ARANDAAZ

A company set up under section 42 of the Companies Act, 2017

Financially Included, Economically Empowered Pakistan

2019-20
ANNUAL REPORT

BILL & MELINDA GATES foundation

UKaid
from the British people

ABOUT KARANDAAZ PAKISTAN

KARANDAAZ PAKISTAN, established in August 2014 promotes access to finance for micro small and medium businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology enabled digital solutions. The company has financial and institutional support from the United Kingdom's Foreign, Commonwealth and Development Office (FCDO) and the Bill and Melinda Gates Foundation (BMGF).

Karandaaz Capital

Karandaaz Digital

Karandaaz Innovation

Karandaaz Knowledge Management and Communications

VISION

Financially Included, Economically Empowered Pakistanis!

MISSION

Fostering economic growth and creating jobs through the financial inclusion of unbanked individuals and unserved enterprises.

Karandaaz aspires to especially support progress in three key areas:

Innovation

Youth Employment

Women's Economic Participation

CORE VALUES


I
C
A
R
E
Innovation
Collaboration
Accountability
Respect
Equity

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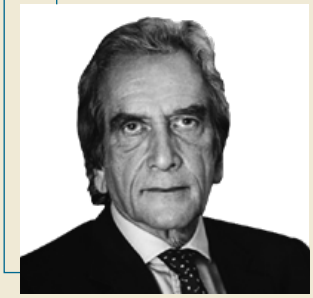
BOARD OF DIRECTORS

Dr. Shamshad Akhtar
Chairperson

Mr. Shamim Ahmad Khan
Director



Syed Salim Raza
Director

Mr. Khurram Zafar
Director

Mr. Musadaq Zulqarnain
Director

Ms. Romana Abdullah
Director

Mr. Shahid Ghaffar
Director

Ms. Durdana Achakzai
Director

Mr. Ali Sarfraz
Executive Director and CEO

THE YEAR AT A GLANCE

OUR WORK

PKR
13 billion
invested in MSME finance

More than PKR
100 million
provided in grants to
10 Fintechs and
5 Digital Experiments

More than
66
Women-led businesses
provided Business
Development Support

PKR
1.8 billion
spent on
Digital Financial
Services

More than PKR
310 million
invested in **29**
women-led
businesses*

OUR IMPACT

More than
420,000
youth jobs supported**

Over **1,500**
SMEs supported through
our SME finance
interventions

More than
550,000
women jobs supported**

Over
850,000
jobs supported**

*includes convertible debt and grant amounts

**including those supported through Pakistan Microfinance Investment Company (PMIC)

Message from the

Chairperson

Karandaaz Pakistan, now in existence for five years, has emerged as a unique nonprofit company that is leveraging its financial strength to promote digitalization and the financial inclusion industry, offering equity and debt capital and high-powered technical support to both public and private sector.

On behalf of the Board, I present the Karandaaz Annual Report for the year 2019-20. Undeterred by the pandemic and the implication on its working conditions, Karandaaz continued to make progress on its strategy of institutionalizing new flagship initiatives. These initiatives are part of our corporate strategy that is anchored on promoting digitalization and financial inclusion to promote sustainability across finance and businesses. We continue to strengthen the financial ecosystem of the country and will pursue this agenda for years to come. Towards this goal, our foremost achievements during the year include:

- Setting up a first of its kind credit enhanced facility, InfraZamin Pakistan, which will drive infrastructure investments in the country by providing long-term local currency credit guarantees

- Our active support to the Pakistan Microfinance Investment Company (PMIC) to aid our objective of strengthening the microenterprise segment in the country

- The launch of a new women focused programme, called Women Ventures (WV), to institutionalise our investments in economic empowerment of women in Pakistan. We have also entered into partnerships to strengthen the quality of services available to women led businesses, with the objective of establishing an exemplary model.

- Our significant progress towards creating an SME focused Non-Bank Financial Company (NBFC) and the Pakistan Credit Guarantee Company (PCGC)

- Our continued support to regulators to adopt modern and digital platforms. In this context, our support for the Securities and Exchange Commission of Pakistan (SECP) has helped to launch the digitally secured transaction registry (STR); Similarly, our partnership with the State Bank of Pakistan (SBP) to implement the Micro Payment Gateway (MPG) and development of the Regulatory Framework for Digital Banks in Pakistan will play a pivotal role in further energizing financial and digital landscapes.

Realizing these goals and targets amidst the corona virus (COVID 19) illustrates Karandaaz's strengths and robust institutional system. Like other countries, impact of the COVID 19 and consequent setbacks to global economy did generate complications for Pakistan's economy. Aptly dealing with these challenges, through a range of programmes, Pakistan has mitigated the impact of COVID 19. The Government of Pakistan, through timely interventions by the SBP and Ehsas Programme, has played an instrumental role in curtailing this unprecedented shock to our economy and our people. Measures including, but not limited to, restructuring loans for debt relief and maintaining solvency, relaxing credit requirements for exporters and importers, and promoting digital payments have enabled Pakistan's economy to guard itself from a much heavier burden anticipated from COVID 19. This impact and the resultant support, has proved yet again, that the micro, small and medium enterprise (MSME) segment is most important to the stability and growth of our economy. It has also demonstrated that financial inclusion should be our utmost priority; businesses that remain out of the formal financial sector have had very little contingency to endure this economic distress.

In the end, I would like to extend my warm welcome to our new board members - Mr. Musadaq Zulqarnain, Mr. Shahid Ghaffar, and Ms. Durdana Achakzai. All of them bring rich experience of working in key positions at local and international levels, which will help Karandaaz reach new frontiers. I am grateful to the Board members of Karandaaz who have strategically guided the organisation to grow, through their commitment and enthusiasm. Our sponsors, the Foreign, Commonwealth and Development Office (FCDO) of the United Kingdom (UK) and the Bill & Melinda Gates Foundation (BMGF) have been instrumental in providing unwavering support to Karandaaz.

I would also like to recognize the endeavors of the Karandaaz team that has navigated through troubled times to keep the momentum going and achieve targets. With signs of emerging recovery and steadfast support of the financiers, I look forward to yet another year of progress towards a financially included and economically empowered Pakistan.

Dr. Shamshad Akhtar
Chairperson, Karandaaz Pakistan

Message from the

Chief Executive Officer

Karandaaz remained focused on its agenda of financial inclusion and economic empowerment whilst actively supporting Pakistan's response to COVID 19 during this year. We funded Excel Labs, our investee company, for setting up a Biosafety Level (BSL) 2+ facility at World Health Organization (WHO) standards to enable Covid testing. This investment led to 500 tests per month and a total of 50,000 PCR tests were carried out by the end of year. For our partner women led-businesses, we provided interest deferral, salary grant support, and working capital funding to survive the liquidity crunch.

Karandaaz also carried out a nation-wide survey of small and medium enterprises (SMEs) to gauge the economic impact of COVID 19 on the domestic SME industry and its findings were shared with industry stakeholders. Additionally, we undertook an impact assessment on the effects of the pandemic on the digital financial services industry in Pakistan and developed policy recommendations on the measures taken by central banks globally to curb the economic impact of COVID 19. These knowledge products provided comparative information to regulators to design and launch new policies and programmes.

I am proud that the Karandaaz team continued to work tirelessly throughout the year to achieve major milestones despite the pandemic, including the setup of InfraZamin Pakistan, a for-profit, credit enhancement facility to support capital market development and increase investment for infrastructure development. We also made substantial progress towards establishing an SME focused Non-Bank Financial Company (NBFC) with a specific mandate to support enterprises with insufficient collateral to access finance whilst demonstrating impact on employment.

The Pakistan Credit Guarantee Company (PCGC), for which we are partnering with the Ministry of Finance and the SBP, will also be operationalized soon and serve as a Development Finance Institution (DFI) to catalyse lending to SMEs and growth of our rural economy. Based on the experience of Women Entrepreneurship Challenge (WEC), we launched the Women Ventures (WV) programme to increase support to women-led businesses both in volume and value of contribution.

Our support to women led businesses will expand many folds in the coming years to demonstrate the commercial viability of this neglected segment, whilst supporting jobs.

We expanded our portfolio of direct investments. Karandaaz invested in Secure Logistics Group (SLG) – a leading logistics company in Pakistan, to facilitate SLG to

enter into new business segments. Additionally, we partnered with Pak Suzuki Motors and EBR Energy Pvt. Ltd. These agreements will support an estimated 1000 jobs and expand solar energy production, respectively. To promote digital financial services, we completed the architectural design of the Micro Payments Gateway (MPG) and tested potential use cases.

Under our partnership with the Securities and Exchange Commission of Pakistan (SECP) we launched Pakistan's first Secured Transaction Registry (STR) to enable registration of movable assets as collateral and support SMEs in securing financing from financial institutions. This will also contribute to improving Pakistan's score in the World Bank's Ease of Doing Business Index. We also made considerable progress in developing the Regulatory Framework for Digital Banks in Pakistan.

We enter into the next financial year with a renewed hope, enthusiasm and dedication for achieving inclusive economic growth. I would like to thank our sponsors for their support, Karandaaz Board for its continued guidance and the Karandaaz team for working tirelessly to achieve the mission of Karandaaz.

Ali Sarfraz
CEO, Karandaaz Pakistan

What We Do

A Closer Look

Karandaaz promotes access to finance for micro, small and medium enterprises (MSMEs) through a commercially directed investment platform and financial inclusion for individuals by employing technology-enabled solutions. Our thematic areas of intervention include: catalyzing finance for MSMEs through working with private and public sector entities, promoting financial inclusion of individuals through leveraging technology, fostering innovation and entrepreneurship, and enabling evidence-based decision making across the financial ecosystem through creating insights and data analytics.

Catalyzing Access to Finance for MSMEs

Karandaaz Capital seeks to improve access to finance for MSMEs in Pakistan, catalyze their growth, stimulate job creation and improve market responsiveness towards their financing needs. We invest in developing, testing and implementing commercially viable financial products through our partner financial institutions as well as direct investments.

Direct Investments

We deploy growth capital in SMEs with high likelihood for significant growth and employment generation, in addition to generating risk-adjusted financial returns for Karandaaz.

