KPMG Taseer Hadi & Co.
Chartered Accountants

Pakistan Microfinance Investment Company (PMIC) Limited

Financial Statements

For the year ended 31 December 2017

KPMG Taseer Hadi & Co.
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Microfinance Investment Company Limited ("the Company") as at 31 December 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended 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 our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion-

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as indicated in the note 3 with which we concur;

   (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, 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 2017 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

KPMG Taseer Hadi & Co.

Date: 13 March 2018
Islamabad

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner: Riaz Pesnani

Pakistan Microfinance Investment Company Limited

Balance Sheet

As at 31 December 2017

	Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
NON-CURRENT ASSETS			
Property and equipment	4	**29,748,918**	2,827,604
Intangible assets	5	**854,222**	-
Advances for capital expenditures	6	**1,611,000**	3,947,164
Financing - net	7	**7,139,588,188**	-
Long term advances and deposits	8	**9,478,118**	4,724,470
Deferred tax asset	9	**46,043,760**	-
		7,227,324,206	11,499,238
CURRENT ASSETS			
Advances, prepayments and other receivable	10	**40,867,914**	20,795,226
Markup accrued - receivable	11	**176,059,138**	4,935,004
Due from related parties	12	**134,892,422**	12,071,264
Lending to financial institutions	13	-	3,259,995,148
Short-term investments	14	**950,000,000**	2,350,000,000
Advance tax - net	15	-	749,330
Current portion of financing	7	**4,241,451,812**	-
Cash and bank balances	16	**66,748,590**	256,781,849
		5,610,019,876	5,905,327,821
TOTAL ASSETS		**12,837,344,082**	5,916,827,059
SHARE CAPITAL AND RESERVES			
Share capital	17	**5,884,222,000**	5,884,222,000
Unappropriated profit / (accumulated loss)		**85,150,985**	(67,477,509)
		5,969,372,985	5,816,744,491
NON-CURRENT LIABILITIES			
Subordinated loan	18	**6,680,638,230**	-
Deferred liabilities	19	**7,257,880**	-
		6,687,896,110	-
CURRENT LIABILITIES			
Trade and other payables	20	**70,310,648**	100,082,568
Provision for tax - net	15	**1,325,323**	-
Markup accrued - payable	21	**89,077,246**	-
Current portion of subordinated loan	18	**19,361,770**	-
		180,074,987	100,082,568
TOTAL EQUITY AND LIABILITIES		**12,837,344,082**	5,916,827,059
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 36 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Pakistan Microfinance Investment Company Limited
Profit and Loss Account
For the year ended 31 December 2017

	Note	For the year ended 31 December 2017 (Rupees)	For the period from 10 August 2016 to 31 December 2016 (Rupees)
Income - net	23	700,869,204	17,006,268
Finance cost	24	(148,184,213)	(2,800)
		552,684,991	17,003,468
General provision	7.4	(114,960,000)	-
		437,724,991	17,003,468
Administrative expenses	25	(256,128,541)	(100,402,617)
Other operating expenses	26	(15,070,880)	-
		(271,199,421)	(100,402,617)
Other income	27	18,783,732	16,936,691
Profit / (loss) before taxation		185,309,302	(66,462,458)
Taxation	28	(33,629,859)	(1,015,051)
Profit / (loss) for the year / period		151,679,443	(67,477,509)

The annexed notes 1 to 36 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Pakistan Microfinance Investment Company Limited
Statement of Comprehensive Income
For the year ended 31 December 2017

	Note	For the year ended 31 December 2017 (Rupees)	For the period from 10 August 2016 to 31 December 2016 (Rupees)
Profit / (loss) for the year / period		151,679,443	(67,477,509)
Other comprehensive income for the year / period			
Items that will not be reclassified to profit and loss account			
Remeasurement of defined benefits liability	19.2	1,355,787	-
Related tax		(406,736)	-
Other comprehensive income - net of tax		949,051	-
Total comprehensive income for the year / period		152,628,494	(67,477,509)

The annexed notes 1 to 36 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 2017

	Issued, subscribed and paid up share capital	Unappropriated profit	Total equity
	(Rupees)	(Rupees)	(Rupees)
Balance at 10 August 2016	-	-	-
Total comprehensive income for the period - (loss)			
Loss for the period	-	(67,477,509)	(67,477,509)
Other comprehensive income for the period - net of tax	-	-	-
Total comprehensive income for the period - (loss)	-	(67,477,509)	(67,477,509)
Transactions with owners of the Company			
Contribution			
Issuance of share capital	5,884,222,000	-	5,884,222,000
Total transaction with owners of the Company	5,884,222,000	-	5,884,222,000
Balance at 31 December 2016	5,884,222,000	(67,477,509)	5,816,744,491
Total comprehensive income for the year			
Profit for the year	-	151,679,443	151,679,443
Other comprehensive income for the year - net of tax	-	949,051	949,051
Total comprehensive income for the year	-	152,628,494	152,628,494
Balance at 31 December 2017	5,884,222,000	85,150,985	5,969,372,985

