KPMG Taseer Hadi & Co.
Chartered Accountants

Pakistan Microfinance Investment Company Limited

Financial statements

For the year ended
31 December 2019

Pakistan Microfinance Investment Company Limited
Statement of Financial Position
As at 31 December 2019

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
NON-CURRENT ASSETS			
Property and equipment	4	23,327,986	26,103,984
Right of use asset	5	50,346,904	-
Intangible assets	6	192,886	523,553
Advance for capital expenditure	7	15,583,806	-
Long term investments	8	379,125,357	-
Financing - net	9	8,296,707,290	8,894,884,583
Long term advances, prepayments and deposits	10	13,529,482	9,781,528
Deferred tax asset	11	312,518,197	71,925,709
		9,091,331,908	9,003,219,357
CURRENT ASSETS			
Advances, prepayments and other receivables	12	54,084,037	37,903,614
Markup accrued - receivable	13	885,805,862	513,952,339
Due from related parties	14	20,402,438	9,256,300
Short-term investments	15	1,715,292,475	825,000,000
Advance tax - net	16	92,500,631	2,519,247
Current portion of financing	9	14,526,150,626	11,638,516,667
Cash and bank balances	17	805,933,056	56,366,945
		18,100,169,125	13,083,515,112
TOTAL ASSETS		27,191,501,033	22,086,734,469
SHARE CAPITAL AND RESERVES			
Share capital	18	5,884,222,000	5,884,222,000
Unappropriated profit		401,854,671	361,160,457
		6,286,076,671	6,245,382,457
NON-CURRENT LIABILITIES			
Subordinated loans	19	11,203,761,539	12,346,699,884
Loans and borrowings	20	6,422,417,448	1,783,333,333
Employee benefits	21	22,319,156	12,241,552
		17,648,498,143	14,142,274,769
CURRENT LIABILITIES			
Short term borrowings	22	98,102,728	99,236,997
Lease liability	23	33,837,824	-
Trade and other payables	24	54,719,820	45,395,158
Deferred grant		-	4,000,000
Markup accrued - payable	25	781,494,168	290,840,075
Current portion of subordinated loans	19	1,142,938,346	1,142,938,346
Current portion of loans and borrowings	20	1,145,833,333	116,666,667
		3,256,926,219	1,699,077,243
TOTAL EQUITY AND LIABILITIES		27,191,501,033	22,086,734,469
CONTINGENCIES AND COMMITMENTS	26		

The annexed notes 1 to 41 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 2019

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Income - gross		3,632,549,761	1,739,127,088
Sales tax		-	(165,517)
Income - net	27	3,632,549,761	1,738,961,571
Finance cost	28	(2,385,579,598)	(925,627,592)
		1,246,970,163	813,333,979
Provision	9.5	(806,840,767)	(115,888,750)
		440,129,396	697,445,229
Administrative expenses	29	(340,835,471)	(307,471,550)
Other expenses	30	(60,423,445)	(7,870,222)
		(401,258,916)	(315,341,772)
Other income	31	28,785,437	16,669,917
Profit before taxation		67,655,917	398,773,374
Income tax expense	32	(28,332,927)	(121,919,981)
Profit for the year		39,322,990	276,853,394

The annexed notes 1 to 41 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 2019

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Profit for the year		**39,322,990**	276,853,394
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability - gratuity	**21.2.3**	**1,931,301**	(1,172,112)
Related tax	**11**	**(560,077)**	328,191
Other comprehensive income - net of tax		**1,371,224**	(843,921)
Total comprehensive income for the year		**40,694,214**	276,009,473

The annexed notes 1 to 41 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 2019

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flows from operating activities before working capital changes	33	(237,094,902)	(310,573,123)
Changes in working capital:			
Financing - net		(3,096,297,433)	(9,268,250,000)
Long term advances, prepayments and deposits		(3,747,954)	(303,410)
Advances, prepayments and other receivable		(36,277,615)	3,531,753
Lending to financial institutions		-	-
Short-term investments		(890,292,472)	125,000,000
Trade and other payables		9,324,662	(25,692,310)
		(4,017,290,812)	(9,165,713,967)
Cash used in operations		(4,254,385,714)	(9,476,287,090)
Taxes paid		(359,466,876)	(151,318,308)
Finance cost paid		(1,894,925,505)	(723,864,763)
Staff retirement benefits paid - gratuity		(5,630,277)	(15,925,720)
Staff retirement benefits paid - compensated absences		(845,182)	-
Receipt of markup on financing		2,768,148,437	1,278,125,327
Receipt of profit on deposit accounts / certificates		199,357,963	80,205,715
Receipt of markup on reverse repo transactions		129,365,566	67,156,238
Receipt of markup on treasury bills		68,870,575	-
Receipt of markup on PIBs		-	-
Rent paid		(32,544,965)	-
Service fee received		1,200,000	128,296,177
Grant income		8,081,099	18,480,767
Net cash used in operating activities		(3,372,774,879)	(8,795,131,658)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(7,224,735)	(5,736,213)
Purchase of intangible assets		-	-
Proceeds from disposal of property and equipment		96,722	-
Investments in government securities	8	(379,125,357)	-
Advances for capital expenditure		(15,583,806)	1,611,000
Net cash used in investing activities		(401,837,176)	(4,125,213)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of loans and borrowings - net	36	5,668,250,781	1,900,000,000
Repayment of short term borrowings	36	(1,134,269)	99,236,997
Repayment of subordinated loans	36	(1,142,938,346)	6,789,638,230
Net cash generated from financing activities		4,524,178,166	8,788,875,227
Net increase / (decrease) in cash and cash equivalents		749,566,111	(10,381,645)
Cash and cash equivalents at 01 January		56,366,945	66,748,590
Cash and cash equivalents at 31 December		805,933,056	56,366,945

The annexed notes 1 to 41 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 2019

	Share Capital	Revenue reserve unappropriated profit	Total equity
		(Rupees)	
Balance at 01 January 2018	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 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
Total comprehensive income for the year			
Profit for the year	-	39,322,990	39,322,990
Other comprehensive income for the year - net of tax	-	1,371,224	1,371,224
Total comprehensive income for the year	-	40,694,214	40,694,214
Balance at 31 December 2019	5,884,222,000	401,854,671	6,286,076,671

The annexed notes 1 to 41 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 2019.

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.

Further, the Securities and Exchange Commission of Pakistan (SECP) vide S.R.O. 1332(I)/2019 dated 07 November 2019 modified the effective date for applicability of International Financial Reporting Standard - Financial Instruments (IFRS 9) for Non-Banking Finance Companies for period/year ending on or after 30 June 2020; accordingly the requirements of this standard has not been considered in the preparation of these financial statements.

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

2.2 Basis of measurement and preparation

2.2.1 Accounting convention

These financial statements have been prepared under historical cost convention except for employee benefits which are measured at the present value of the defined benefit liability, determined through actuarial valuation on each reporting date.

