KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants

Pakistan Microfinance Investment Company (PMIC) Limited

Financial Statements

For the year ended 31 December 2018

Pakistan Microfinance Investment Company Limited
Statement of Financial Position
As at 31 December 2018

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
NON-CURRENT ASSETS			
Property and equipment	4	**26,103,984**	29,748,918
Intangible assets	5	**523,553**	854,222
Advance for capital expenditure		**-**	1,611,000
Financing - net	6	**8,894,884,583**	7,139,588,188
Long term advances and deposits	7	**9,781,528**	9,478,118
Deferred tax asset	8	**71,925,709**	46,043,760
		9,003,219,357	7,227,324,206
CURRENT ASSETS			
Advances, prepayments and other receivable	9	**37,903,614**	40,867,914
Markup accrued - receivable	10	**513,952,339**	176,059,138
Due from related parties	11	**9,256,300**	134,892,422
Short-term investments	12	**825,000,000**	950,000,000
Advance tax - net	13	**2,519,247**	-
Current portion of financing	6	**11,638,516,667**	4,241,451,812
Cash and bank balances	14	**56,366,945**	66,748,590
		13,083,515,112	5,610,019,876
TOTAL ASSETS		**22,086,734,469**	12,837,344,082
SHARE CAPITAL AND RESERVES			
Share capital	15	**5,884,222,000**	5,884,222,000
Unappropriated profit		**361,160,457**	85,150,985
		6,245,382,457	5,969,372,985
NON-CURRENT LIABILITIES			
Subordinated loans	16	**12,346,699,884**	6,680,638,230
Loans and borrowings	17	**1,783,333,333**	-
Employee benefits	18	**12,241,552**	7,257,880
		14,142,274,769	6,687,896,110
CURRENT LIABILITIES			
Short term borrowings	19	**99,236,997**	-
Trade and other payables	20	**45,395,158**	70,310,648
Deferred grant	21	**4,000,000**	-
Provision for tax - net	13	**-**	1,325,323
Markup accrued - payable	22	**290,840,075**	89,077,246
Current portion of subordinated loans	16	**1,142,938,346**	19,361,770
Current portion of loans and borrowings	17	**116,666,667**	-
		1,699,077,243	180,074,987
TOTAL EQUITY AND LIABILITIES		**22,086,734,469**	12,837,344,082
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 37 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 2018

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Income - gross	24	**1,739,127,088**	730,705,996
Sales tax	24	**(165,517)**	(17,696,024)
Income - net		**1,738,961,571**	713,009,972
Finance cost	25	**(925,627,592)**	(148,184,213)
		813,333,979	564,825,759
General provision	6.3	**(115,888,750)**	(114,960,000)
		697,445,229	449,865,759
Administrative expenses	26	**(307,471,550)**	(256,128,541)
Other expenses	27	**(7,870,222)**	(15,070,880)
		(315,341,772)	(271,199,421)
Other income	28	**16,669,917**	6,642,964
Profit before taxation		**398,773,374**	185,309,302
Income tax expense	29	**(121,919,981)**	(33,629,859)
Profit for the year		**276,853,394**	151,679,443

The annexed notes 1 to 37 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 2018

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Profit for the year		**276,853,394**	151,679,443
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss			
Re-measurement of defined benefit liability - gratuity	**18.2.2**	**(1,172,112)**	1,355,787
Related tax		**328,191**	(406,736)
Other comprehensive (loss) / income - net of tax		**(843,921)**	949,051
Total comprehensive income for the year		**276,009,473**	152,628,494

The annexed notes 1 to 37 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 2018

	Share Capital	Revenue reserve - unappropriated profit	Total equity
		(Rupees)	
Balance at 01 January 2017	**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**
Total comprehensive income for the year			
Profit for the year	-	**276,853,394**	**276,853,394**
Other comprehensive (loss) / income for the year - net of tax	-	**(843,921)**	**(843,921)**
Total comprehensive income for the year	-	**276,009,473**	**276,009,473**
Balance at 31 December 2018	**5,884,222,000**	**361,160,457**	**6,245,382,457**

The annexed notes 1 to 37 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 2018

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities before working capital changes	30	(310,573,123)	(256,526,770)
Changes in working capital:			
Financing - net	6	(9,268,250,000)	(11,496,000,000)
Long term advances and deposits	7	(303,410)	(4,753,648)
Advances, prepayments and other receivable	9	3,531,753	(20,072,688)
Lending to financial institutions		-	3,259,995,148
Due from related party		(776,819)	-
Short-term investments	12	125,000,000	1,400,000,000
Trade and other payables	20	(24,915,490)	(47,467,944)
		(9,165,713,967)	(6,908,299,132)
Cash used in operations		(9,476,287,090)	(7,164,825,902)
Taxes paid		(151,318,308)	(78,005,702)
Finance cost paid		(723,864,763)	(59,106,967)
Staff retirement benefit - gratuity paid		(15,925,720)	(100,000)
Receipt of markup on financing		1,278,125,327	224,610,252
Receipt of profit on term deposit certificates		54,752,322	32,631,374
Receipts of profit on deposit accounts		25,453,393	12,069,480
Receipt of markup on reverse repo transactions		67,156,238	174,045,843
Receipt of insurance claim on disposal of asset		-	62,800
Service fee received		128,296,177	-
Grant income		18,480,767	-
Net cash used in operating activities		(8,795,131,658)	(6,858,618,822)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	4	(5,736,213)	(32,758,601)
Purchase of intangible assets		-	(992,000)
Advances for capital expenditure		1,611,000	2,336,164
Net cash used in investing activities		(4,125,213)	(31,414,437)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of loans and borrowings		1,900,000,000	-
Receipt of short term borrowings		99,236,997	-
Receipt of subordinated loans - net		6,789,638,230	6,700,000,000
Net cash generated from financing activities		8,788,875,227	6,700,000,000
Net decrease in cash and cash equivalents		(10,381,645)	(190,033,259)
Cash and cash equivalents at beginning of the year		66,748,590	256,781,849
Cash and cash equivalents at end of the year		56,366,945	66,748,590