The annexed notes 1 to 36 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

Pakistan Microfinance Investment Company Limited

Cash flow Statement

For the year ended 31 December 2017

	Note	For the year ended 31 December 2017 (Rupees)	For the period from 10 August 2016 to 31 December 2016 (Rupees)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities before working capital changes	29	(256,526,770)	(100,302,271)
Changes in working capital:			
Financing - net	7	(11,496,000,000)	-
Long term advances and deposits	8	(4,753,648)	(4,724,470)
Advances, prepayments and other receivable	10	(20,072,688)	(20,795,226)
Lending to financial institutions	13	3,259,995,148	(3,259,995,148)
Short-term investments	14	1,400,000,000	(2,350,000,000)
Trade and other payables	20	(47,467,944)	100,082,568
		(6,908,299,132)	(5,535,432,276)
Cash used in operations		(7,164,825,902)	(5,635,734,547)
Taxes paid	15	(78,005,702)	(1,764,381)
Finance cost paid		(59,106,967)	(2,800)
Staff retirement benefit - gratuity paid		(100,000)	-
Receipt of profit on term deposit certificates	11 & 23	32,631,374	-
Receipt of markup on reverse repo transactions	11 & 23	174,045,843	-
Receipt of markup on financing	11 & 23	224,610,252	-
Receipts of profit on deposit accounts	11 & 23	12,069,480	16,936,691
Receipt of insurance claim on disposal of asset		62,800	-
Net cash used in operating activities		(6,858,618,822)	(5,620,565,037)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	4	(32,758,601)	(2,927,950)
Additions to intangible assets	5	(992,000)	-
Advances for capital expenditures paid	6	2,336,164	(3,947,164)
Net cash used in from investing activities		(31,414,437)	(6,875,114)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds against issuance of share capital	17	-	5,884,222,000
Receipt of subordinated loan	18	6,700,000,000	-
Net cash generated from financing activities		6,700,000,000	5,884,222,000
Net (decrease) / increase in cash and cash equivalents		(190,033,259)	256,781,849
Cash and cash equivalents at beginning of the year / period		256,781,849	-
Cash and cash equivalents at end of the year / period		66,748,590	256,781,849

The annexed notes 1 to 36 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

1. STATUS AND NATURE OF BUSINESS

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

The Company is setup jointly by Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan and Kreditanstalt für Wiederaufbau (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 Pakistan Credit Rating Agency (PACRA) has assigned the Company a rating of 'AA' (long term credit rating) and 'A1+' (short term credit rating) on 24 October 2017.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984 (the repealed ordinance), the NBFC Rules, the NBFC Regulations and the directives issued by the Securities and Exchange Commission of Pakistan ("SECP"). Wherever the requirements of the Companies Ordinance, 1984 (the repealed ordinance), the NBFC Rules, the NBFC Regulations or the directives issued by SECP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984 (the repealed ordinance), the NBFC Rules, the NBFC Regulations or the directives issued by the SECP, shall prevail.

The SECP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' through Circular No. 19 dated 13 August 2003 for Non-Banking Finance Companies (NBFCs) providing investment finance services, discounting services and housing finance services, with the direction that such companies shall continue observing the State Bank of Pakistan's BSD Circular Letter No. 11 dated 11 September 2002, regarding the application of said IASs, till further decision. In addition, the SECP has also deferred the application of International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' through SRO 411(1) / 2008 on such Non-Banking Finance Companies as are engaged in investment finance services, discounting services and housing finance services.

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

2.2 Basis of measurement and preparation

During the year, the Companies Act, 2017 ("the Act") was enacted on 30 May, 2017, which replaced and repealed the Companies Ordinance, 1984 ("the repealed Ordinance"). However, the Securities and Exchange Commission of Pakistan ("SECP") through its Circular No. 23 of 2017 dated 04 October 2017 has advised that the companies whose financial year closes on or before 31 December 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984.

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

The preparation of these financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision effects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. Judgments made by management in application of the approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in respective policy notes. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

(i) Estimate of useful life of property, plant and equipment – note 4;
(ii) Estimate of useful life of intangible assets – note 5;
(iii) Provisions – note 7;
(iv) Estimate of obligation in respect of employee benefit plans – note 19;
(v) Impairment of financial and non-financial assets;
(vi) Classification of investments;
(vii) Contingencies – note 22; and
(viii) Provision for taxation – note 28.

2.5 Measurement of fair values

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

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

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

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

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

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

2.6 Standards issued but not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 01 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Company's financial statements.

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 01 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Company's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after 01 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Company's financial statements.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 01 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The application of interpretation is not likely to have an impact on Company's financial statements.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 01 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Company's financial statements.

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 01 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Company is currently in the process of analyzing the potential impact of changes required in revenue recognition policies on adoption of the standard.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 01 July 2018 and 01 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Company is currently in the process of analyzing the potential impact of changes required in classification and measurement of financial instruments and the impact of expected loss model on adoption of the standard.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 01 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Company's financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards. The below amendments are effective from annual period beginning on or after 01 January 2019 and are not likely to have an impact on Company's financial statements.

  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company remeasures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

- IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.

- IAS 23 Borrowing Costs - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

▪ In addition, the Companies Act, 2017 was enacted on 30 May 2017 and Securities and Exchange Commission of Pakistan vide its circular 23 of 2017 has clarified that the companies whose financial year closes on or before 31 December 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 applicable for financial year beginning on 01 January 2018 requires certain additional disclosures. Management is in the process of assessing the impact of such changes on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Amendments to IAS 7 'Statement of Cash Flows' became effective during the year. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Accordingly, those disclosure have been included in the note 32 to these financial statements. However, there was no change in the reported figures of profit and loss account or balance sheet.

3.1 Property and equipment and advances for capital expenditures

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 and loss account.

Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

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 and loss account at rates given in note 4 to these financial statements. Capital work in progress is not depreciated.

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

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

3.2 Intangible assets

Recognition and measurement

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

Subsequent expenditure

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

Amortization

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

3.3 Reverse repurchase agreements

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

3.4 Employee benefits

The accounting policies for employee benefits are described below:

3.4.1 Short-term employee benefits

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

3.4.2 Defined contribution plan – Provident fund

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

3.4.3 Defined benefit plan

The Company operates the following defined benefit plans:

Gratuity

The Company operates a defined benefit plan comprising an unfunded gratuity scheme covering all eligible employees completing the minimum qualifying period of service as specified by the scheme. Annual provisions to cover the obligations under the scheme are based on actuarial estimates and are charged to profit and loss account. 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 and loss account.