2.2.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees (Rupee or Rs.), 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 2019 is included in the following notes:

(i) Note 3.1, 4 and 5 – useful life, reassessed value, residual value and depreciation method of property and equipment and right of use asset;
(ii) Note 3.2 and 6 - useful lives, residual values and amortization method of intangible assets;
(iii) Note 3.4 and 21 - measurement of defined benefit obligations: key actuarial assumptions;
(iv) Note 25 recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and
(v) Note 3.8, 11, 16 and 32- recognition of deferred tax assets and estimation of income tax provision
(vi) Note 3.18 and 23 – recognition of lease liability

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 and reporting standards as applicable in Pakistan, including the level in the fair value hierarchy in which the valuations should be classified.

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

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

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

2.5 Standards, interpretations and amendments to the approved accounting standards

New accounting standards / amendments and IFRSs interpretations that are effective for the year ended 31 December 2019.

"IFRS 15: 'Revenue from Contracts with Customers" This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date: IAS 18 Revenue, IAS 11 Construction contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue-barter Transaction involving Advertising Services.	'Effective from 01 January 2019 (SECP has adopted for local application from accounting period beginning on or after 01 July 2018).

The Company has adopted the requirements of IFRS 15 'Revenue from contracts with customers' from 01 January 2019 and a number of interpretations and amendments to standards, which have had an insignificant effect on the financial statements of the Company.

"IFRS 16: Leases" This standard has introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.	Effective from 01 January 2019 (SECP has adopted for local application from accounting period beginning on or after 01 July 2018).

Detailed disclosure of the effect of IFRS 16 are given in the notes 3 to these financial statements.

The following standards, amendments and interpretations thereto as notified under the Companies Act, 2017 are either not relevant to the Company's operations or are not likely to have a significant impact on the Company's financial statements:

"IFRIC 23 Uncertainty over Income Tax Treatments". It clarifies the accounting for income tax treatments that are yet to be accepted by tax authorities, whilst also aiming to enhance transparency.	Effective for accounting period beginning on or after 01 January 2019.

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 2020:

- 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 judgments when preparing their general purpose financial statements in accordance with IFRS Standards.

- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

- Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 1 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The amendments are not likely to affect the financial statements of the Company.

- IFRS 14 Regulatory Deferral Accounts - (effective for annual periods beginning on or after 1 July 2019) provides interim guidance on accounting for regulatory deferral accounts balances while IASB considers more comprehensive guidance on accounting for the effects of rate regulation. In order to apply the interim standard, an entity has to be rate regulated – i.e. the establishment of prices that can be charged to its customers for goods or services is subject to oversight and/or approved by an authorized body. The term 'regulatory deferral account balance' has been chosen as a neutral descriptor for expense (income) or variance account that is included or is expected to be included by the rate regulator in establishing the rate(s) that can be charged to customers and would not otherwise be recognized as an asset or liability under other IFRSs. The standard is not likely to have any effect on Company's financial statements.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation – for Banks and DFIs / MFBs, the effective date of the standard has been extended to annual periods beginning on or after 30 June 2020 by the Securities and Exchange Commission of Pakistan (SECP) vide S.R.O. 1332(I)/2019 dated 07 November 2019. IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Company is currently in the process of determining the impact of adoption of IFRS 9 on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

i IFRS 15: Revenue from Contracts with Customers'

IFRS 15: Revenue from Contracts with Customers' which became applicable from 01 January 2019, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations on its effective date: IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreement for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – barter Transaction involving Advertising Services. The adoption of IFRS 15 has insignificant impact on the Company's financial statements.

ii. IFRS 16 'Leases'

The Company has initially adopted IFRS 16 'Leases' from January 01, 2019.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company applied IFRS 16 using the modified retrospective approach, under which the Company has recognized lease liabilities at the date of initial recognition for leases previously classified as operating lease under IAS 17 at the present value of the remaining lease payments using the Company's incremental borrowing rate and recognizing right of use assets at the date of initial application for leases. The Company has chosen to measure the right of use assets at an amount equal to the lease liabilities adjusted by the amount of prepaid lease payments relating to the operating lease recognized in the statement of financial position as at 31 December 2018.

Accordingly, no adjustment to equity has been made in these financial statements on adoption of the new policy and the comparative figures presented for 2018 have not been restated, i.e., it is presented, as previously reported, under IAS 17 and related interpretations.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining whether an arrangement contains a Lease'. The Company now assesses whether a contract is, or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company used the following practical expedients when applying IFRS 16, to leases previously classified as operating leases under IAS 17.

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

Amounts recognized in profit or loss for the year under new policy

	Rupees
Interest on lease liabilities	5,929,559
Depreciation of right of use assets	30,203,518
	36,133,077

If IFRS 16 was not applicable then rental cost of Rs 30,937,806 would have been recognized in administrative expense. Accordingly, profit before tax has decreased by Rs 5,195,271 for the year ended 31 December 2019 as a result of the adoption of IFRS 16.

iii. The Company has changed its accounting policy for valuation of employee benefits - net defined benefit liability of compensated leave absences, which is now determined based on actuarial estimates. Actuarial valuation is carried out using the Projected Unit Credit Method. This change in accounting policy is required to be applied retrospectively as per the requirements of the transitional provisions of IAS 19 "Employees Benefits". However, the financial statements have not been restated as the effect of retrospective application of this change in accounting policy is not material.

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.

Right of use assets

Right of use asset is calculated as the initial amount of the lease liability in terms of rentals for premises at the lease contract commencement date. The right of use asset is subsequently depreciated using the straight line method over a period of five years or actual remaining lease term.

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

The present value of the obligation for gratuity depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge for the year include the discount rate, expected increase in eligible salary and mortality rate as per note 21.2.4. 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 leave absences on the unveiled balance of privilege leaves of all its eligible employees. The calculation of defined benefit liability is performed annually by a qualified actuary using the Projected Unit Credit (PUC) and related expense to the defined benefit plan are recognized in the profit or loss.

For details related to change in accounting policy refer note 3 and 21.1.5.

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 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 yearend 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 in Term Deposit Receipts, Treasury Bills and Reverse Repo transactions

Mark-up / return on investments is recognized on time proportion basis using effective interest method. Where 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.

Income from investment in Pakistan Investment Bonds

The interest on the Pakistan Investment Bonds is recognized on time proportion basis using effective interest method. Where 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 and loss account.

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.

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 balance sheet below equity which is taken to the profit and loss account when actually realised upon disposal.

Premium or discount on securities classified as available-for-sale and held-to-maturity is amortised using effective interest method and taken to the profit and loss account.

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 egulations. 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 balance sheet below equity is thereof removed and recognized in the profit and loss account.

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 2018: 1% - 1.5%) 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.

3.18 Lease liability

3.18.1 Lease liability of right of use assets

The Company has recognized lease liabilities at the date of initial recognition of IFRS - 16, for leases previously classified as operating leases under IAS 17 at the present value of the remaining lease payments using the Company's incremental borrowing rate of 11.26%. Lease liabilities are then measured at their amortized cost using the effective interest method.

3.18.2 Lease liabilities - right of use assets – vehicles

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

3.19 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition mark-up bearing borrowings are stated at original cost less subsequent repayments.

3.20 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs relate to the acquisition, construction or production of a qualifying asset in which case such costs are capitalized as part of the cost of that asset.