The annexed notes 1 to 37 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

1. CORPORATE AND GENERAL INFORMATION

1.1. Legal status and operations

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

The Company is setup jointly by Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan and KfW, a German development company, to catalyze and lead the next phase of growth in the microfinance sector of Pakistan. The purpose of the Company is to provide a wide range of financial services, including wholesale funding to microfinance institutions and microfinance banks 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 2018.

1.2. Summary of significant transactions and events

The Company's financial position and performance was particularly affected by the following events and transactions during the year:

- Due to the first time application of financial reporting requirements under the Companies Act, 2017 including disclosure and presentation requirements of the fifth schedule of the Companies Act, 2017, certain additional disclosures are made in these financial statements to comply with the requirements of the Act.

- The Company obtained Rs. 1.9 billion in the form of long term loans from banks.

- The Company obtained subordinated loans amounting to Rs. 6.8 billion.

2. BASIS OF PREPARATION

2.1. Statement of compliance

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

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

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

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

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

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

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

2.2.1 Accounting convention

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.

2.2.2 Functional and presentation currency

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

2.3 Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised 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 year ended 31 December 2018 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 5 - useful lives, residual values and amortization method of intangible assets;
(iii)
(iv) Note 3.4 and 18 - measurement of defined benefit obligations: key actuarial assumptions;
(v) Note 22 recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and; and
(vi) Note 3.8, 13 and 28 - recognition of deferred tax assets and estimation of income tax provision

2.4 Measurement of fair values

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

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

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

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

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

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

Standards, interpretations and amendments to the approved accounting standards

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2019:

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 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. The Company is currently in the process of analyzing the potential impact of changes required.

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 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 1 July 2018 and 1 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. As stated above, the SECP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' through Circular No. 19 dated 13 August 2003, therefore it is not clear as of now whether the IFRS 9 would be applicable to the Company or not.

- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The Company is currently in the process of analyzing the potential impact of its lease arrangements that will result in recognition of right to use assets and liabilities 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 1 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.

- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Company's financial statements.

- Amendment to IFRS 3 *'Business Combinations'* – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Standards.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

- 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.

The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Company's 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:

The Companies Act, 2017 specified certain additional disclosures to be made in the financial statements. The Company has presented the required disclosures in these financial statements to comply with the requirements of the Act. However, there was no change in the reported amounts of assets, liabilities, profit and other comprehensive income due to this change.

3.1 Property and equipment

3.1.1 Owned

Recognition and measurement

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

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

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

Subsequent expenditure

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

Depreciation

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

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

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

3.2 Intangible assets

Recognition and measurement

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

Subsequent expenditure

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

Amortization

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

3.3 Reverse repurchase agreements

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

3.4 Employee benefits

The accounting policies for employee benefits are described below:

3.4.1 Short-term employee benefits

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

3.4.2 Defined contribution plan – Provident fund

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

3.4.3 Defined benefit plans

The Company operates the following defined benefit plans:

Gratuity

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

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

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

Compensated leave absences

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

The Company recognises provision for compensated absences on the unveiled balance of privilege leaves of all its eligible employees.

3.5 Financial instruments

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

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

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

Financial Assets

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

Financial Liabilities

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

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

Derivative financial instruments

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

Offsetting of financial assets and financial liabilities

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

3.6 Share capital and dividend

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

3.7 Provisions

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

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

3.8 Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

3.9 Foreign currency transactions and translation

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

3.10 Finance income and finance cost

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

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

3.11 Revenue recognition

Mark-up / income on financing

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

Income from investment

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

Service fee

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

Income on bank deposits

Return on bank deposits are recognized on time proportionate basis.

3.12 Grant income

Restricted grant

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

3.13 Investments

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

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

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

Held for trading

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

Held to maturity

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

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

Available for sale

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

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

3.14 Financing

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

Other assets especially mentioned

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

Substandard

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

Doubtful

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

Loss

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

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

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

In addition to above, a general provision is maintained at 1% - 1.5% (31 December 2017: 1%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers.