Wholesale Investments

We deploy capital through specific product programmes with financial institutions, listed corporations or special purpose vehicles (SPVs), focusing on clusters and segments with high potential for job creation.

Strategic Investments

These investments are made into entities that can further enable investments in the underlying sectors.

Promoting Financial Inclusion through Technology

Digital financial services (DFS) are increasingly becoming an essential driver of economic growth. This is done by reducing leakages, providing convenience and strengthening responses to financial shocks and specifically in uplifting the gross domestic product (GDP) of a country. Karandaaz is, therefore, actively working towards the adoption of DFS in Pakistan. Working with the Government, digital financial service providers (DFSPs), fintechs and others, we focus on four major areas:

National Payment Infrastructure

Engagement with public sector organizations to digitize government payments.

Innovation and Incubation

Partnerships with private sector players to develop and test digital payment solutions that focus on unbanked populations.

Policy and Regulation

Promoting an enabling environment for digital financial services in Pakistan with respect to critical regulatory gaps, challenges and barriers.

Research and Data Analytics

Informing the development of the digital financial ecosystem through research and knowledge creation, which can be useful for a range of industry stakeholders.

Fostering Innovation and Entrepreneurship

Karandaaz aims to facilitate youth employment and women entrepreneurship through the Innovation Challenge Fund (ICF) which specially focuses on addressing barriers faced by SMEs, women and youth in accessing appropriate financial services and participating in the economy. It also runs a Women Entrepreneurship Challenge (WEC) focused on women's entrepreneurship in the country.

Innovation Challenges

The Innovation Challenges aim to generate innovative, yet practicable solutions to solving complex problems in the areas of financial inclusion and entrepreneurship.

Women Entrepreneurship Challenges

Aimed at addressing the gender gap in access to finance for SMEs, the Women Entrepreneurship Challenge provides patient risk capital and business development support to women-led businesses selected through a competitive process.

Developing Insights to Promote Financial Inclusion

Karandaaz undertakes rigorous research for bridging knowledge gaps in the financial inclusion space in Pakistan. Our research practice, focused on SME and DFS space, endeavours to provide a collation of information and statistics for catalyzing financial inclusion in Pakistan.

Library

Karandaaz maintains an active virtual library which amalgamates research reports and presentations on financial inclusion from various local and international sources.

Data Portal

With the objective of serving as a one-stop shop for all financial inclusion data in Pakistan, the portal collates information from various sources and allows the interplay of statistics to benefit stakeholders of the financial inclusion industry in Pakistan.

Research

Karandaaz disseminates insights on SME finance and DFS to aid evidence-based decision-making.

Blogs

Karandaaz's blog serves as a platform for new ideas to surface and acts as a space for discussion on key developments in the sector.

DIRECTORS REPORT

The Year in Review:

2019-2020

The Board of Directors of Karandaaz (KRN) takes pleasure in presenting Annual Report of the Company for the year 2019-2020. KRN takes pride in playing a critical role in supporting the markets for MSME finance and digital finance. Through our business verticals focused on investments in Micro Small and Medium Enterprises (MSMEs), Digital Financial Services (DFS), Knowledge Management and Communications (KMC) and Innovation, KRN has engaged with both private and public sector institutions in providing investment and technical expertise to support economic growth and job creation. We continue to strive towards a Financially Included and Economically Empowered Pakistan!

KRN is uniquely placed within the financial inclusion ecosystem of the country. Through this distinctive position, we are able to capitalize on the strength and outreach of the private sector to make positive impact on financial inclusion in the country. Through our efforts, Karandaaz has been able to impact the lives of 5.7 million individuals across Pakistan.

Historically, SME Financing in Pakistan has been low and is mainly accounted for by the banking sector. As of June 2020, outstanding SME financing was PKR 401.1 million, extended to 188,804 SME borrowers. SME lending as a percentage of total lending to the private sector in Pakistan (6.4%) is paltry in comparison to peer countries (India, Bangladesh and Sri Lanka) averages (18.7%). Similarly, SME credit as % of GDP in Pakistan (1%) is also very low compared to peer countries (India - 6%, Bangladesh - 9%). To address these wide SME financing gaps, KRN Capital is serving more than 1,500 SMEs through various instruments of financing.

In addition to enhancing its equity and wholesale portfolios, KRN has been able to make significant progress under its Strategic Investments. In March 2020, KRN incorporated InfraZamin Pakistan, a for profit credit enhancement facility, which will act as a credit guarantor in local currency for infrastructure projects in Pakistan, enabling enhanced investments and delivery of infrastructure development projects. This will have a direct impact on the SMEs working in the infrastructure sector in Pakistan.

During the year, our work under the DFS vertical also grew. We signed new engagements with the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Microfinance Network (PMN) to provide technical and financial support in digitizing internal systems and processes and connecting the IT systems. We also launched a new programme to provide Design Thinking services to market players intending to improve their products by incorporating human centric User Interface and User Experience (UI/UX) principles. Our engagements with the State Bank of Pakistan (SBP) on the Micro Payment Gateway (MPG) and the Regulatory Framework for Digital Banks, with Central Directorate of National Savings (CDNS) and with the Benazir Income Support Programme (BISP) continue to progress swiftly.

A major highlight of the year from the Innovation workstream was the launch of Women Ventures (WV). WV is an initiative that has been built through consistent

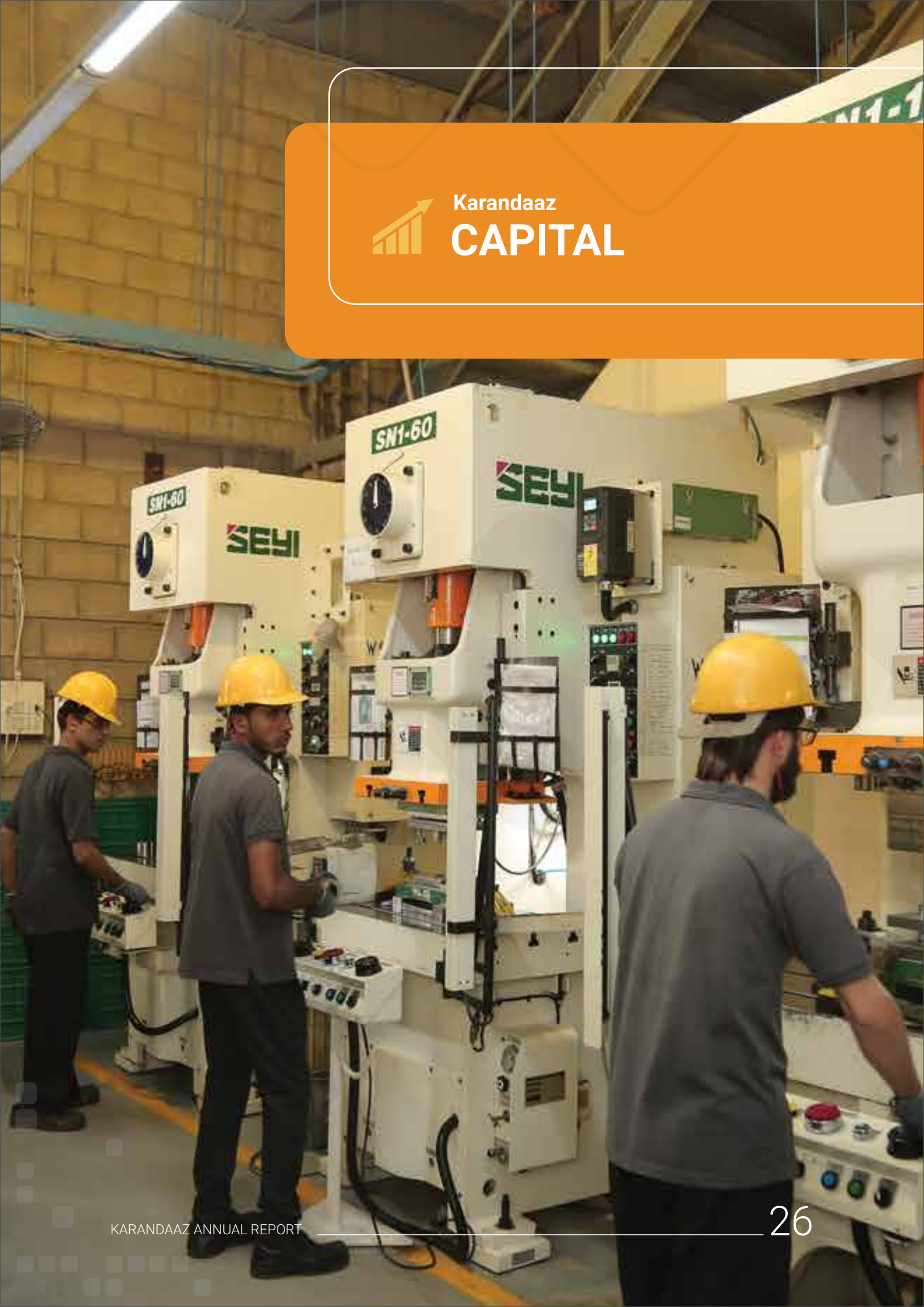
learning from administering the KRN Women Entrepreneurship Challenge (WEC). It incorporates a new design and has the objective to become a broader and scaled-up programme that seeks to overcome a major impediment to women-led businesses in Pakistan, i.e. access to finance. The following year will be critical for WVs uptake and success and we look forward to utilizing all resources to enable WV in becoming a one-stop-shop solution for financial needs of women entrepreneurs of Pakistan.

KRN also enhanced its research portfolio during 2019-2020. Our primary focus was to bridge crucial knowledge gaps during uncertain times after the emergence of the Coronavirus (COVID 19). We did this by completing two studies, which focused on assessing the impact of COVID-19 on Pakistan's SMEs, and measures taken by central banks globally to curb the economic impact of COVID 19. We also organised a high-level conference titled 'Pakistan Innovative Finance Forum' which drew participation from all key stakeholders from the financial industry and generated discussion on innovative financing solutions for SME and infrastructure.

This report captures key activities within each work stream, as well as developments in the corporate governance and management structure of the organization. The report also discusses the challenges and future outlook of the company and includes the audited financial statements for the year ended 30th June, 2020.