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 19.3. Any changes in these assumptions will impact the carrying amount of obligations for gratuity.

3.5 Financial instruments

The Company classifies non-derivative financial assets into the following categories: held-to-maturity financial assets and loans and receivables.

The Company classifies non-derivative financial liabilities as other financial liabilities.

3.5.1 Non-derivative financial assets and financial liabilities

3.5.1.1 Recognition and derecognition

The Company initially recognizes loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

3.5.1.2 Non-derivative financial assets – Measurement

Held-to-maturity financial assets	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective markup method less impairment loss, if any.
Loans and receivables	These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective markup method, as reduced by appropriate provision for impairment. Known impaired assets are written off, while assets considered doubtful of recovery are fully provided for. The provision for these assets is based on the Company's assessment of the collectability of counterparty accounts. The Company regularly reviews assets which remain outstanding past their applicable payment terms and establishes provision and potential write offs by considering factors such as historical experience, credit quality, age of these assets and current economic conditions that may affect a counterparty's ability to pay.

3.5.1.3 Non-derivative financial liabilities – Measurement

The Company initially recognizes non-derivative financial liabilities on the date that they are originated or the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

These financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective markup method. Non-derivative financial liabilities comprise markup bearing borrowings including subordinated loan and trade and other payables.

3.5.1.4 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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 balance sheet 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 balance sheet date and adjusted to reflect current best estimate.

3.8 Taxation

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

Current tax

Current tax comprises the expected tax payable or refundable on the taxable income or loss for the year and any adjustment to the tax payable or refundable in respect of previous years. The amount of current tax payable or refundable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. Current tax also includes any tax arising from dividends. 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 recorded at the rates of exchange prevailing on the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into Pakistan Rupee at the rate of exchange ruling on the balance sheet date and exchange differences, if any, are recognized in profit and loss account.

3.10 Finance income and finance cost

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

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

3.11 Revenue recognition

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

Gains / (losses) arising on sale of investments are included in the profit and loss account in the period in which they arise.

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

Return on bank deposits are recognized on time proportionate basis.

3.12 Finances

Finances comprise of installment finance facilities extended to microfinance institutions. These are stated at cost less provision, if any, determined as per requirements of NBFC rules and regulations, and the policy of the Company.

3.13 Impairment

3.13.1 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 and loss account 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 and loss account.

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

3.13.2 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 and loss account. 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.

3.14 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.

3.15 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.

Pakistan Microfinance Investment Company Limited

Notes to the financial statements

For the year ended 31 December 2017

4 PROPERTY AND EQUIPMENT

	Furniture and fittings	Vehicles	Office equipment	Computers	Capital work in progess (Note 4.1)	Leasehold improvements	Total
				(Rupees)			
Cost							
Balance at 10 August 2016	-	-	-	-	-	-	-
Additions during the period	-	-	214,686	1,756,626	956,638	-	2,927,950
Balance at 31 December 2016	-	-	214,686	1,756,626	956,638	-	2,927,950
Additions during the year	6,920,544	2,547,734	936,644	5,725,650	16,628,029	-	32,758,601
Transfers from CWIP	-	-	-	-	(17,017,217)	17,017,217	-
Disposal / write-off	-	-	-	(78,500)	-	-	(78,500)
Balance at 31 December 2017	6,920,544	2,547,734	1,151,330	7,403,776	567,450	17,017,217	35,608,051
Accumulated depreciation							
Balance at 10 August 2016	-	-	-	-	-	-	-
Charge for the period	-	-	3,578	96,768	-	-	100,346
Balance at 31 December 2016	-	-	3,578	96,768	-	-	100,346
Charge for the year	1,092,766	254,773	165,238	1,861,732	-	2,388,639	5,763,148
On disposal / write-off	-	-	-	(4,361)	-	-	(4,361)
Balance at 31 December 2017	1,092,766	254,773	168,816	1,954,139	-	2,388,639	5,859,133
Net book value:							
-At 31 December 2017	5,827,778	2,292,961	982,514	5,449,637	567,450	14,628,578	29,748,918
- At 31 December 2016	-	-	211,108	1,659,858	956,638	-	2,827,604
Depreciation rates per annum	20%	20%	20%	33.33%	-	20%	

		Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
4.1	**Capital work in progress**			
	Leasehold improvements		567,450	956,638

5 INTANGIBLE ASSETS

	31 December 2017 (Rupees)	31 December 2016 (Rupees)
Cost		
Opening balance	-	-
Additions during the year / period	992,000	-
Closing balance	992,000	-
Amortization		
Opening balance	-	-
Charge for the year / period	137,778	-
Closing balance	137,778	-
Net book value	854,222	-
Amortization rate per annum	33.33%	-

6 ADVANCES FOR CAPITAL EXPENDITURES

	Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
Leasehold improvements		-	3,048,191
Advance for purchase of fixed assets	6.1	1,611,000	898,973
		1,611,000	3,947,164

6.1 This represent advance given to supplier for the purchase of a vehicle.

7 FINANCING - Net

Financing to microfinance institutions (secured) - Markup bearing

		31 December 2017		31 December 2016	
	Note	Number of loans outstanding	Amount outstanding (Rupees)	Number of loans outstanding	Amount outstanding (Rupees)
		26	11,496,000,000	-	-
Less:					
General provision	7.1	26	(114,960,000)	-	-
Specific provision	7.2	-	-		
Current maturity			(4,241,451,812)	-	-
			7,139,588,188		-

7.1 General provision is maintained at 1% (31 December 2016: Nil) of the outstanding balance of financing net of specific provision.