3.15 Impairment

3.15.1 Financial assets:

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

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

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

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

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

3.15.2 Non-financial assets:

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

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

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

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

3.16 Contingent liabilities

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

3.17 Cash and cash equivalents

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

4 PROPERTY AND EQUIPMENT

	Office equipment	Computers	Furniture	Leasehold improvements	Vehicles	Capital work in progress	Total
					(Rupees)		
COST							
Balance at 01 January 2017	214,686	1,756,626	-	-	-	956,638	**2,927,950**
Additions	936,644	5,725,650	6,920,544	-	2,547,734	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	**1,151,330**	**7,403,776**	**6,920,544**	**17,017,217**	**2,547,734**	**567,450**	**35,608,051**
Additions	**2,071,175**	**1,362,629**	**470,502**	**52,053**	**1,779,854**	-	**5,736,213**
CWIP charged to expenses	-	-	-	-	-	**(567,450)**	**(567,450)**
Balance at 31 December 2018	**3,222,505**	**8,766,405**	**7,391,046**	**17,069,270**	**4,327,588**	-	**40,776,814**
ACCUMULATED DEPRECIATION							
Balance at 01 January 2017	3,578	96,768	-	-	-	-	**100,346**
Charge for the year	165,238	1,861,732	1,092,766	2,388,639	254,773	-	**5,763,148**
On disposal / write-off	-	(4,361)	-	-	-	-	**(4,361)**
Balance at 31 December 2017	**168,816**	**1,954,139**	**1,092,766**	**2,388,639**	**254,773**	-	**5,859,133**
Charge for the year	**422,944**	**2,846,431**	**1,425,141**	**3,404,309**	**714,872**	-	**8,813,697**
Balance at 31 December 2018	**591,760**	**4,800,570**	**2,517,907**	**5,792,948**	**969,645**	-	**14,672,830**
Carrying value - 31 December 2017	982,514	5,449,637	5,827,778	14,628,578	2,292,961	567,450	**29,748,918**
Carrying value - 31 December 2018	**2,630,745**	**3,965,835**	**4,873,139**	**11,276,322**	**3,357,943**	-	**26,103,984**
Depreciation rates per annum	**20%**	**33.33%**	**20%**	**20%**	**20%**	-	

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
5 INTANGIBLE ASSETS			
Cost	5.1		
Opening balance		992,000	-
Additions during the year		-	992,000
Closing balance		992,000	992,000
Amortization			
Opening balance		137,778	-
Charge for the year		330,669	137,778
Closing balance		468,447	137,778
Net book value		523,553	854,222
Amortization rate per annum		33%	33%

5.1 This represent accounting software of the Company.

6 FINANCING - NET

Financing to microfinance institutions and banks (secured) - Markup bearing

	Note	31 December 2018 Number	31 December 2018 (Rupees)	31 December 2017 Number	31 December 2017 (Rupees)
		43	20,764,250,000	26	11,496,000,000
Less:					
Provisions held:					
- General	6.1	-	(230,848,750)	-	(114,960,000)
- Specific	6.2	-	-	-	-
Current maturity		-	(11,638,516,667)	-	(4,241,451,812)
			8,894,884,583		7,139,588,188

6.1 General provision is maintained at 1% - 1.5% (31 December 2017: 1%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers.

6.2 Particulars of non-performing financing

	Provision rate	31 December 2018 Amount outstanding	31 December 2018 Provisions required	31 December 2018 Provisions held	31 December 2017 Amount outstanding	31 December 2017 Provisions required	31 December 2017 Provision held
			(Rupees)			(Rupees)	
Category of classification							
Other assets especially mentioned (OAEM)	0%	-	-	-	-	-	-
Sub-standard	25%	-	-	-	-	-	-
Doubtful	50%	-	-	-	-	-	-
Loss	100%	-	-	-	-	-	-
		-	-	-	-	-	-

6.3 Particulars of provision against non-performing financing

	31 December 2018 Specific	31 December 2018 General	31 December 2018 Total	31 December 2017 Specific	31 December 2017 General	31 December 2017 Total
		(Rupees)			(Rupees)	
Opening balance	-	114,960,000	114,960,000	-	-	-
Provision recognised during the year	-	115,888,750	115,888,750	-	114,960,000	114,960,000
Closing balance	-	230,848,750	230,848,750	-	114,960,000	114,960,000

6.4 General provision against non-performing financing

	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Charge for the year	**115,888,750**	114,960,000

Um

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
7 LONG TERM ADVANCES AND DEPOSITS			
- Considered good			
Advances to employees	7.1	**15,923,399**	18,619,076
Less: Current portion		**(11,772,313)**	(14,602,241)
		4,151,086	4,016,835
Long term prepayment - transaction charges		**494,378**	-
Less: Current portion		**(118,656)**	-
		375,722	-
Security Deposit	7.2	**5,254,720**	5,461,283
		9,781,528	9,478,118

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

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

	Net balance at 01 January	Recognised in Statement of Profit or loss	Recognised in Statement of other compre-hensive income	Net balance at 31 December
8 DEFERRED TAX ASSET		(Rupees)		(Rupees)
31 December 2018				
Taxable temporary difference				
Property and equipment	**(719,806)**	**588,519**	-	**(131,287)**
	(719,806)	**588,519**	-	**(131,287)**
Deductible temporary differences				
Intangible assets	**5,730**	**(381)**	-	**5,349**
Staff retirement benefits - gratuity	**2,177,364**	**(1,371,319)**	**328,191**	**1,134,237**
Pre-incorporation expenses	**10,092,472**	**(3,812,712)**	-	**6,279,760**
Financing - net	**34,488,000**	**30,149,650**	-	**64,637,650**
	46,763,566	**24,965,238**	**328,191**	**72,056,996**
Deferred Tax Asset - 31 December 2018	**46,043,760**	**25,553,757**	**328,191**	**71,925,709**
31 December 2017				
Taxable temporary difference				
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
Deferred Tax Asset - 31 December 2017	-	46,450,496	(406,736)	46,043,760

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
9 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLE			
Advances			
- Suppliers	9.1	1,263,664	3,142,000
- Employees	9.2	293,078	52,000
- Current portion of long term advances to employees	7	11,772,313	14,602,241
		13,329,055	17,796,241
Prepayments			
- Rent	9.3	20,097,192	18,894,293
- Insurance		2,663,748	1,865,298
- Subscriptions		1,694,963	503,582
- Current portion of long term prepayment - transaction charges		118,656	-
		24,574,559	21,263,173
Other receivable		-	1,808,500
		37,903,614	40,867,914

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

9.2 These represent advances given to employees for official purposes.

9.3 This represent prepaid rent of the Company's office.

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
10 MARKUP ACCRUED - RECEIVABLE			
Markup receivable on financing	10.1	494,199,914	171,933,197
Profit on deposit accounts and term deposit certificates		19,752,425	4,125,941
		513,952,339	176,059,138

10.1 This represents markup accrued on financing to microfinance institutions and bank as mentioned in note - 6 to these financial statements.

