

Investment for an
Inclusive
Tomorrow



Annual Report

Karandaaz Pakistan **2016-17**

BILL & MELINDA
GATES foundation



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ACRONYMS AND ABBREVIATIONS

AGM	Annual General Meeting
BMGF	Bill & Melinda Gates Foundation
BOD	Board of Directors
CDNS	Central Directorate for National Saving
CIC	Corporate Investment and Credit
DFI	Development Financial Institutions
DFS	Digital Financial Service
DFSP	Digital Financial Service Providers
HCD	Human Centered Design
HR&R	Human Resource and Remuneration
IBA	Institute of Business Administration
ICF	Innovation Challenge Fund
IFC	International Finance Corporation
KMC	Knowledge Management and Communication
LUMS	Lahore University of Management Sciences
MBL	Meezan Bank Limited
MFB	Micro Finance Banks
MFI	Micro Finance Institutions
MPG	Micro Payments Gateway
MSMEs	Micro, small, and medium enterprises
MoF	Ministry of Finance
NBFCs	Non-Bank Finance Companies
NPI	National Payment Infrastructure
P2G	Person to Government
PKR	Pakistan Rupee
PMIC	Pakistan Microfinance Investment Company
PPAF	Pakistan Poverty Alleviation Fund
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SGB	Small Growing Businesses
SME	Small and Medium Enterprise
USD	United States Dollar
WWB	Women World Banking



BOARD OF DIRECTORS

Dr. Ishrat Husain, Chairman

Mr. Shamim Ahmad Khan, Director

Ms. Sadia Khan, Director

Mr. Khurram Zafar, Director

Ms. Romana Abdullah, Director

Mr. Ali Sarfraz, Executive Director & CEO



CHAIRMAN'S MESSAGE

On behalf of the Board of Directors, it gives me great pleasure to present Karandaaz Pakistan's annual Directors' Report for the year 2016-17. I see this as an opportunity to reflect on the achievements of the past twelve months and draw out lessons for the future.

Karandaaz is a unique organizational structure of its kind and a business model that has not yet been tested and established elsewhere in developing world. The main objective of the organization, which is not for profit but is a corporate entity, is to reach out micro and small, medium enterprises through an integrated approach that brings together capital, knowledge transfer and use of technology by promoting an enabling ecosystem. Despite its formative phase it has come a long way since it was founded three years ago. It is now a vibrant organization with strong governance systems, a talented team commitment to achieving the organization's vision and mission, a diverse partners' network and credible market presence. Investments in institutional strengthening have begun to show results in Karandaaz's performance, as reflected in this year's report.

The challenge of financial inclusion in Pakistan is huge. Only 16 percent of the population uses formal financial services. This proportion is dismal for women, at three percent. Small and medium enterprises, which constitute 98 percent of total businesses in the country, lack access to appropriate financial services, whether for working capital or investment. This inhibits their ability to generate jobs and contribute to economic growth. Karandaaz is committed to contribute at both levels, and has already begun to do so in modest ways. Through its digital financial services portfolio, Karandaaz has initiated important projects with banks and government departments to improve the digital finance eco-system and create benefits for customers. These include, for example, digitization projects with National Bank of Pakistan and the Central Directorate of National Savings. Through its credit and investment arm, Karandaaz is now channeling funds to 300 SMEs, with plans to scale this up considerably in the coming months. Recognizing that stubborn barriers to financial access faced by specific segments, such as women and youth, require innovative thinking and experimentation, Karandaaz has launched its Innovation Challenge Fund. The Fund underwrites the risk of partners to

enable them to invest in new technologies and new models for serving the financially excluded.

These initial years have been dedicated to building a strong institutional foundation. While we will continue to strengthen this foundation, Karandaaz is now poised to scale up its operations and adopt innovative approaches to financial inclusion. The Board and management are committed to expanding our partners' network, growing our investments, and exploring ways for sustained flow of funds to SME businesses that would generate jobs and reduce income inequalities. This is a difficult challenge but we can assure you that the Board and the management team would do their utmost to achieve the set goals.

The unwavering commitment of our funders, the UK Department for International Development and the Bill and Melinda Gates Foundation, has been and will remain a key driver of our success. I take this opportunity to thank them. I also congratulate the Karandaaz team on such a successful year and encourage them to think bigger and better for the future. Finally, I want to thank my fellow Board members whose dedication and guidance will remain pivotal for Karandaaz's future development.

Looking ahead, I believe 2017-18 will be a year of growth for Karandaaz. Several projects launched this year will begin to bear fruit and we should start seeing their impact on the financial inclusion landscape. New initiatives across all work streams are being designed through consultations with industry stakeholders to ensure their relevance and effectiveness. We will also continue improving Karandaaz's systems and governance to align them with best practices and provide a strong, stable base for growth.

Dr. Ishrat Husain

Chairman, Karandaaz Pakistan Board of Directors



CEO'S MESSAGE

Karandaaz has achieved several significant milestones during the last twelve months. Despite being a young organization, it has become an integral part of the financial landscape in the country. Our distinct identity stems from our mission to increase financial inclusion by providing small and medium businesses access to finance, and increasing access of financial services to the unbanked segments of the population. Our aim is to stimulate business growth and generate jobs, and enable an inclusive economy, especially for women and youth.

To this end, we have begun several initiatives. A major achievement over the last year was the launch of the Pakistan Microfinance Investment Company (PMIC), in collaboration with the Pakistan Poverty Alleviation Fund and the German Development Bank - KfW. We anticipate that the creation of PMIC will accelerate access to responsible and sustainable financial services for underserved individuals and enterprises, and thereby contribute to Karandaaz's objective of job creation and income growth at the base of the pyramid. Our investment towards SMEs also multiplied during the year, with Karandaaz now supporting about 300 SMEs through partnerships with three financial institutions. Karandaaz also closed its first equity investment during the year, which has already shown results in terms of generating jobs and growth of the company.

Our digital finance portfolio significantly grew, with the Gates Foundation doubling its financial commitment to Karandaaz. This has allowed us to launch several exciting initiatives for building a low cost National Payments Infrastructure in Pakistan. Karandaaz is now also part of several key policymaking forums such as the National Financial Inclusion Strategy technical committees and the E- Commerce National Advisory Council.

At Karandaaz, we are committed to enriching the knowledge base of the financial industry and generating robust evidence that enables policymakers, private sector entities as well as funders. The highlight of this year was the launch of two studies, one on understanding existing informal financing mechanisms in the road transport sector, and the other on the uptake of warehouse receipt financing in Pakistan. Moreover, Karandaaz continued to emerge as an increasingly visible and credible player in the industry. The Karandaaz Blog and the company's presence in social and print

media continued to expand during the year. An exciting development was the launch of our Innovation Challenge Fund as a separate work stream this year. The Fund will provide us the vehicle for piloting ideas and solutions that address difficult challenges in financial inclusion and entrepreneurship in Pakistan's context. The first two rounds, for example, tackled the problem of improving products and services for international remittances and supporting women entrepreneurship.

As our work has expanded, our team has grown. So has our partners' network. I am delighted that Karandaaz has gathered significant momentum in developing partnerships with private and public stakeholders who share our mission and goals. We will continue to grow this network and strengthen existing partnerships.

To close, I want to extend my gratitude to our funders – the UK's Department for International Development (DFID) and the Bill and Melinda Gates Foundation (BMGF) – for not only their generous financial support but also the global knowledge and expertise they bring to the table. I also thank the

Karandaaz Board who have helped shape the vision and direction of the organization and continue to devote their time, energies and wisdom to continuously improve how we work. Finally, but not at all the least, let me acknowledge the hard work and enthusiasm of the Karandaaz team. Our achievements over the past year have truly been a team effort and I hope we continue to strive together towards achieving our goal of an inclusive economy and financial inclusion for all.

Ali Sarfraz
CEO, Karandaaz Pakistan

INTRODUCTION OF THE COMPANY



WHO WE ARE

KARANDAAZ PAKISTAN, established in 2014 and registered with the Securities and Exchange Commission of Pakistan as a nonprofit, is promoting access to finance for small businesses through commercially directed investments and financial inclusion for individuals. Karandaaz operates through four programme vehicles:



Karandaaz Capital

Invests growth capital in small and medium enterprises (SMEs) with the objective of generating commercial financial returns for Karandaaz and supporting broad based employment generation in Pakistan.



Karandaaz Digital

Provides technical assistance and services to promote financial inclusion through technology enabled solutions. Karandaaz Digital is working with national regulators, public agencies, private corporations, and technology entrepreneurs to strengthen national payments infrastructure, digitizing government to people payments, corporate supply chains, and supporting FinTech innovation in Pakistan.



Knowledge Management and Communication

Develops and disseminates evidence based insights and solutions to inform the core themes of the company, including innovation, women entrepreneurship and youth, and to influence the financial ecosystem to promote financial inclusion in Pakistan.

Karandaaz works with a wide range of market-based institutions across Pakistan to achieve our vision of inclusive economic growth, job creation and rising incomes. Our approach seeks to harness the power of markets and the private sector to increase access to finance for SMEs and the financially excluded in the country. Generous funding from the UK's Department for International Development (DFID) and the Bill & Melinda Gates Foundation (BMGF) enables us to pursue our goals.

KARANDAAZ MISSION

Provide and leverage long term financing and business expertise, directly and in partnership with other private and public intermediaries, to small growing businesses in Pakistan which have potential for profitable growth and sustainable job creation. Karandaaz pays special attention to supporting three key areas: the growth of women employment, youth employability, and innovation.

KARANDA AZ CAPITAL - IN FOCUS

The Karandaaz Capital team develops and structures partnerships with financial entities, such as wholesale lending platforms, funds, commercial banks, and DFIs to leverage private investment and credit for micro, small and medium enterprises (MSMEs) in Pakistan. We support the development, testing and implementation of commercially viable financial products to demonstrate the viability of inclusive finance. In working with commercial entities, we ensure our innovations align with the risk appetite of financial institutions and thereby have the potential to reach scale. Our goal here is to achieve greater financial inclusion for enterprises, catalyze business growth, stimulate job creation, and improve market responsiveness within financial services providers.

Currently, Karandaaz Capital operates in three streams:

- ◆ **Credit Business:** the credit business of Karandaaz Capital designs innovative and viable credit models for SME finance and provides risk capital to premier financial institutions and corporations to test them. A key focus of its structured finance programs is to promote term finance for capital investment and greater emphasis on cash-flow based lending. With advances in digitization, the credit business also seeks to develop partnerships around FinTech innovations.
- ◆ **Corporate Investment:** Karandaaz Capital makes private equity investments in commercial strategic platforms that build financial inclusion infrastructure and services for micro, small, and medium size enterprises; and injects growth capital in SMEs with potential for growth and broad-based employment creation.
- ◆ **Pakistan Microfinance Investment Company:** Karandaaz has a 37.8 percent stake in the newly created PMIC. PMIC provides credit in the form of loans to microfinance banks and microfinance institutions against the quality of their portfolio.



Karandaaz injects growth capital in SMEs

KARANDAAZ DIGITAL - IN FOCUS

Pakistan continues to be one of the most exciting digital finance markets in the world. In stark contrast to the country's political and security struggles, the digital finance industry is a source of optimism in both policy and business circles. It is viewed as the best option to close the financial inclusion gap in the country given its potential to deliver financial services to the poor profitably at low cost.