Karandaaz

CAPITAL



KRN Capital aims to support the development of a market for micro, and MSME financing by deepening access to growth capital, which will impact generation of broad-based employment and business activity in Pakistan. Investments by the company's Capital team aim to create additionality by catalyzing access to finance in economic sectors which face capital constraint but have the potential to grow and create jobs. These investments can be through partnerships with financial institutions or directly into SMEs and strategic platforms within the financial sector.

KRN Capital's portfolio is classified into *direct investments, wholesale investments and strategic investments.*

Direct Investments

The focus of Direct Investments is on deploying growth capital in SMEs with potential for profitable growth and employment generation, in addition to generating risk-adjusted financial returns for KRN. One direct investment deal was executed during 2019-20, which brought the total number of investments to date to six with an overall value of PKR 5.4 billion[1]:

Secure Logistics Group (SLG):

KRN invested in SLG to establish it as a leading 3PL (Third Party Logistics) player in Pakistan. The capital provided will be utilized for existing capacity enhancement and expansion in new vertically integrated business segments. This investment by KRN has also enabled investment by an international private investor, the Saudi Bugshan Group (SBG), which is relying on KRNs local presence for successful execution of the investment. As a result of this investment, it is estimated that approximately 635 jobs will be supported directly and indirectly within SLGs value chain.

Wholesale Investments

Under its Wholesale Investments portfolio, KRN deploys capital through a wide range of partners including financial institutions, corporates or special purpose vehicles for onward lending to SMEs. These programmes can use different facilities which may be funded (risk participation), or unfunded (first loss) or a combination of the two. KRN also develops programmes for targeting different clusters and segments of MSMEs through various pilots. The outstanding portfolio for wholesale investments at end of June 2020 stood at PKR 8.9 billion through 10 partners. The following wholesale investment partnerships were structured during the year under Direct Lending Agreements[2]:

Pak Suzuki Motors Co Ltd (PSMCL):

KRN partnered with PSMCL during the year, providing an innovative Medium-Term Invoice discounting programme designed to cater to the working capital requirements of SME vendors of PSMCL.

[1] *In previous years, direct investments have been made into Techlogix Pvt. Ltd, Excel Labs, HAC Agri, NRSP APC, and Wahdat Farms*
[2] *Partnerships with the following institutions were forged during previous years and are on-going: ORIX Leasing, Meezan Bank Ltd, and Bank Alfalah.*

It is estimated that through this partnership more than 1,000 jobs will be supported directly and indirectly in PSMCLs value chain.

EBR Energy (Pvt) Ltd

KRN has negotiated and finalised a financing structure for a short-term financing facility to EBR Energy (Pvt) Ltd (EBR). The capital that will be provided by KRN will result in equipping EBR to acquire and implement new projects, resulting in increased solar energy production in Pakistan.

Risk Participation Agreements

KRN continues to have Risk Participation Agreements with five partner banks including Meezan Bank, Bank Alfalah, JS Bank Limited, MCB Islamic Bank and Habib Metropolitan Bank.

Strategic Investments

Strategic Investments are aimed at establishing and/or financing meso level entities that are essential for unlocking enabling investments in the underlying sectors. These strategic investments are only made if they are essential for Pakistan's financial architecture, and capital is either not available or partially available for setting up such entities.

The investments thus align with KRN's mission by contributing towards the development of a market for MSME financing in Pakistan. The Strategic Investments portfolio of KRN includes:

InfraZamin Pakistan (IZP) (Formerly Pakistan Credit Enhancement Facility, PCEF)

KRN set up IZP, a for profit credit enhancement facility in March 2020. The objective of IZP is to provide long term local currency credit guarantees for infrastructure projects which will act as a catalyst in attracting higher pool of potential investors and also support capital market development. IZP will contribute to developing capacity of the banking sector in supporting infrastructure development projects through accessible financial services for SMEs at lower cost. Through increased investment in the infrastructure projects, there is high impact anticipated on SMEs. KRN is working with InfraCo Asia and GuarantCo for their participation in the transaction during the next financial year which will give depth in sector expertise besides increasing the capital base.

Sustainable Energy & Economic Development (SEED)

In the previous year, KRN signed the partnership agreement on the 'Sustainable Energy and Economic Development' (SEED) programme with FCDO, valued at £15 million, to promote renewable energy generation and efficiency measures in Pakistani businesses. The SEED programme will demonstrate the financial viability of enhancing investments in clean energy and energy efficiency improvements. During the year, KRN has started developing a robust pipeline for future investments under the SEED programme.

Karandaaz

DIGITAL

KRN Digital aims to catalyze the financial services industry towards greater financial inclusion by employing cutting-edge innovations and digital solutions for social impact. To this end, KRN Digital has a particular focus on women, low-income, rural, and otherwise excluded population segments. With funding from the BMGF, KRN Digital aims to work with all stakeholders to facilitate digitization of government and other payment streams and provide support to innovative digital financial service startups. During the year 2019-20, KRN Digital remained focused on the execution of major transformational projects with public and private sector partners.

National Payment Infrastructure

National Payments Infrastructure - Micro Payments Gateway (MPG):

KRN is working with the SBP on the development and implementation of MPG in line with BMGF objective to significantly reduce the cost barriers of providing financial services to the poor. During year two of project implementation, major milestones including the architectural design of the project and the mobilization phase were completed. The project is currently testing various use cases that can be potentially aligned through the MPG, with anticipation to launch the use cases in the upcoming year.

Innovation and Incubation

KRN Digital also aims to support the development, pilot-testing, and/or roll-out innovations that expand access to digital financial services by partnering with commercial providers and government departments. Interventions that were supported during the year included:

Engagement with Central Directorate of National Saving (CDNS)

KRN is providing technical assistance to CDNS in digitizing its data, updating its core system, and enabling linkages to Alternate Delivery Channels (ADCs) such as card management system, web portal and mobile application. This engagement has achieved several important milestones during the year as more branches and service centers of CDNS continue to be digitized, and hardware and software upgrades are bringing efficiencies in the existing systems. We expect to launch the ATM card for Special Saving Accounts (SSAs) during the first half of next year.

Engagement with the Benazir Income Support Programme (BISP)

KRN is working with BISP to provide support in strengthening and streamlining BISPs IT & payment infrastructure. Enhancing BISPs IT and payment structure will enable streamlined distribution of BISPs cash transfer payments. During the year, a gap analysis was carried out of BISP's current IT systems to develop a strategy and roadmap for its modernization. Phase 2 of the project, to be executed next year, will focus on technical implementation.

Securities and Exchange Commission of Pakistan (SECP) Digitization Project

KRN is supporting the SECP in digitization of its systems and

processes, under the Leading Efficiency through Automation Prowess (LEAP) project. Through the implementation of this project, SECP will shift its internal manual processes to digital platforms and maximize the use of data analytics. A key development during the year was the launch of Secured Transaction Registry (STR) which will enable registration of moveable assets as collateral. This will benefit SMEs in securing financing from financial institutions. The project was delivered in time despite aggressive timelines so that Pakistan can improve its score in the World Bank's Cost of Doing Business index.

Engagement with the Pakistan Microfinance Network (PMN)

KRN is supporting PMN in developing a digital services platform that will enable Microfinance Providers (MFP) to digitize the lifecycle of a loan, from disbursement to repayment. During the year, 5 MFPs were selected for a pilot programme and partnerships were undertaken with payment service providers, including Mobilink Microfinance Bank Limited (MMBL) Telenor Bank and UBL. The project will be completed by March 2021.

Financial Inclusion for Women Challenge (FIWC) Round

The FIWC is a grant window launched during the year that specifically focuses on the development of gender-smart, women-centric financial products and services meeting the needs and preferences of female customers. The goal of the FIWC is to pilot and test, or scale interventions that have a central theme of supporting financial inclusion for women. The challenge round, jointly administered by the DFS and the KRN Innovation team, selected three institutions as winners for grant provision, out of a total of 113 applications. These institutions include:

- **Oraan:** KRN is supporting Oraan in building a collaborative platform for group savings which will help connect women from across demographic and geographical locations in Pakistan to build financial identities.

- **Techlets:** KRNs support will help Techlets accelerate artificial intelligence (AI)-driven business capabilities to identify unbanked women led-businesses and influencers to connect and collaborate to enhance e-commerce sales and positively impact the women led businesses.

- **NRSP Bank:** KRNs support will enable NRSP Bank to engage their existing portfolio of female clients in rural areas by registering them as agents and enabling them to perform financial transactions for others.

UI/UX Based Support for Market Players

KRN launched the UI/ UX initiative to subsidize Design Thinking services for interested DFS providers. During the year, three firms providing Design Services were on-boarded whereas several Fintechs have applied for the utilization of these services. Next year, design services will be provided to Fintechs to enhance their products and services for improved uptake.

Policy and Regulation

In the effort to support the creation of an enabling regulatory environment for acceleration of financial inclusion, KRN regularly engages with national policy makers and financial sector regulators to address policy and regulatory bottlenecks in the DFS ecosystem in Pakistan. During the year, KRN undertook the following activities:

Regulatory Framework for Digital Banks

KRN is providing technical input to the SBP to develop the first ever regulatory framework and the overarching legal framework for digital banks in Pakistan. During the year, a first draft of the licensing framework and landscape analysis of operating frameworks for digital banks was completed. Next year, the regulatory, licensing and operating frameworks for digital banks will be developed and issued by the SBP.

Policy Brief: COVID-19 - Time to Invoke the Clause on Roaming Agents

Following the country wide lockdown as a result of measures taken by the Government to curb the spread of COVID 19, KRN published a policy brief on the benefit of utilizing Roaming Agents for Branchless Banking services. With the objective of ensuring continuity of financial services, it was recommended that Roaming Agents can facilitate the disbursement of financial assistance under G2P programmes and also act as cash-out service points.

Regulatory Framework for Equity Crowdfunding

KRN is providing technical assistance to the SECP in developing a regulatory framework for Equity Crowdfunding (ECF) in Pakistan. During the year, the draft regulatory framework was shared with a wide range of stakeholders through consultative workshops, while changes to the Parent Laws were also proposed to the SECP. The SECP, after testing the framework, will finalize the regulation next year.