4 PROPERTY AND EQUIPMENT

	Office equipment	Computers	Furniture	Leasehold improvements	Vehicles	Capital work in progress	Total
							(Rupees)
COST							
Balance at 01 January 2018	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
Additions	**203,098**	**6,629,206**	**352,431**	**40,000**	-	-	**7,224,735**
Disposals	-	**(1,011,750)**	-	-	-	-	**(1,011,750)**
Balance at 31 December 2019	**3,425,603**	**14,383,861**	**7,743,477**	**17,109,270**	**4,327,588**	-	**46,989,799**
ACCUMULATED DEPRECIATION							
Balance at 01 January 2018	168,816	1,954,139	1,092,766	2,388,639	254,773	-	5,859,133
Depreciation	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
Depreciation	**658,103**	**3,497,505**	**1,521,900**	**3,419,190**	**865,512**	-	**9,962,210**
Disposals	-	**(973,227)**	-	-	-	-	**(973,227)**
Balance at 31 December 2019	**1,249,863**	**7,324,848**	**4,039,807**	**9,212,138**	**1,835,157**	-	**23,661,813**
Carrying amounts							
At 31 December 2018	2,630,745	3,965,835	4,873,139	11,276,322	3,357,943	-	26,103,984
At 31 December 2019	**2,175,740**	**7,059,013**	**3,703,670**	**7,897,132**	**2,492,431**	-	**23,327,986**
Rates of depreciation per annum	**20%**	**33.33%**	**20%**	**20%**	**20%**	-	

5 RIGHT OF USE ASSET

Right of use asset has been measured at the amount equal to the lease liability, plus the amount of prepaid lease rentals.

	01 January 2019 (Rupees)
Present value of the future lease payments	60,453,230
Prepayments reclassified as right of use assets	20,097,192
	80,550,422

5.1 Right of use asset	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Balance at 01 January		80,550,422	-
Depreciation charge for the year	29	(30,203,518)	-
Balance at 31 December		50,346,904	-

5.2 The right of use asset is depreciated at 37.50% (31 December 2018: Nil) per annum.

6 INTANGIBLE ASSETS	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Cost			
Balance at 01 January		992,000	992,000
Additions during the year		-	-
Balance at 31 December		992,000	992,000
Amortization			
Balance at 01 January		468,447	137,778
Charge for the year		330,667	330,669
Balance at 31 December		799,114	468,447
Net book value	6.1	192,886	523,553
Amortization rate per annum		33%	33%

6.1 This represents accounting software of the Company.

7 ADVANCE FOR CAPITAL EXPENDITURE

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Advance for implementation of SAP	7.1	15,583,806	-

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

8 LONG TERM INVESTMENTS	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Held to maturity			
Pakistan Investment Bonds	8.1	379,125,357	-

8.1 The face value of these Pakistan Investment Bonds is Rs. 410,000,000 (31 December 2018: Nil). These carry effective markup rates ranging from 11.57% to 13.94% (31 December 2018: Nil) per annum having maturity period ranging from 22 months to 35 months (31 December 2018: Nil) from the date of investment.

9 FINANCING - NET

Financing to microfinance institutions and microfinance banks - Markup bearing:

	Note	31 December 2019 Number	31 December 2019 (Rupees)	31 December 2018 Number	31 December 2018 (Rupees)
	9.1	46	23,860,547,433	43	20,764,250,000
Less:					
General provision	9.2		(317,058,750)		(230,848,750)
Specific provision	9.4		(720,630,767)		-
Current maturity			(14,526,150,626)		(11,638,516,667)
			8,296,707,290		8,894,884,583

9.1 This includes unsecured loans extended to FINCA Microfinance Bank Limited and Khushali Microfinance Bank Limited, amounting to Rs. 800 million each (31 December 2018: Nil), under subordinated debts agreement during 2019 on following terms:

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

9.2 General provision is maintained at 1% - 1.5% (31 December 2018: 1% - 1.5%) of the outstanding balance of financing net of specific provision; based on the internal risk rating of the individual borrowers.

9.3 As per the Company's request, SECP has granted relaxation of regulation 17 of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 relating to enhancement of fund based per party limit for Kashf Foundation up to Rs. 4.1 billion, valid till 31 December 2019.

			31 December 2019			31 December 2018		
		Provision rate	Amount outstanding	Provisions required	Provisions held	Amount outstanding	Provisions required	Provisions held
9.4 Particulars of non-performing financing	Note			(Rupees)			(Rupees)	
Category of classification								
Other assets especially mentioned (OAEM)		0%	9,000,000	-	-	-	-	-
Sub-standard		25%	36,000,000	9,000,000	9,000,000	-	-	-
Doubtful		50%	-	-	-	-	-	-
Loss	9.6	100%	711,630,767	711,630,767	711,630,767	-	-	-
			756,630,767	720,630,767	720,630,767	-	-	-

	Specific	General	Total	Specific	General	Total
9.5 Particulars of provision against non-performing financing		(Rupees)			(Rupees)	
Balance at 01 January	-	230,848,750	230,848,750	-	114,960,000	114,960,000
Provision charge	720,630,767	86,210,000	806,840,767	-	115,888,750	115,888,750
Balance at 31 December	720,630,767	317,058,750	1,037,689,517	-	230,848,750	230,848,750

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

	Note	31 December 2019	31 December 2018
10 LONG TERM ADVANCES, PREPAYMENTS AND DEPOSITS - Considered good		(Rupees)	(Rupees)
Advances to employees	10.1	29,501,194	15,923,399
Less: Current portion	12	(22,299,265)	(11,772,313)
		7,201,929	4,151,086
Long term prepayment - transaction charges		1,442,481	494,378
Less: Current portion	12	(369,648)	(118,656)
		1,072,833	375,722
Security deposits	10.2	5,254,720	5,254,720
		13,529,482	9,781,528

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

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

	Net balance at 01 January	Recognized in: Statement of profit or loss	Recognized in: Statement of other comprehensive income	Net balance at 31 December
11 DEFERRED TAX ASSET		(Rupees)		(Rupees)
31 December 2019				
Taxable temporary differences				
Property and equipment	(131,287)	131,287	-	-
	(131,287)	131,287	-	-
Deductible temporary differences				
Property and equipment	-	351,495	-	351,495
Leases	-	1,506,628	-	1,506,628
Intangible assets	5,349	191	-	5,540
Employee benefits	1,134,237	5,898,395	(560,077)	6,472,555
Pre-incorporation expenses	6,279,760	(3,027,741)	-	3,252,019
Financing - net	64,637,650	236,292,310	-	300,929,960
	72,056,996	241,021,278	(560,077)	312,518,197
Deffrered tax asset	71,925,709	241,152,565	(560,077)	312,518,197
31 December 2018				
Taxable temporary differences				
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
Employee benefits	2,177,364	(1,371,318)	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	24,965,239	328,191	72,056,996
Deffrered tax asset	46,043,760	25,553,758	328,191	71,925,709

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
12 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			
Advances			
- Supplier	12.1	2,054,814	1,263,664
- Employees	12.2	1,368,467	293,078
- Current portion of long term advances to employees	10	22,299,265	11,772,313
		25,722,546	13,329,055
Prepayments			
- Rent	12.4 & 5	-	20,097,192
- Insurance		3,252,592	2,663,748
- Subscriptions		2,339,556	1,694,963
- Current portion of long term prepayment - transaction charges	10	369,648	118,656
		5,961,796	24,574,559
Other receivables	12.3	22,399,695	-
		54,084,037	37,903,614

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

12.2 These represent advances given to employees for official purposes.

12.3 This includes an amount of Rs. 18,387,095 (31 December 2018: Nil) receivable from State Bank of Pakistan on account of guarantee fee reimbursable as mentioned in note 20 to these financial statements.

