070,400
Insurance		2,054,284	2,068,667
Office supplies and meeting expenses		3,077,114	2,003,257
IT Expenses		9,937,359	10,431,690
Miscellaneous		1,758,874	1,547,450
Depreciation on property and equipment	4	10,147,969	9,856,112
Depreciation on ROU assets	5	33,104,901	30,203,520
Amortization	6	5,808,900	192,886
Financial charges on lease liability		2,087,881	2,624,591
Consultancy and outsourcing arrangements	30.4	23,609,452	19,158,894
Trainings and workshops		4,482,895	2,150,894
		374,838,166	333,044,262

30.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 30,189,498 (31 December 2020: Rs. 27,901,484).

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

		31 December 2021	31 December 2020
		(Rupees)	(Rupees)
30.3 Auditors' remuneration	Note		
Statutory Audit fee	30.5	1,148,400	990,000
Other services		1,561,600	985,400
Tax consultation fee		696,000	-
Out of pocket expenses		120,000	95,000
		3,526,000	2,070,400

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

30.5 EY Ford Rhodes has been appointed as statutory auditor in the current year where as KPMG Taseer Hadi was the auditor for the year ended 2020.

		31 December 2021	31 December 2020
		(Rupees)	(Rupees)
31 OTHER EXPENSES			
Crop value chain		-	402,500
Livestock micro-insurance		-	379,500
Solar home solutions		11,901,502	10,817,911
Enterprise development		-	2,990,000
Education		2,398,027	-
		14,299,529	14,589,911

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31.1 These represent specific grants extended to borrowers of the Company as part of its Microfinance Plus (MF Plus) initiative. The company records the related expense on disbursement as no further economic benefit is expected to be received. The Company, during the year, recovered unspent amount from grantees on lapse of relevant projects. Also refer to note 32 for refund of grant.

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

32	OTHER INCOME	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
	Grant income (KfW)	32.1	13,480,398	18,583,660
	Advisory and arrangement fee	32.2	1,677,613	250,000
	Others		230,314	42,493
	Refund of grants	31.1	6,441,126	-
			<u>21,829,451</u>	<u>18,876,153</u>

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 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 and U Microfinance bank Limited over contract term.

33	FAIR VALUE GAIN / (LOSS) ON DERIVATIVE	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
	MTM gain on derivative	11	<u>78,701,638</u>	<u>(22,509,638)</u>
34	INCOME TAX EXPENSE			
	Income tax:			
	- Current		214,730,409	215,462,530
	- Prior		-	-
			<u>214,730,409</u>	<u>215,462,530</u>
	Deferred tax	10	<u>(22,374,961)</u>	<u>(37,711,671)</u>
			<u>192,355,448</u>	<u>177,750,859</u>

34.1 Relationship between accounting profit and tax expense is as follows:

Accounting profit for the year	<u>669,411,233</u>	<u>581,183,297</u>
Applicable tax rate	<u>29%</u>	<u>29%</u>
Tax charge	194,129,258	168,543,156
Tax effect of permanent differences	5,906,281	6,527,795
Tax effect of income taxed at lower rate	(8,351,342)	-
Others	671,251	2,679,908
	<u>192,355,448</u>	<u>177,750,859</u>

34.2 The Company's tax assessments for the tax years 2018 and 2019 were reopened by the assessing officer raising an aggregate income tax demand of Rs. 58.44 million (Rs. 21.97 million for 2018 and Rs 36.47 million for 2019) on account of super tax and default surcharge on mark-up income and business income. The Company had 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)]. Uptil the reporting date, ATIR heard the case and granted stay against recovery of tax demand. Subsequent to reporting date, the Honorable Appellate Tribunal has concluded proceeding of assessment year 2019 in favour of PMIC by annulling the orders passed by lower authorities. The Company is confident that year 2018 assessment will also be decided in its favour as arguments are same for the concerned assessment year.