Karandaaz Digital is working to catalyze the digital finance ecosystem in partnership with all stakeholders, including regulators, policymakers, government departments, businesses, researchers and academia. To ensure inclusiveness we maintain a special focus on low-income, rural, and otherwise excluded population segments, especially women. We facilitate digitization of government and other payment streams, encourage experimentation with businesses, and provide support to innovative DFS start-ups through four work streams:

- ◆ **National Payment Infrastructure:** The National Payment Infrastructure (NPI) work stream focuses on deploying a nationwide low-cost payment infrastructure through which micro payments can be made and digitized.
- ◆ **Innovation and Incubation:** In collaboration with commercial service providers, private firms, and FinTech start-ups, Karandaaz Digital spurs the development and testing of a range of digital payment innovations that have the prospect of reaching millions of new customers who otherwise remain financially excluded.
- ◆ **Research & Data Analytics:** Karandaaz Pakistan conducts research and digital experimentation to assess the pricing and product adaptation possibilities among the low-income segments for DFS. Findings are published through blogs, technical manuals, reports, and case studies which contribute to a knowledge base for the entire industry.
- ◆ **Policy and Regulation:** Karandaaz Digital advocates with policymakers and regulators to develop an enabling environment to foster innovation in the digital financial services industry. Karandaaz identifies the critical challenges and regulatory barriers restricting digital financial inclusion and conducts research to better inform deliberations around those barriers.



Karandaaz is working to develop an enabling environment to foster innovation in digital financial services industry

KNOWLEDGE MANAGEMENT AND COMMUNICATION - IN FOCUS

Knowledge Management & Communication (KMC) works closely with internal and external stakeholders to develop evidence-based insights and solutions in an attempt to influence market change. Karandaaz aims to establish itself as knowledge hub on SME finance and digital financial services with national and international visibility and seeks to make analysis-based decisions for its investments. The department has a diverse portfolio of activities, including the innovation challenge fund, research, workshops and event management, blogs, communications and outreach, newsletters, solicitation and stakeholder engagement (through social media channels) and web management.

An exciting development has been the launch of the Karandaaz Innovation Challenge Fund (ICF). New businesses in Pakistan, and around the world, lack capital and are constrained by the inherent risk of trying innovative approaches to overcome complex challenges. Challenge funds provide a mechanism to support entities for developing and implementing innovative business models without the financial burden of potential failure. Given that innovation is a central tenant of Karandaaz's work, KMC launched its ICF to spur new thinking and test fresh approaches in financial inclusion and entrepreneurship. Through challenge rounds designed around a specific problem, Karandaaz invites the private sector to propose innovative yet practicable and commercially viable solutions. These are supported through matching grants and/or patient capital. The ICF especially focuses on hard to solve problems in Pakistan's context, such as growth of women-led businesses, youth's participation in the economy, formalizing international remittances, and access to finance for SMEs.

KMC also manages the Karandaaz Blog (www.karandaaz.com.pk/blog/) and arranges public and stakeholder engagement events. Karandaaz website also serves as a resource platform for the industry and is managed by KMC besides publications, social media, print and electronic media engagement and public relations activities, and quarterly newsletters.



Capacity building workshop for incubators and accelerators



DIRECTORS
REPORT
2016-17
YEAR IN
REVIEW

THE YEAR IN REVIEW: 2016-17

The year 2016-17 has been an exciting one at Karandaaz Pakistan. Being the second full year of operation, it was a significant period in terms of organizational development as well as our programmatic portfolio. The Karandaaz Board of Directors is pleased to present this year's Directors' Report which provides a summary of the company's achievements over the last year. The report is organized to provide details of progress under the three work streams at Karandaaz i.e. Karandaaz Capital, Karandaaz Digital and Knowledge Management and Communications (KMC). The report concludes with providing an overview of the future outlook for the company. It also includes the annual audited financial statements for the year ended 30th June 2017.

Overall, Karandaaz has spent about PKR 5.1 billion till 30th June 2017 towards advancing financial inclusion. This includes a PKR 2.2 billion investment in the Pakistan Microfinance Investment Company (PMIC), PKR 2.2 billion of total outstanding SME credit portfolio funded by Karandaaz and its partner financial institutions, and PKR 0.36 billion in grants for innovation under the Innovation Challenge Fund and PKR 0.22 billion for digital financial inclusion. This combined investment has yielded development results in terms of generating jobs, increasing revenues of SMEs, stimulating innovation and expanding access to formal finance for the previously excluded.



KARANDAAZ CAPITAL

Karandaaz Capital expanded its footprint significantly during the year across all three areas of work.

◆ Credit Business

A key objective of the program is to develop and demonstrate effective credit models to lend to SMEs and leverage private and public financing (local and international) for small and mid-size businesses. Lending is targeted to selected clusters/value chains based on a rigorous analysis of local and global experiences and data.

Karandaaz Capital is currently working with three financial institutions, seven corporate partners, and over 300 SMEs. Till 30th June 2017, aggregate disbursement stood at PKR 3,368.76 million and the outstanding portfolio stood at PKR 2,179.2 million, through the following programs:

Partnership with Meezan Bank Limited:

Under the Corporate Vendor and Distributor Program with Meezan Bank Limited (MBL), Karandaaz signed tripartite agreements with Engro Fertilizers, Atlas Honda, Pak Suzuki, Unilever Pakistan, Al Ghazi Tractors, Millat Tractors, and Nestle to provide financing to their supply chain partners. These corporates identify vendors and distributors with growth potential and provide visibility on their revenues and cash flows. Selected vendors and distributors/dealers are provided financing with a leverage factor of 4x and assignment of receivables from apex corporates.

A technical assistance grant of USD 300,000 was also provided to MBL by the International Finance Corporation (IFC) to strengthen the capacity and design of the program and demonstrate commercially viable credit models for growing SMEs.

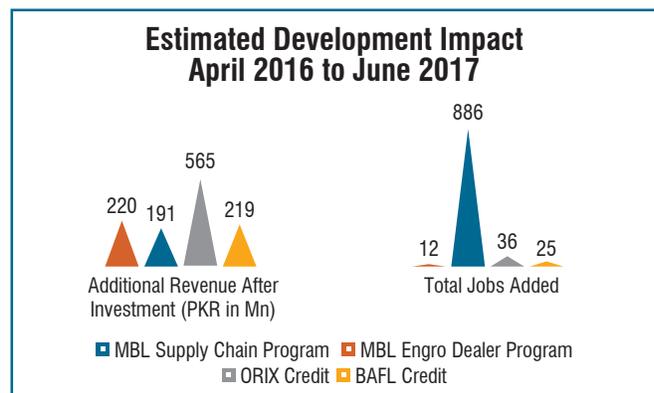
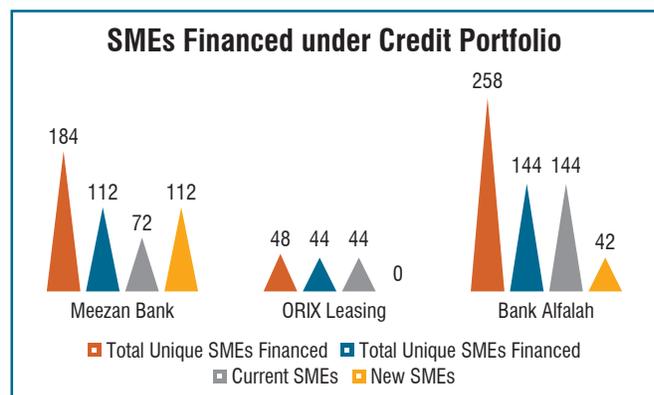
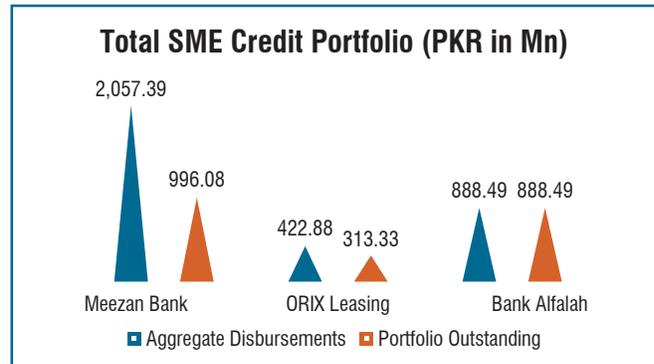
This year, Karandaaz Capital modified its approach to also include customized corporate product programs, such as distributor finance. This resulted in the roll out of a urea dealer financing program with Engro Fertilizer which helps meet the working capital requirements of fertilizer dealers. In the first phase of this program, 74 dealers were provided a total financing of PKR 984 million whereas in the second phase, 33 existing and 25 new dealers are availing this facility with total financing of PKR 717.5 million.

Partnership with Orix Leasing:

With Orix Leasing, 44 SMEs in transport, engineering, plastics and allied, and other sectors began availing equipment and commercial vehicle leases.

Partnership with Bank Alfalah Limited:

Bank Alfalah Limited signed a Risk Participation Agreement with Karandaaz through which SMEs are being financed on a leverage factor of 3x in five product programs. These programs include supply chain finance, fleet finance, dairy supply chain finance, merchant finance, and telco franchisee finance. Till June 30, 2017, PKR 888 million has been deployed to 144 SMEs.



◆ **Corporate Investment**

Through this instrument, Karandaaz is able to take a stake in SMEs that require equity and expert business advice. Long-term risk capital is, for the most part, not available for small or mid-size enterprises in Pakistan outside family investments and retained earnings. The lack of financial sponsors with the ability to make equity investments and provide experienced sponsor support is a critical constraint on the growth of SMEs in Pakistan and limits the overall growth, productivity, and employment capacity of the economy. On the demand side, most of the family owned private firms have limited appetite to dilute equity and include “outsiders” in the decision-making process. But this is partly because of the absence of institutional impact investors who primarily seek the growth of these firms. Making equity investments and realizing value is significantly riskier than providing credit and requires a level of governance systems, shareholder alignment, business growth potential, and exit arrangements that can only be through partnering with formal sector businesses with a competitive market position, led by relatively sophisticated sponsors. Having said that, Karandaaz is cognizant of its role in creating access to finance where it does not exist and hence opportunistically investing in relatively riskier earlier stage companies

Since inception, Karandaaz has reviewed 37 companies for investments and closed one deal (with Techlogix, an IT consulting and business solutions company), whereby a quasi-equity investment worth USD 1.5 million has been made in the company. The investment has already led to the creation of 35 new jobs.

◆ **Pakistan Microfinance Investment Company**

The Pakistan Microfinance Investment Company (PMIC) transaction was completed during the reporting period whereby Karandaaz deployed USD 15 million in PMIC for a 37.8 percent shareholding. The other shareholders are the Pakistan Poverty Alleviation Fund (49 percent) and KfW (13.2 percent). PMIC provides credit lines to microfinance providers against the quality of their portfolio. Its mandate is to a) provide sustainable funding to microfinance banks and non-bank microfinance institutions, b) provide technical assistance, financial and investment services to microfinance providers, and c) make equity-linked investments in retail microfinance institutions (MFIs). Up till June 30, 2017, PMIC had disbursed PKR 4,159 million to its borrowers i.e. microfinance banks (MFBs) and non-bank microfinance providers (NBMFIs). Out of this, PKR 3,648 million had been further disbursed to clients. The total number of clients served by PMIC at the end of the reporting period was 92,564.



Karandaaz Pakistan promotes inclusive economic growth, job creation, and improved incomes through greater financial inclusion of Pakistanis

KARANDAAZ DIGITAL

During the reporting period, the Karandaaz Digital initiated major engagements with a wide range of stakeholders in the financial services ecosystem. Stakeholders engaged include government entities, regulators, mobile financial services providers, commercial banks, research institutions as well as financial technology focused start-ups. The team also focused on building Karandaaz’s value proposition for the market by creating actionable knowledge for digital finance service providers, regulators and start-ups operating in the digital finance services (DFS) space; building a community of DFS practitioners with Karandaaz at its center through workshops and courses, and engaging with regulators and other stakeholder government institutions on multiple fronts to sensitize them and move them towards digitization. Simultaneously the focus was also on building a multi-skilled high performance DFS unit with backgrounds ranging from banking, mobile money, gender, public sector, and social development.

Over the course of the year the DFS engagement model and partner selection strategy has evolved through learnings from collaborations with the government and private entities. The Karandaaz Digital unit has developed a multi-stage process that outlines guidelines for partnerships and comprehensive documentation requirements tailored to whether the collaboration is with government agencies, private entities, or with a start- up firm. Having a clear engagement model has helped the team streamline its internal processes, as well as ensure transparency and visibility in the partner selection process. During the reporting year, Karandaaz Digital formalized a total of 17 engagements with various partners ranging from government entities, private banks, DFS providers, and research and consulting partners to carry out its work plan activities for the advancement of financial inclusion.