KRN provided input to various policies and initiative by the SBP, PTA and the Ministry of Commerce. These include:

1. Banking on Equality – a Policy to Reduce Gender Gap in Financial Inclusion (draft policy) – SBP
2. Draft Regulations for Electronic Money Institutions (EMI) - SBP
3. Video/Digital KYC- SBP
4. Personal Data Protection Act – SBP
5. E-Commerce Policy of Pakistan – Ministry of Commerce
6. Proposed Incentive Package for Mobile Phone Assembly / Manufacturing in Pakistan – PTA

Karandaaz

INNOVATION

KRN defines 'Innovation' broadly as any solution that has potential to improve existing practice in areas of access to finance for SMEs as well as individuals. Through partnerships with the private sector, financial institutions, and innovators in the market, KRN seeks to create a demonstration effect for innovation by using the challenge funds approach. Currently KRN runs two types of challenges: thematic challenge rounds focused on complex problems within the SME finance space and the women entrepreneurship challenges (WEC) that aim to support women-led businesses across Pakistan.

WEC will be replaced by Women Ventures from next financial year.

Innovation Challenge Fund

The ICF rounds are split into two areas, including: Innovation Challenge Rounds and the Women Entrepreneurship Challenge (WEC). Currently, the following rounds are on-going.

ICF3 - Innovative Credit Scoring of SMEs

Under this challenge round, Allied Bank Limited (ABL) and a consortium between DigiServ and Bank Alfalah were selected to develop credit risk models for lending to SMEs.

ABL has developed a collateral free lending facility for auto parts manufacturers under its "Allied Easy Finance" initiative. The facility will be piloted next year and then commercialized. BAFL and Digiserv's are currently developing a credit scoring model for SMEs, using data available from the existing supplier and distributor networks of SMEs. This will be transactional data of SMEs connected to large corporations. The model is expected to be finalized in the upcoming year and piloted through BAFLs SME Portfolio.

ICF 4- Financial Inclusion of Women

The challenge round, jointly administered by the DFS and the KRN Innovation teams, focuses on gender-smart, women-centric financial products and services that reflect the needs and preferences of female customers. The goal of the FIWC is to pilot the recruitment of female agents by the NRSP to increase uptake of the financial services offered by the institution.

Women Entrepreneurship Challenge

Market scoping exercises have revealed that unfavorable business and regulatory environments, coupled with societal and cultural barriers, lack of networks, knowledge and links to high-value markets impeded access to finance for women-led and managed businesses. While this is a problem for SMEs in general, it has a disproportionate impact on women entrepreneurs in Pakistan. Recognizing this challenge, KRN launched a sustainable strategy to address this significant market gap. KRN launched its own programme to serve women-owned businesses.

Women Ventures (WV)

After conducting three rounds of the WEC and supporting more than 60 women across the country, KRN, with the intention to scale this effort, re-branded

and restructured the WEC into this new programme. In addition to having a year-round open application process, instead of a call to application as in the WEC, the WV incorporates learnings from the design and administration of the previous rounds under the WEC. WV is also open for partnerships with Venture Capital entities and Incubators/Accelerators and so far, two deal referral partners (Social Innovation Lab and Telenor Velocity) and one co-investment partner (Fatima Gobi Ventures) have been onboarded.

Activities during this year include:

Women Entrepreneurship Challenge (WEC) 2019

After a rigorous selection process, 6 women led businesses received funding under WEC 2019. These businesses, belonging to a variety of sectors, are owned and managed by women.

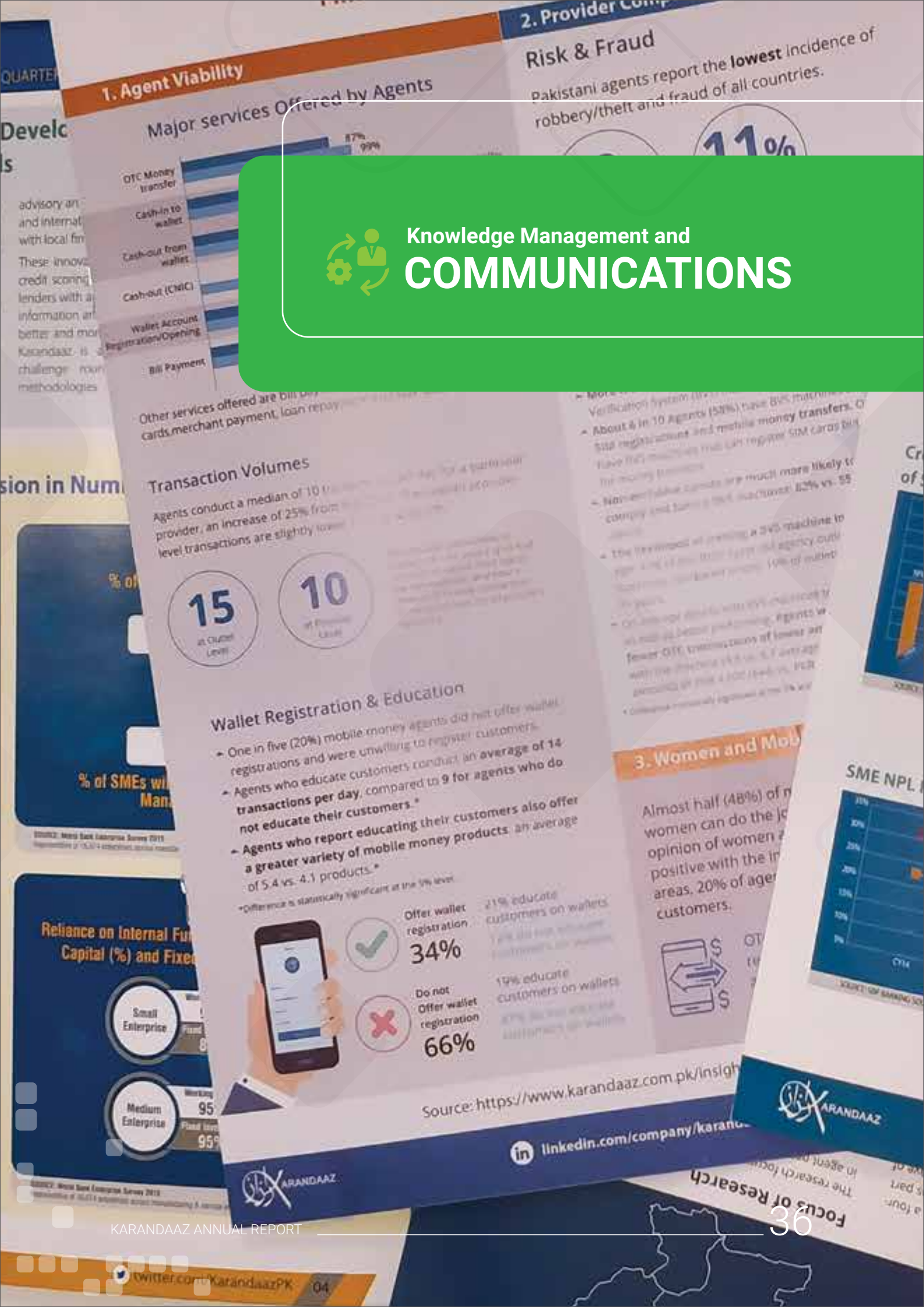
COVID Response

Specific activities were undertaken during the year to curtail the negative economic impact caused by the outbreak of COVID 19 on KRNs portfolio of women led businesses. The ICF/MEL team conducted a survey of the 18 businesses to understand risks to business operation and continuity. The findings from the survey have been used to inform mitigation strategies for supporting KRNs portfolio of women-led businesses under WEC. The initiatives included:

1) Deferral of markup and principal repayment schedules for the businesses – Provided to 7 businesses

2) Grant salary support package to prevent worker layoffs – Impacted approximately 456 employees

3) Working capital support in the economic slowdown phase - Provided to 7 businesses



Knowledge Management and

COMMUNICATIONS

KRN Knowledge Management & Communications (KMC) works closely with internal and external stakeholders to develop evidence-based insights and solutions in an attempt to influence market change.

Knowledge Management

The Knowledge Management department has conducted several research studies related to both the KRN Digital and KRN Capital work streams. The following have been undertaken over the last year.

Survey to Assess Economic Impact of COVID-19 on Domestic SMEs

Given the impact on the global economy resulting from the importance of COVID 19, SMEs have been facing numerous challenges. To understand the impact on Pakistan's SMEs, the Knowledge Management team undertook an online survey of 123 SMEs across the country and shared results with stakeholders, with the intention of surfacing targeted support for easing the economic impact on SMEs in the country.

Monetary Easing Policies to Curb Economic Impact of COVID-19

This note summarizes key monetary measures taken by Central Banks across different countries (China, United Kingdom, USA, Japan, India, Malaysia, South Africa & Pakistan) to minimize disruption faced by MSMEs. The note was shared with the SBP to aid its effort in crafting similar measures for MSMEs in Pakistan.

Regulatory Framework for NBFCs in Pakistan - The SME Lending Perspective

This research brief takes a closer look into amendments by the SECP to the Non-Banking Finance Companies and Notified Entities Regulations (2008) and highlights effects of these amendments on the SME landscape in the country.

KRN Data Portal 2.0

The Knowledge Management team has developed an interactive data portal aggregating financial and economic data for Pakistan from multiple publicly available sources. The portal provides stakeholders of the financial inclusion industry - policymakers, private sector and public sector institutions - a wide range of data to meet their respective information needs. The Data Portal went live in March 2019 with four initial data categories - SME data, Branchless Banking data, Agriculture data, and Demographic data. The portal is now being updated to further enhance the utility, user experience and visibility of the portal. The KRN data portal 2.0 will be launched next year.

Karandaaz Communications

KRN Communications team consistently upscaled its communication efforts by moving towards more strategic and focused communications through social media campaigns, press releases, videos, live media events etc. to target wider audiences. KRN issued 13 press releases during the year which were published in more than 19 newspapers.

A major highlight of the year was the organization of a high-level Pakistan Innovative Finance Forum in November 2019. The conference received considerable print and electronic media coverage.