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**35 CASH FLOWS FROM OPERATING ACTIVITIES
BEFORE WORKING CAPITAL CHANGES**

	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
Profit before taxation		669,411,233	581,183,297
<i>Adjustments for non cash items and others:</i>			
Depreciation on property and equipment		10,147,969	9,856,112
Depreciation on ROU assets		33,104,901	30,203,520
Amortization		5,808,900	192,886
Financial charges on lease liability		2,087,881	2,624,591
Provision		60,763,296	144,422,698
Provision for leave encashment		3,338,327	4,664,854
Fair value (gain) / loss on derivative		(78,701,638)	22,509,638
Foreign exchange loss on subordinated loan		63,291,762	-
Provision for staff retirement benefit - gratuity		14,986,743	13,904,860
Markup on financing		(2,425,937,063)	(2,947,619,152)
Income from deposit accounts / certificates		(24,655,378)	(94,938,498)
Income on reverse repo transactions		(173,509,806)	(75,094,586)
Income on Treasury Bills investment		(66,133,785)	(81,821,782)
Income on Pakistan Investment Bonds		(46,016,094)	(47,800,361)
Interest on investment in TFCs		(57,247,224)	(8,432,914)
Finance cost		1,711,426,453	2,201,343,278
Grant income		(13,480,398)	(18,583,660)
Gain on disposal of fixed assets		(196,231)	-
Experience adjustment on defined benefit liability		-	453,936
		<u>(311,510,152)</u>	<u>(262,931,283)</u>

Pakistan Microfinance Investment Company Limited
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36 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Note	31 December 2021			31 December 2020		
		Chief Executive	Directors (Rupees)	Executives	Chief Executive	Directors (Rupees)	Executives
Managerial remuneration		30,154,920	-	100,218,789	27,665,064	-	96,571,536
Performance bonus		5,000,000	-	15,188,573	4,000,000	-	13,282,334
Other perks and benefits	36.1	1,988,658	-	22,700,590	1,723,704	-	17,723,980
Contribution to provident fund		2,110,844	-	7,015,315	1,936,554	-	6,439,127
Gratuity		2,512,910	-	8,646,243	2,305,422	-	7,793,102
Meeting fee	36.2	-	4,672,500	-	-	6,590,000	-
		41,767,332	4,672,500	153,769,510	37,630,744	6,590,000	141,810,079
Number of persons		1	2	28	1	2	29

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

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

36.3 Executives includes employees, other than the chief executive and directors, whose basic salary exceeds Rs. 1,200,000 (31 December 2020: Rs. 1,200,000) per annum.

37 EMPLOYEES PROVIDENT FUND

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

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the year ended 31 December 2021

38 RECONCILIATION OF MOVEMENT OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES AND SUBSIDY PAYABLE

	Liabilities				Total
	Loans and borrowings and short term borrowings	Subordinated loans	Lease Liability	Subsidy Payable	
	(Rupees)				
Balance at 01 January 2021	8,207,012,004	11,795,098,709	-	141,958,164	20,144,068,877
Changes from financing cash flows					
Proceeds from loans and borrowings	5,373,870,000	-	-	-	5,373,870,000
Repayments of loans and borrowings	(2,208,333,335)	-	-	-	(2,208,333,335)
Receipt of short term borrowings	1,209,771,566	-	-	-	1,209,771,566
Rental paid for the building	-	-	(38,245,920)	-	(38,245,920)
Payment of subsidy payable	-	-	-	(2,972,706)	(2,972,706)
Repayments of subordinated loans	-	(1,142,938,344)	-	-	(1,142,938,344)
Total changes from financing cash flows	4,375,308,231	(1,142,938,344)	(38,245,920)	(2,972,706)	3,191,151,261
Other changes					
Unwinding of interest on KfW Loan	-	37,444,434	-	-	37,444,434
Foreign currency loss on KfW loan	-	63,291,762	-	-	63,291,762
Remeasurement of subsidy payable	-	-	-	(1,521,433)	(1,521,433)
Unwinding of interest on subsidy payable	-	-	-	13,089,826	13,089,826
Additions to lease liability	-	-	116,653,655	-	116,653,655
Financial charges on lease liability	-	-	2,087,881	-	2,087,881
Balance at 31 December 2021	12,582,320,235	10,752,896,561	80,495,616	150,553,851	23,566,266,263
Balance at 01 January 2020	7,666,353,509	12,346,699,885	33,658,697	-	20,046,891,218
Changes from financing cash flows					
Proceeds from subordinated loans	-	878,616,214	-	-	878,616,214
Proceeds from loans and borrowings	1,793,000,000	-	-	-	1,793,000,000
Repayments of loans and borrowings	(1,229,166,666)	-	-	-	(1,229,166,666)
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	-	(1,142,938,344)	-	-	(1,142,938,344)
Total changes from financing cash flows	540,658,495	(264,322,130)	(36,462,415)	-	239,873,950
Other changes					
Transferred to equity under IFRS-9	-	(287,279,046)	-	-	(287,279,046)
Recognition of subsidy payable at present value of estimated future cash flows	-	-	-	141,958,164	141,958,164
Financial charges on lease liability	-	-	2,803,718	-	2,803,718
Balance at 31 December 2020	8,207,012,004	11,795,098,709	-	141,958,164	20,144,248,004