During the reporting period Karandaaz also made considerable headway in maturing its relationship with State Bank of Pakistan (SBP) for setting up a low cost payment system, termed as Micro Payments Gateway (MPG) based on Level One principles. The MPG will be created as a public utility focused on low value, high volume payments paving the way for more robust commercial efforts to serve the poor and thereby help to create an economy that benefits everyone. This will also lower the cost of participating in the financial system, increase financial inclusion and develop modern and robust payment systems as per Strategic Goals 4 and 5 of the SBP Vision 2020 . Karandaaz Digital is currently in the process of finalizing its support to SBP for implementing the Level One Project and a signing of the agreement to extend the necessary support is expected in the next quarter.



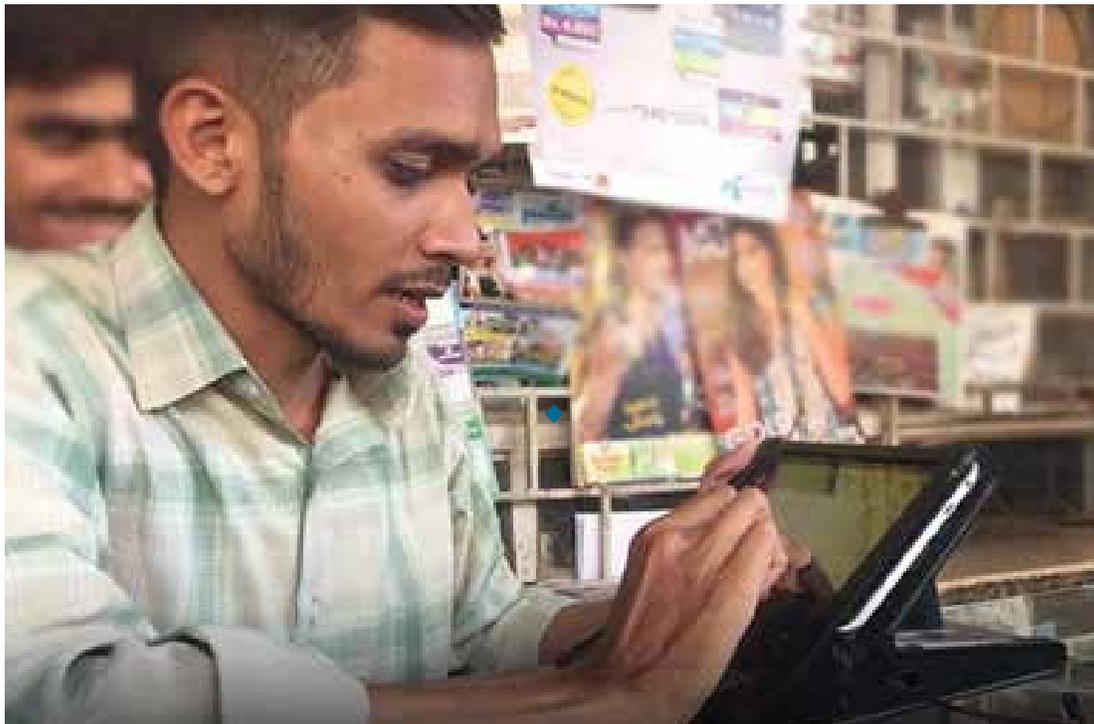
R-L: Ali Sarfraz, CEO; Rehan Akhtar, Director DFS; Khurram Zafar, Board Director of Karandaaz seen with FinTech Disrupt Challenge’s winning team CreditFix

Karandaaz Digital also launched a first of its kind FinTech Disrupt Challenge fund in Pakistan to support the development of the start-up and FinTech ecosystem and foster private sector innovation for accelerating financial inclusion. The first round was held at the Lahore University of Management Sciences (LUMS) in collaboration with the LUMS Centre for Entrepreneurship in Lahore in November 2016. Three start-ups emerged as winners (Ricult Pakistan, Paysys Labs, and Publishex Solutions) of the challenge and have initiated development of their products and services. Based on the learning from the first round a second challenge round was held in Institute of Business Administration's (IBA) Centre for Entrepreneurial Development in May 2017 in Karachi. A total of four winners (CreditFix, Unikrew Solutions, Invoice Wakalah and Agrigate) were announced and the team is working closely with the winners from both rounds to extend technical and market knowledge and monitor progress against intended impact.

Karandaaz also engaged key stakeholders via focused workshops and events on digital financial services to create a community of informed practitioners for the development of the DFS ecosystem and acceleration of financial inclusion in the country. During the reporting period a total of 8 workshops and events were conducted. Other key ongoing engagements included technical assistance to the Punjab Agriculture Department, National Bank of Pakistan (NBP), Central Directorate of National Savings (CDNS), Value Chain Digitization with Bank Alfalah, App development for low-literacy populations with JazzCash and others.

During the reporting period the Karandaaz Digital team concluded a number of important initiatives including:

- introduction of Human Centered Design (HCD) approaches to mobile financial service providers and the wider industry through the User Interface (UI)/User Experience (UX) Research Study focused on low-literacy populations;
- a person-to-government (P2G) landscaping research study that consolidated global evidence on digitization of P2G payments, explored barriers to adoption, and suggested a way forward for P2G digitization initiatives in Pakistan; and
- a strategy for digital banking to identify global and regional best practices for application in Pakistan.



A mobile money agent completing a transaction

¹ <http://www.sbp.org.pk/spd/Strategic.pdf> <http://www.leveloneproject.com>

KNOWLEDGE MANAGEMENT AND COMMUNICATION

Knowledge Management & Communication (KMC) has been working closely with internal and external stakeholders to develop evidence-based insights and solutions in an attempt to influence market change.

The KMC department has conducted several research studies related to both the digital and the capital work streams. On the SME side, studies have been conducted on the knowledge needs for promoting microenterprise lending, warehouse receipt financing, non-performing loans, and profiling of the trucking and logistics sector and informal finance within the sector. These studies are being used by Karandaaz Capital and its stakeholders in the financial sector to increase their understanding of certain sectors (trucking and fleet financing and agriculture warehousing as collateral) and helping them design better products and compete with prevalent informal practices. For the former, research has been conducted on global landscape on P2G, Agent Network Accelerator Survey among others.

In line with its commitment to innovation and tackling stubborn barriers to financial inclusion in Pakistan, Karandaaz designed and launched an Innovation Challenge Fund (ICF) in September 2016. The first round of ICF focused on improving the international remittance products and services in Pakistan. Three agreements worth approximately PKR 148 million were signed with the winners, which include Telenor (Telenor Microfinance Bank), Samba Bank (with consortium partner Global Financial Systems) and Bank Alfalah Limited (consortium partner Paysys Labs).

The second round of the ICF was launched in May 2017, which centered on supporting women entrepreneurship. Karandaaz issued a call for incubators and accelerators to propose innovative programs that address the specific challenges faced by women entrepreneurs. Winners of this challenge round will receive support from Karandaaz to run women-specific program. The graduating cohorts of entrepreneurs will then compete for grant (for new businesses) or equity (for established businesses) funding from Karandaaz.

The ICF program has been designed to create focus on specific problems in financial inclusion and priorities of the company. Each thematic round is a complex independent project that addresses a new set of challenges, stakeholders and applicants and operates in a different ecosystem. By leveraging the KMC activities, the ICF is now well-known and has become synonymous with innovation and economic development.

KMC also manages the Karandaaz Blog (www.karandaaz.com.pk/blog/) which has published 43 blogs overall, of which 16 were published in the year under review. Eight events, including workshops and signing ceremonies, with various sector stakeholders including financial institutions and government departments were held during the year 2016-17.

SPOTLIGHT ON GENDER at KARANDAAZ Accelerating Women's Financial Inclusion through Digital Finance

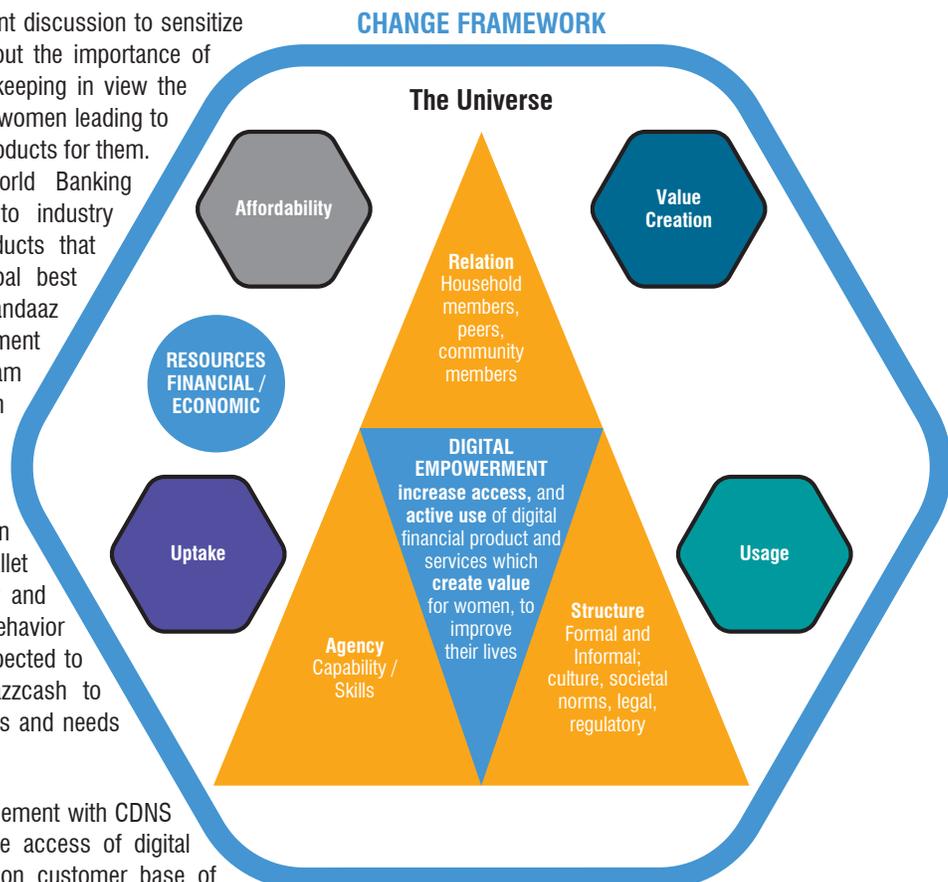
Gender has been identified as a priority area for Karandaaz given the high disparity in access and usage of digital financial service by women. Karandaaz digital is committed to integrating the concept of women empowerment in all DFS interventions. As we see it, bridging the digital gender divide is a matter of attitudinal and behavioral change which is at the intersection of the agency, relation and structure framework (see figure).

Karandaaz is defining women empowerment in the digital financial sphere as: "...increased access, and active use of digital financial product(s) and service(s) which create value for women, to improve their lives." In line with this prioritization, Karandaaz digital is putting together a comprehensive strategy to guide the design and implementation of all interventions and ensure a focus on inclusion of women. To achieve these objectives the program will work through the following realms;

- enabling ecosystem (infrastructure) for a conducive environment for women through interconnectivity and alternate delivery channels;
- creating value for women by developing women centric digital products and processes, either through improvements in existing product portfolios and/or process reengineering for a wider outreach;
- Women-centric research for meaningful industry engagement aided by pilot projects and generation of use cases.

Karandaaz has initiated an important discussion to sensitize the financial services industry about the importance of designing products and services keeping in view the preferences and specific needs of women leading to an enhanced access to financial products for them. Practitioners from Women's World Banking (WWB) were invited to speak to industry stakeholders about financial products that work for women based on global best practices and experience. Karandaaz Digital is taking this engagement forward by facilitating the WWB team to conduct in-country research on designing products and services aimed at promoting digital financial inclusion of women in the Pakistani context. WWB team has shared an initial hypothesis to increase –wallet adoption among female customer and concluded client research and behavior mapping exercise. The team is expected to finalize the pilot design with Jazzcash to develop insights on the preferences and needs of women for financial products.