12.4 Due to adoption of IFRS 16, prepaid rent is classified as part of right of use asset.

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
13 MARKUP ACCRUED - RECEIVABLE			
Markup receivable on financing	13.1	941,439,555	494,199,914
Suspended mark-up income	13.2	(94,953,696)	-
		846,485,859	494,199,914
Profit on deposit accounts and term deposit certificates		13,547,571	19,752,425
Profit on investment in Treasury Bills		13,322,602	-
Profit on investment in Pakistan Investment Bonds		12,449,830	-
		39,320,003	19,752,425
		885,805,862	513,952,339

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

13.2 This represents markup income on non-performing loans as disclosed in note 9.4 which has been suspended in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008.

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
14 DUE FROM RELATED PARTIES - Unsecured			
Service fee receivable		-	1,200,000
Grant income receivable - KfW	14.1	20,402,438	8,056,300
		20,402,438	9,256,300

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

14.2 Age analysis of due from related parties:

	Not due	Amount past due			Maximum amount outstanding at any time during the year
		Past due 0-30 days	Past due 31-365 days	Total gross amount due	
			(Rupees)		(Rupees)
Balance at 31 December 2019					
Name of related party					
Pakistan Poverty Alleviation Fund	-	-	-	-	1,200,000
KfW	20,402,438	-	-	20,402,438	28,483,537
	20,402,438	-	-	20,402,438	29,683,537
Balance at 31 December 2018					
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

15 SHORT-TERM INVESTMENTS

	Note	31 December 2019	31 December 2018
		(Rupees)	(Rupees)
Held to maturity			
Term deposit certificates with banks	15.1	1,250,000,000	825,000,000
Treasury Bills	15.2	465,292,475	-
		1,715,292,475	825,000,000

15.1 These carry markup rates ranging from 14.25% to 14.50% (31 December 2018: 8.50% to 10.50%) per annum having maturity period ranging from one month to twelve months (31 December 2018: one month to twelve months) from the date of investment.

15.2 The redemption value of these Treasury Bills is Rs. 520,505,000 (31 December 2018: Nil). These carry effective markup rates ranging from 12.72% to 14.10% (31 December 2018: nil) per annum having maturity period ranging from six months to twelve months (31 December 2018: Nil) from the date of investment.

16	ADVANCE TAX - NET	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
	Balance at 01 January		2,519,247	(1,325,323)
	Current tax charge	32	(269,485,492)	(147,473,738)
	Income tax paid / withheld during the year		359,466,876	151,318,308
	Balance at 31 December		92,500,631	2,519,247

17	CASH AND BANK BALANCES	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
	Cash in hand		75,000	10,622
	Cash at banks - Local currency			
	- Deposit accounts	17.1	805,857,656	56,355,723
	- Current account		400	600
			805,858,056	56,356,323
			805,933,056	56,366,945

17.1 These represent deposit accounts with banks carrying markup ranging from 10% - 11.5% (31 December 2018: 8% to 9%) per annum.

18	SHARE CAPITAL	31 December 2019 (Rupees)	31 December 2018 (Rupees)
	Authorized capital		
	6,500,000 ordinary shares of Rs.1,000 each	6,500,000,000	6,500,000,000

Issued, subscribed and paid up share capital

31 December 2019 (Number of shares)	31 December 2018 (Number of shares)		31 December 2019 (Rupees)	31 December 2018 (Rupees)
5,884,222	5,884,222	Ordinary shares of Rs.1,000 each fully paid in cash	5,884,222,000	5,884,222,000

Shareholders	Nature of relationship	Number of shares at 31 December 2019	Number of shares at 31 December 2018	Percentage of shareholding at 31 December 2019	Percentage of shareholding at 31 December 2018
Pakistan Poverty Alleviation Fund	Associated undertaking	2,883,256	2,883,256	49.00%	49.00%
Karandaaz Pakistan	Associated undertaking	2,224,243	2,224,243	37.80%	37.80%
KfW	Associated undertaking	776,719	776,719	13.20%	13.20%
Directors	Director	4	4	0.00%	0.00%
Total		5,884,222	5,884,222	100.00%	100.00%

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

			31 December 2019	31 December 2018
19	**SUBORDINATED LOANS - Unsecured**	**Note**	**(Rupees)**	(Rupees)
	Subordinated loan from PPAF	19.1	9,546,699,885	10,689,638,230
	Subordinated loan from KARADAAZ	19.2	2,800,000,000	2,800,000,000
			12,346,699,885	13,489,638,230
	Less: Current portion of subordinated loans		(1,142,938,346)	(1,142,938,346)
			11,203,761,539	12,346,699,884

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

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

19.2 This represents the outstanding balance of subordinated loans, under the agreement between Karandaaz Pakistan (an associated undertaking) and the Company dated 28 December 2017 with prior approval of SECP for disbursement of each tranche to the Company. The subordinated loan tenure is 10 years and currently carrying markup of 6-months KIBOR plus 1% (31 December 2018: 6-months KIBOR plus 1%) per annum payable quarterly starting from June 2027. The loan is subordinated to other indebtedness of the Company.

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

20	LOANS AND BORROWINGS - Secured	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
	JS Bank Limited - Term Finance		750,000,000	750,000,000
	United Bank Limited - Term Finance		233,333,334	350,000,000
	Askari Bank Limited - Term Finance I		500,000,000	500,000,000
	Askari Bank Limited - Term Finance II		500,000,000	-
	Allied Bank Limited - Term Finance		300,000,000	300,000,000
	National Bank of Pakistan - Term Finance		2,000,000,000	-
	MCB Bank Limited - Term Finance		1,000,000,000	-
	State Bank of Pakistan - Term Finance	20.3	1,784,917,447	-
	Bank Alfalah Limited - Term Finance		500,000,000	-
			7,568,250,781	1,900,000,000
	Less: Current portion of loans and borrowings		(1,145,833,333)	(116,666,667)
			6,422,417,448	1,783,333,333

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

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

Borrowing Facility		31 December 2018 Markup	Total facility amount (Rupees)	Number of installments outstanding	Date of final repayment
JS Bank Limited	Term Finance	6mK + 0.48%	750,000,000	06 half yearly	07-Mar-23
United Bank Limited	Term Finance	6mK + 0.50%	350,000,000	06 half yearly	08-Oct-21
Askari Bank Limited	Term Finance I	6mK + 0.40%	500,000,000	08 half yearly	07-Nov-23
Allied Bank Limited	Term Finance	6mK + 0.45%	300,000,000	06 half yearly	03-Dec-23

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

20.3 This represents the outstanding balance of the unsecured term finance loan facility of Rs. 2,000 million carrying markup of 6-months KIBOR minus 100 bps for the tenor of three years (31 December 2018: Nil) payable on half yearly basis i.e. 30 June and 31 December, while payment of principal will be made in the last four quarters of the loan period or in bullet form. The loan is provided against the targets set by State Bank of Pakistan. The associated cost of guarantee is claimable from State Bank of Pakistan.