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
11 DUE FROM RELATED PARTIES - Unsecured			
Service fee receivable - Pakistan Poverty Alleviation Fund	11.1	1,200,000	128,296,177
Grant income receivable - KfW	11.2	8,056,300	6,596,245
		9,256,300	134,892,422

11.1 This represents amount due from Pakistan Poverty Alleviation Fund (an associated undertaking) including sales tax in respect of certain monitoring services provided by the Company under an agreement.

11.2 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).

11.3 Age analysis of due from related parties:

		Amount past due			Maximum amount
	Not due	Past due 0-30 days	Past due 31-365 days	Total gross amount due	outstanding at any time during the year
Balance at 31 December 2018			(Rupees)		(Rupees)
Name of related party					
Pakistan Poverty Alleviation Fund	**1,200,000**	-	-	**1,200,000**	**135,939,497**
KfW	**8,056,300**	-	-	**8,056,300**	**8,056,300**
	9,256,300	-	-	**9,256,300**	**143,995,797**
Balance at 31 December 2017					
Pakistan Poverty Alleviation Fund	128,296,177	-	-	128,296,177	128,296,177
KfW	6,596,245	-	-	6,596,245	6,596,245
	134,892,422	-	-	134,892,422	134,892,422

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
12	**SHORT-TERM INVESTMENTS**			
	Term deposit certificates with banks	12.1	**825,000,000**	950,000,000

12.1 These carry markup rates ranging from 8.50% to 10.50% (31 December 2017: 6.65% to 7.50%) per annum having maturity period ranging from one month to twelve months (31 December 2017: one month to six months) from the date of investment.

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
13	**ADVANCE TAX / PROVISION FOR TAX - NET**			
	Opening balance		**(1,325,323)**	749,330
	Current tax charge	29	**(147,473,738)**	(80,080,355)
	Income tax paid / withheld during the year		**151,318,308**	78,005,702
	Closing balance		**2,519,247**	(1,325,323)
14	**CASH AND BANK BALANCES**			
	Cash in hand		**10,622**	22,097
	Cash at banks - Local currency			
	- Deposit Accounts	14.1	**56,355,723**	66,725,843
	- Current Account		**600**	650
			56,356,323	66,726,493
			56,366,945	66,748,590

14.1 These represent deposit accounts with banks carrying markup ranging from 8% to 9% per annum (31 December 2017: 3.75% to 5.40% per annum).

		31 December 2018 (Rupees)	31 December 2017 (Rupees)
15	**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 2018 (Number of shares)	31 December 2017 (Number of shares)		31 December 2018 (Rupees)	31 December 2017 (Rupees)
5,884,222	5,884,222	Ordinary shares of Rs.1,000 each fully paid in cash	**5,884,222,000**	5,884,222,000

Shareholders	Nature of relationship	Number of shares 31 December 2018	Number of shares 31 December 2017	Percentage of shareholding 31 December 2018	Percentage of shareholding 31 December 2017
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%
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%

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

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
16 SUBORDINATED LOANS - Unsecured			
Subordinated loans from:			
- Pakistan Poverty Alleviation Fund	16.1	10,689,638,230	6,700,000,000
- Karandaaz Pakistan	16.2	2,800,000,000	-
		13,489,638,230	6,700,000,000
Less: Current portion		(1,142,938,346)	(19,361,770)
		12,346,699,884	6,680,638,230

16.1 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 currently carrying markup of 6-months KIBOR plus 1% per annum payable quarterly (31 December 2017: 6-months KIBOR plus 1% per annum payable quarterly). The loan is subordinated to other indebtedness of the Company.

16.2 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 currently carrying markup of 6-months KIBOR plus 1% per annum (31 December 2017: Nil) payable quarterly starting from June 2027. The loan is subordinated to other indebtedness of the Company.

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
17 LOANS AND BORROWINGS - Secured			
JS Bank Limited - Term Finance		750,000,000	-
United Bank Limited - Term Finance		350,000,000	-
Askari Bank - Term Finance		500,000,000	-
Allied Bank Limited - Loan		300,000,000	-
		1,900,000,000	-
Less: Current portion of loans and borrowings		(116,666,667)	-
		1,783,333,333	-

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

	31 December 2018			31 December 2017		
Borrowing Facility	Markup	Number of installments outstanding	Date of final repayment	Markup	Number of installments outstanding	Date of final repayment
		(Rupees)			(Rupees)	
JS Bank Limited - Term Finance	6mK + 0.48%	06 half yearly	7-Mar-23	-	-	-
United Bank Limited - Term Finance	6mK + 0.50%	06 half yearly	8-Oct-21	-	-	-
Askari Bank - Term Finance	6mK + 0.40%	08 yearly	7-Nov-23	-	-	-
Allied Bank Limited - Loan	6mK + 0.45%	06 half yearly	3-Dec-23	-	-	-

17.2 These loans and borrowings are secured against present and future current and non-current receivables of the company (31 December 2017: Nil).