Similarly Karandaaz Digital's engagement with CDNS is a unique opportunity to provide access of digital channels to approximately 7 million customer base of CDNS, 50% of which are women. Most of its products are designed for low-income segments of the society including widows, senior citizens, and pensioners. Karandaaz Digital will continue to work in the area of gender by focusing on it as a key priority and a cross cutting theme in all engagements.



CORPORATE GOVERNANCE

Karandaaz Pakistan has a well-defined corporate governance structure that ensures that Karandaaz Pakistan's activities are in compliance with the principle of ethical business, applicable SECP regulations, donor requirements, and also helps in making certain that the mission of the company is achieved. All Karandaaz board members are independent, except for the CEO who is an Executive Director. During the year, a total of four board meetings and one AGM were held in accordance with the Articles of Association. During the year, Human Resources and Remuneration Committee (HR&R) was constituted and TORs of the same were approved. Currently, Karandaaz has two board committees – HR&R Committee and Audit Committee. To further strengthen the capacity of advisory committees, two additional members were added to the Karandaaz Investment Committee. These include Mr. Shehzad Naqvi (for credit) and Mr. Azmat Nawaz (for equity). Similarly, the terms of reference of the Investment Committee and Digital Advisory committee have also been revised and approved by the board.

During the year, one HR&R Committee meeting, five Investment Committee meetings, three Digital Advisory Committee meetings, and four Audit Committee meetings were conducted. Recommendations from these committees were brought to the board for their approval. To enrich the capacity of existing board and enable effective involvement in the board's committees, Karandaaz Board approved the addition of two new board members who will be finalized and added in the next financial year. Karandaaz board also adopted a board charter which is in line with best corporate governance standards as approved by IFC. The charter was developed also keeping in view the Karandaaz Memorandum and Articles of Association as well as SECP code of corporate governance.

In addition to the board charter, IFC is in process of conducting a complete corporate governance review of Karandaaz. The recommendations of the review will be brought to the board in the first quarter of next year and an action plan will be created for the implementation of the approved recommendations in FY18. This will further strengthen the governance arrangements at Karandaaz leading to achievement of the Karandaaz mission and vision while following international best practices on governance standards.

Details for BOD meetings held during 2016 -17		
Karandaaz Board of Directors	Total number of BOD Meetings held	Total number of Meetings attended
Dr. Ishrat Husain (Chairman)	4	4
Mr. Shamim Ahmad Khan	4	4
Ms. Sadia Khan	4	3
Ms. Romana Abdullah	4	3
Mr. Khurram Zafar	4	4
Mr. Ali Sarfraz Hussain (CEO & Executive Director)	4	4

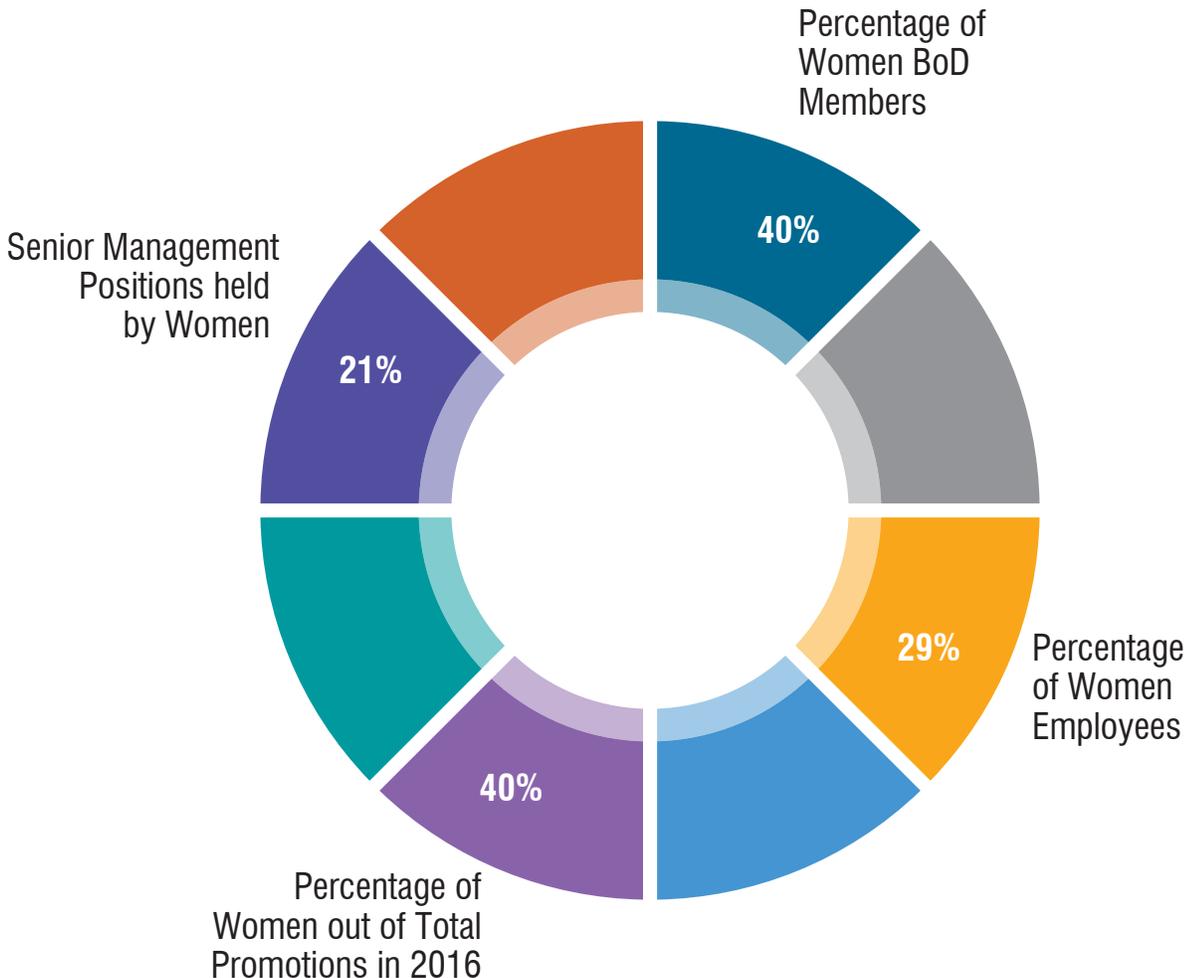
HUMAN RESOURCES

At Karandaaz, we believe that our people are our biggest asset and that every person on the team is important for the achievement of our mission. Envisioned to be a lean organization, Karandaaz is a small but highly diverse team from varied backgrounds. We believe that our diversity is our strength and enables us to innovate and encourages creativity. Karandaaz also actively strives to achieve gender balance at all levels of the organization (see Figure).

We also believe that our internal culture should be a reflection of our vision and each person in the Karandaaz team is committed to the inclusive growth impact we collectively aim to create. The board and management of Karandaaz strive to live by the values of Innovation, respect, integrity, accountability and transparency. We believe in open communication and knowledge sharing so that our people have the information they require to make decisions.

We strive to attract, retain and develop a workforce that delivers their best. Human resource is a strategic asset to Karandaaz Board who realize it as a partner in achievement of program goals. During the year Karandaaz team has grown by addition of 25 new staff members. As the pace of program activity increased, accomplished professionals who share our belief have joined us in our journey. At Karandaaz, we also believe that our employees need to be challenged every day to bring out their best capability. Accordingly, we set high expectations to build capacity of our staff at all levels. We also believe in a performance-driven culture which has led us to develop a robust performance management system and a mechanism for awarding high performers.

GENDER BALANCE AT KARANDAAZ PAKISTAN



FUTURE OUTLOOK

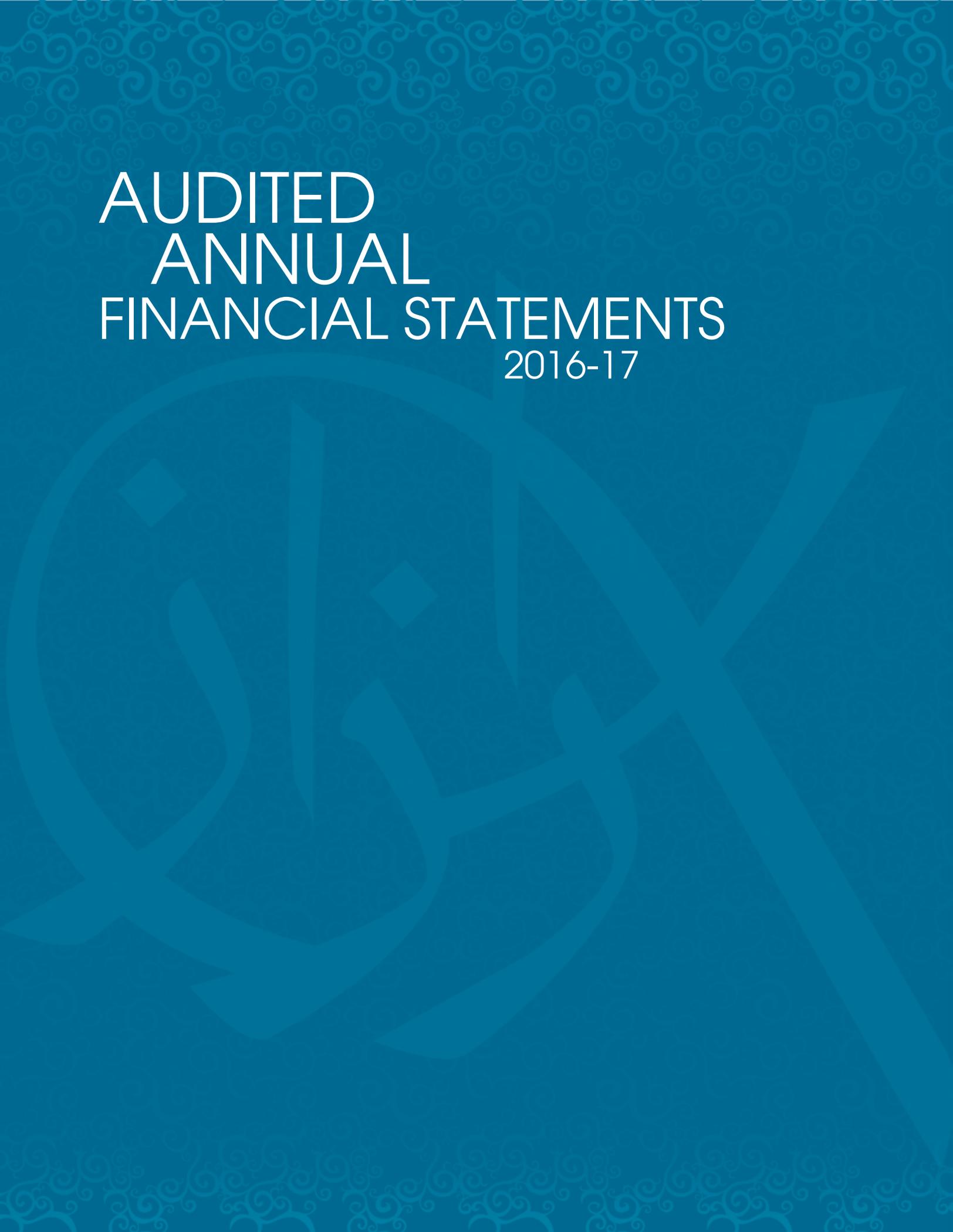
Karandaaz is a unique organization, set up to be a pathfinder in accelerating financial inclusion for individuals as well as businesses in Pakistan. The first three years of the organization's life have been invested in building a solid governance and management base as well as defining its programme strategy. Much has been achieved but with our dynamic and responsive-to-markets approach, we expect to continuously evolve to stay relevant and add value to the wider industry.