20.3.1 The Company has provided a guarantee of Rs. 2,000 million (31 December 2018: Nil) against the finance facility obtained from State Bank of Pakistan. This guarantee has been obtained from Askari Bank Limited and is secured against first pari passu charge on receivables/ microcredit advances of the Company for Rs. 2,500 million inclusive of 20% margin (31 December 2018: Nil).

20.4 Unutilized facility

The Company entered into an agreement with Allied Bank Limited, on 04 October 2019, for an additional term finance facility up to Rs. 500 million. No drawdown has been made from this borrowing arrangement until the reporting date and drawdown is expected in year 2020. The tenure of this facility is 05 years and carries a markup of 6-months KIBOR plus 0.70% per annum payable semi-annually. The principal repayments will be made in 6 half yearly equal installments. This facility is secured against hypothecation over present and future book debts / advances, receivables and investments of the Company.

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
21 EMPLOYEE BENEFITS			
Net defined benefit liability			
- Compensated leave absences	21.1	12,488,287	8,190,707
- Gratuity	21.2	9,830,869	4,050,845
		22,319,156	12,241,552

21.1 Net defined benefit liability-compensated leave absences

The amounts recognized in the statement of financial position are as follows:	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Present value of defined benefit obligation		12,034,351	8,190,707
Benefits payable		453,936	-
Liability at 31 December		12,488,287	8,190,707
Movement in net defined benefit liability			
Net liability at 01 January		8,190,707	-
Charge for the year recognized in the statement of profit or loss	21.1.1	5,142,762	8,597,373
Payments made during the year		(845,182)	(406,666)
Net liability at 31 December		12,488,287	8,190,707

		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
21.1.1	**Charge for the year recognized in the statement of profit or loss**			
	Current service cost		4,521,893	8,597,373
	Markup expense		1,091,299	-
	Experience adjustment on defined benefit liability		(470,430)	-
			5,142,762	8,597,373
	Expense is recognized in the following line item in the statement of profit or loss			
	Administrative expenses	29	5,142,762	8,597,373

21.1.2 Key actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2019 using the projected unit credit method with the following assumptions

	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Discount rate (per annum)	13.75%	N/A
Salary increase rate (per annum)	11.75%	N/A
Leave accumulation factor (per annum)	10 days	N/A
Normal retirement age (years)	60	N/A
Effective salary increase date	01 January 2020	N/A
Mortality rate	SLIC 2001-2005	N/A
Duration	13.58 years	N/A

21.1.3 Sensitivity analysis

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

	31 December 2019	31 December 2019
	(Rupees)	
	Increase	Decrease
Discount rate	(1,946,168)	1,322,821
Salary increase rate	1,429,069	(2,052,739)

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

21.1.4 Risk associated with defined benefit liability - compensated leave absences

21.1.4.1 Salary risk - (linked to inflation risk)

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

21.1.4.2 Demographic risks

- **Mortality Risk** - The risk that the actual mortality experience is different than the assumed mortality. This effect is more pronounced in schemes where the age and service distribution is on the higher side.
- **Withdrawal Risk** - The risk of actual withdrawals is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.

21.1.5 During the year, the Company has changed its policy for compensated leave absences provision, which is now determined based on actuarial estimates, resulting in increase in net defined benefit liability of compensated leave absences by Rs. 1,045,130 at 31 December 2018. This increase has been adjusted against current year charge. Since the effect of this change in accounting policy is not material, accordingly comparative financial statements have not been restated.

21.2 Net defined benefit liability-gratuity

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

	Note	31 December 2019	31 December 2018
The amounts recognized in the statement of financial position are as follows:		(Rupees)	(Rupees)
Present value of defined benefit obligation	21.2.2.1	27,893,029	17,827,326
Fair value of plan assets	21.2.2.2	(18,062,160)	(13,776,481)
Net liability		9,830,869	4,050,845
Movement in net defined benefit liability			
Net liability at 01 January		4,050,845	7,257,880
Charge for the year recognized in the statement of profit or loss	21.2.2	13,341,602	11,546,573
Re-measurement recognized in the statement of other comprehensive income	21.2.3	(1,931,301)	1,172,112
Payments made during the year		(1,579,432)	(667,840)
Contributions		(4,050,845)	(15,257,880)
Net liability at 31 December		9,830,869	4,050,845

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		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
21.2.2	**Charge for the year recognized in the statement of profit or loss**			
	Current service cost		13,171,693	11,622,358
	Markup income		169,909	(75,785)
			13,341,602	11,546,573
	Expense is recognized in the following line item in the statement of profit or loss			
	Administrative expenses	29	13,341,602	11,546,573
21.2.2.1	***Movement in fair value of plan obligation***			
	Present value of obligation at 01 January		17,827,326	7,257,880
	Current service cost		13,171,693	11,622,358
	Interest cost		2,184,234	744,326
	Benefits paid		(2,821,432)	(667,840)
	Actuarial gain on obligation		(2,468,792)	(1,129,398)
	Present value of obligation at 31 December		27,893,029	17,827,326
21.2.2.2	***Movement in fair value of plan asset***			
	Balance at 01 January		13,776,481	-
	Expected return on plan assets		2,014,325	820,111
	Contributions		4,050,845	15,257,880
	Benefits paid on behalf of the fund		1,579,432	667,840
	Benefits paid		(2,821,432)	(667,840)
	Re-measurement of plan assets		(537,491)	(2,301,510)
	Balance at 31 December		18,062,160	13,776,481

Plan assets comprise of:

	31 December 2019		31 December 2018	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	(Rupees)		(Rupees)	
Pakistan Investment Bonds (PIBs	17,500,000	15,806,484	7,000,000	5,456,160
Treasury Bills	-	-	7,863,224	7,835,234
Cash at bank	2,255,676	2,255,676	485,087	485,087
	19,755,676	18,062,160	15,348,311	13,776,481

		31 December 2019 (Rupees)	31 December 2018 (Rupees)
21.2.3	**Re-measurement recognized in the statement of other comprehensive income**		
	Actuarial gain on obligation	(2,468,792)	(1,129,398)
	Actuarial loss on assets	537,491	2,301,510
	Actuarial (gain) / loss recognized	(1,931,301)	1,172,112

21.2.4 Key Actuarial assumptions

The latest actuarial valuation was carried out on 31 December 2019 using the projected unit credit method with the following assumptions:

	31 December 2019	31 December 2018
Discount rate (per annum)	**11.75%**	13.75%
Expected increase in eligible salary (per annum)	**11.75%**	13.75%
Return on planned asset (per annum)	**11.75%**	13.75%
Duration (years)	**14.07**	14.96
Normal retirement age (years)	**60**	60
Effective salary increase date	**01 January 2020**	01 January 2019
Mortality rate	**SLIC 2001-2005**	SLIC 2001-2005

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

21.2.5 Risks associated with defined benefit plan

21.2.5.1 Salary risk- (linked to inflation risk)

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

21.2.5.2 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.