7.2 Particulars of non-performing financing

Category of classification	Provision rate	31 December 2017 Amount outstanding	31 December 2017 Provisions required	31 December 2017 Provisions held	31 December 2016 Amount outstanding	31 December 2016 Provisions required	31 December 2016 Provisions held
			(Rupees)			(Rupees)	
Other assets especially mentioned (OAEM)	-	-	-	-	-	-	-
Sub-standard	25%	-	-	-	-	-	-
Doubtful	50%	-	-	-	-	-	-
Loss	100%	-	-	-	-	-	-
		-	-	-	-	-	-

7.3 Particulars of provision against non-performing financing

	31 December 2017 Specific	31 December 2017 General	31 December 2017 Total	31 December 2016 Specific	31 December 2016 General	31 December 2016 Total
		(Rupees)			(Rupees)	
Opening balance	-	-	-	-	-	-
Provision charged for the year / period	-	114,960,000	114,960,000	-	-	-
Closing balance	-	114,960,000	114,960,000	-	-	-

7.4 General provision against non-performing financing

	For the year ended 31 December 2017	For the period from 10 August 2016 to 31 December 2016
	(Rupees)	(Rupees)
Charge for the year / period	114,960,000	-

		Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
8	**LONG TERM ADVANCES AND DEPOSITS - Considered good**			
	Advances to employees	8.1	18,619,076	-
	Less: Current portion		(14,602,241)	-
			4,016,835	-
	Security deposits	8.2	5,461,283	4,724,470
			9,478,118	4,724,470

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

8.2 These represent security deposits against rented premises and employee fuel cards.

		Net balance at 01 January	Recognized in Profit and loss account (note 28)	Recognized in Other comprehensive income	Net balance at 31 December
9	DEFERRED TAX ASSET		(Rupees)		
	31 December 2017				
	Taxable temporary differences				
	Property and equipment	-	(719,806)	-	(719,806)
		-	(719,806)	-	(719,806)
	Deductible temporary differences				
	Intangible assets	-	5,730	-	5,730
	Staff retirement benefits - gratuity	-	2,584,100	(406,736)	2,177,364
	Pre-incorporation expenses	-	10,092,472	-	10,092,472
	Financing - net	-	34,488,000	-	34,488,000
		-	47,170,302	(406,736)	46,763,566
		-	46,450,496	(406,736)	46,043,760

		Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
10	**ADVANCES, PREPAYMENTS AND OTHER RECEIVABLE - Considered good**			
	Advances			
	- Supplier	10.1	3,142,000	2,421,096
	- Employees	10.2	52,000	40,000
	- Current portion of long term advances to employees	8	14,602,241	-
			17,796,241	2,461,096
	Prepayments			
	- Rent	10.3	18,894,293	18,334,130
	- Insurance		1,865,298	-
	- Subscriptions		503,582	-
			21,263,173	18,334,130
	Other receivable	10.4	1,808,500	-
			40,867,914	20,795,226

KPMG

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

10.2 These represent advances given to employees for official purposes.

10.3 This represent prepaid rent of Islamabad and Karachi offices.

10.4 This represents amount due from vehicle supplier, pursuant to cancellation of booking of the vehicle.

			31 December 2017	31 December 2016
11	**MARKUP ACCRUED - RECEIVABLE**	Note	**(Rupees)**	(Rupees)
	Term deposit certificates		**4,054,653**	3,348,712
	Profit on deposit accounts		**71,288**	-
	Reverse repo transactions		-	1,586,292
	Markup on financing	**11.1**	**171,933,197**	-
			176,059,138	4,935,004

11.1 This represents markup accrued on financing to microfinance institution as mentioned in note - 7 to these financial statements.

			31 December 2017	31 December 2016
12	**DUE FROM RELATED PARTIES - Unsecured**	Note	**(Rupees)**	(Rupees)
	Service fee receivable	12.1	**128,296,177**	12,071,264
	Grant income receivable	12.2	**6,596,245**	-
			134,892,422	12,071,264

12.1 This represents amount due from Pakistan Poverty Alleviation Fund (an associated undertaking) including sales tax of Rs. 17,696,024 (31 December 2016: Nil) in respect of certain monitoring services provided by the Company under an agreement.

12.2 Grant income is recognised under the agreement with Kreditanstalt für Wiederaufbau (KfW), a German development company (an associated undertaking) dated 30 November 2016 for institutional capacity building of the Company including staff trainings ("technical assistance or TA") incurred till 31 December 2018. Current year grant represents expenses claimed from Kfw pertaining to consultancy services and trainings (local and international).

13 LENDING TO FINANCIAL INSTITUTIONS

These represent Market Treasury Bills (T-bills) and Pakistan Investment Bonds (PIBs) purchased in previous year under a resale agreement. During the current year, all the T-bills and PIBs have matured.

			31 December 2017	31 December 2016
14	**SHORT-TERM INVESTMENTS**	Note	**(Rupees)**	(Rupees)
	Term deposit certificates with commercial banks	14.1	**950,000,000**	2,350,000,000

14.1 These carry markup rates ranging from 6.65% to 7.50% (31 December 2016: 6.35% to 6.37%) per annum having maturity period ranging from one month to six months (31 December 2016: one month) from the date of investment.

			31 December 2017	31 December 2016
15	**PROVISION FOR TAX / ADVANCE TAX - Net**	Note	**(Rupees)**	(Rupees)
	Opening balance		**749,330**	-
	Income tax charge for the year / period	28	**(80,080,355)**	(1,015,051)
	Income tax paid / withheld during the year / period		**78,005,702**	1,764,381
	Closing balance		**(1,325,323)**	749,330

		Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
16	**CASH AND BANK BALANCES**			
	Cash in hand		22,097	97,250
	Cash at banks - Local currency			
	- Deposit accounts	16.1	66,725,843	256,684,599
	- Current account		650	-
			66,726,493	256,684,599
			66,748,590	256,781,849

16.1 These represent deposit accounts with commercial banks carrying markup ranging from 3.75% to 5.40% (31 December 2016: 4.92%) per annum.