There have been significant challenges in moving forward. The larger macroeconomic and business environment poses particular difficulties in identifying and making appropriate equity investments. The organization has had to operate on a steep learning curve in order to begin deploying its funds. Most SMEs remain reluctant to engage with formal financial institutions. Major tax reform is critical ultimately to upgrading accounting and governance standards and getting SMEs into the formal credit system. Government and regulatory support is crucial in encouraging development of non-banking channels for small business finance (licenses for small business finance companies that can mobilize deposits, incentives to promote leasing and other small business finance platforms. Another challenge has been on the access to finance for women side. It proved difficult to find appropriate partners to develop and roll out a customized programme for women-led businesses through the banking sector. Hence Karandaaz changed its strategy and decided to engage with business incubators and accelerators to identify women-led businesses and invest in them.

In the coming year, Karandaaz will significantly upscale its operations. We foresee at least a doubling of our SME credit portfolio and reaching nearly 600 SMEs through our partner financial institutions. Similarly, we hope to expand our equity

investments and lock-in three to four new deals. Already a pipeline for potential investments has been identified and we will continue to scout the market for SMEs where our capital and expertise can create growth and generate jobs. Various large scale projects under our digital finance work stream will reach full-scale implementation over the coming months. These include the partnership with Central Directorate of National Savings whereby their customers will get access to alternate delivery channels, the project with National Bank of Pakistan for digitizing government receipts and payments, and potentially an initiative to create a low-cost micro-payments gateway in the country. We will continue to support innovation and experimentation across our portfolio. More specifically, our Innovation Fund and FinTech Disrupt Challenge Rounds will identify and target the best ideas with potential to reach unbanked and excluded segments. One priority for us will be the inclusion of women across our interventions, whether in terms of new jobs created, digital finance products and services supported or businesses enabled through our investments. Cutting across our work will be our commitment to generate robust and credible research and data. Our knowledge management work will support not only Karandaaz in better achieving its objectives, but also provide evidence and information for the larger industry players.

Finally, Karandaaz will continue to strengthen its corporate governance and management and financial systems. As custodians of public funds, we are committed to working transparently and achieving value for money. Already in the pipeline are strategies for our monitoring and evaluation function and value for money. These will be operationalized in the coming year. These investments will be key for Karandaaz to achieve its growth targets and achieve its goal of an inclusive tomorrow.



AUDITED
ANNUAL
FINANCIAL STATEMENTS
2016-17

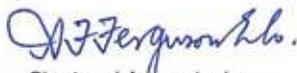

A·F·FERGUSON&Co.
AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Karandaaz Pakistan (the Company) as at June 30, 2017, and the related statement of income and expenditure, statement of cash flows and statement of changes in net assets together with the notes forming part thereof, for the year ended June 30, 2017, and we state that we have obtained all the information and explanations which, to the best of our knowledge and believe, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion
 - i) the balance sheet and the statement of income and expenditure together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, statement income and expenditure, statement of cash flow and statement of changes in net assets together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2017 and of the surplus for the year, its cash flows and changes in net assets for the year ended June 30, 2017;
- d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



Chartered Accountants
 Islamabad: September 14, 2017
 Engagement partner: JehanZeb Amin

*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
 PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan
 Tel: +92 (51) 2273457-60/2604934-37; Fax: +92 (51) 2277924, 2206473; < www.pwc.com/pk >*

■ KARACHI ■ LAHORE ■ ISLAMABAD

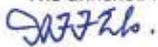
KARANDAAZ PAKISTAN

(A Company incorporated under section 42 of the Companies Ordinance, 1984)

BALANCE SHEET AS AT JUNE 30, 2017

	Note	2017 Rupees	2016 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	5	8,842,326	10,471,363
Intangible assets	6	1,302,989	854,260
Investment in associated company	7	2,222,894,663	-
Long term finance to partner organizations - unsecured	8	207,869,884	200,242,060
Long term portion of SME loans - secured	9	234,156,806	3,745,412
Long term security deposits	10	851,800	829,800
		<u>2,675,918,468</u>	<u>216,142,895</u>
CURRENT ASSETS			
Current portion of SME loans - secured	9	260,327,742	1,102,588
Advances, deposits, prepayments and other receivables	11	22,790,256	29,981,520
Income tax refundable		19,263,943	6,763,766
Short term investments	12	-	2,534,618,546
Cash and bank balances	13	738,419,003	228,407,770
		<u>1,040,800,944</u>	<u>2,800,874,190</u>
TOTAL ASSETS		<u><u>3,716,719,412</u></u>	<u><u>3,017,017,085</u></u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred grant	14	10,145,315	11,325,623
CURRENT LIABILITIES			
Trade and other payables	15	<u>72,312,720</u>	<u>28,246,606</u>
		<u>72,312,720</u>	<u>28,246,606</u>
TOTAL LIABILITIES		<u><u>82,458,035</u></u>	<u><u>39,572,229</u></u>
NET ASSETS		<u><u>3,634,261,377</u></u>	<u><u>2,977,444,856</u></u>
REPRESENTED BY:			
General fund		600,000	600,000
Endowment fund	16	2,224,244,000	-
Restricted donors' fund / grant	17	<u>1,409,417,377</u>	<u>2,976,844,856</u>
		<u>3,634,261,377</u>	<u>2,977,444,856</u>
CONTINGENCIES AND COMMITMENTS	18		

The annexed notes 1 to 29 form an integral part of these financial statements.



 CHIEF EXECUTIVE OFFICER


 DIRECTOR

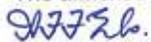
KARANDAAZ PAKISTAN

(A Company incorporated under section 42 of the Companies Ordinance, 1984)

**STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED JUNE 30, 2017**

	Note	2017 Rupees	2016 Rupees
INCOME			
Amortization of deferred grant	14.2	4,164,319	2,822,969
Grant income recognised	17	546,049,980	211,772,149
		<u>550,214,299</u>	<u>214,595,118</u>
EXPENDITURE			
Operation support expenditure	20	(120,248,854)	(81,946,697)
Project expenditure	21	(425,801,126)	(129,825,452)
Depreciation and amortization	14	(4,164,319)	(2,822,969)
		<u>(550,214,299)</u>	<u>(214,595,118)</u>
Surplus for the year - before tax		-	-
Taxation	4.2	-	-
Surplus for the year - after tax		-	-
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>-</u>	<u>-</u>

The annexed notes 1 to 29 form an integral part of these financial statements.




 CHIEF EXECUTIVE OFFICER



 DIRECTOR

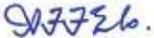
KARANDAAZ PAKISTAN

(A company incorporated under section 42 of the Companies Ordinance, 1984)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

	Note	2017 Rupees	2016 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Grant received during the year (net of transfers to deferred grant)		1,085,272,690	2,767,431,238
Payment of operation support expenditure, project expenditure and others		(511,945,327)	(195,076,824)
Income taxes paid		(12,500,177)	(6,326,804)
Net cash generated from operations		560,827,186	2,566,027,610
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(2,064,383)	(7,672,597)
Purchase of intangible assets		(919,628)	(788,295)
Loans to partner organizations-unsecured		(7,627,824)	(200,242,060)
SME loans - secured paid (net)		(489,636,548)	(4,848,000)
Investment in associated company		(2,224,244,000)	-
Interest received		136,073,873	44,414,932
Net cash used in investing activities		(2,588,418,510)	(169,136,020)
CASH FLOWS FROM FINANCING ACTIVITIES			
Grants received for property and equipment		2,984,011	8,460,892
Net cash used in financing activities		2,984,011	8,460,892
NET INCREASE IN CASH AND CASH EQUIVALENTS		(2,024,607,313)	2,405,352,482
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,763,026,316	357,673,834
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		738,419,003	2,763,026,316
CASH AND CASH EQUIVALENTS COMPRISE:			
Short term investments	12	-	2,534,618,546
Cash and bank balances	13	738,419,003	228,407,770
		738,419,003	2,763,026,316

The annexed notes 1 to 29 form an integral part of these financial statements.




 CHIEF EXECUTIVE OFFICER



 DIRECTOR

KARANDAAZ PAKISTAN
(A Company incorporated under section 42 of the Companies Ordinance, 1984)

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017**

	General fund	Endowment fund	Restricted donors' fund / grant	Total
	Rupees			
Balance at June 30, 2015	600,000	-	380,909,193	381,509,193
MOVEMENT DURING THE YEAR				
- Receipts	-	-	2,775,892,130	2,775,892,130
- Transferred to deferred grant	-	-	(8,460,892)	(8,460,892)
- Other income	-	-	63,816,406	63,816,406
- Amount received against prior year balance	-	-	(23,539,832)	(23,539,832)
- Operation support expenditure	-	-	(81,946,697)	(81,946,697)
- Project expenditure	-	-	(129,825,452)	(129,825,452)
- Other comprehensive income for the year	-	-	-	-
Balance at June 30, 2016	600,000	-	2,976,844,856	2,977,444,856
MOVEMENT DURING THE YEAR				
- Receipts	-	-	1,088,256,701	1,088,256,701
- Transferred to deferred grant	-	-	(2,984,011)	(2,984,011)
- Transferred to endowment fund	-	2,224,244,000	(2,224,244,000)	-
- Other income	-	-	117,593,811	117,593,811
- Operation support expenditure	-	-	(120,248,854)	(120,248,854)
- Project expenditure	-	-	(425,801,126)	(425,801,126)
- Other comprehensive income for the year	-	-	-	-
	-	2,224,244,000	(1,567,427,479)	656,816,521
Balance at June 30, 2017	600,000	2,224,244,000	1,409,417,377	3,634,261,377

The annexed notes 1 to 29 form an integral part of these financial statements.

Signature

Signature
CHIEF EXECUTIVE OFFICER

Signature
DIRECTOR

KARANDAAZ PAKISTAN

(A Company incorporated under section 42 of the Companies Ordinance, 1984)

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**
1. LEGAL STATUS AND OPERATIONS

Karandaaz Pakistan (the Company) was incorporated in Pakistan as a guarantee limited company under section 42 of the Companies Ordinance, 1984 on August 26, 2014. The Company promotes access to finance for small businesses through directed investments, and financial inclusion for individuals by employing technology-enabled digital solutions through investment in Small and Medium Enterprises (SMEs), focusing on expanding access to digital financial services in Pakistan and developing and disseminating evidence-based insights and solutions to inform the core themes of the Company, including innovation, women entrepreneurship and youth, and to influence the financial ecosystem to promote financial inclusion in Pakistan. The main sources of receipts of the Company are grants from its founding partners; Department of International development, United Kingdom (DFID) and Bill and Melinda Gates Foundation (BMGF). The registered office of the Company is situated in Islamabad.

2. BASIS OF PREPARATION
(i) Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. As per the requirements of circular No. CLD/CCD/PR(11)/2017 dated July 20, 2017 issued by the Securities and Exchange Commission of Pakistan (SECP) companies whose financial year closes on or before June 30, 2017 shall prepare their financial statements in accordance with provisions of the repealed Companies Ordinance, 1984. Accordingly, approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the Accounting Standards for Not for Profit Organisations (NPOs) issued by the Institute of Chartered Accountants of Pakistan, as are notified under the Companies Ordinance, 1984 provisions of and directives issued there under. In case requirements differ, the provisions of or directives under the Companies Ordinance 1984 shall prevail.

(ii) Accounting convention

These financial statements have been prepared on the basis of 'historical cost convention' except as otherwise stated in the respective accounting policies notes.

(iii) Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

Estimates and judgments are continually evaluated and are based on historic experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

- | | | |
|-----|---|--------------------|
| (a) | Property and equipment - estimated useful life of property and equipment | (Note 5) |
| (b) | Intangible assets - estimated useful life | (Note 6) |
| (c) | Provision for doubtful finance to partner organisations, loans to SMEs', advances and other receivables | (Note 8, 9 and 11) |
| (d) | Assessment of significant influence | (Note 7) |

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3 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

	Effective date (annual reporting periods beginning on or after)
IAS 7 Statement of Cash Flows (Amendments)	January 1, 2017
IAS 12 Income Taxes (Amendments)	January 1, 2017
IAS 28 Investment in Associates and Joint Ventures (Amendments)	January 1, 2018
IAS 40 Investment Property (Amendments)	January 1, 2018
IFRS 2 Share-based Payment (Amendments)	January 1, 2018
IFRS 4 Insurance Contracts (Amendments)	January 1, 2018
IFRS 12 Disclosure of Interests in Other Entities (Amendments)	January 1, 2017
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018

The management anticipates that, adoption of above standards, amendments and interpretations in future periods, will have no material impact on the financial statements other than in presentation / disclosures.