	31 December 2021 (Rupees)	31 December 2020 (Rupees)
39 CASH AND CASH EQUIVALENTS		
Lending to financial institutions (reverse repo)	-	1,724,972,806
Cash and bank balances	2,018,996,397	211,631,699
	2,018,996,397	1,936,604,505

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40 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties comprise associated undertakings, directors as well as their close family members, companies with common directorship, executives, key management personnel and major shareholders. Balances with related parties are disclosed in notes 9.3, 14.1, 18, 19, 21, 25 and 26 to these financial statements. Below is the list of related parties with whom the Company has entered into transactions during the year:

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

- 40.1 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

- 40.2 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 2021 (Rupees)	31 December 2020 (Rupees)
Transactions with associated undertakings		
Grant income recognized during the year	13,480,398	18,583,660
Grant income received during the year	13,072,373	30,908,074
Consideration received from KfW during the year	-	878,616,214
Subordinated loan repaid during the year	1,142,938,345	1,142,938,346
Markup on subordinated loan charged during the year	895,188,274	1,320,018,011
Markup on subordinated loan paid during the year	1,058,984,056	1,535,617,852
Transactions with other related parties		
Employee contribution payable to provident fund	-	826,945
Employer contribution payable to provident fund	-	826,945
Total contribution paid to provident fund	20,015,520	17,202,133
Total contribution paid to gratuity fund	11,649,005	17,174,454
Transactions with key management personnel		
Remuneration and allowance		
Short term benefits	111,244,567	105,699,814
Defined contribution plan	6,070,995	5,602,635
Defined benefit plan	7,449,903	6,855,346
	<u>124,765,465</u>	<u>118,157,795</u>
Movement of loan to CEO/Directors		
Opening Balance	-	8,538,600
Disbursements	23,054,220	-
Repayments during the year	(6,403,950)	(8,538,600)
Closing Balance	<u>16,650,270</u>	<u>-</u>

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41 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

41.1 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.

		31 December 2021					Fair value			
		On-balance sheet financial instruments								
		Held to maturity	Available for sale	Carrying value Loans and receivables	Other financial liabilities/assets	Total	Level 1	Level 2	Level 3	Total
Note		(Rupees)								
41.2	Financial assets									
7	Long term investment - Pakistan Investment Bonds	238,565,746	-	-	-	238,565,746	-	-	-	-
7	Long term investment - Term Finance Certificates	600,000,000	500,000,000	-	-	1,100,000,000	-	500,000,000	-	500,000,000
8	Financing - net	-	-	24,141,564,231	-	24,141,564,231	-	-	-	-
9 & 41.4	Long term advances and deposits	-	-	31,745,664	-	31,745,664	-	-	-	-
12 & 41.4	Advances and other receivable	-	-	31,920,015	-	31,920,015	-	-	-	-
13	Markup accrued - receivable	-	-	643,692,789	-	643,692,789	-	-	-	-
14	Due from related parties	-	-	8,486,049	-	8,486,049	-	-	-	-
15	Short term investment - Pakistan Investment Bonds	196,259,062	-	-	-	196,259,062	-	-	-	-
15	Short term investment - Treasury Bills	970,965,550	189,372,322	-	-	1,160,337,872	189,372,322	-	-	189,372,322
15	Short term investment - Term deposit certificates	500,000,000	-	-	-	500,000,000	-	-	-	-
17	Cash and bank balances	-	-	2,018,996,397	-	2,018,996,397	-	-	-	-
11	Derivative Financial Instrument	-	-	-	55,958,264	55,958,264	-	55,958,264	-	55,958,264
		2,505,790,358	689,372,322	26,876,405,145	55,958,264	30,127,526,089	189,372,322	55,958,264	-	745,330,586
41.2	Financial liabilities									
19	Subordinated loan - KIW	-	-	-	692,073,365	692,073,365	-	-	633,987,779	633,987,779
19	Subordinated loan - Others	-	-	-	10,060,823,196	10,060,823,196	-	-	-	-
20	Loans and borrowings	-	-	-	11,297,620,780	11,297,620,780	-	-	-	-
24	Short term borrowings	-	-	-	1,284,699,455	1,284,699,455	-	-	-	-
23	Lease liability	-	-	-	80,495,616	80,495,616	-	-	-	-
25 & 41.5	Trade and other payables	-	-	-	2,095,558	2,095,558	-	-	-	-
26	Markup accrued - payable	-	-	-	172,520,739	172,520,739	-	-	-	-
22	Subsidy payable	-	-	-	150,553,851	150,553,851	-	-	133,250,554	133,250,554
		-	-	-	23,740,882,560	23,740,882,560	-	-	767,238,333	767,238,333