	Note	**31 December 2018 (Rupees)**	31 December 2017 (Rupees)
18 EMPLOYEE BENEFITS			
Net defined benefit liability-compensated leave absences	18.1	**8,190,707**	-
Net defined benefit liability-gratuity	18.2	**4,050,845**	7,257,880
		12,241,552	7,257,880

18.1 ***Net defined benefit liability-compensated leave absences***

Movement in defined benefit liability - compensated leave absence

Opening balance	-	-
Charge for the year recognised in statement of profit or loss	**8,597,373**	-
Payments made during the year	**(406,666)**	-
Closing balance	**8,190,707**	-

18.1.1 This represents estimated liability in respect of compensated absences to employees in accordance with Company's Policy. Actuarial valuation has not been carried out for compensated leave absences as the impact is considered to be immaterial.

18.2 ***Net defined benefit liability-gratuity***

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 2018 (Rupees)**	31 December 2017 (Rupees)
Present value of defined benefit obligation		**17,827,326**	7,257,880
Fair value of plan assets		**(13,776,481)**	-
Liability		**4,050,845**	7,257,880
Movement in net defined benefit liability			
Opening net (asset) / liability		**7,257,880**	-
Charge for the year recognised in statement of profit or loss	18.2.1	**11,546,573**	8,713,667
Re-measurement recognised in statement of other comprehensive income	18.2.2	**1,172,112**	(1,355,787)
Payments made during the year		**(667,840)**	(100,000)
Contributions		**(15,257,880)**	-
Closing net (asset) / liability		**4,050,845**	7,257,880

18.2.1 Amount recognised in the profit or loss is as follows:

Current service cost	**11,622,358**	8,719,042
Markup income	**(75,785)**	(5,375)
	11,546,573	8,713,667

Wo

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Expense is recognised in the following line item in profit or loss			
Administrative expenses		**11,546,573**	8,713,667
Movement in fair value of plan obligation			
Opening present value of obligation		**7,257,880**	-
Current service cost		**11,622,358**	8,719,042
Interest cost		**744,326**	(5,375)
Benefits paid		**(667,840)**	(100,000)
Actuarial (gain) / loss on obligation		**(1,129,398)**	(1,355,787)
Closing present value of obligation		**17,827,326**	7,257,880
Movement in fair value of plan asset			
Opening balance		-	-
Expected return on plan assets		**820,111**	-
Contributions		**15,257,880**	-
Benefits paid on behalf of the fund		**667,840**	-
Benefits paid		**(667,840)**	-
Re-measurement of plan assets		**(2,301,510)**	-
Closing balance		**13,776,481**	-

Plan assets comprise of:

	31 December 2018		31 December 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	(Rupees)		(Rupees)	
Pakistan investment bonds (PIBs)	**7,000,000**	**5,456,160**	-	-
Treasury bills	**7,863,224**	**7,835,234**	-	-
Cash at bank	**485,087**	**485,087**	-	-
	15,348,311	**13,776,481**		

KPMG

	31 December 2018 (Rupees)	31 December 2017 (Rupees)
18.2.2 Re-measurement recognised in the statement of other comprehensive income		
Actuarial (gain) on obligation	**(1,129,398)**	(1,355,787)
Actuarial loss on assets	**2,301,510**	-
Actuarial loss recognised	**1,172,112**	(1,355,787)

The latest actuarial valuation was carried out on 31 December 2018 using projected unit credit method.

18.2.3 Key Actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2018 using the projected unit credit method with the following assumptions

	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Discount rate	**13.75%**	10.75%
Expected increase in eligible salary	**13.75%**	10.75%
Duration (years)	**14.96**	15.63
Normal retirement age (years)	**60**	60
Effective salary increase date	**01 January 2019**	01 January 2018
Mortality rate	**SLIC 2001-2005**	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.

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
19 SHORT TERM BORROWINGS			
Allied bank - Running Finance	19.1	99,236,997	-

19.1 This represent utilised amount of running finance facility amounting to Rs. 100 million (31 December 2017: Nil) and carry markup rate of 3mK + 40 basis points, payable on quarterly basis.

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
20	**TRADE AND OTHER PAYABLES**			
	Creditors		**9,493,327**	4,546,291
	Accrued liabilities	20.1	**35,694,727**	37,165,294
	Payable to provident fund	20.2	**-**	10,544,638
	Payable to related parties		**-**	47,282
	Income tax deducted at source		**41,588**	311,119
	Sales tax payable		**165,516**	17,696,024
			45,395,158	70,310,648

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

		31 December 2018 (Rupees)	31 December 2017 (Rupees)
20.2	**Payable to employees' provident fund**		
	Balance at 1 January	**10,544,638**	-
	Contribution / withheld during the year	**15,871,684**	13,878,218
	Payments during the year	**(26,416,322)**	(3,333,580)
	Balance at 31 December	**-**	10,544,638

21 DEFERRED GRANT

This represents grant share received from partner organisations for implementation of Microfinance Plus (MF Plus) initiatives of the Company.

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
22	**MARKUP ACCRUED - PAYABLE**			
	Markup payable on subordinate loans	22.1	**252,475,459**	89,077,246
	Markup payable on loans and borrowings from banks	22.2	**38,364,616**	-
			290,840,075	89,077,246

22.1 This represents markup payable in respect of the subordinated loans mentioned in note-16 to these financial statements.

22.2 This represents markup payable in respect of the loans and borrowings as mentioned in note-17 to these financial statements.