Further, the following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP), for the purpose of their applicability in Pakistan:

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 9	Financial Instruments
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts

The following interpretations issued by the IASB have been waived off by SECP:

IFRIC 4	Determining whether an arrangement contains lease
IFRIC 12	Service concession arrangements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Employees' provident fund

The Company operates a defined contribution provident fund for all eligible employees, for whom equal monthly contributions are made to the fund by the Company and the employees at the rate of 10% of the basic pay of each eligible employee. The Company's contribution is charged to statement of income and expenditure.

Signature

-3-

4.2 Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management evaluates positions taken in tax matters, with respect to the respective situations in which applicable tax regulation is subject to interpretation, and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. The entity is also in process of getting recognition under section 2(36) of Income Tax Ordinance, 2001 as a not for profit entity. Presently, no provision for taxation has been made in the financial statements as the entity is presently not engaged in any activity chargeable to income tax. Tax suffered at source is recognised as refundable.

4.3 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on property and equipments is calculated, using the straight line method, to allocate their cost over their estimated useful lives, at the rates mentioned in note 5. The Company charges depreciation on all additions to the items of property, plant and equipment from the date asset is available for use till the date of its disposal. Where an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, over its estimated useful life.

Subsequent costs, if reliably measurable, are included in the asset's carrying amount, or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the cost will flow to the Company. The carrying amount of any replaced parts as well as other repair and maintenance costs, are charged to income during the period in which they are incurred.

The gain or loss on disposal of an asset, calculated as the difference between the sale proceeds and the carrying amount of the asset, is recognized in the income for the year.

4.4 Intangible assets

These are carried at cost less accumulated amortisation and impairment losses, if any. Amortisation is calculated using the straight line method, to allocate the cost of the intangibles over its estimated useful life, at the rates mentioned in note 6. Costs associated with maintaining intangible assets, are recognised as an expense as and when incurred.

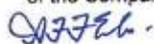
The Company charges amortization on additions from the date the asset becomes available for the intended use up to the date when it is derecognized. Intangible assets with indefinite useful lives are not amortized.

4.5 Investments in associated companies

Investments in associated companies are accounted for using the equity method. Under this method the investments are stated at cost plus the Company's equity in undistributed earnings and losses after acquisition, less any impairment in the value of individual investment.

The Company's share of its associated companies post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. Dividends receivable from associated companies are recognised as a reduction in the carrying amount of the investment.

Unrealised gains on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associate.



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4.6 Impairment of non - financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment on the date of the balance sheet, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized, equal to the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non financial assets that suffered an impairment, are reviewed for possible reversal of the impairment at each balance sheet date. Reversals of the impairment loss are restricted to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized. An impairment loss, or the reversal of an impairment loss, are both recognized in the statement of income and expenditure.

4.7 Finance to partner organization and loans to SMEs

The Company records loans to its partner organisations at an amount net of provision for related loan losses. The Company entered into financing agreements with three partner organizations (PO) as referred to in note 8 for strengthening their capacity to provide growth financing to Small and Medium size Enterprises ("SME") in Pakistan. The purpose of the agreements is to provide to these partners liquidity and risk participation to enable them to finance corporate SME supply chain vendors and distributors in accordance with the terms of the respective agreements and as per the objectives of the Company. The finance carry markup rates based upon a range of benchmarks including KIBOR / LIBOR.

The markup is accrued on undisbursed part of finance using effective yield method. The disbursed funds in respect of loans to SMEs is recognised separately and measured at amortized cost, less impairment, if any.

Provision for loan losses is made against loans which are considered doubtful of recovery. Loan losses (write offs) are charged against the provision for loan losses when management believes that the loan is unlikely to be collected.

4.8 Advances and other receivables

These are recognized initially at fair value and subsequently measured at amortized cost less any identified impairment loss. A provision for impairment of advances and other receivables is provided when there is objective evidence that the Company will not be able to collect the due amounts according to the original terms of receivables.

4.9 Cash and cash equivalents

Cash and cash equivalents are carried at cost in case of local currency and at closing exchange rate in case of foreign currency. For the purpose of the cash flow statement , cash and cash equivalents comprise cash in hand and bank and short term highly liquid investments with original maturities of three months or less, and that are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

4.10 Trade and other payables

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.



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4.11 Restricted donors' fund / grant

Restricted donors' fund / grant received for specific purpose are deferred when received and charged to income to the extent of actual expenditure incurred. Expenditure incurred against grant committed but not received is accrued and recognized in income and is reflected as grant receivable. Unspent portion of such grants are reflected as restricted grants in the balance sheet. Grants received for general purpose is treated as general fund. Expenditure incurred against general fund is recognized to the extent incurred against the objects of the Company other than above expenditure. Endowment fund reports contributions subject to externally imposed restrictions specifying that resources contributed be maintained permanently.

4.12 Deferred capital grant

Grants related to property and equipment and intangible assets are accounted for by setting up the grants as deferred grant. These grants are recognized as income on a systematic basis over the useful life of the related property and equipment and intangible assets.

4.13 Income recognition

Income is recognized on accrual basis. Profit/markup on loans and bank accounts are recognised using the effective yield method.

Donation is recognized when there is reasonable assurance that the Company will comply with the conditions precedent to the grant and it will be received. Grant is recognized as income over such period as is necessary to match it with the related expenditure, on a systematic basis.

4.14 Expenditure

Expenses that are incurred in the normal operations of the Company are classified as operation support expenditure. All expenses that relate to a project are charged to project expenditure.

4.15 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). These financial statements are presented in Pakistan Rupees (Rs), which is the Company's functional and presentation currency.

4.16 Foreign currency transactions and translations

Transactions in foreign currencies are recorded at the approximate exchange rates ruling on the date of transaction. All monetary assets and liabilities denominated in foreign currencies are translated into rupees at the exchange rate ruling on the date of balance sheet and exchange differences, if any, are charged to income for the year.

4.17 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and derecognized when the Company loses control of the contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities are initially recognized at fair value plus transaction costs other than financial assets and liabilities carried at fair value through profit or loss. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to income for the year. These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on derecognition of financial assets and financial liabilities is included in the statement of income and expenditure for the year.

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(a) Financial assets

Classification and subsequent measurement

The Company classifies its financial assets in the following categories: fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits to purchase or sell the asset.

(i) Fair value through profit and loss

Financial assets at fair value through profit or loss, include financial assets held for trading and financial assets, designated upon initial recognition, at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the balance sheet at their fair value, with changes therein recognized in the income for the year. Assets in this category are classified as current assets.

(ii) Held to maturity

Non derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold these assets to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment, if any.

(iii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments, that are not quoted in an active market. After initial measurement, these financial assets are measured at amortized cost, using the effective interest rate method, less impairment, if any.

The Company's loans and receivables comprise 'long term finance to partner organizations', 'loans to SMEs', 'advances, deposits and other receivables, 'security deposits' and 'bank balances'.

(iv) Available for sale

Available-for-sale financial assets are non-derivatives, that are either designated in this category, or not classified in any of the other categories. These are included in non current assets, unless management intends to dispose them off within twelve months of the date of the balance sheet.

After initial measurement, available-for-sale financial assets are measured at fair value, with unrealized gains or losses recognized as other comprehensive income, until the investment is derecognized, at which time the cumulative gain or loss is recognized in income for the year.

Impairment

The Company assesses at the end of each reporting period whether there is an objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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(b) Financial liabilities

Initial recognition and measurement

The Company classifies its financial liabilities in the following categories: fair value through profit or loss and other financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, also include directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(i) Fair value through profit or loss

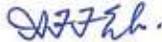
Financial liabilities at fair value through profit or loss, include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as being at fair value through profit or loss. Financial liabilities at fair value through profit or loss are carried in the balance sheet at their fair value, with changes therein recognized in the income for the year.

(ii) Other financial liabilities

After initial recognition, other financial liabilities which are interest bearing are subsequently measured at amortized cost, using the effective interest rate method.

4.18 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Legally enforceable right must not be contingent on future events and must be enforceable in normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counter party.



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5 PROPERTY AND EQUIPMENT

	Vehicles	Office Equipment	Computers	Furniture and fixtures	Total
------(Rupees)-----					
<u>As at July 1, 2015</u>					
Cost	5,022,000	150,039	503,800	-	5,675,839
Accumulated depreciation	(205,008)	(6,988)	(23,464)	-	(235,460)
Net book value	4,816,992	143,051	480,336	-	5,440,379
<u>Year ended June 30, 2016</u>					
Opening Net Book Amount	4,816,992	143,051	480,336	-	5,440,379
Additions	-	1,050,170	3,889,277	2,733,150	7,672,597
Depreciation charge for the year	(1,004,420)	(114,780)	(1,105,780)	(416,633)	(2,641,613)
	3,812,572	1,078,441	3,263,833	2,316,517	10,471,363
<u>As at June 30, 2016</u>					
Cost	5,022,000	1,200,209	4,393,077	2,733,150	13,348,436
Accumulated depreciation	(1,209,428)	(121,768)	(1,129,244)	(416,633)	(2,877,073)
Net book value	3,812,572	1,078,441	3,263,833	2,316,517	10,471,363
<u>Year ended June 30, 2017</u>					
Opening Net Book Amount	3,812,572	1,078,441	3,263,833	2,316,517	10,471,363
Additions	-	227,105	1,399,140	438,138	2,064,383
Depreciation charge for the year	(1,004,400)	(459,596)	(1,638,881)	(590,543)	(3,693,420)
Closing Net Book Amount	2,808,172	845,950	3,024,092	2,164,112	8,842,326
<u>As at June 30, 2017</u>					
Cost	5,022,000	1,427,314	5,792,217	3,171,288	15,412,819
Accumulated depreciation	(2,213,828)	(581,364)	(2,768,125)	(1,007,176)	(6,570,493)
Net Book Amount	2,808,172	845,950	3,024,092	2,164,112	8,842,326
Rate of depreciation in %	20%	33%	33%	20%	

5.1 Assets are purchased from the funds extended by the donors as identified in note 17.

5.2 Purchase of assets during the year amounting to Rs 843,399 and Rs 1,220,984 has been allocated to BMGF and DFID respectively.

5.3 Depreciation charge for the year amounting to Rs 123,966 and Rs 3,569,454 has been allocated to BMGF and DFID respectively.

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6 INTANGIBLE ASSETS

<u>Computer Software</u>	Rupees
<u>As at July 1, 2015</u>	
Cost	247,660
Accumulated amortization	(339)
	<u>247,321</u>
<u>Year ended June 30, 2016</u>	
Opening Net Book Amount	247,321
Additions	788,295
Amortization charge for the year	(181,356)
	<u>854,260</u>
<u>As at June 30, 2016</u>	
Cost	1,035,955
Accumulated amortization	(181,695)
	<u>854,260</u>
<u>Year ended June 30, 2017</u>	
Opening Net Book Amount	854,260
Additions during the year	919,628
Amortization charge for the year	(470,899)
Closing Net Book Amount	<u>1,302,989</u>
<u>As at June 30, 2017</u>	
Cost	1,955,583
Accumulated amortization	(652,594)
Net Book Amount	<u>1,302,989</u>
Rate of amortization in %	25%

6.1 The purchase of intangible assets and amortization charge has been allocated to DFID.

7 INVESTMENT IN ASSOCIATED COMPANY - PAKISTAN MICROFINANCE INVESTMENT COMPANY LIMITED (PMIC)

	Note	2017 Rupees	2016 Rupees
Investment during the year in PMIC - at cost through endowment fund		2,224,244,000	-
Share of (loss) of associated company	7.1	(1,349,337)	-
Balance at end of the year		<u>2,222,894,663</u>	<u>-</u>

7.1 In arriving at the share of loss of PMIC, the audited and unaudited financial statements of PMIC for the period ended December 31, 2016 and period ended June 30, 2017 respectively have been considered since the audited financial statements for the period ended June 30, 2017 are not presently available.