In total almost 14 training and workshop ceremonies, signing events, and visibility engagements were held during the year. An extensive digital advertisement and social media campaign was also run for Financial Inclusion of Women Challenge 2019.

OUR PEOPLE
OUR PRIDE

At KRN, we believe our people are our biggest assets. Our culture revolves around an essential set of values - innovation, collaboration, accountability, respect and equity (ICARE) that all our employees live by every single day. We continuously aspire to build a high-performing team which is driven by a strong sense of purpose to achieve our vision of having a ***financially included and economically empowered Pakistan.*** As KRN operations expanded during the year with new projects and additional investments, there was a need to increase human resource for efficient programme delivery. Accordingly, total active headcount at KRN grew from 51 To 55 active employees, the HR team recruited 14 positions (including replacements) during the year. 9 staff members were recruited virtually during the lockdown period, without compromising on orientation sessions and linking them with respective teams.

With the intention of continuous investment in staff development, we ensure that our employees undertake trainings that enhance their professional acumen and contributes to efficient delivery of their job responsibilities. This year, 10 individuals attended job specific trainings.

Diversity & Gender Initiatives

Karandaaz strives to attract top quality talent and ensures a healthy diversity in the team which is at the core of KRN values and culture. This commitment is demonstrated by the following statistics, As of 30th June, 2020;

33% of the BoD are women	**43%** team leads are women
More than **31%** of the staff reports to a female supervisor	Women constituted **60%** of the total promotions in 2019

KRN aims to maintain gender balance at the staff and Board level and non-discriminatory policies. KRN was acknowledged at the National level this year, and has been awarded with the following two Diversity awards:

- Global Diversity & Inclusion Benchmarks Conference 2020 for highest percentage of female Board members
- Gender Diversity Award 2018 (CFA Society March 2019)

HR response to COVID 19

The emergence of the coronavirus (COVID 19) has been a challenge globally, for operating Business as Usual (BAU). Amidst the measures to control the spread of COVID 19 in Pakistan, KRN instituted a work for home policy for its staff. In implementing this policy, the required technological, physical and social support was ensured for all members of our team. As a result of these policies and the commitment of our staff, we were able to maintain productivity. The organization, realizing the threat of the virus, will

also be designing new long-term strategies to optimally support the new norm of remote working.

Conscious of the effects of the lockdown on mental and physical health of individuals, KRN organised a virtual counseling session with psychologist, Zehra Kamal on 27th March, 2020. The session entailed conversations on balancing professional and domestic expectations while prioritizing mental and physical well-being during lockdown.

CORPORATE GOVERNANCE

Corporate Governance and internal controls are a very high priority at KRN. KRNs strength lies in having a committed and experienced board that is devoted to the cause and vision of financial inclusion. Whereas the competent board of KRN provides the overall strategic direction, the sponsors ensure that all investments result in the desired impact.

To further strengthen the governance framework, the KRN board completed its second self-evaluation which was externally moderated by PwC during the year. It was ensured that all the recommendations of the board from this evaluation were appropriately addressed. In line with international best practices in corporate governance, board self-evaluation is conducted every year. This year, board was extensively engaged - a total of 8 board meetings, 3 Extraordinary General Meetings, 1 Annual General Meeting and 14 committee meetings were held. These led to agile decision making and delivery of the overall workplan for KRN, including swift response on COVID related interventions. KRN also obtained a total of 9 special SECP approvals during the year from the commission during this year, including investment in associated companies and addition and resignation of board members.

Composition of the Board

KRN Board comprises of 8 Independent Directors and 1 Ex-officio Executive Director (CEO). During FY 19-20, there were several changes in KRN Board. Ms Maha Bahou and Ms Sadia Khan resigned from the board of directors and were replaced by Mr Musadaq Zulqarnain, Mr Shahid Ghaffar and Ms Durdana Achakzai who bring a rich background of varied experiences in the domains of SME, Regulatory, Audit and DFS. This year, Board elections were also conducted in line with the requirements of KRN Articles of Association and a board of 9 members was appointed. These include 8 elected members (of which 6 members were reelected) and one Ex-officio appointment of the CEO as a Director on the board. Board reviewed the composition of the Board committees and Advisory committees. With the addition of two new members, Ms. Durdana Achakzai was appointed on DFS Advisory Committee and Mr. Shahid Ghaffar was added to the KRN Audit Committee.

Karandaaz Board of Directors	Total number of BOD meetings held	Total number of meetings attended
Ms. Shamshad Akhtar (Chairperson)	8	8
Mr. Shamim Ahmad Khan	8	7
Syed Salim Raza	8	7
Ms. Sadia Khan[3]	4	1
Ms. Romana Abdullah	8	8
Mr. Khurram Zafar	8	8
Ms. Maha Bahau[4]	3	0
Mr. Musadaq Zulqarnain[5]	8	7
Mr. Shahid Ghaffar[6]	1	1
Ms. Durdana Achakzai[7]	1	1
Mr. Ali Sarfraz Hussain (Executive Director & CEO)	8	8

Nominations and Human Resource Committee (Meetings Held: 2)
Mr. Khurram Zafar - Director (Chairperson)
Mr. Musadaq Zulqarnain - Director

Audit Committee (Meetings Held: 3)
Mr. Shamim Ahmed Khan - Director (Chairperson)
Mr. Musadaq Zulqarnain - Director
Mr. Shahid Ghaffar - Director

DFS Advisory Committee (Meetings Held: 3)
Mr. Khurram Zafar - Director (Chairperson)
Syed Ali Mehmood - Programme Officer BMGF
Ms. Durdana Achakzai - Director
Mr. Ali Sarfraz - CEO KRN Pakistan
Mr. Waqas ul Hasan - Senior Private and Financial Sector Development Adviser, FCDO
Mr. Rehan Akhtar - CDO KRN Pakistan

[3] *Resigned on 5th March, 2020*
[4] *Resigned on 13th November, 2019*
[5] *Joined on 23rd August, 2019*
[6] *Joined on 29th June, 2020*
[7] *Joined on 29th June, 2020*

Investment Committee (Meetings Held: 6)
Ms. Romana Abdullah - Director (Chairperson)
Syed Salim Raza - Director
Mr. Azmat Nawaz - Member Investment Committee
Mr. Waqas ul Hasan - Senior Private and Financial Sector Development Adviser, FCDO
Mr. Yameen Kerai - Member Investment Committee
Mr. Ali Sarfraz- CEO KRN Pakistan
Mr. Navid Goraya - CIO KRN Pakistan
Mr. Ammar Habib Khan - Head of Risk and Compliance KRN Pakistan (Observer)

CHALLENGES & FUTURE OUTLOOK

KRN Pakistan's vision remains an inclusive economy, where an increasing number of businesses and individuals have access to appropriate financial services, allowing them to reach their full economic potential. In almost six years of our operational history, we have partnered with various stakeholders in the financial ecosystem of Pakistan and have undertaken several transformational projects. We have therefore been able to create significant positive impact on financial inclusion.

With a key focus on marginalized segments of society, such as women and youth, we ensure equity in all our interventions. We understand the benefit of financial inclusion, and we constantly pilot, scale and implement new and innovative solutions that have high potential of accelerating financial inclusion in Pakistan.

There exist numerous challenges to our work but we continuously strive towards overcoming these challenges. With the advent of COVID 19, the existing challenges to our work have been exacerbated.

Challenges & Risks

Some of the key challenges in the coming year will be:

- The emergence of the coronavirus (COVID – 19) has severely impacted the global economy. This impact has also been faced by both SMEs and individuals in Pakistan and has manifested in the form of unemployment, business slow down, disruption of supply chains etc. While we have proactively addressed the negative impact of COVID 19 on our portfolio of businesses, we have also supported regulators and policy makers in the ideation of innovative measures to ease the impact on Pakistan's financial and economic ecosystem. However, we fear that the global and local spread of COVID 19 may continue into next year, and we will have to develop new interventions that strengthen the capacity of SMEs and individuals to operate in uncertain environments. Only through these efforts will we be able to achieve the impact parameters that govern our institution.

- Uncertain situations, limited local and international travel, and work from home policies will impact the pace of work of our large-scale IT projects - such as the MPG, BISP, and CDNS. We will need to evolve strategies for remote deployment and platform and potentially use cloud based services while ensuring the security and protection of data.

- While regulators are seen as progressive, the appetite for innovation in the financial sector in Pakistan remains minimal. Pushing for new products and services that serve the SME space and the women entrepreneurship space better will continue to be our priority. We will have to develop strong partnerships in the financial sector to ensure individual champions lead innovation efforts in the financial ecosystem.

- The deployment of capital will pose a challenge as financial institutions have started consolidating their portfolios.

Outstanding SME finance credit by banks has already dropped by almost 20% since December 2019. As KRN works through banks for providing bulk of credit to SMEs under risk participation arrangements, it is expected the attenuated risk appetite of banks will adversely impact our deployment. We will need to evolve fresh strategies to reach the retail SME market.

Future Outlook

KRN has been able to create a significant footprint in the financial ecosystem of Pakistan, through effective partnerships and collaborative working with eco system players. Reaching this milestone, we are cognizant of the need to take a closer look at our impact till date and inculcate the experiential knowledge into new ventures.

In the next year, KRN plans to set up an SME focused NBFI which can provide retail level credit products to SMEs. The business case of the entity has been prepared and it is expected that after approval, the process of financial close will be completed by December 2020. In addition, we are negotiating with the current sponsors of Pakistan Credit Guarantee Company (PCGC) which will provide SME credit guarantees to Banks and NBFIs. We will be focusing on expanding our equity pipeline while ensuring that all our investments create significant additionality i.e. alleviate capital constraints for SMEs while creating employment opportunities.

Our DFS portfolio has also expanded during the year. With the addition of large-scale interventions with the SECP, BISP and PMN, we will strive to positively impact the DFS ecosystem of Pakistan. Our priority in the next year is to deliver these key digitization projects including the deployment of our major project-MPG with SBP.

Under our Innovation work, the implementation of WV programme under the new structure will be the focus of the team. Similarly, we will work to develop new partnerships with VCs and incubators/accelerators to ensure consistent, high quality inflow deals for the programme.