23 CONTINGENCIES AND COMMITMENTS

23.1 There are no material contingencies at the year end (31 December 2017: Nil).

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
23.2	**Commitments**			
	For capital expenditure		**-**	378,300

Pakistan Microfinance Investment Company Limited
Notes to the financial statements
For the year ended 31 December 2018

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
24	**INCOME**			
	Markup on financing	24.1	1,600,392,044	396,543,449
	Income from deposit accounts / certificates		70,378,806	45,478,083
	Interest on reverse repo transactions		67,156,238	172,459,551
	Service fee	24.2	1,200,000	116,224,913
	Income - gross		1,739,127,088	730,705,996
	Sales tax		(165,517)	(17,696,024)
			1,738,961,571	713,009,972

24.1 This represents markup on financing to microfinance institutions and bank as mentioned in note - 6 to these financial statements.

24.2 This 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	31 December 2018 (Rupees)	31 December 2017 (Rupees)
25	**FINANCE COST**			
	Markup on subordinated loans	25.1	871,814,031	148,073,757
	Markup on loans and borrowings	25.2	53,568,822	-
	Amortised transaction cost		98,871	-
	Bank charges		145,868	110,456
			925,627,592	148,184,213

25.1 This represent markup on subordinated loans from Pakistan Poverty Alleviation Fund (PPAF) and Karandaaz Pakistan as mentioned in note - 16 to these financial statements.

25.2 This represent markup on loans and borrowings as mentioned in note - 17 to these financial statements.

		Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
26	**ADMINISTRATIVE EXPENSES**			
	Salaries, wages and other benefits	26.1	182,087,941	147,225,696
	Rent, rates, licenses and taxes		30,148,374	28,107,660
	Traveling and conveyance	26.2	18,091,677	16,614,538
	Legal and professional fees		2,568,832	4,940,136
	Advertisement and promotion		9,927,847	4,519,209
	Utilities		2,082,220	2,240,560
	Telecommunication and postage		1,827,142	1,667,593
	Director's fee		3,300,000	5,400,000
	Printing and stationery		1,447,799	1,214,182
	Repair and maintenance		5,685,214	5,341,971
	Auditors' remuneration	26.3	1,100,000	1,100,000
	Insurance		2,043,798	1,617,885
	Office supplies and meeting expenses		3,231,604	3,891,252
	IT expenses		1,667,330	921,117
	Miscellaneous		470,834	450,905
	Depreciation	4	8,813,696	5,763,148
	Amortization	5	330,669	137,778
	Consultancy and outsourcing arrangements	26.4	24,562,964	17,303,568
	Trainings and workshops		8,083,609	7,671,343
			307,471,550	256,128,541

26.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 28,079,787 (31 December 2017: Rs. 19,258,305)

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

		31 December 2018	31 December 2017
26.3	**Auditors' remuneration**	(Rupees)	(Rupees)
	Audit fee	800,000	700,000
	Certification fee	250,000	350,000
	Out of pocket expenses	50,000	50,000
		1,100,000	1,100,000

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

		31 December 2018	31 December 2017
		(Rupees)	(Rupees)
27	**OTHER EXPENSES**		
	Crop value chain	3,640,222	-
	Livestock Micro-insurance	-	3,240,000
	Crop Micro-insurance	-	8,090,880
	Graduation out of poverty model	-	1,500,000
	Digital finance	-	2,240,000
	Solar home solutions	2,757,000	-
	Enterprise development	1,473,000	-
		7,870,222	15,070,880

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

		Note	31 December 2018	31 December 2017
28	**OTHER INCOME**		(Rupees)	(Rupees)
	Grant income (KfW)	28.1	10,170,003	6,596,245
	Grant Income (Sona Welfare Foundation)	28.2	4,994,000	-
	Others		1,505,914	46,719
			16,669,917	6,642,964

28.1 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).

28.2 Grant income is recognised under the agreement with Sona Welfare Foundation (SWF) dated 4 May 2018 for implementation of Crop Value Chain project.

		31 December 2018 (Rupees)	31 December 2017 (Rupees)
29	**INCOME TAX EXPENSE**		
	Income tax:		
	- Current	**145,709,357**	80,080,355
	- prior	**1,764,381**	-
		147,473,738	80,080,355
	Deferred tax	**(25,553,757)**	(46,450,496)
		121,919,981	33,629,859

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

	31 December 2018	31 December 2017
Accounting profit/(loss) for the year	**398,773,374**	185,309,302
Applicable tax rate	**29%**	30%
Tax charge	**115,644,279**	55,592,791
Tax effect of permanent differences	**4,511,321**	4,029
Tax effect of exempt income	-	(1,978,874)
Effect of deferred tax asset not previously recognized	-	(19,988,087)
Prior year effect	**1,764,381**	-
	121,919,981	33,629,859

30 CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES

	31 December 2018	31 December 2017
Profit before taxation	**398,773,374**	185,309,302
Adjustments for non cash items and others:		
Depreciation	**8,813,696**	5,763,148
Amortization	**330,669**	137,778
General provision	**115,888,750**	114,960,000
Provision for leave encashment	**8,190,707**	-
Provision for staff retirement benefit - gratuity	**11,546,573**	8,713,667
Markup on financing	**(1,600,392,044)**	(396,543,449)
Income from term deposit certificates	**(70,378,806)**	(33,337,315)
Markup on reverse repo transactions	**(67,156,238)**	(172,459,551)
Service fee	**(1,200,000)**	(98,528,889)
Finance cost	**925,627,592**	148,184,213
Loss on disposal of asset	-	11,339
Profit on deposit accounts	**(25,453,393)**	(12,140,768)
Grant income	**(15,164,003)**	(6,596,245)
	(310,573,123)	(256,526,770)

31 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Note	31 December 2018 (Rupees) Chief Executive	Directors	Executives	31 December 2017 (Rupees) Chief Executive	Directors	Executives
		(Rupees)				(Rupees)	
Managerial Remuneration		24,396,000	-	84,143,261	23,590,204	-	72,824,000
Performance bonus		3,800,000	-	7,598,500	-	-	-
Other perks and benefits	31.1	1,652,824	-	11,336,739	2,873,296	-	6,576,839
Contribution to provident fund		1,707,720	-	5,642,807	2,126,923	-	5,097,680
Gratuity		2,166,000	-	-	1,900,000	-	-
Meeting fee	31.2	-	3,300,000	-	-	5,400,000	-
		33,722,544	3,300,000	108,721,307	30,490,423	5,400,000	84,498,519
Number of persons		1	2	27	1	2	15

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

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

31.3 Key management personnel includes employees, other than the chief executive and directors, whose basic salary exceeds Rs. 1,200,000 (2017: Rs. 500,000) per annum.