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7.2 The Company's interest in associated company is as follows:

	2017 Rupees	2016 Rupees
Pakistan Microfinance Investment Company Limited (PMIC) - Unquoted		
2,224,244 (2016: Nil) fully paid ordinary shares of Rs 1,000 each; Cost Rs 2,224,244,000 (2016: Rs Nil); Value based on net assets as at June 30, 2017 Rs 5,880,673,712 (2016: Rs Nil); %age share holding as at June 30, 2017: 37.80% (2016: Nil)		
Carrying value	<u>2,222,894,663</u>	<u>-</u>

7.3 The table below provides summarized financial information for PMIC. The information disclosed reflects the amounts presented in the most recent unaudited financial statements of PMIC, for the period ended June 30, 2017 and not the Company's share of those amounts. They have been amended to reflect adjustments made by the reporting entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	2017 Rupees	2016 Rupees
Summarised balance sheet		
Non- current assets	4,153,441,418	-
Current assets	3,583,738,370	-
Current liabilities	(38,506,076)	-
Non- current liabilities	(1,818,000,000)	-
Net assets	<u>5,880,673,712</u>	<u>-</u>
Reconciliation to carrying amounts:		
Net assets as at investment date	5,884,243,387	-
Loss for the period	(3,569,675)	-
Other comprehensive income	-	-
Net assets as at June 30, 2017	<u>5,880,673,712</u>	<u>-</u>
Company's percentage shareholding in the associate	37.80%	-
Company's share in carrying value of net assets as at June 30, 2017	<u>2,222,894,663</u>	<u>-</u>
Summarised statement of comprehensive income		
Revenue	266,564,815	-
Loss for the period	(3,569,675)	-
Total comprehensive income / (loss)	<u>(3,569,675)</u>	<u>-</u>

The value of investment in PMIC as at June 30, 2017 is calculated on the basis of net assets. This is for the reason that PMIC's shares does not have any market value. Further, the balance of share of profit/(loss) is not material to the Company.

7.4 The Company has 37.80 percent shareholding in PMIC and is therefore treated as it's associated company. Moreover, the Company also has two members on PMIC's Board of Directors.

7.5 PMIC is registered as an Investment Finance Company under Non Banking Finance Company Regulations with Securities and Exchange Commission of Pakistan. It is engaged in issuing a broad array of funding instruments and financial services to borrowers. The registered office of PMIC is located in Islamabad.

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	Note	2017 Rupees	2016 Rupees
8	LONG TERM FINANCE TO PARTNER ORGANIZATIONS - UNSECURED		
Meezan Bank Limited, considered good	8.1	45,414,065	100,526,178
Orix Leasing Pakistan Limited, considered good	8.2	-	99,715,882
Bank Alfalah Limited, considered good	8.3	5,555,819	-
Techlogix Pakistan (Private) Limited, considered good	8.4	156,900,000	-
		<u>207,869,884</u>	<u>200,242,060</u>

8.1 The Company entered into an finance facility agreement with Meezan Bank Limited (Meezan) for co-funding the loans to SMEs by way of series of loans relating to provision of assets backed term finance to eligible SME's. As per the terms of the agreement, Meezan will fund the disbursements of loans to SME's to the extent of Rupee equivalent of US Dollar 40 million whereas the Company's related contribution limit shall be US Dollar 10 million. The monthly profit that is payable to the Company on the funds with Meezan is calculated using the principles of Islamic finance from the date funds are provided by the Company till the date of disbursement of loans to the eligible SME's. The tenor of loans to the eligible SME's under the SME finance contracts will range between three to five years. Any installment received or not received or not receivable from eligible SME's by Meezan is shared between the Company and Meezan based on pro-rata share agreed between the aforesaid parties. During the year, funds for an amount of Rs 44.83 million allocated to Meezan were deposited with United Bank Limited at a profit rate of 5.6% per annum.

	2017 Rupees	2016 Rupees
8.1.1 Meezan Bank Limited		
Principal contribution outstanding as at June 30	246,834,078	105,374,178
Less: Loans to SME's as at June 30	(201,420,013)	(4,848,000)
	<u>45,414,065</u>	<u>100,526,178</u>
8.1.2 The aging analysis of unimpaired balance is as follows;		
Less than 12 months	<u>45,414,065</u>	<u>100,526,178</u>

8.2 The Company entered into a facility agreement with Orix Leasing Pakistan Limited (Orix) for co-funding the loans to SMEs by way of series of loans relating to provision of asset backed term finance to eligible SME's. As per terms of the agreement, Orix will fund the disbursements of loans to SME's to the extent of US Dollar 30 million whereas the Company's related contribution limit shall be US Dollar 10 million. The contribution by the Company carries a mark-up rate of KIBOR + 0.25% to the extent of unutilized portion of funds from the date funds are provided by the Company till the date of disbursement of loans to the eligible SME's. The tenor of loans to the eligible SME's under the SME finance contracts will range between three to five years. Any installment received or not received or not receivable from eligible SME's by Orix is shared between the Company and Orix based on pro-rata share agreed between the aforesaid parties.

	2017 Rupees	2016 Rupees
8.2.1 Orix Leasing Pakistan Limited		
Principal contribution outstanding as at June 30	78,461,477	99,715,882
Less: Loans to SME's as at June 30	(78,461,477)	-
	<u>-</u>	<u>99,715,882</u>
8.2.2 The aging analysis of unimpaired balance is as follows;		
Less than 12 months	<u>-</u>	<u>99,715,882</u>

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- 8.3 During the year, the Company entered into a finance facility agreement with Bank Alfalah Limited (BAFL) for co-funding the loans to SMEs by way of series of loans relating to provision of asset backed term finance to eligible SME's. As per terms of the agreement, BAFL will fund the disbursements of loans to SME's to the extent of GBP 15 million whereas the Company's related contribution limit shall be GBP 5 million. The contribution by the Company carries a mark-up rate of 5.4% to the extent of unutilized portion of funds from the date funds are provided by the Company till the date of disbursement of loans to the eligible SME's. The tenor of loans to the eligible SME's under the SME finance contracts will range between three to five years. Any instalment received or not received or not receivable from eligible SME's by BAFL is shared between the Company and BAFL based on pro-rata share agreed between the aforesaid parties.

	2017 Rupees	2016 Rupees
8.3.1 Bank Alfalah Limited		
Principal contribution outstanding as at June 30	220,158,877	-
Less: Loans to SME's as at June 30	(214,603,058)	-
	<u>5,555,819</u>	<u>-</u>
8.3.2 The aging analysis of unimpaired balance is as follows;		
Less than 12 months	<u>5,555,819</u>	<u>-</u>

- 8.4 This represents USD 1,500,000 unsecured loan provided to Techlogix Pakistan (Private) Limited at six months LIBOR plus 3% per annum with no floor or cap, maturing in year 2019. Mark up on outstanding loan amount is due for payment on quarterly basis. Karandaaz Pakistan will have an option to convert the said loan into ordinary shares of Techlogix International Limited by exercising call option in accordance with agreed terms and conditions.

	Note	2017 Rupees	2016 Rupees
9 LONG TERM PORTION OF SME LOANS - SECURED			
Considered good	9.1	494,484,548	4,848,000
Considered doubtful		-	-
		<u>494,484,548</u>	<u>4,848,000</u>
Less: Provision for doubtful loans		-	-
		<u>494,484,548</u>	<u>4,848,000</u>
Less: Amount receivable within next twelve months shown as current asset		(260,327,742)	(1,102,588)
		<u>234,156,806</u>	<u>3,745,412</u>

- 9.1 As referred to in note 8, Meezan, Orix and BAFL disburse loans to SMEs as per agreed criteria under the terms of respective agreements. The said loans carry mark-up based upon a range of benchmarks ranging from KIBOR base rate to KIBOR + spread in respective cases. These loans are secured through letter of hypothecation on assets of SMEs along with personal guarantees. The financing is on asset backed basis and can be utilized for meeting capital expenditure and working capital requirements of SMEs. The Company records its pro rata share of each loan. The Company bears the credit risk upto its pro rata contribution agreed between the partner organisation.

10 LONG TERM SECURITY DEPOSITS

These mainly include security deposits paid to the property owners for office premises in Islamabad and Karachi.

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	2017 Rupees	2016 Rupees
11 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Advances to employees - unsecured considered good	1,814	907,554
Prepaid rent	2,520,840	3,300,000
Prepaid insurance	3,986,953	-
Short term security deposits	370,400	315,600
Accrued interest :		
Savings account	-	8,306,278
Term deposit receipt	-	10,221,804
Finance to partner organizations - unsecured	2,270,749	873,392
	2,270,749	19,401,474
Other receivables	13,639,500	6,056,892
	<u>22,790,256</u>	<u>29,981,520</u>

12 SHORT TERM INVESTMENTS

This represented investment in term deposit receipts maturing within one year from the date of investment at markup rate of 6.4% per annum. These funds were placed with a commercial bank. These include Rs Nil (2016: Rs 2,229 million) and Rs Nil (2016: Rs 305.6 million) invested against funds received from DFID and BMGF respectively.

	Note	2017 Rupees	2016 Rupees
13 CASH AND BANK BALANCES			
Cash in hand		100,000	100,000
Cash at bank in savings account			
Local currency	13.1	737,821,185	142,455,280
Foreign currency		497,818	85,852,490
		<u>738,419,003</u>	<u>228,407,770</u>

13.1 These include profit on bank balance of Rs 44,410 (2016 : Rs 2,541,973) maintained with a partner organisation.

13.2 Bank balances on deposit accounts in PKR carried interest at a rate ranging from 0.21% to 5.7% per annum (2016: ranging from 0.21% to 4.5 %per annum).

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14 DEFERRED GRANT

Note	2017		2016		Total
	BMGF	DFID (Rupees)	BMGF	DFID (Rupees)	
Opening balance	2,673,998	8,651,625	2,673,998	3,013,702	5,687,700
Transferred from restricted grants	843,399	2,140,612	-	8,460,892	8,460,892
Amortization charge for the year representing depreciation and amortisation on related items of property and equipment and intangible assets	(123,966)	(4,040,353)	-	(2,822,969)	(2,822,969)
Net Book Amount	3,393,431	6,751,884	2,673,998	8,651,625	11,325,623
As at June 30					
Cost	3,714,999	13,653,403	2,871,600	11,512,791	14,384,391
Accumulated Amortization	(321,568)	(6,901,519)	(197,602)	(2,861,166)	(3,058,768)
Net Book Amount	3,393,431	6,751,884	2,673,998	8,651,625	11,325,623

14.1 Transfer from restricted grants have been made on the basis of capital expenditure incurred during the year as follows:

Note	2017		2016		Total
	BMGF	DFID (Rupees)	BMGF	DFID (Rupees)	
Property and equipment					
Office equipment	-	227,105	-	1,050,170	1,050,170
Computers	843,399	555,741	-	3,889,277	3,889,277
Furniture and fixtures	-	438,138	-	2,733,150	2,733,150
Intangibles assets	-	-	-	-	-
Computer softwares	-	919,628	-	788,295	788,295
	843,399	2,140,612	-	8,460,892	8,460,892



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18 CONTINGENCIES AND COMMITMENTS

Commitments

18.1 As referred to in note 8, the Company has entered into an Islamic financing agreement with Meezan Bank. In furtherance of aforementioned agreement, Meezan has the right to make drawdown requests of a minimum USD 50,000 each upto to a total amount of disbursement of USD 10 million. As at June 30, 2017 funds amounting to USD 2.35 million (Rs 246.83 million) (2016: USD 1 million (Rs 105.37 million)) has been provided to Meezan Bank Limited in this respect. The remaining drawdown allocation of USD 7.65 million (Rs 802,102,500) is yet to be made by Meezan.