We will also launch a new ICF round that is centered around solving a major bottleneck in the financial services space. We will undertake various national level research exercises next year to bridge knowledge gaps in the financial inclusion ecosystem. Importantly, we have designed a new data portal to improve data analysis for research. The implementation of the newly designed data portal will be the focus of our Knowledge Management team.

With a growing portfolio in all focus areas, it is critical that KRN has an experienced and skilled board of directors. We will work towards strengthening our general body with increased participation so that a pipeline of potential Directors is available. We will also continue to engage with international development partners to introduce global best practices that strengthen the impact of KRN interventions.

Overall, KRN will remain committed to its vision and mission under the guidance of the Board and accelerate its efforts to achieve its developmental and institutional goals.

CEO and Executive Director

Chairperson

AUDITED FINANCIAL STATEMENTS 2019-2020

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INDEPENDENT AUDITOR'S REPORT

To the members of Karandaaz Pakistan

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Karandaaz Pakistan (the Company), which comprise the statement of financial position as at June 30, 2020, and the statement of income and expenditure and other comprehensive income, the statement of changes in net assets, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of income and expenditure and other comprehensive income, the statement of changes in net assets and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2020 and of the surplus and the other comprehensive income, the changes in net assets and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the directors' report, but does not include the financial statements and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

(a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

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(b) the statement of financial position, the statement of income and expenditure and other comprehensive income, the statement of changes in net assets and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

(c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

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

The engagement partner on the audit resulting in this independent auditor's report is Amer Raza Mir.

A. F. Ferguson & Co

Chartered Accountants

Lahore

Date: October 02, 2020

KARANDAAZ PAKISTAN
(A Company setup under section 42 of the Companies Act, 2017)
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020

	Note	2020 Rupees	2019 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	22,960,718	16,430,805
Right of use asset	7	35,176,487	-
Intangible assets	8	266,035	1,085,171
Long term investments	9	909,400,000	-
Investment in associated companies	10	3,221,529,438	2,648,062,204
Long term loans, advances and other receivables	11	7,020,301,466	6,040,581,311
Long term finance to partner organizations (POs)- unsecured	12	232,469,478	58,573,422
Long term portion of small and medium sized enterprises (SMEs) loans disbursed through POs	13	345,566,463	683,579,486
Long term security deposits	14	952,515	952,515
		11,788,622,600	9,449,264,914
CURRENT ASSETS			
Current portion of SMEs loans disbursed through POs	13	1,549,232,429	762,192,798
Current portion of long term loans, advances and other receivables	15	197,905,367	-
Advances, deposits, prepayments and other receivables	16	251,941,677	157,402,973
Due from government - income tax		245,063,505	81,706,269
Short term investments	17	1,505,196,061	150,000,000
Cash and bank balances	18	3,936,065,515	2,802,668,415
		7,685,404,554	3,953,970,455
TOTAL ASSETS		19,474,027,154	13,403,235,369
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred taxation	19	13,092,816	18,572,735
Long term lease liability	20	19,392,565	-
Deferred grant	21	23,226,753	17,515,976
CURRENT LIABILITIES			
Accrued and other liabilities	22	361,824,404	184,556,102
Current portion of lease liability	20	19,883,900	-
		381,708,304	184,556,102
TOTAL LIABILITIES		437,420,439	220,644,813
NET ASSETS		**19,036,606,715**	**13,182,590,556**
REPRESENTED BY:			
General fund	23	600,000	600,000
Endowment fund	24	2,429,265,459	2,405,371,114
Restricted donors' fund / grant	25	16,606,741,256	10,776,619,442
		19,036,606,715	**13,182,590,556**
CONTINGENCIES AND COMMITMENTS	26		

The annexed notes 1 to 41 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

KARANDAAZ PAKISTAN
(A Company setup under section 42 of the Companies Act, 2017)
STATEMENT OF INCOME AND EXPENDITURE AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 Rupees	2019 Rupees
INCOME			
Finance cost	28	29,216,565	23,363,760
Amortization of deferred grant and right of use asset	29	28,498,215	6,813,980
Impairment loss on financial assets	30	110,384,651	39,951,178
Grant income recognized	25	1,373,773,474	897,093,988
		1,541,872,905	967,222,906
EXPENDITURE			
Finance cost	28	(29,216,565)	(23,363,760)
Amortization of deferred grant and right of use asset	29	(28,498,215)	(6,813,980)
Impairment loss on financial asset	30	(110,384,651)	(39,951,178)
Operation support expenditure	31	(152,732,497)	(134,998,012)
Project expenditure	32	(1,221,040,977)	(762,095,976)
		(1,541,872,905)	(967,222,906)
Surplus / (deficit) for the year - before tax		-	-
Taxation			
- Deferred tax	19		-
Surplus / (deficit) for the year - after tax		-	-
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		-	-

The annexed notes 1 to 41 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

KARANDAAZ PAKISTAN
(A Company setup under section 42 of the Companies Act, 2017)
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020

	General fund	Endowment fund	Restricted donors' fund / grant	Total
	Rupees			
Balance at June 30, 2018	600,000	2,224,244,000	5,722,871,923	7,947,715,923
- Effect of changes in accounting policies due to adoption of IFRS 9	-	-	(37,995,232)	(37,995,232)
Adjusted balance as at July 01, 2018	600,000	2,224,244,000	5,684,876,691	7,909,720,691
MOVEMENT DURING THE YEAR				
- Receipts	-	-	5,382,078,644	5,382,078,644
- Transferred to deferred grant	-	-	(9,008,795)	(9,008,795)
- Other income	-	142,663,073	819,419,807	962,082,880
- Deferred tax (liability)/asset	-	(31,963,614)	13,390,879	(18,572,735)
- Share of loss of HAC Agri Limited	-	-	(89,272,524)	(89,272,524)
- Loss on below market rate loans	-	-	(23,363,760)	(23,363,760)
- Unwinding of interest	-	-	5,971,321	5,971,321
- Operation support expenditure	-	-	(134,998,012)	(134,998,012)
- Project expenditure	-	-	(762,095,976)	(762,095,976)
- Impairment loss on financial assets	-	-	(39,951,178)	(39,951,178)
- Interfund transfers	-	70,427,655	(70,427,655)	-
- Other comprehensive income for the year	-	-	-	-
Balance at June 30, 2019	600,000	2,405,371,114	10,776,619,442	13,182,590,556
MOVEMENT DURING THE YEAR				
- Receipts	-	-	5,950,150,262	5,950,150,262
- Grant receivable	-	-	2,318,742	2,318,742
- Transferred to deferred grant	-	-	(14,784,759)	(14,784,759)
- Other income	-	28,110,989	1,463,020,242	1,491,131,231
- Deferred tax (liability)/asset	-	(4,216,644)	9,696,563	5,479,919
- Share of loss of HAC Agri Limited	-	-	(49,485,802)	(49,485,802)
- Share of loss of Wahdat Poultry Farm (Private) Limited	-	-	(15,157,953)	(15,157,953)
- Depreciation on right of use asset	-	-	(19,424,233)	(19,424,233)
- Finance cost on lease liability	-	-	(5,717,745)	(5,717,745)
- Loss on below market rate loans	-	-	(23,498,820)	(23,498,820)
- Unwinding of interest	-	-	17,163,441	17,163,441
- Operation support expenditure	-	-	(152,732,497)	(152,732,497)
- Project expenditure	-	-	(1,221,040,977)	(1,221,040,977)
- Impairment loss on financial assets	-	-	(110,384,651)	(110,384,651)
- Interfund transfers	-	-	-	-
- Other comprehensive income for the year	-	-	-	-
	-	23,894,345	5,830,121,813	5,854,016,158
Balance at June 30, 2020	600,000	2,429,265,459	16,606,741,256	19,036,606,715

The annexed notes 1 to 41 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

KARANDAAZ PAKISTAN
(A Company setup under section 42 of the Companies Act, 2017)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 Rupees	2019 Rupees
Cash flows from operating activities			
Surplus / (deficit) for the year		-	-
Income recognized for the year		(1,541,872,905)	(967,222,907)
Depreciation - property, plant and equipment		8,254,846	5,994,844
Depreciation - right of use asset		19,424,233	-
Amortization - intangible asset		819,136	819,136
Finance cost		29,216,565	23,363,760
Impairment loss on financial assets		110,384,651	39,951,178
Cash used in operations before working capital changes		(1,373,773,474)	(897,093,969)
Effect of changes in working capital:			
Increase in advances, deposits, prepayments and other receivables		(7,816,265)	(716,201)
Increase in accrued and other liabilities		177,268,302	14,845,086
Working capital changes		169,452,037	14,128,885
Cash used in operations		(1,204,321,437)	(882,965,104)
Finance cost paid		(23,498,820)	(23,363,760)
Taxes paid		(163,357,236)	(48,527,123)
Increase in security deposits		-	(81,115)
Net cash generated from operation		(1,391,177,493)	(954,937,102)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(14,784,759)	(9,008,795)
Long term investments made		(909,400,000)	-
Short term investments made		(1,505,196,061)	-
Net movement in loans to partner organizations - unsecured		(173,896,056)	55,309,522
Net movement in current portion of long term loans, advances and other receivables		(201,365,536)	-
Net movement in loans to SMEs through POs - paid		(478,620,904)	(536,150,431)
Investment in associated company		(610,000,000)	(300,000,000)
Net movement in long term loans and advances		(1,039,886,900)	(2,835,736,240)
Interest income received		1,368,596,546	733,745,595
Net cash used in investing activities		(3,564,553,670)	(2,891,840,349)
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease payments		(11,022,000)	-
Grant received		5,950,150,261	5,382,078,645
Net cash generated from financing activities		5,939,128,261	5,382,078,645
NET INCREASE IN CASH AND CASH EQUIVALENTS		983,397,100	1,535,301,194
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,952,668,415	1,417,367,221
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		3,936,065,515	2,952,668,415
CASH AND CASH EQUIVALENTS COMPRISE:			
Short term investments	17	-	150,000,000
Cash and bank balances	18	3,936,065,515	2,802,668,415
		3,936,065,515	2,952,668,415

The annexed notes 1 to 41 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

KARANDAAZ PAKISTAN
(A Company setup under section 42 of the Companies Act, 2017)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

1. Legal status and operations

1.1 Karandaaz Pakistan (the Company) was incorporated in Pakistan as a guarantee limited company under section 42 of the provisions of the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) on August 26, 2014. The objective of the Company is to promote, create and invest in, through loans, equity investment, other capital instruments and business development services, organizations that directly or indirectly spur enterprise development so as to create jobs and expand economic opportunity. The main sources of receipts of the Company are grants from its founding partners; Department of International development, United Kingdom (DFID), now known as The Foreign, Commonwealth & Development Office (FCDO) and Bill and Melinda Gates Foundation (BMGF). The registered office of the Company is situated at 1-E, Ali Plaza, Nizamuddin Road, Islamabad. The Board of Directors of the Company in their meeting dated December 1, 2018 approved to carve out the Company's operations and to also establish a Non Banking Finance Company for which due preliminary process has been initiated but approvals of the concerned are yet to be obtained.