32 EMPLOYEES PROVIDENT FUND

Details of the Employees' Provident Fund are as follows:

	Provident fund *Unaudited* 31 December 2018	*Audited* 31 December 2017
	(Rupees)	(Rupees)
Size of the fund - (total assets)	26,358,488	10,544,638
Cost of investments made	23,897,418	-
Fair value of investments	26,358,488	-
Cash at bank	-	10,544,638
Percentage of investments made (%)	91%	-

Breakup of investment - at cost:	31 December 2018 (Rupees)	%	31 December 2017 Rupees	%
Investment in government securities	23,897,418	100%	-	0%
Cash at bank	-	0%	10,544,638	100%
	23,897,418	100%	10,544,638	-

All the investments out of provident fund have been made in accordance with the provisions of Section 218 of the Companies Act 2017 (previously the Companies Ordinance, 1984) and the rules formulated for this purpose.

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

	31 December 2018		
	Liabilities		
	Loans and Borrowings	Subordinated loans	Total
		(Rupees)	
Balance at 01 January 2018	-	6,700,000,000	6,700,000,000
Changes from financing cash flows			
Proceeds from loans and borrowings	1,900,000,000	-	1,900,000,000
Proceeds from short term borrowings	99,236,997	-	99,236,997
Proceeds from subordinated loans	-	6,789,638,230	6,789,638,230
Total changes from financing cash flows	1,999,236,997	6,789,638,230	8,788,875,227
Total equity-related other changes	-	-	-
Balance at 31 December 2018	1,999,236,997	13,489,638,230	15,488,875,227

	31 December 2017		
	Liabilities		
	Loans and Borrowings	Subordinated loans	Total
		(Rupees)	
Balance at 01 January 2017	-	-	-
Changes from financing cash flows			
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	-	-	-
Balance at 31 December 2017	-	6,700,000,000	6,700,000,000

34 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 7.1, 9.2, 11, 16, 18, 20 and 21 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%

34.1 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

34.2 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 2018	31 December 2017
Transactions with associated undertakings	**(Rupees)**	(Rupees)
Service fee charged during the year	**1,200,000**	116,224,913
Grant income recognised during the year	**10,170,003**	6,596,245
Subordinated loan received during the year	**6,809,000,000**	6,700,000,000
Subordinated loan repaid during the year	**19,361,770**	-
Markup on subordinated loan charged during the year	**871,814,031**	148,073,757
Markup on subordinated loan paid during the year	**708,415,818**	58,996,511
Payments made to associated undertakings	-	89,920,403
Payments made on behalf of the Company by associated undertakings	-	257,509
Transactions with other related parties		
Employee contribution payable to provident fund	-	5,272,319
Employer contribution payable to provident fund	-	5,272,319
Total contribution paid to provident fund	**7,935,841**	-
Total contribution paid to gratuity fund	**15,925,720**	-
Transactions with key management personnel		
Remuneration and allowance including staff retirement benefits	**108,721,307**	84,498,519

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

35.1 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 2018						
					Fair value			
		Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2018	Note			(Rupees)				
Financial assets not measured at fair value	35.2							
Financing - net	6	20,533,401,250	-	20,533,401,250	-	-	-	-
Long term advances and deposits	7	21,672,497	-	21,672,497	-	-	-	-
Markup accrued - receivable	10	513,952,339	-	513,952,339	-	-	-	-
Due from related parties	11	9,256,300	-	9,256,300	-	-	-	-
Short-term investments	12	825,000,000	-	825,000,000	-	-	-	-
Cash and bank balances	14	56,366,945	-	56,366,945	-	-	-	-
		21,959,649,331	-	21,959,649,331	-	-	-	-
Financial liabilities not measured at fair value	35.2							
Subordinated loan	16	-	13,489,638,230	13,489,638,230	-	-	-	-
Loans and borrowings	17	-	1,900,000,000	1,900,000,000				
Trade and other payables	20 & 35.3	-	9,493,327	9,493,327	-	-	-	-
Markup accrued - payable	22	-	290,840,075	290,840,075	-	-	-	-
		-	15,689,971,632	15,689,971,632	-	-	-	-

35 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

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	35.2							
Financing - net	6	11,381,040,000	-	11,381,040,000	-	-	-	-
Long term advances and deposits	7	24,080,359	-	24,080,359	-	-	-	-
Other receivable	9	1,808,500	-	1,808,500	-	-	-	-
Markup accrued - receivable	10	176,059,138	-	176,059,138	-	-	-	-
Due from related parties	11	134,892,422	-	134,892,422	-	-	-	-
Short-term investments	12	950,000,000	-	950,000,000	-	-	-	-
Cash and bank balances	14	66,748,590	-	66,748,590	-	-	-	-
		12,734,629,009	-	12,734,629,009	-	-	-	-
Financial liabilities not measured at fair value	35.2							
Subordinated loan	16		6,700,000,000	6,700,000,000				
Trade and other payables	20 & 35.3		15,138,211	15,138,211				
Markup accrued - payable	22	-	89,077,246	89,077,246	-	-	-	-
		-	6,804,215,457	6,804,215,457	-	-	-	-

35.2 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.