21.2.6 Sensitivity analysis

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

	31 December 2019 (Rupees)	
	Increase	Decrease
Discount rate	(4,505,471)	3,046,767
Salary increase rate	3,144,915	(4,638,668)
Withdrawal rate	1,057,192	(1,067,985)

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

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

	(Rupees)
FY 2020	359,099
FY 2021	372,438
FY 2022	393,573
FY 2023	422,052
FY 2024	460,134
FY 2025 to FY 2030	4,855,386

		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
22	**SHORT TERM BORROWINGS - Secured**			
	Allied Bank Limited - Running Finance	22.1	98,102,728	99,236,997

22.1 This represent utilized amount of running finance facility amounting to Rs. 100 million (31 December 2018: Rs. 100 million) and carries markup rate of 3-months KIBOR plus 0.40% (31 December 2018: 3-months KIBOR plus 0.40%) per annum, payable on quarterly basis. This facility is secured against first pari passu charge over present and future advances / receivables and investments of the Company along with 20% margin.

		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
23	**LEASE LIABILITY**			
	Lease liability - right of use assets	23.2	33,837,824	-

		01 January 2019 (Rupees)
23.1	**Lease liability**	
	Operating lease commitments	69,007,380
	Discounted using the incremental borrowing rate	60,453,230

23.1.1 The Company has recognized a lease liability under IFRS - 16 at 01 January 2019, for the lease previously classified as operating lease under IAS - 17 at the present value of the remaining lease payments using the incremental borrowing rate of 11.26%.

		31 December 2019 (Rupees)
23.2	**Lease liability**	
	Within one year	33,837,824
	Total undiscounted lease commitments	36,462,415
	Discounted lease liability using the incremental	33,837,824

		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
24	**TRADE AND OTHER PAYABLES**			
	Creditors and employees		11,554,559	9,493,327
	Accrued expenses	24.1	40,605,323	35,694,727
	Payable to provident fund	24.2	28,030	-
	Income tax deducted at source		2,531,908	41,588
	Sales tax payable		-	165,516
			54,719,820	45,395,158

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

		Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
24.2	**Payable to employees' provident fund**			
	Balance at 01 January		-	10,544,638
	Contribution / withheld during the year		17,211,822	15,871,684
	Payments during the year		(17,183,792)	(26,416,322)
	Balance at 31 December		28,030	-

25 MARKUP ACCRUED - PAYABLE

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Markup payable on subordinated loans	25.1	440,584,438	252,475,459
Markup payable on loans and borrowings	25.2	316,374,935	38,364,616
Guarantee fee payable	25.3	24,534,795	-
		781,494,168	290,840,075

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

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

25.3 This represents fee payable in respect of guarentee obtained from Askari Bank Limited against the finance facility from State Bank of Pakistan as mentioned in note 20.3 to these financial statements.

26 CONTINGENCIES AND COMMITMENTS

26.1 There are no material contingencies and commitments at the reporting date (31 December 2018: Nil) except contingency for BRAC-Pakistan lawsuit as disclosed in note 9.6 and lease commitments as disclosed in note 23.2.

27 INCOME - NET

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Markup on financing	27.1	3,215,388,078	1,600,392,044
Income from deposit accounts / certificates		193,153,109	70,378,806
Income on reverse repo transactions		129,365,566	67,156,238
Income on Treasury Bills investment		82,193,177	-
Income on Pakistan Investment Bonds		12,449,831	-
Service fee		-	1,200,000
		3,632,549,761	1,739,127,088
Sales tax		-	(165,517)
		3,632,549,761	1,738,961,571

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

28	FINANCE COST	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
	Markup on subordinated loans	28.1	1,658,466,747	871,814,031
	Markup on loans and borrowings	28.2	720,395,256	53,568,822
	Amortized transaction cost		306,897	98,871
	Bank charges		262,998	145,868
	Guarantee fee		24,534,795	-
	Less: Guarantee fee to be reimbursed by State Bank of Pakistan		(18,387,095)	-
			6,147,700	-
			2,385,579,598	925,627,592

28.1 This represent markup on subordinated loans from Pakistan Poverty Alleviation Fund (PPAF) and Karandaaz Pakistan as mentioned in note 19 to these financial statements.

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

29	ADMINISTRATIVE EXPENSES	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
	Salaries, wages and other benefits	29.1	194,082,311	182,087,941
	Rent	29.2	-	30,148,374
	Traveling and conveyance	29.3	22,379,990	18,091,677
	Legal and professional fees		6,874,612	2,568,832
	Advertisement and promotion		9,494,853	9,927,847
	Utilities		3,006,854	2,082,220
	Telecommunication and postage		1,839,496	1,827,142
	Director's fee		6,300,000	3,300,000
	Printing and stationery		827,108	1,447,799
	Repair and maintenance		4,247,765	5,685,214
	Auditors' remuneration	29.3	1,670,000	3,580,000
	Insurance		1,966,280	2,043,798
	Office supplies and meeting expenses		2,606,830	3,231,604
	IT Expenses		4,333,824	1,667,330
	Miscellaneous		1,447,834	470,834
	Depreciation on property and equipment	4	9,962,210	8,813,696
	Depreciation on ROU assets	5.1	30,203,518	-
	Amortization	6	330,667	330,669
	Financial charges on lease liability		5,929,559	-
	Consultancy and outsourcing arrangements	29.4	19,118,615	22,082,964
	Trainings and workshops		14,213,145	8,083,609
			340,835,471	307,471,550

29.1 Salaries, wages and other benefits include staff retirement benefits amounting to Rs. 27,560,705 (31 December 2018: Rs. 28,079,787)

29.2 Due to adoption of IFRS 16, rental cost is not recognized in administrative expense as mentioned in note 3 (ii) to these financial statements.

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

		31 December 2019	31 December 2018
29.4	**Auditors' remuneration**	**(Rupees)**	(Rupees)
	Audit fee	**880,000**	800,000
	Other services	**560,000**	2,730,000
	Out of pocket expenses	**230,000**	50,000
		1,670,000	3,580,000

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

		31 December 2019	31 December 2018
30	**OTHER EXPENSES**	**(Rupees)**	(Rupees)
	Crop value chain	**7,596,400**	3,640,222
	Livestock micro-insurance	**12,036,109**	-
	Solar home solutions	**17,319,236**	2,757,000
	Enterprise development	**23,471,700**	1,473,000
		60,423,445	7,870,222

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

			31 December 2019	31 December 2018
31	**OTHER INCOME**	**Note**	**(Rupees)**	(Rupees)
	Grant income (KfW)	**31.1**	**20,427,237**	10,170,003
	Grant Income (Sona Welfare Foundation)	**31.2**	**4,000,000**	4,994,000
	Advisory and arrangement fee	**31.3**	**4,000,000**	-
	Others		**358,200**	1,505,914
			28,785,437	16,669,917

31.1 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).