1.2 The Company had been granted the license on August 18, 2014 to operate under section 42 of the Companies Act for the period of five years. The license of the Company expired on August 18, 2019. The Company applied for renewal of license on May 15, 2019 for further period which is yet to be acceded to by the Securities and Exchange Commission of Pakistan (SECP). Furthermore, the Company expects to receive grants in upcoming years from its donors. The management believes that aforesaid renewal requirement is procedural in nature and till such time the license is renewed, the existing license is deemed to be valid under "Association with charitable and Not for Profit objects regulations 2018" issued through SRO 733(I)/2018 dated June 7, 2018. It does not cast any material uncertainty about the Company's ability to continue as a going concern and the management is confident that it will get necessary approvals to continue to operate in the foreseeable future.

2 Basis of preparation

2.1 Statement of compliance

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

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

ii) Accounting standards for Not for Profit Organizations (Accounting Standards for NPOs) issued by the Institute of Chartered Accountants of Pakistan as notified under the Companies Act, 2017; and

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

Where provisions of and directives issued under Companies Act, 2017 differ from the IFRS Standards, the provisions of and directives issued under the Companies Act 2017 have been followed.

2.2 Initial application of standards, amendments or an interpretation to existing standards

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Standards, amendments and interpretations to approved accounting standards that are effective in current year

Certain standards, amendments and interpretations to IFRS are effective for accounting periods beginning on July 01, 2019 but are considered not to be relevant or to have any significant effect on the Company's operations (although they may affect the accounting for future transactions and events) and are, therefore, not detailed in these financial statements, except for the following:

(a) IFRS 16, 'Leases'

Effective July 01, 2019, the company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases- Incentive' and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'. IFRS 16 primarily affects the accounting by lessees and will result in the recognition of almost all leases on the statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An exemption exists for short term and low value leases.

The statement of income and expenditure will also be affected because the total expense is typically higher in the earlier years of a lease and lower in the later years. Additionally, operating expense will be replaced with interest and depreciation so key metrics like earnings before interest, taxes, depreciation and amortization (EBITDA) will change. Operating cashflows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of payments that reflects the interest can continue to be presented as operating cashflows.

The accounting for lessors will not significantly change.

The company has adopted IFRS 16 from July 01, 2019, but has not restated comparatives for the year ended June 30, 2019, as permitted under the specific transitional provisions in the standard. On adoption of IFRS 16, the company recognised lease liability which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. This liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of July 01, 2019. The lessee's incremental borrowing rate applied to the lease liabilities on July 01, 2019 was 14.07% per annum.

The following summary reconciles the company's operating lease commitments at June 30, 2019 as previously disclosed in the company's annual financial statements as at June 30, 2019 to the lease liabilities recognised on initial application of IFRS 16 at July 01, 2019.

	Rupees
Operating lease commitments as at June 30, 2019	54,072,095
Discounted using the lessee's incremental borrowing rate at the date of initial application	44,580,720
Adjustments as a result of a different treatment of termination options	-
Lease liability recognised as at July 01, 2019	44,580,720
Of which is:	
Current lease liability	5,304,255
Non-current lease liability	39,276,465
	44,580,720

The associated right of use asset for property leases was measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as on June 30, 2019. There were no onerous lease contracts that would have required an adjustment to the right of use asset at the date of initial application.

	Rupees
Right of use asset recognised as at July 01, 2019	54,600,720

The change in accounting policy affected the following items in the balance sheet on July 01, 2019

	Rupees
Right of use asset - increased by	54,600,720
Lease liability - increased by	44,580,720
Prepaid rent - decreased by	10,020,000

i) Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous contracts as at July 01, 2019;

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

ii) The company's leasing activities and how these are accounted for

The company has only leased an office building in Islamabad. Long term rental contracts are typically made for fixed periods of 3 years. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the financial year ended June 30, 2019, lease of property, plant and equipment was classified as operating lease. Payments made under operating lease (net of any incentives received from the lessor) were charged to statement of income and expenditure on a straight-line basis over the non cancellable period of the lease.

From July 01, 2019, lease is recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to statement of income and expenditure over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Asset and liability arising from a lease is initially measured on a present value basis. Lease liability include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right of use asset is measured at cost comprising the following:

- the amount of the initial measurement of lease liability

- any lease payments made at or before the commencement date less any lease incentives received

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in statement of income and expenditure. Short-term leases are leases with a lease term of 12 months or less.

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

There are certain standards, amendments to the approved accounting standards and interpretations that are mandatory for the Company's accounting periods beginning on or after July 1, 2020, but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not detailed in these financial statements, except for the following:

Standards or interpretation	Effective date (accounting periods beginning on or after)
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' regarding the definition of materiality	January 01, 2020
Revised Conceptual Framework for Financial Reporting	January 01, 2020
Covid-19-related Rent Concessions – Amendments to IFRS 16	June 01, 2020
Definition of Business - Amendments to IFRS 3	January 01, 2020

Further, the following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which will not be effective in the next financial year.

	Effective date (accounting periods beginning on or after)
IFRS 17 - Insurance Contracts	January 01, 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	January 01, 2023
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	January 01, 2023

The above amendments are not expected to have a material impact on the Company's financial statements when they become effective.

3. Basis of preparation

3.1 Basis of measurement

These financial statements have been prepared under the historical cost convention, except where specific basis of measurement has been mentioned in relevant notes.

3.2 Functional and presentation currency

These financial statements are presented in Pak Rupee, which is the Company's functional currency. Figures in these financial statements have been rounded-off to the nearest Pakistan Rupee.

4. Significant accounting judgments, estimates and assumptions

The Company's significant accounting policies are stated in note 5. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies that management considers critical because of the complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

4.1 Useful lives, residual values and impairment

The Company reviews the useful lives and residual value of property, plant and equipment and intangible assets on regular basis. The Company also reviews for any indicators for impairment of property, plant and equipment on a regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

4.2 Impairment of financial instruments

The loss allowance is calculated for financial instruments using the expected credit loss method as explained in note 5.20.

4.3 Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4.4 Assessment of significant influence

Associates are all entities over which the Company has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses of the investee in statement of income and expenditure, and the Company's share of movements in other comprehensive income of the investee in other comprehensive income.

Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. Where the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealized gains on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Company.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 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.

5.2 Taxation

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of income and exependiture except to the extent that it relates to items recognized directly to restricted funds in which case it is recognized in restricted funds.

5.2.1 The Company 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 current taxation has been made in the financial statements as management and its tax advisor are confident that under the relevant provisions of Income Tax Law, the Company will not be liable to any income taxes. Accordingly, tax withheld at source is recognised as income tax refundable.

5.2.2 Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to surplus for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years. Where there is uncertainty in income tax accounting i.e. when it is not probable that the tax authorities will accept the treatment, the impact of the uncertainty is measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty. Such judgements are reassessed whenever circumstances have changes or there is new information that affects the judgements. Where, at the assessment stage, the taxation authorities have adopted a different tax treatment and the Company considers that the most likely outcome will be in favour of the Company, the amounts are shown as contingent liabilities.

5.2.3 Deferred

Deferred tax is accounted for using the liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable incomes will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to the statement of income and expenditure, except in the case of items charged or credited to restricted funds in which case it is included in the statement of changes in net assets.

5.3 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on property, plant and equipment is calculated, using the straight line method, to allocate their cost over their estimated useful lives, at the rates mentioned in note 6. 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 are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of income and expenditure during the period in which they are incurred.

An impairment loss is recorded when the carrying amount of an asset is greater than its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is based on the expected discounted future net cash flows resulting from the asset or cash-generating unit. The carrying amounts of assets are reviewed regularly for signs of possible impairment. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised immediately in the statement of income and expenditure.

5.4 Intangible assets

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Company and that the cost of such an asset can also be measured reliably. Intangible assets are stated at cost less accumulated amortization and any identified impairment loss.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. Intangible assets, for which the time limit for the right of use is agreed, are amortised over the life of the contract.

The estimated useful lives and the residual values are reviewed at least at the end of each financial reporting period, and if they differ significantly from previous estimates, amortisation periods are adjusted accordingly.

A gain or loss arising from the sale of intangible assets is charged to restricted funds in the statement of income and expenditure.

5.5 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 and its share of post-acquisition other comprehensive income is recognised in the statement of changes in net assets. Dividends receivable from associated companies are recognised as a reduction in the carrying amount of the investment.

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

5.6 Impairment of non - financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment on the date of the statement of financial position, 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 statement of financial position 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.

5.7 Long term loans and advances

These are recognized initially at fair value plus transaction cost and subsequently measured at amortized cost less any identified impairment loss. A provision for impairment of loans and advances 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.

Convertible loans at a below market rate of interest are carried at present value and the difference between present value and loan proceeds is treated as loss on below market rate loans. A corresponding charge at market rate of interest on the carrying value of loan is recognized as unwinding of interest.

5.8 Finance to POs and loans to SMEs

The Company records loans to its partner organizations at an amount net of provision for related loan losses. The Company entered into financing agreements with its partner organizations (POs) as referred to in note 12 for strengthening their capacity to provide growth financing to Small and Medium size Enterprises ("SMEs") in Pakistan. The purpose of the agreements is to provide to these partners liquidity and risk participation to enable them to finance corporate SMEs 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.