		31 December 2017 (Rupees)	31 December 2016 (Rupees)
17	**SHARE CAPITAL**		
	Authorized share capital		
	6,500,000 ordinary shares of Rs.1,000 each	6,500,000,000	6,500,000,000

17.1 **Issued, subscribed and paid up share capital**

31 December 2017 (Number of shares)	31 December 2016 (Number of shares)		31 December 2017 (Rupees)	31 December 2016 (Rupees)
5,884,222	5,884,222	Ordinary shares of Rs.1,000 each fully paid in cash	5,884,222,000	5,884,222,000

17.2 The pattern of shareholding of the Company at respective reporting dates is as follows:

Shareholders	Nature of relationship	Number of shares 31 December 2017	Number of shares 31 December 2016	Percentage of shareholding 31 December 2017	Percentage of shareholding 31 December 2016
Pakistan Poverty Alleviation Fund	Associated undertaking	2,883,256	2,883,256	49.00%	49.00%
Karandaaz Pakistan	Associated undertaking	2,224,243	2,224,242	37.80%	37.80%
Kreditanstalt für Wiederaufbau (KfW)	Associated undertaking	776,719	776,719	13.20%	13.20%
Directors	Director	4	5	0.00%	0.00%
Total		5,884,222	5,884,222	100.00%	100.00%

		31 December 2017 (Rupees)	31 December 2016 (Rupees)
18	**SUBORDINATED LOAN - Unsecured**		
	Pakistan Poverty Alleviation fund - an associated undertaking	6,700,000,000	-
	Current portion of subordinated loan	(19,361,770)	-
		6,680,638,230	-

18.1 This represents the outstanding balance of subordinated loan, under the agreement between Pakistan Poverty Alleviation Fund (an associated undertaking) and the Company dated 17 November 2016, currently carrying markup of 6-months KIBOR plus 1% per annum payable quarterly (31 December 2016: Nil). As per the agreement, the markup rate is to be revised downwards subject to fulfillment of certain specified conditions including securing investment grade rating by the Company. This condition has been met by the Company in October 2017 when PACRA assigned investment grade rating to the Company as mentioned in note 1 to the financial statements. This loan is repayable in quarterly installments commencing from October 2018.

			31 December 2017	31 December 2016
19	**DEFERRED LIABILITIES**		**(Rupees)**	(Rupees)
	Staff retirement benefits - gratuity		**7,257,880**	-

Company operates an unfunded gratuity scheme for its employees, details of which are as follows:

Movement in the liability recognised in the balance sheet	Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
Opening balance		-	-
Charge for the year / period recognised in profit and loss account	19.1	8,713,667	-
Payments made during the year / period		(100,000)	-
Remeasurement recognised in other comprehensive income	19.2	(1,355,787)	-
Closing balance		7,257,880	-

Reconciliation of liability recognised in the balance sheet

Present value of defined benefit obligation	7,257,880	-

19.1 Charge for the year / period recognised in profit and loss account

Current service cost	8,719,042	-
Markup cost	(5,375)	-
	8,713,667	-

19.2 Remeasurement recognised in other comprehensive income

Actuarial gain on obligation	(1,355,787)	-

The latest actuarial valuation was carried out on 31 December 2017 using projected unit credit method.

19.3 Actuarial assumptions	31 December 2017	31 December 2016
Discount rate	10.75%	
Expected increase in eligible salary	10.75%	-
Duration (years)	15.63	-
Normal retirement age (years)	60	-
Effective salary increase date	01 January 2018	-
Mortality rate	SLIC 2001-2005	-

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

Risks associated with defined benefit plan

Salary risk- (linked to inflation risk)

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

Demographic risks

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

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

20	TRADE AND OTHER PAYABLES	Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
	Creditors		4,004,074	29,626
	Accrued expenses	20.1	37,165,294	7,665,024
	Payable to employees		542,217	-
	Payable to provident fund	20.2	10,544,638	-
	Payable to related parties	20.3	47,282	89,710,176
	Income tax deducted at source		311,119	2,677,742
	Sales tax payable		17,696,024	-
			70,310,648	100,082,568

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

20.2 This represent payable to provident fund which was established during the year and became operational subsequent to year.

20.3 Payable to related parties

Pakistan Poverty Alleviation Fund	47,282	70,901,623
Karandaaz Pakistan	-	18,808,553
	47,282	89,710,176

20.3.1 These are unsecured, markup free and repayable on demand.

21 MARKUP ACCRUED - PAYABLE

Markup on subordinated loan	21.1	89,077,246	-

21.1 This represents markup payable to Pakistan Poverty Alleviation Fund (an associated undertaking) in respect of subordinated loan under an agreement.

22 CONTINGENCIES AND COMMITMENTS

22.1 Contingencies

There are no material contingencies at the reporting date (31 December 2016: Nil).

22.2	Commitments	Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
	For capital expenditure	22.2.1	378,300	13,356,528
	Related to purchase of services		-	413,538
			378,300	13,770,066

22.2.1 This represents contractual commitments of Rs. 378,300 (31 December 2016: Rs. 13,356,526) to supplier in respect of leasehold improvements.

		Note	For the year ended 31 December 2017	For the period from 10 August 2016 to 31 December 2016
23	**INCOME - NET**		**(Rupees)**	(Rupees)
	Income from term deposit certificates		**33,337,315**	3,348,712
	Markup on reverse repo transactions	**23.1**	**172,459,551**	1,586,292
	Markup on financing	**23.2**	**396,543,449**	-
	Service fee	**23.3**	**98,528,889**	12,071,264
			700,869,204	17,006,268

23.1 This represents markup on reverse repo transactions as mentioned in note - 13 to these financial statements.

23.2 This represents markup on financing to microfinance institutions as mentioned in note - 7 to these financial statements.