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

35.4 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.

35.5 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.

i. **Concentration of credit risk**

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

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Financing - net	6	**20,533,401,250**	11,381,040,000
Long term advances and deposits	7	**21,672,497**	24,080,359
Other receivable		-	1,808,500
Markup accrued - receivable	10	**513,952,339**	176,059,138
Due from related parties	11	**9,256,300**	134,892,422
Short-term investments	12	**825,000,000**	950,000,000
Cash at bank	14	**56,356,323**	66,726,493
		21,959,638,709	12,734,606,912

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 2018 (Rupees)	31 December 2017 (Rupees)
Related parties	**9,256,300**	134,892,422
Banks and financial institutions	**21,928,709,912**	12,573,825,631
Others	**21,672,497**	25,888,859
	21,959,638,709	12,734,606,912

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% -1.5% of outstanding balance of financing, net of specific provision.

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

	Note	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Opening balance		(114,960,000)	-
Provision made during the year	6.3	(115,888,750)	(114,960,000)
Closing balance		(230,848,750)	(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), JCR - VIS Credit Rating Company Limited (JCR - VIS) and Moody's.

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

	Ratings	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Financing - net			
Counterparties with credit rating	A	1,250,000,000	-
Counterparties with credit rating	BBB+	4,825,000,000	3,400,000,000
Counterparties with credit rating	BBB	2,437,500,000	-
Counterparties without credit rating		12,251,750,000	8,096,000,000
		20,764,250,000	11,496,000,000
Long term advances and deposits			
Counterparties without credit rating		21,672,497	24,080,359
Advances, prepayments and other receivable			
Counterparties without credit rating		-	1,808,500
Markup accrued - receivable			
Counterparties with credit rating	AAA	467,466	510,136
Counterparties with credit rating	AA+	11,067	-
Counterparties with credit rating	A+	19,273,892	3,544,517
Counterparties with credit rating	A	12,878,904	71,288
Counterparties with credit rating	BBB+	111,988,300	53,345,753
Counterparties with credit rating	BBB	56,072,245	-
Counterparties without credit rating		313,260,465	118,587,444
		513,952,339	176,059,138
Due from related parties			
Counterparties with credit rating	AA+	8,056,300	6,596,245
Counterparties without credit rating		1,200,000	128,296,177
		9,256,300	134,892,422
Lending to financial institutions			
Counterparties with credit rating	A1+	-	3,259,995,148
Short-term investments			
Counterparties with credit rating	AAA	325,000,000	-
Counterparties with credit rating	A+	500,000,000	-
Counterparties with credit rating	A	-	250,000,000
Counterparties with credit rating	AA+	-	700,000,000
		825,000,000	950,000,000
Cash at bank			
Counterparties with credit rating	AAA	53,398,506	56,409,826
Counterparties with credit rating	AA+	1,638,305	8,455,742
Counterparties with credit rating	A+	1,308,347	1,860,925
Counterparties with credit rating	AA-	264	-
		56,345,422	66,726,493

35.6 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 2018					
Subordinated loans	13,489,638,230	20,242,782,671	2,173,276,126	7,726,562,871	10,342,943,674
Loans and borrowings	1,900,000,000	2,458,440,095	231,262,393	2,096,800,510	130,377,192
Trade and other payables	9,493,327	9,493,327	-	-	-
Markup accrued - payable	290,840,075	290,840,075	-	-	-
	15,689,971,632	**23,001,556,168**	**2,404,538,519**	**9,823,363,381**	**10,473,320,866**
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

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.

35.7 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.

35.7.1 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.

35.7.2 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 2018 Effective rate %	31 December 2017 Effective rate %	31 December 2018 (Rupees)	31 December 2017 (Rupees)
Fixed rate instruments				
Financial assets	**8 - 9**	3.75 - 5.4	**881,356,323**	1,016,726,493
Variable rate instruments				
Financial assets	**KIBOR + 1 to 3.5**	KIBOR + 1 to 4.0	**20,533,401,250**	11,496,000,000
Financial liabilities			**(15,389,638,230)**	(6,700,000,000)
			5,143,763,020	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. 75.1 million (31 December 2017: Rs. 42.3 million) and increased / (decreased) markup expense by Rs. 120.1 million (31 December 2017: Rs. 20.7 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.

35.7.3 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.

35.8 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 2017: 100 million). As at 31 December 2018, the Company's total equity is Rs. 6,245 million (31 December 2017: Rs. 5,969 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.

35 NUMBER OF EMPLOYEES

	31 December 2018	31 December 2017
Number of employees at year end	**35**	30
Average number of employees	**33**	15

36 GENERAL

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

	31 December 2017			
	Note	**As previously reported**	**Reclassification**	**As reported**
			(Rupees)	
Income - net	**24**	**700,869,204**	**12,140,768**	**713,009,972**
Other income	**28**	**18,783,732**	**(12,140,768)**	**6,642,964**
Deferred liabilities	**18**	**7,257,880**	**(7,257,880)**	**-**
Employee benefits	**18**	**-**	**7,257,880**	**7,257,880**

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

37 APPROVAL OF FINANCIAL STATEMENTS

37.1 These financial statements were authorized for issue by the Board of Directors of the Company in its meeting held on March 6, 2019.

CHIEF EXECUTIVE OFFICER **DIRECTOR**