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On-balance sheet financial instruments		31 December 2020				Fair value				
		Held to maturity	Available for sale	Carrying value Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Note						(Rupees)				
31 December 2020										
Financial assets										
41.2										
7	Long term investment - Pakistan Investment Bonds	189,023,024	-	-	-	189,023,024	-	-	-	-
7	Long term investment - Term Finance Certificates	100,000,000	-	-	-	100,000,000	-	-	-	-
8	Financing - net	-	-	22,365,405,848	-	22,365,405,848	-	-	-	-
9 & 41.4	Long term advances and deposits	-	-	8,727,941	-	8,727,941	-	-	-	-
12 & 41.4	Advances and other receivable	-	-	28,922,917	-	28,922,917	-	-	-	-
13	Markup accrued - receivable	-	-	678,039,512	-	678,039,512	-	-	-	-
14	Due from related parties	-	-	8,078,024	-	8,078,024	-	-	-	-
	Lending to financial institutions (reverse repo)	1,724,972,806	-	-	-	1,724,972,806	-	-	-	-
15	Short term investment - Pakistan Investment Bonds	189,196,083	-	-	-	189,196,083	-	-	-	-
15	Short term investment - Treasury Bills	239,159,500	-	-	-	239,159,500	-	-	-	-
15	Short term investment - Term deposit certificates	900,000,000	-	-	-	900,000,000	-	-	-	-
17	Cash and bank balances	-	-	211,631,699	-	211,631,699	-	-	-	-
		3,342,351,413	-	23,300,805,941	-	26,643,157,354	-	-	-	-
Financial liabilities										
41.2										
19	Subordinated loan - KfW	-	-	-	11,203,761,541	11,203,761,541	-	-	-	-
19	Subordinated loan - Others	-	-	-	591,337,168	591,337,168	-	-	591,337,168	591,337,168
20	Loans and borrowings	-	-	-	8,132,084,115	8,132,084,115	-	-	-	-
24	Short term borrowings	-	-	-	74,927,889	74,927,889	-	-	-	-
23	Lease liability	-	-	-	-	-	-	-	-	-
25 & 41.5	Trade and other payables	-	-	-	5,547,714	5,547,714	-	-	-	-
11	Derivative Financial Instrument	-	-	-	22,509,638	22,509,638	-	22,509,638	-	22,509,638
26	Markup accrued - payable	-	-	-	356,967,446	356,967,446	-	-	-	-
22	Subsidy payable	-	-	-	141,958,164	141,958,164	-	-	141,958,164	141,958,164
		-	-	-	20,529,093,675	20,529,093,675	-	22,509,638	733,295,332	755,804,970

41.2 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.

41.3 It excludes long term prepayment - transaction charges.

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

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

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41.6 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.

iii. Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

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.

41.7 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:

		31 December 2021	31 December 2020
	Note	(Rupees)	(Rupees)
Long term investment - Pakistan Investment Bonds	7	238,565,746	189,023,024
Long term investment - Term Finance Certificates	7	600,000,000	100,000,000
Financing - gross*	8	25,384,439,742	23,547,518,063
Long term advances and deposits	9 & 41.4	31,745,664	8,727,941
Advances and other receivable	12 & 41.4	31,920,015	28,922,917
Markup accrued - receivable	13	643,692,789	678,039,512
Due from related parties	14	8,486,049	8,078,024
Lending to financial institutions (reverse repo)		-	1,724,972,806
Short term investment - Pakistan Investment Bonds	15	196,259,062	189,196,083
Short term investment - Term Finance Certificates	15	500,000,000	-
Short term investment - Treasury Bills	15	1,160,337,872	239,159,500
Short term investment - Term deposit certificates	15	500,000,000	900,000,000
Cash and bank balances	17	2,018,996,397	211,631,699
		<u>31,314,443,336</u>	<u>27,825,269,569</u>