18.2 As referred to in note 8, the Company has entered into a financing agreement with Orix. In furtherance of aforesaid agreement, Orix has the right to make drawdown requests of a minimum USD 50,000 each upto to a total amount of disbursement of USD 10 million. As at June 30, 2017 funds amounting to USD 1 million (Rs 103.35 million) (2016: USD 1 million (Rs 99.71 million)) has been provided to Orix in this respect. The remaining drawdown allocation of USD 9 million (Rs 943,650,000) is yet to be made by Orix.

18.3 As referred to in note 8, the Company has entered into a financing agreement with BAFL. In furtherance of aforesaid agreement, BAFL has the right to make drawdown requests of a minimum GBP 25,000 each upto to a total amount of disbursement of GBP 5 million. As at June 30, 2017 funds amounting to GBP 1.70 million (Rs 220.16 million) (2016: Nil) has been provided to BAFL in this respect. The remaining drawdown allocation of GBP 3.30 million (Rs 449,592,000) is yet to be made.

18.4 There are no other known contingencies and commitments.

19 OTHER INCOME

	2017		2016		Total
	BMGF	DFID (Rupees)	BMGF	DFID (Rupees)	
Profit on:					
Savings account	25,504,856	74,134,543	28,111,558	32,439,585	60,551,143
Funds to partner organization for SME loans	-	5,916,233	-	4,777,940	4,777,940
SME loans	-	11,663,069	-	218,265	218,265
Markup on other long term loan	-	1,804,695	-	-	-
Loss on share of associated company - endowment fund	-	(1,349,337)	-	-	-
Exchange gain / (loss)	(101,256)	-	(1,730,942)	-	(1,730,942)
Others	-	21,000	-	-	-
	25,403,608	92,190,203	26,380,616	37,435,790	63,816,406

19.1 Other income has been credited to relevant restricted grant.



20	OPERATION SUPPORT EXPENDITURE	Note	2017		2016	
			BMGF (Rupees)	DFID	BMGF (Rupees)	DFID
	Salaries, wages and benefits	20.1	20,645,659	38,341,938	58,987,597	41,204,687
	Office rent		2,625,294	7,502,486	10,127,780	9,549,580
	Travel, lodging and per diems		13,787,223	8,621,933	22,409,156	11,345,705
	Professional and legal charges		1,948,312	13,199,290	15,147,602	2,748,761
	Audit fee		157,500	292,500	450,000	380,000
	Vehicle operation and maintenance		940,782	1,247,580	2,188,362	989,161
	Office expenses		1,251,145	2,080,361	3,331,506	3,993,631
	Office security charges		394,196	732,078	1,126,274	357,488
	Utilities		1,410,169	2,189,999	3,600,168	2,608,189
	Repair & Maintenance		231,764	416,132	647,896	6,641,483
	Meeting & conferences		402,450	738,312	1,140,762	1,348,152
	Training		254,123	471,943	726,066	484,020
	Bank charges		72,696	135,008	207,704	57,391
	Miscellaneous expenses		31,596	126,385	157,981	218,460
			<u>44,152,909</u>	<u>76,095,944</u>	<u>120,248,854</u>	<u>81,940,697</u>
20.1	Salaries, wages and benefits is allocated to BMGF and DFID in the ratio of 35:65. These include Company's contribution to employees provident fund for an amount of Rs 15,821,476 (2016 : Rs 19,308,088).					
20.2	The above expenditures are net of the expenditure incurred for project purposes which are charged directly to respective projects as appearing in note 21.					
21	PROJECT EXPENDITURE	Note	2017		2016	
			BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI) (OPP1088669)	DFID - Enterprise and Assets Growth (EAGR) Programme (202495)	Total	DFID - Enterprise and Assets Growth (EAGR) Programme (202485)
			(Rupees)		(Rupees)	
	Salaries, wages and benefits		52,452,625	67,063,794	119,516,419	26,613,235
	Professional and legal charges		-	7,363,131	7,363,131	-
	Seminars, research and studies		43,140,649	14,590,731	57,731,380	38,331,638
	Digitization projects		119,981,896	-	119,981,896	3,809,049
	Innovation Challenge Fund expenses		-	35,351,176	35,351,176	-
	Other projects	21.1	69,749,548	16,107,574	85,857,122	5,426,358
	Seeding start ups consultancy		-	-	-	2,260,105
			<u>285,324,720</u>	<u>140,476,405</u>	<u>425,801,126</u>	<u>76,440,385</u>
						<u>53,385,067</u>
						<u>129,825,452</u>
21.1	These include expenses incurred for provision of technical assistance and promoting and conducting studies for digitization in Pakistan.					

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22 FINANCIAL INSTRUMENTS

22.1 Financial assets and liabilities

	2017			2016		
	Held to maturity investments	Loans and receivables	Total	Held to maturity investments	Loans and receivables	Total
	(Rupees)			(Rupees)		
Financial Assets						
Maturity upto one year						
Current portion of SME loans - secured	-	260,327,742	260,327,742	-	1,102,588	1,102,588
Advances, deposits and other receivables	-	16,282,463	16,282,463	-	20,624,628	20,624,628
Short term investments	-	-	-	2,534,618,546	-	2,534,618,546
Cash and bank balances	-	738,419,003	738,419,003	-	228,407,770	228,407,770
Maturity after One Year						
Investment in associated company	-	2,222,894,663	2,222,894,663	-	-	-
Long term finance to partner organizations - unsecured	-	207,869,884	207,869,884	-	200,242,060	200,242,060
Long term portion of SME loans - secured	-	234,156,806	234,156,806	-	3,745,412	3,745,412
	-	3,679,950,561	3,679,950,561	2,534,618,546	454,122,458	2,988,741,004

	2017		2016	
	Other financial liabilities	Total	Other financial liabilities	Total
	(Rupees)		(Rupees)	
Financial Liabilities				
Maturity upto one year				
Trade and other payables	70,934,608	70,934,608	26,081,813	26,081,813

22.2 Credit quality of financial assets

The credit quality of Company's financial assets has been assessed below by reference to external credit ratings of counterparties. The counterparties for which external credit ratings were not available have been assessed by reference to their historical information for any defaults in meeting obligations;

	Name of Credit Rating Agency	Short Term Credit Rating	2017	2016
			Rupees	Rupees
Long term finance to partner organizations - unsecured				
Counterparties with external credit rating				
	JCR-VIS	A-1+	45,414,065	100,526,178
	PACRA	A1+	-	99,715,682
	JCR-VIS	A-1+	5,555,819	-
Counterparties without external credit rating				
			156,900,000	-
			207,869,884	200,242,060
Loans to SMEs - secured				
Counterparties without external credit rating				
			494,484,548	4,848,000
Advances, deposits and other receivables				
Counterparties with external credit rating				
	JCR-VIS	A-1+	13,839,500	19,751,236
	PACRA	A1+	-	478,145
Counterparties without external credit rating				
			2,842,963	395,246
			16,282,463	20,624,628
Short term investments				
Counterparties without external credit rating				
	JCR-VIS	A-1+	-	2,534,618,546
Cash and bank balances				
Counterparties with external credit rating				
	JCR-VIS	A-1+	738,319,003	228,307,770

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23 FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rates risk and price risk). The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

a) Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur any financial loss. The Company's credit risk is primarily attributable to loans to SMEs. The Company is exposed to credit related losses in the event of non-performance by SMEs to extent of Rs 494,484,548 (2016: Rs 4,848,000). The Company controls the credit risk through review of SME finance documentation which the Company has the right to object to within 10 days of the receipt of the said documentation. The credit risk on SMEs', finance to partner organisations, investments and bank balances is limited because the Company has procedures in place to for credit appraisals, checking documentation for assessment of credit-worthiness and creating charge on the assets of SMEs.

b) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company manages liquidity risk by maintaining sufficient cash and investments. The Company's balance sheet is satisfactory and the Company does not have any liquidity problems. The contractual maturities of financial liabilities are disclosed in 22.1.

c) Market risk

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Company's exposure to foreign exchange risk is limited to its balance in bank account and finance to partner organisation aggregating of Rs 157,397,818 (2016: Rs 85,852,490).

ii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The following financial assets are exposed to interest rate risk:

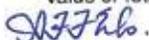
Financial assets include balances of Rs 1,440,773,435 (2016: Rs 2,968,016,376) and financial liabilities include Rs nil balance (2016: Rs nil) which are subject to interest rate risk. Applicable interest rates have been indicated in respective notes.

If interest rate had been 1% higher / lower with all other variables held constant, surplus / loss for the year would have been Rs 14,407,734 (2016: Rs 29,681,164).

iii) Other price risk

Price risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate cause of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in he market.

At the year end the Company is not exposed to price risk since there are no financial instruments whose fair value or future cash flows will fluctuate because of changes in market prices.



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iv) Fair value of financial instruments

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investments and loans receivable/payable which are stated at cost or amortized cost.

v) Capital risk management

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern so that it can achieve its primary objectives, provide benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses in line with the objects of the Company.

24 EMPLOYEES' PROVIDENT FUND

Details of provident fund based on unaudited financial statements is as follows:

Staff provident fund	2017		2016	
	Rupees		Rupees	
Net assets	27,461,051		20,598,445	
Cost of investments made	22,204,256		15,975,570	
Fair value of investments made	22,204,256		15,975,570	
%age of investments made	81%		78%	
	<u>2017</u>		<u>2016</u>	
Breakup of investment - at cost	Rs	%age	Rs	%age
Bank deposits	22,204,256	81%	15,975,570	100%

24.1 Investments out of provident fund have been made in accordance with applicable law formulated for the purpose.

25 TRANSACTIONS WITH RELATED PARTIES

The Company was founded by its three members. Its related parties comprise of its members/directors, sponsors as referred to in note 1, associated undertakings and key management personnel. The transactions with sponsors are disclosed in respective notes of the financial statements. Remuneration of chief executive and key management personnels are disclosed in note 26.

	2017	2016
	Rupees	Rupees
<u>Sponsors</u>		
Bill and Melinda Gates Foundation (BMGF)		
Grant received during the year	314,040,000	211,100,000
Department For International Development, United Kingdom (DFID)		
Grant received during the year	774,216,701	2,564,792,130
<u>Associated Company</u>		
Investment in PMIC	2,224,244,000	-
Share of (loss) of associated company	1,349,337	-
<u>Employees' Provident Fund</u>		
Contribution paid to staff provident fund	19,133,706	15,975,570

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26 REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE (CEO) AND KEY MANAGEMENT PERSONNEL

No remuneration was paid by the Company to the Directors during the period.

The aggregate amount charged in the financial statements for remuneration, including all benefits, to CEO of the Company is as follows:

	2017			2016		
	CEO Rupees	Key management personnel Rupees	Total Rupees	CEO Rupees	Key management personnel Rupees	Total Rupees
Managerial remuneration	18,000,000	62,678,344	80,678,344	5,370,968	43,868,226	49,239,194
Interim CEO remuneration	-	-	-	3,354,839	-	3,354,839
Car allowance	-	2,160,000	2,160,000	-	1,339,355	1,339,355
Company's contribution to provident fund	1,800,000	6,272,431	8,072,431	537,097	4,386,823	4,923,920
	<u>19,800,000</u>	<u>71,110,775</u>	<u>90,910,775</u>	<u>9,262,904</u>	<u>49,594,404</u>	<u>58,857,308</u>
Number of persons	1	5	6	1	3	4

27 NUMBER OF EMPLOYEES

	2017	2016
Number of employees of the Company at the end of reporting year	39	27
Average number of employees during the year	34	18

28 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the Company in their meeting held on 14th September 2017

29 GENERAL

Figures in these financial statements have been rounded-off to the nearest Pakistan Rupee.

Signature

Signature
CHIEF EXECUTIVE OFFICER

Signature
DIRECTOR