23.3 This is net of sales tax of Rs. 17,696,024 (for the period from 10 August 2016 to 31 December 2016: Nil) and represents service fee income from Pakistan Poverty Alleviation Fund (an associated undertaking) in respect of certain monitoring services provided by the Company under an agreement.

		Note	For the year ended 31 December 2017	For the period from 10 August 2016 to 31 December 2016
24	**FINANCE COST**		**(Rupees)**	(Rupees)
	Markup on subordinated loan	**24.1**	**148,073,757**	-
	Bank charges		**110,456**	2,800
			148,184,213	2,800

24.1 This represent markup on subordinated loan from Pakistan Poverty Alleviation Fund (PPAF) as mentioned in note - 18 to these financial statements.

		Note	For the year ended 31 December 2017	For the period from 10 August 2016 to 31 December 2016
25	**ADMINISTRATIVE EXPENSES**		**(Rupees)**	(Rupees)
	Salaries, wages and other benefits	25.1	**147,225,696**	16,981,281
	Directors' fee		**5,400,000**	1,050,000
	Utilities		**2,240,560**	30,469
	Telecommunication and postage		**1,667,593**	159,972
	Rent, rates, licenses and taxes		**28,107,660**	9,912,690
	Printing and stationery		**1,214,182**	243,825
	Traveling and conveyance	25.2	**16,614,538**	1,808,677
	Repair and maintenance		**5,341,971**	199,707
	Legal and professional fees		**4,940,136**	3,192,904
	Advertisement and promotion		**4,519,209**	826,221
	Trainings and workshops		**7,671,343**	859,338
	Auditors' remuneration	25.3	**1,100,000**	500,000
	Consultancy and outsourcing arrangements	25.4	**17,303,568**	6,451,626
	Depreciation	4	**5,763,148**	100,346
	Amortization	5	**137,778**	-
	Insurance		**1,617,885**	18,932
	Office supplies and meeting expenses		**3,891,252**	1,973,493
	IT expenses		**921,117**	-
	Membership and subscription charges		**426,981**	-
	Miscellaneous		**23,924**	23,850
	Pre-incorporation expenses		-	56,069,286
			256,128,541	100,402,617

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25.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 19,258,305 (for the period from 10 August 2016 to 31 December 2016: Nil)

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

	Note	For the year ended 31 December 2017	For the period from 10 August 2016 to 31 December 2016
25.3 Auditors' remuneration		**(Rupees)**	(Rupees)
Audit fee		**700,000**	500,000
Certification fee		**350,000**	-
Out of pocket expenses		**50,000**	-
		1,100,000	500,000

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

26 OTHER OPERATING EXPENSES

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

	Note	For the year ended 31 December 2017	For the period from 10 August 2016 to 31 December 2016
27 OTHER INCOME		**(Rupees)**	(Rupees)
Income from financial assets			
Profit on deposit accounts		**12,140,768**	16,936,691
Income from non-financial assets			
Grant income (KfW)	27.1	**6,596,245**	-
Others		**46,719**	-
		18,783,732	16,936,691

27.1 Grant income is recognised under the agreement with Kreditanstalt für Wiederaufbau (KfW), a German development company (an associated undertaking) dated 30 November 2016 for institutional capacity building of the Company including staff trainings ("technical assistance or TA") incurred till 31 December 2018. Current year grant represents expenses claimed from Kfw pertaining to consultancy services and trainings (local and international).

		Note	For the year ended 31 December 2017 (Rupees)	For the period from 10 August 2016 to 31 December 2016 (Rupees)
28	**Taxation**			
	Provision for tax			
	Current tax for the year / period	15	80,080,355	1,015,051
	Deffered tax	9	(46,450,496)	-
			33,629,859	1,015,051

		Note	For the year ended 31 December 2017 (Rupees)	For the period from 10 August 2016 to 31 December 2016 (Rupees)
28.1	**Reconciliation between tax on accounting profit / (loss) and tax expense**			
	Accounting profit / (loss) for the year / period before tax		185,309,302	(66,462,458)
	Applicable tax rate		30%	31%
	Tax charge		55,592,791	(20,603,362)
	Tax effect of minimum tax charged		-	1,015,051
	Tax effect of permenant differences		4,029	615,275
	Tax effect of exempt income		(1,978,874)	-
	Effect od deferred tax asset not previously recognized		(19,988,087)	
	Deferred tax asset not recognized		-	19,988,087
			33,629,859	1,015,051

29 CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES

	Note	For the year ended 31 December 2017 (Rupees)	For the period from 10 August 2016 to 31 December 2016 (Rupees)
Profit / (loss) before taxation		185,309,302	(66,462,458)
Adjustments for:			-
Depreciation	4	5,763,148	100,346
Amortization	5	137,778	-
General provision	7.4	114,960,000	-
Provision for staff retirement benefit - gratuity	19.1	8,713,667	-
Income from term deposit certificates	23	(33,337,315)	(3,348,712)
Markup on reverse repo transactions	23	(172,459,551)	(1,586,292)
Markup on financing	23	(396,543,449)	-
Service fee	23	(98,528,889)	(12,071,264)
Finance cost	24	148,184,213	2,800
Loss on disposal of asset	26	11,339	-
Profit on deposit accounts	27	(12,140,768)	(16,936,691)
Grant income (KfW)	27	(6,596,245)	-
		(256,526,770)	(100,302,271)

30 REMUNERATION OF CHIEF EXECUTIVE AND DIRECTORS

	Note	For the year ended 31 December 2017 (Rupees)		For the period from 10 August 2016 to 31 December 2016 (Rupees)	
		Chief Executive	**Directors**	Chief Executive	Directors
Salaries and other benefits		**26,463,500**	-	8,029,032	-
Contribution to provident fund		**2,126,923**	-	-	-
Gratuity		**1,900,000**	-	-	-
Meeting fee	30.3	-	**5,400,000**	-	1,050,000
		30,490,423	**5,400,000**	8,029,032	1,050,000
Number of persons		**1**	**2**	1	2

30.1 In addition to the above, Chief Executive is provided with other perquisites as per the Company's policy.

30.2 The Chief Executive of the Company resigned during the year in August 2017 and new Chief Executive was appointed by the Board effective from the same date.