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

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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 2021 (Rupees)	31 December 2020 (Rupees)
Related parties	8,486,049	8,078,024
Banks and financial institutions	30,807,466,800	27,401,321,580
Others	498,490,487	415,869,965
	<u>31,314,443,336</u>	<u>27,825,269,569</u>

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% to 5.0% (31 December 2020: 1.25% to 5.0%) of the outstanding balance of financing, net of specific provision. The movement in general provision in respect of financing during the year was as follows:

	Note	31 December 2021 (Rupees)	31 December 2020 (Rupees)
Balance at 01 January		434,981,448	317,058,750
Provision made during the year	8.4	47,831,885	117,922,698
Balance at 31 December		<u>482,813,333</u>	<u>434,981,448</u>

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 2021 (Rupees)	31 December 2020 (Rupees)
Balance at 01 January		747,130,767	720,630,767
Provision made during the year	8.4	12,931,411	26,500,000
Balance at 31 December		<u>760,062,178</u>	<u>747,130,767</u>

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:

		31 December 2021 (Rupees)	31 December 2020 (Rupees)
Long term investment - Pakistan Investment Bonds			
Counterparties without credit rating		<u>238,565,746</u>	<u>189,023,024</u>
Long term investment - Term Finance Certificates			
Counterparties with credit rating	AA-	500,000,000	-
Counterparties with credit rating	AA	100,000,000	100,000,000
		<u>600,000,000</u>	<u>100,000,000</u>

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		31 December 2021 (Rupees)	31 December 2020 (Rupees)
Financing - gross*			
Counterparties with credit rating	A	1,800,000,000	2,300,000,000
Counterparties with credit rating	A-	4,100,250,000	3,425,000,000
Counterparties with credit rating	A+	1,400,000,000	800,000,000
Counterparties with credit rating	BBB	7,900,000,000	6,415,000,000
Counterparties with credit rating	BB+	450,000,000	325,000,000
Counterparties with credit rating	BBB-	2,700,000,000	2,170,000,000
Counterparties with credit rating	BBB+	100,000,000	762,500,000
Counterparties with credit rating	AA+	500,000,000	-
Counterparties without credit rating		6,434,189,742	7,350,018,063
		<u>25,384,439,742</u>	<u>23,547,518,063</u>
Long term advances and deposits			
Counterparties without credit rating		<u>31,745,664</u>	<u>8,727,941</u>
Advances and other receivable			
Counterparties without credit rating		<u>31,920,015</u>	<u>28,922,917</u>
Derivative financial instrument			
Counterparty with credit rating	AAA	<u>56,192,000</u>	<u>-</u>
Markup accrued - receivable			
Counterparties with credit rating	A3	306,677,853	297,849,186
Counterparties with credit rating	A2	91,649,695	86,426,438
Counterparties with credit rating	A1	32,794,631	37,736,825
Counterparties with credit rating	AA	493,562	338,092
Counterparties with credit rating	A1+	14,682,192	2,700,000
Counterparties without credit rating		197,394,856	252,988,972
		<u>643,692,789</u>	<u>678,039,512</u>
Due from related parties			
Counterparties with credit rating	A1+	<u>8,486,049</u>	<u>8,078,024</u>
Lending to financial institutions (reverse repo)			
Counterparties without credit rating		<u>-</u>	<u>1,724,972,806</u>
Short term investment - Pakistan Investment Bonds			
Counterparties without credit rating		<u>196,259,062</u>	<u>189,196,083</u>
Short term investment - Term Finance Certificates			
Counterparties with credit rating	AA-	<u>500,000,000</u>	<u>-</u>
Short term investment - Treasury Bills			
Counterparties without credit rating		<u>1,160,337,872</u>	<u>239,159,500</u>
Short term investment - Term deposit certificates			
Counterparties with credit rating	A1+	<u>500,000,000</u>	<u>900,000,000</u>
Cash at bank			
Counterparties with credit rating	A1+	1,514,785,851	199,429,323
Counterparties with credit rating	A1	504,210,546	12,202,377
		<u>2,018,996,397</u>	<u>211,631,700</u>

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

41.8 Liquidity risk

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

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the year ended 31 December 2021

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
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(Rupees)

31 December 2021

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

Carrying amount	Contractual cash flows	Maturity up to one year	Maturity after one year and up to five years	Maturity after five years
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(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	-	-
Lease liability	-	-	-	-	-
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	-	-
Subsidy payable	141,958,164	213,206,481	18,121,641	120,810,938	74,273,902
	20,793,863,083	26,848,069,481	5,259,994,390	15,028,149,310	6,559,925,781

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, subsidy payable, leases and short term borrowings have been determined on the basis of expected mark up rates. The mark up rates have been disclosed in note 19, 20, 22, 23 and 24 to these financial statements respectively.