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

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

			31 December 2019	31 December 2018
32	**INCOME TAX EXPENSE**	**Note**	**(Rupees)**	(Rupees)
	Income tax:			
	- Current		**256,897,453**	145,709,357
	- Prior		**12,588,039**	1,764,381
			269,485,492	147,473,738
	Deferred tax	**16**	**(241,152,565)**	(25,553,757)
			28,332,927	121,919,981

		31 December 2019	31 December 2018
32.1	**Relationship between accounting profit and tax expense is as follows:**	**(Rupees)**	(Rupees)
	Accounting profit for the year	**67,655,917**	398,773,374
	Applicable tax rate	**29%**	29%
	Tax charge	**19,620,216**	115,644,278
	Tax effect of permanent differences	**-**	4,511,322
	Tax effect of change in rate	**(3,875,328)**	-
	Prior year effect	**12,588,039**	1,764,381
		28,332,927	121,919,981

33 CASH FLOWS FROM OPERATING ACTIVITIES BEFORE WORKING CAPITAL CHANGES

	31 December 2019	31 December 2018
Profit before taxation	**67,655,917**	398,773,374
Adjustments for non cash items and others:		
Depreciation on property and equipment	**9,962,210**	8,813,696
Depreciation on ROU assets	**30,203,518**	-
Amortization	**330,667**	330,669
Provision	**806,840,767**	115,888,750
Provision for leave encashment	**5,142,762**	8,190,707
Provision for staff retirement benefit - gratuity	**13,341,602**	11,546,573
Markup on financing	**(3,215,388,078)**	(1,600,392,044)
Income from deposit accounts / certificates	**(193,153,109)**	(95,832,199)
Income on reverse repo transactions	**(129,365,566)**	(67,156,238)
Income on Treasury Bills investment	**(82,193,177)**	-
Income on Pakistan Investment Bonds	**(12,449,831)**	-
Service fee	**-**	(1,200,000)
Finance cost	**2,385,579,598**	925,627,592
Suspended mark-up income	**94,953,696**	-
Financial charges on lease liability	**5,929,559**	-
Grant income	**(24,427,237)**	(15,164,003)
Gain on disposal of fixed assets	**(58,200)**	-
	(237,094,902)	(310,573,123)

34 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Note	31 December 2019			31 December 2018		
		Chief Executive	**Directors**	**Executives**	Chief Executive	Directors	Executives
			(Rupees)			(Rupees)	
Managerial remuneration		**25,615,800**	**-**	**94,977,956**	24,396,000	-	84,143,261
Performance bonus		**5,082,500**	**-**	**9,271,913**	3,800,000	-	7,598,500
Other perks and benefits	34.1	**1,611,096**	**-**	**17,098,087**	1,652,824	-	11,336,739
Contribution to provident fund		**1,793,112**	**-**	**6,656,347**	1,707,720	-	5,642,807
Gratuity		**6,403,950**	**-**	**26,409,942**	2,166,000	-	-
Meeting fee	34.2	**-**	**6,300,000**	**-**	-	3,300,000	-
		40,506,458	**6,300,000**	**154,414,245**	33,722,544	3,300,000	108,721,307
Number of persons		**1**	**2**	**34**	1	2	27

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

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

34.3 Key management personnel includes employees, other than the chief executive and directors, whose basic salary exceeds Rs. 1,200,000 (31 December 2018: Rs. 1,200,000) per annum.

35 EMPLOYEES PROVIDENT FUND

	Note	*Provident fund*	
		Unaudited	*Unaudited*
		31 December 2019	31 December 2018
		(Rupees)	(Rupees)
Details of the Employees' Provident Fund are as follows:			
Size of the fund - (total assets)		**33,525,272**	26,358,488
Cost of investments made	35.1	**31,617,307**	23,897,418
Fair value of investments		**33,497,242**	26,358,488
Cash at bank	35.1	**1,548,204**	-
Percentage of investments made (%)		**94%**	91%

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35.1 Breakup of investment - at cost:

	31 December 2019 (Rupees)	%
Investment in government securities	31,617,307	95%
Cash at bank	1,548,204	5%
	33,165,511	100%

	31 December 2018 (Rupees)	%
Investment in government securities	23,897,418	100%
	23,897,418	-

35.2 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.

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

	Liabilities		
	Loans and borrowings and short term borrowings	Subordinated loans	Total
		(Rupees)	
Balance at 01 January 2019	1,999,236,997	13,489,638,230	15,488,875,227
Changes from financing cash flows			
Proceeds from loans and borrowings - net	5,668,250,781	-	-
Repayments of short term borrowings	(1,134,269)	-	(1,134,269)
Repayments of subordinated loans	-	(1,142,938,345)	(1,142,938,345)
Total changes from financing cash flows	5,667,116,512	(1,142,938,345)	(1,144,072,614)
Total equity-related other changes	-	-	-
Balance at 31 December 2019	7,666,353,509	12,346,699,885	20,013,053,394
Balance at 01 January 2018	-	6,700,000,000	6,700,000,000
Changes from financing cash flows			
Proceeds from loans and borrowings - net	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

37 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

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

37.1 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

37.2 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 2019	31 December 2018
Transactions with associated undertakings	(Rupees)	(Rupees)
Service fee charged during the year	-	1,200,000
Grant income recognized during the year	20,427,237	10,170,003
Subordinated loan received during the year	-	6,809,000,000
Subordinated loan repaid during the year	1,142,938,346	19,361,770
Markup on subordinated loan charged during the year	1,658,466,747	871,814,031
Markup on subordinated loan paid during the year	1,470,357,768	708,415,818
Transactions with other related parties		
Employee contribution payable to provident fund	14,015	-
Employer contribution payable to provident fund	14,015	-
Total contribution paid to provident fund	17,387,727	7,935,841
Total contribution paid to gratuity fund	4,050,845	15,257,880
Transactions with key management personnel		
Remuneration and allowance including staff retirement benefits	194,920,703	108,721,307

38 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

38.1 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	Note	Carrying value				Fair value			
		Held to maturity	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
		31 December 2019 (Rupees)							
31 December 2019									
Financial assets not measured at fair value	38.2								
Financing - net	9	-	22,822,857,916	-	22,822,857,916	-	-	-	-
Long term advances and deposits	10 & 38.3	-	12,456,649	-	12,456,649	-	-	-	-
Advances and other receivable	12 & 38.3	-	44,698,960	-	44,698,960	-	-	-	-
Markup accrued - receivable	13	-	885,805,862	-	885,805,862	-	-	-	-
Due from related parties	14	-	20,402,438	-	20,402,438	-	-	-	-
Long-term investments - Pakistan Investment Bonds	8	379,125,357	-	-	379,125,357	-	394,534,407	-	394,534,407
Short-term investments - Treasury Bills	15	465,292,475	-	-	465,292,475	-	478,214,995	-	478,214,995
Short-term investments - Term Deposit Receipts	15	1,250,800,000	-	-	1,250,800,000	-	-	-	-
Cash and bank balances	17	-	805,933,056	-	805,933,056	-	-	-	-
		2,094,417,832	24,592,154,881	-	26,686,572,713	-	872,749,402	-	872,749,402
Financial liabilities not measured at fair value	38.2								
Subordinated loan	19	-	-	12,346,699,885	12,346,699,885	-	-	-	-
Loans and borrowings	20	-	-	7,568,250,781	7,568,250,781	-	-	-	-
Short term borrowings	22	-	-	98,102,728	98,102,728	-	-	-	-
Lease liability	23	-	-	33,837,824	33,837,824	-	-	-	-
Trade and other payables	24 & 38.4	-	-	11,582,589	11,582,589	-	-	-	-
Markup accrued - payable	25	-	-	781,494,168	781,494,168	-	-	-	-
		-	-	20,839,967,975	20,839,967,975	-	-	-	-