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

31 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 8.1, 10.2, 12, 17, 18, 19, 20 and 21 to these financial statements. Transactions with related parties are as follows:

	Note	For the year ended 31 December 2017 (Rupees)	For the period from 10 August 2016 to 31 December 2016 (Rupees)
Transactions with associated undertakings			
Issue of share capital		-	5,884,222,000
Service fee charged during the year / period		116,224,913	12,071,264
Grant income recognised during the year / period		6,596,245	-
Subordinated loan received during the year / period		6,700,000,000	-
Markup on subordinated loan charged during the year / period		148,073,757	-
Markup on subordinated loan paid during the year / period		58,996,511	-
Payments made to associated undertakings		89,920,403	
Payments made on behalf of the Company by associated undertakings		257,509	
Pre incorporation expenses incurred on behalf of the Company		-	56,069,286
Post incorporation expenses incurred on behalf of the Company		-	23,618,444
Transactions with other related parties			
Employee contribution payable to provident fund		5,272,319	-
Employer contribution payable to provident fund		5,272,319	-
Transactions with key management personnel			
Remuneration and allowance including staff retirement benefits	31.1	89,264,578	6,248,387

		For the year ended 31 December 2017	For the period from 10 August 2016 to 31 December 2016
31.1	**Compensation to key management personnel**	(Rupees)	(Rupees)
	Salaries and other benefits	79,321,757	6,248,387
	Contribution to provident fund	4,812,186	-
	Gratuity	5,130,635	-
		89,264,578	6,248,387
	Number of persons	29	3

31.1.1 Key management personnel includes employees, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

31.1.2 Remuneration of Chief Executive is disclosed in note 30.

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

	Liabilities	Reserves	
	Subordinated loan	Unappropriated profit	Total
		Rupees	
Balance at 01 January 2017	-	(67,477,509)	(67,477,509)
Changes from financing cashflows			
Proceeds from subordinated loan	6,700,000,000	-	6,700,000,000
Total changes from financing cash flows	6,700,000,000	-	6,700,000,000
Total equity-related other changes	-	152,628,494	152,628,494
Balance at 31 December 2017	6,700,000,000	85,150,985	6,785,150,985

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33 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

33.1 Classifications and fair values

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

On-balance sheet financial instruments		31 December 2017						
					Fair value			
		Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2017	Note			(Rupees)				
Financial assets not measured at fair value	33.2							
Financing - net	7	11,381,040,000	-	11,381,040,000	-	-	-	-
Long term advances and deposits	8	24,080,359	-	24,080,359	-	-	-	-
Advances, prepayments and other receivable	10.4	1,808,500	-	1,808,500	-	-	-	-
Markup accrued - receivable	11	176,059,138	-	176,059,138	-	-	-	-
Due from related parties	12	134,892,422	-	134,892,422	-	-	-	-
Short-term investments	14	950,000,000	-	950,000,000	-	-	-	-
Cash and bank balances	16	66,748,590	-	66,748,590	-	-	-	-
		12,734,629,009	-	12,734,629,009	-	-	-	-
Financial liabilities not measured at fair value	33.2							
Subordinated loan	18	-	6,700,000,000	6,700,000,000	-	-	-	-
Trade and other payables	20 & 33.3	-	15,138,211	15,138,211	-	-	-	-
Markup accrued - payable	21	-	89,077,246	89,077,246	-	-	-	-
		-	6,804,215,457	6,804,215,457	-	-	-	-

On-balance sheet financial instruments		31 December 2016						
					Fair value			
		Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2016	Note			(Rupees)				
Financial assets not measured at fair value	33.2							
Long term advances and deposits	8	4,724,470	-	4,724,470	-	-	-	-
Markup accrued - receivable	11	4,935,004	-	4,935,004	-	-	-	-
Due from related parties	12	12,071,264	-	12,071,264	-	-	-	-
Lending to financial institutions		3,259,995,148	-	3,259,995,148	-	-	-	-
Short-term investments	14	2,350,000,000	-	2,350,000,000	-	-	-	-
Cash and bank balances	16	256,781,849	-	256,781,849	-	-	-	-
		5,888,507,735	-	5,888,507,735	-	-	-	-
Financial liabilities not measured at fair value	33.2							
Trade and other payables	20 & 33.3	-	89,739,802	89,739,802	-	-	-	-
		-	89,739,802	89,739,802	-	-	-	-

33.2 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.

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

33.4 Measurement of fair values

All financial assets and financial liabilities are initially recognized at fair value of consideration paid or received, net of transaction costs as appropriate. The financial assets and liabilities of the Company approximate their carrying values. A number of Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

i. Non - derivative financial assets

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

ii. Non - derivative financial liabilities

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

B FINANCIAL RISK MANAGEMENT

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

Risk management framework

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

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

33.5 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.