41.9 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.

41.9.1 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.

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Notes to the financial statements
For the year ended 31 December 2021

Exposure to forex risk on year end monetary balances:

	31 December 2021 (Rupees)	31 December 2020 (Rupees)
Subordinated loan from KfW	692,073,365	591,337,168

The following significant exchange rate applied during the year:

	Average rates		Balance sheet date rate	
	2021	2020	2021	2020
US Dollars	168.17	157.39	176.51	159.83

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 2021 (Rupees)	31 December 2020 (Rupees)
Increase in 10% USD rate	(69,207,337)	(59,133,717)
Decrease in 10% USD rate	69,207,337	59,133,717

41.9.2 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 2021 Effective rate %	31 December 2020 Effective rate %	31 December 2021 (Rupees)	31 December 2020 (Rupees)
Fixed rate instruments				
Financial assets	7.42%-11.78%	6.4.5% - 13.99%	1,905,790,358	3,242,351,413
Financial liabilities	10.75%	-	(1,478,400,965)	(591,337,168)
			427,389,393	2,651,014,245
Variable rate instruments				
Financial assets	7.25% to KIBOR +3.23%	5.5% to KIBOR +3.18%	28,503,398,883	23,859,149,362
Financial liabilities	5.46% to KIBOR +1	KIBOR -1.75% to KIBOR +1%	(21,856,815,831)	(19,410,773,545)
			6,646,583,052	4,448,375,817

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. 285.03 million (31 December 2020: Rs. Rs. 238.6 million) and increased / decreased markup expense by Rs. 218.57 million (31 December 2020: Rs. Rs. 194.11 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.

41.9.3 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.

Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the year ended 31 December 2021

42 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 2020: 100 million). As at 31 December 2021, the Company's total equity is Rs. 7,285 million (31 December 2020: Rs. 6,796 million).

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

	31 December 2021	31 December 2020
43 NUMBER OF EMPLOYEES		
Number of employees at reporting date	38	39
Average number of employees during the year	39	37

44 RECLASSIFICATION AND RESTATEMENT

Certain prior year balances have been reclassified where necessary to conform to the better and fair presentation for current year. There were no significant reclassification, except as disclosed below:

The adjustments summarized below represents the qualitative and quantitative effect of material prior period impact on equity, liabilities and assets that have been made in these financial statements by restating the corresponding figures.

	Note	2020		
Statement of financial position		Reported	Increase / Decrease	Restated
		(Rupees)		
Contribution by Shareholder - net of tax	19.3	-	103,177,827	103,177,827
Subsidy payable	22	-	141,958,164	141,958,164
Subordinated loans-KfW	19.3	878,616,214	(287,279,046)	591,337,168
		878,616,214	(145,320,882)	733,295,332
Total equity and liabilities		878,616,214	(42,143,055)	836,473,159
Deferred tax asset	10	350,229,868	(42,143,055)	308,086,813

- 44.1 In previous year, the Company had recognised total consideration of US\$ 5.5 million from KfW as subordinated loan including equity and subsidy payable components. During the year, management of the Company has reassessed the accounting treatment in line with IAS 32 'Financial Instruments: Presentation', and has recognized each financial instrument separately with the equity component representing the residual amount after deducting the fair values of liabilities component from the consideration. In accordance with requirements of International Accounting Standard (IAS) 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the Company has incorporated the effect of rectification of this error retrospectively, as shown above. Refer to note 19.3).

The effect of rectification of above-mentioned reassessment on the statement of profit and loss is insignificant and have incorporated in the current year figures in the statement of profit or loss. Requisite restatements in statement of cash flows have been incorporated.

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Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the year ended 31 December 2021

45 GENERAL

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

46 APPROVAL OF FINANCIAL STATEMENTS

46.1 These financial statements were authorized for issue by the Board of Directors of the Company in its meeting held on

29 MAR 2022

JPR


CHIEF EXECUTIVE OFFICER


DIRECTOR