38 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A FAIR VALUES

On-balance sheet financial instruments		31 December 2018							
		Carrying value				Fair value			
		Held for trading	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	38.2								
Financing - net	9	-	20,533,401,250	-	20,533,401,250	-	-	-	-
Long term advances and deposits	10 & 38.3	-	9,405,806	-	9,405,806	-	-	-	-
Advances, prepayments and other receivable	12 & 38.3	-	11,772,313	-	11,772,313	-	-	-	-
Markup accrued - receivable	13	-	513,952,339	-	513,952,339	-	-	-	-
Due from related parties	14	-	9,256,300	-	9,256,300	-	-	-	-
Short-term investments - Term Deposit Receipts	15	-	825,000,000	-	825,000,000	-	-	-	-
Cash and bank balances	17	-	56,366,945	-	56,366,945	-	-	-	-
		-	21,959,154,953	-	21,959,154,953	-	-	-	-
Financial liabilities not measured at fair value	38.2								
Subordinated loan	19	-	-	13,489,638,230	13,489,638,230	-	-	-	-
Loans and borrowings	20	-	-	1,900,000,000	1,900,000,000	-	-	-	-
Short term borrowings	22	-	-	99,236,997	99,236,997	-	-	-	-
Trade and other payables	24 & 38.4	-	-	9,493,327	9,493,327	-	-	-	-
Markup accrued - payable	25	-	-	290,840,075	290,840,075	-	-	-	-
		-	-	15,789,208,629	15,789,208,629	-	-	-	-

38.2 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.

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

38.4 It excludes accrued expenses, income tax deducted at source, mark-up suspended and sales tax payable.

38.5 Measurement of fair values

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

i. Non - derivative financial assets

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

ii. Non - derivative financial liabilities

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

B FINANCIAL RISK MANAGEMENT

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

Risk management framework

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

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

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

38.6 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:

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	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Financing - gross*	9	23,860,547,433	20,764,250,000
Long term advances and deposits	10 & 38.3	12,456,649	9,405,806
Advances and other receivable	12 & 38.3	44,698,960	11,772,313
Markup accrued - receivable	13	885,805,862	513,952,339
Due from related parties	14	20,402,438	9,256,300
Short-term investments - Pakistan Investment Bonds	8	379,125,357	-
Short-term investments - Treasury Bills	15	-	-
Short-term investments - Term Deposit Receipts	15	-	825,000,000
Cash and bank balances	17	805,858,056	56,356,323
		26,008,894,755	22,189,993,081

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

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

	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Related parties	20,402,438	9,256,300
Banks and financial institutions	25,552,211,351	22,159,558,662
Others	436,280,966	21,178,119
	26,008,894,755	22,189,993,081

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% (31 December 2018: 1% - 1.5%) of the outstanding balance of financing, net of specific provision. The movement in general provision in respect of financing during the year was as follows:

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Balance at 01 January		230,848,750	114,960,000
Provision made during the year	9.5	86,210,000	115,888,750
Balance at 31 December		317,058,750	230,848,750

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

	Note	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Balance at 01 January		-	-
Provision made during the year	9.5	720,630,767	-
Balance at 31 December		720,630,767	-

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

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

iii. **Credit quality of financial assets**

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

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

	Ratings	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Financing - gross*			
Counterparties with credit rating	A+	800,000,000	-
Counterparties with credit rating	A	800,000,000	1,250,000,000
Counterparties with credit rating	A-	3,600,000,000	-
Counterparties with credit rating	BBB+	837,500,000	4,825,000,000
Counterparties with credit rating	BBB	2,790,000,000	2,437,500,000
Counterparties without credit rating		15,033,047,433	12,251,750,000
		23,860,547,433	20,764,250,000
Long term advances and deposits			
Counterparties without credit rating		12,456,649	9,405,806
Advances and other receivable			
Counterparties without credit rating		44,698,960	11,772,313
Markup accrued - receivable			
Counterparties with credit rating	A1+	4,191,220	478,533
Counterparties with credit rating	A1	15,363,036	32,152,797
Counterparties with credit rating	A2	141,929,830	-
Counterparties with credit rating	A3	135,410,456	168,060,545
Counterparties without credit rating		588,911,320	313,260,465
		885,805,862	513,952,339
Due from related parties			
Counterparties with credit rating	A1+	20,402,438	8,056,300
Counterparties without credit rating		-	1,200,000
		20,402,438	9,256,300
Short-term investments - Pakistan Investment Bonds			
Counterparties without credit rating		379,125,357	-

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

	Ratings	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Short-term investments - Treasury Bills			
Counterparties without credit rating		-	-
Short-term investments - Term Deposit Receipts			
Counterparties with credit rating	A1+	800,000,000	325,000,000
Counterparties with credit rating	A1	450,000,000	500,000,000
		1,250,000,000	825,000,000
Cash at bank			
Counterparties with credit rating	A1+	790,632,010	55,047,976
Counterparties with credit rating	A1	15,226,046	1,308,347
		805,858,056	56,356,323

38.7 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 2019					
Subordinated loan	12,346,699,885	22,404,319,054	2,833,623,497	9,520,973,288	10,049,722,269
Loans and borrowings	7,568,250,781	10,069,378,727	2,163,618,147	7,905,760,580	-
Short term borrowings	98,102,728	98,102,728	98,102,728	-	-
Lease liability	33,837,824	36,462,415	36,462,415	-	-
Trade and other payables	11,582,589	11,582,589	11,582,589	-	-
Markup accrued - payable	781,494,168	781,494,168	781,494,168	-	-
	20,839,967,975	33,401,339,681	5,924,883,544	17,426,733,868	10,049,722,269
31 December 2018					
Subordinated loan	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
Short term borrowings	99,236,997	99,236,997	99,236,997	-	-
Trade and other payables	9,493,327	9,493,327	9,493,327	-	-
Markup accrued - payable	290,840,075	290,840,075	290,840,075	-	-
	15,789,208,629	23,100,793,165	2,804,108,918	9,823,363,381	10,473,320,866

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

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

38.8 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.

38.8.1 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.

38.8.2 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 2019 Effective rate %	31 December 2018 Effective rate %	31 December 2019 (Rupees)	31 December 2018 (Rupees)
Fixed rate instruments				
Financial assets	10 - 14.5	8 - 9	2,521,150,131	881,355,723
Variable rate instruments				
Financial assets	KIBOR - 1 to KIBOR + 1 to 4.5	KIBOR + 1 to 3.5	23,860,547,433	20,764,250,000
Financial liabilities			(19,816,847,938)	(15,290,401,233)
			4,043,699,495	5,473,848,767

ii. Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not effect 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. 217.4 million (31 December 2018: Rs. 75.1 million) and increased / decreased markup expense by Rs. 185.3 million (31 December 2018: Rs. 120.1 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for previous year.

38.8.3 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.

38.9 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 2018: 100 million). As at 31 December 2019, the Company's total equity is Rs. 6,286 million (31 December 2018: Rs. 6,245 million).

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

	31 December 2019	31 December 2018
39 NUMBER OF EMPLOYEES		
Number of employees at reporting date	35	35
Average number of employees during the year	36	33

40 GENERAL

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

40.2 Corresponding figures have been rearranged where necessary for better presentation.

41 APPROVAL OF FINANCIAL STATEMENTS

41.1 These financial statements were authorized for issue by the Board of Directors of the Company in its meeting held on 11 MAR 2020.

CHIEF EXECUTIVE OFFICER **DIRECTOR**