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i. Concentration of credit

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

	Note	31 December 2017 (Rupees)	31 December 2016 (Rupees)
Financing - net	7	11,381,040,000	-
Long term advances and deposits	8	24,080,359	4,724,470
Advances, prepayments and other receivable	10.4	1,808,500	-
Markup accrued - receivable	11	176,059,138	4,935,004
Due from related parties	12	134,892,422	12,071,264
Lending to financial institutions	13	-	3,259,995,148
Short-term investments	14	950,000,000	2,350,000,000
Cash at bank	16	66,726,493	256,684,599
		12,734,606,912	5,888,410,485

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 2017 (Rupees)	31 December 2016 (Rupees)
Related parties	134,892,422	12,071,264
Banks and financial institutions	12,573,825,631	5,871,614,751
Others	25,888,859	4,724,470
	12,734,606,912	5,888,410,485

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% of outstanding balance of financing, net of specific provision.

The movement in provision in respect of financing during the year was as follows:

	Note	For the year ended 31 December 2017 (Rupees)	For the period from 10 August 2016 to 31 December 2016 (Rupees)
Opening balance		-	-
Provision made during the year	7.4	(114,960,000)	-
Closing balance		(114,960,000)	-

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) and JCR - VIS Credit Rating Company Limited (JCR - VIS).

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

	Ratings	31 December 2017 (Rupees)	31 December 2016 (Rupees)
Financing - net			
Counterparties with credit rating	BBB+	3,400,000,000	-
Counterparties without credit rating		8,096,000,000	-
		11,496,000,000	-
Long term advances and deposits			
Counterparties without credit rating		24,080,359	4,724,470
Advances, prepayments and other receivable			
Counterparties without credit rating		1,808,500	-
Markup accrued - receivable			
Counterparties with credit rating	AAA	510,136	-
Counterparties with credit rating	A+	3,544,517	4,935,004
Counterparties with credit rating	A1+	71,288	-
Counterparties with credit rating	A-3	53,345,753	-
Counterparties without credit rating		118,587,444	-
		176,059,138	4,935,004
Due from related parties			
Counterparties with credit rating	AA+	6,596,245	-
Counterparties without credit rating		128,296,177	12,071,264
		134,892,422	12,071,264
Lending to financial institutions			
Counterparties with credit rating	A1+	-	3,259,995,148
Short-term investments			
Counterparties with credit rating	A	250,000,000	-
Counterparties with credit rating	AA+	700,000,000	2,350,000,000
		950,000,000	2,350,000,000
Cash at bank			
Counterparties with credit rating	A1+	64,865,568	256,684,599
Counterparties with credit rating	A1	1,860,925	-
		66,726,493	256,684,599

komor

33.6 Liquidity risk

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

Exposure to liquidity risk

There were no defaults on loans payable during the year.

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

	Carrying amount	Contractual cash flows	Maturity up to one year	Maturity after one year and up to five years	Maturity after five years
			(Rupees)		
31 December 2017					
Subordinated loan	6,700,000,000	9,724,466,995	472,995,772	5,216,874,866	4,034,596,357
Trade and other payables	15,138,211	15,138,211	15,138,211	-	-
Markup accrued - payable	89,077,246	89,077,246	-	-	-
	6,804,215,457	9,828,682,452	488,133,983	5,216,874,866	4,034,596,357
31 December 2016					
Trade and other payables	89,739,802	89,739,802	89,739,802	-	-
	89,739,802	89,739,802	89,739,802	-	-

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 loan have been determined on the basis of expected mark up rates. The mark up rates have been disclosed in note 18 to these financial statements.

33.7 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.

33.7.1 Foreign currency risk

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

33.7.2 Markup rate risk

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

i. Exposure to markup rate risk

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

	31 December 2017 Effective rate %	31 December 2016 Effective rate %	**31 December 2017 (Rupees)**	31 December 2016 (Rupees)
Fixed rate instruments				
Financial assets	**3.75 - 7.5**	4.2 - 6.37	**1,016,726,493**	5,866,679,747
Variable rate instruments				
Financial assets	**KIBOR + 1 to 3.5**	Nil	**11,496,000,000**	-
Financial liabilities			**(6,700,000,000)**	-
			4,796,000,000	-

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 markup rates at the reporting date would not effect profit or loss account.

iii. Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in markup rates at the reporting date would have increased / (decreased) markup income by Rs. 42.262 million and increased / (dereased) markup expense by Rs. 20.709 million (for the period from 10 August 2016 to 31 December 2016: Nil). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for previous period.

33.7.3 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.

33.7.4 Equity price risk

Equity price risk is the risk of loss arising from movement in prices of equity investments. The Company is not exposed to any equity price risk, as the Company does not have any investment in equity shares at the reporting date.

33.8 Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its business. The Company manages its capital structure which comprises capital and reserves by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions to maximize the return. In order to maintain or adjust the optimal capital structure, the Company may adjust the amount of dividend paid to shareholders, appropriation of amounts to capital reserves or / and issue new shares.

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 2016: 100 million). As at 31 December 2017, the Company's total equity is Rs. 5,943 million (31 December 2016: 5,817 million).

34 EMPLOYEES' PROVIDENT FUND

34.1 At the reporting date, the contributions to provident fund have been placed in a bank account designated for this purpose.

35 NUMBER OF EMPLOYEES	**31 December 2017**	31 December 2016
Number of employees at year / period end	30	23
Average number of employees	15	6

36 GENERAL

36.1 Following comparatives have been reclassified to conform to the presentation adopted in the current year:

Reclassified from	Note	Amount **(Rupees)**
Trade and other payables - Payable to related parties	12	**12,071,264**
Reclassified to		
Due from related parties	20	**(12,071,264)**

36.2 Current year financial statements of the Company represent activities for the year ended 31 December 2017, whereas comparative figures represent activities for the period from 10 August 2016 to 31 December 2016, therefore comparatives are not comparable.

36.3 These financial statements were authorized for issue by the Board of Directors of the Company in its meeting held on 13 March 2018.

CHIEF EXECUTIVE OFFICER **DIRECTOR**