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 in accordance with note no 5.20. Loan losses (write offs) are charged against the provision for loan losses when management believes that the loan is unlikely to be collected.

5.9 Advances and other receivables

Advances and other receivables 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.

5.10 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 statement of cash flows, 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.

5.11 Accrued and other liabilities

Accrued and other liabilities 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.

5.12 Leases

The Company is the lessee.

5.12.1 Lessee accounting

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses the recent third party financing received by the Company as a starting point, adjusted to reflect the changes in financing conditions since third party financing has been received;

- uses expected terms of third party financing based on correspondence with the third party financial institutions, where third party financing has not been received recently; and

- makes adjustments specific to the lease e.g. terms and security.

Lease payments include fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. Extension options (or periods covered by termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). While making this assessment, the Company considers significant penalties to terminate (or not extend) as well as the significant cost of business disruption.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in the statement of income and expenditure if the carrying amount of right of use asset has been reduced to zero.

The right of use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received. The right of use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. The right of use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

5.13 General fund

General Fund includes amount contributed by the original sponsors of the Company at the time of incorporation.

5.14 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 recognised in income and is reflected as grant receivable. Unspent portion of such grants are reflected as restricted grants in the statement of financial position. Grants received for general purpose is treated as unrestricted fund. Expenditure incurred against restricted donor's funds is recognised to the extent incurred against the objects of the Company.

5.15 Endowment fund

Endowment fund reports contribution subject to restriction specifying that resources contributed be maintained permanently. Contribution to endowment fund are recognised as direct increase in net assets in current period. The externally restricted net investment income is added to principle amount of resources held for endowment as direct increase, or decrease, in net assets.

5.16 Deferred grant

Grants related to property, plant 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.

5.17 Income recognition

Income is recognised 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.

5.18 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.

5.19 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 statement of financial position and exchange differences, if any, are charged to the statement of income and expenditure.

5.20 Financial instruments

Initial Recognition

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

Classification of financial assets

The Company classifies its financial instruments in the following categories:

- at fair value through profit or loss ("FVTPL"),

- at fair value through other comprehensive income ("FVTOCI"),

- at amortised cost.

The Company determines the classification of financial assets at initial recognition. The classification of instruments (other than equity instruments) is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. For equity instruments held for trading, the Company elects to designate them through FVTPL whereas, all other equity instruments are designated through FVTOCI.

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

The Company classifies its financial liabilities in the following categories:

- at fair value through profit and loss ("FVTPL"), or

- at amortised cost.

Financial liabilities are measured at amortised cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

Subsequent measurement

(i) Financial assets at FVTOCI

Investments elected to be as equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains or losses arising from changes in fair value recognised in other comprehensive income / (loss).

(ii) Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are initially recognised at fair value, and subsequently carried at amortised cost, and in the case of financial assets, less any impairment. The Company carries long term loans and advances, long term finance to partner organizations and long term portion of SME loans at amortised cost.

(iii) Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of income and expenditure and other comprehensive income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statement of income and expenditure and other comprehensive income in the period in which they arise.

Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income/(loss). Currently, there are no financial liabilities designated at FVTPL.

Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt and equity instrument assets carried at amortized cost and FVTOCI. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

The key judgments and assumptions adopted by the Company in addressing the requirements of the IFRS 9 are outlined below:

Significant increase in credit risk (SICR)

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the quantitative or qualitative criteria have been met including past due history, aging, probability of default etc.

The assessment of SICR incorporates forward-looking information and is performed on a periodic basis at a portfolio level for loans to SMEs. In relation to finance to partner organizations, loans and advances, deposits and other receivables, cash and cash equivalents etc., the assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Chief Risk Officer.

Measuring ECL - Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired"), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime (Lifetime EAD). The expected amount to be drawn up is computed after adjustment of the appropriate credit factor.
- Loss Given Default (LGD) represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of financial instrument, counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each period and for each individual exposure or collective segment. A risk weight of 100% is assigned to exposures in respect of loans to SMEs where a credit rating is not available. Assuming a 100% or more risk weight for exposures depending on perceived risk, and adjusting the same for various maturities – a portfolio level PD% has been estimated for all risk participation agreement driven exposures. For Meezan Bank Limited SME exposures, granular obligor level risk weighted assets as being reported by Meezan to the State Bank of Pakistan have been used for calculation of PD%.

Bank Alfalah Limited fleet financing, and JS Bank Limited are considered to carry a certain percentage of perceived risk, with greater higher maturities, due to which a PD% has been assigned based on their peculiar characteristics. A lower LGD% of 35% has been assumed for other fleet financing exposures. PD% have been correspondingly increased for certain exposures in order to incorporate changes in credit environment.

PD% for loans and advances is calculated using the same methodology as explained above. The assessment of PD% is based on the extent of unlevered balance sheet, exposure backing through vehicles and other assets and forward looking information is incorporated given the economic downturn and reduced sales at large.

In respect of debt exposure with PMIC, Soneri Bank and term loan to Orix, instruments are issued by entities which have a credit rating issued by one of the licensed credit rating agencies in the country. The same credit rating (either of the entity, or of the instrument) are used to map an estimate for Probability of Default. In case of absence of credit rating, mapping with other available ratings along security is considered for assessment of PD%.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has identified the key economic variables impacting credit risk and expected credit losses for each portfolio / party.

Derecognition of financial assets and liabilities

(i) Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying value and the sum of the consideration received and receivable is recognised in statement of income and expenditure. In addition, on derecognition of an investment in a debt instrument classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to statement of income and expenditure.. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to statement of income and expenditure., but is transferred to statement of changes in net assets.

(ii) Financial Liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of income and expenditure and other comprehensive income.

6 Property, plant and equipment

	Vehicles	Office Equipment	Computers	Furniture and fixtures	Total
	---Rupees---				
Net carrying value basis					
Year ended June 30, 2020					
Opening net book value (NBV)	799,392	2,104,592	4,829,006	8,697,815	16,430,805
Additions / transfers (at cost)	-	981,423	3,681,140	10,122,196	14,784,759
Disposals (at NBV)	-	-	-	-	-
Depreciation charge	(799,392)	(1,087,750)	(2,609,484)	(3,758,220)	(8,254,846)
Closing net book value (NBV)	-	1,998,265	5,900,662	15,061,791	22,960,718
Gross carrying value basis					
As at June 30, 2020					
Cost	5,022,000	5,063,518	14,855,342	22,934,681	47,875,541
Accumulated depreciation	(5,022,000)	(3,065,253)	(8,954,680)	(7,872,890)	(24,914,823)
Net book value (NBV)	-	1,998,265	5,900,662	15,061,791	22,960,718
Depreciation rate % per annum	20%	33.33%	33.33%	20%	
Net carrying value basis					
Year ended June 30, 2019					
Opening net book value (NBV)	1,781,356	1,370,225	2,683,397	7,581,876	13,416,854
Additions / transfers (at cost)	-	1,610,194	4,279,485	3,119,116	9,008,795
Depreciation charge	(981,964)	(875,827)	(2,133,876)	(2,003,177)	(5,994,844)
Closing net book value (NBV)	799,392	2,104,592	4,829,006	8,697,815	16,430,805
Gross carrying value basis					
As at June 30, 2019					
Cost	5,022,000	4,082,095	11,338,202	12,812,485	33,254,782
Accumulated depreciation	(4,222,608)	(1,977,503)	(6,509,196)	(4,114,670)	(16,823,977)
Net book value (NBV)	799,392	2,104,592	4,829,006	8,697,815	16,430,805
Depreciation rate % per annum	20%	33.33%	33.33%	20%	

6.1 Assets are purchased from the funds extended by the donors as identified in note 25.

6.2 Purchase of assets during the year amounting to Rs 34,845 (2019: Rs 701,000) and Rs 14,749,914 (2019: Rs 8,307,795) has been allocated to BMGF and DFID respectively.

6.3 Depreciation charge for the year amounting to Rs 136,413 (2019: Rs 93,887) and Rs 8,937,569 (2019: Rs 5,900,957) has been allocated to BMGF and DFID respectively.

6.4 This includes write off of a laptop having net book value of nil (cost; Rs. 164,000).

7 Right of use asset

This represents right of use asset obtained on lease as referred to in note 20. These are being depreciated over their lease term. Reconciliation of the carrying amount is as follows:

Cost	Note	Rupees
Balance as at June 30, 2019		-
Balance as at July 01, 2019		-
Initial application of IFRS 16 on July 01, 2019		54,600,720
Adjusted balance as at July 01, 2019 under IFRS 16		54,600,720
Additions during the year		-
Balance as at June 30, 2020		54,600,720
Depreciation		
Balance as at June 30, 2019		-
Balance as at July 01, 2019		-
Charge for the year	29	19,424,233
Balance as at June 30, 2020		19,424,233
Book value as at June 30, 2019		-
Book value as at June 30, 2020		35,176,487

7.1 The depreciation for the year has been charged to restricted funds.

8 Intangible assets

Computer software	2020 Rupees
As at July 1, 2019	
Cost	3,276,513
Accumulated amortization	(2,191,342)
Net book value	1,085,171
Year ended June 30, 2020	
Opening net book value	1,085,171
Additions during the year	-
Amortization charge for the year	(819,136)
Net book value	266,035
As at June 30, 2020	
Cost	3,276,513
Accumulated amortization	(3,010,478)
Net book value	266,035

	2019 Rupees
As at July 1, 2018	
Cost	3,276,513
Accumulated amortization	(1,372,206)
Net book value	1,904,307
Year ended June 30, 2019	
Opening net book value	1,904,307
Additions	-
Amortization charge for the year	(819,136)
Net book value	1,085,171
As at June 30, 2019	
Cost	3,276,513
Accumulated amortization	(2,191,342)
Net book value	1,085,171

8.1 Amortization charge for the year has been computed at the rate of 25% and has been charged to deferred grants.

8.2 The purchase of intangible assets and amortization charge is allocated to DFID.

9 Long term investments

Equity investments at FVTOCI comprise the following individual investments:

	Note	2020 Rupees	2019 Rupees
Excel Labs (Private) Limited	9.1	152,500,000	-
Techlogix Pakistan (Private) Limited	9.2	156,900,000	-
Secure Logistic Group (Private) Limited	9.3	600,000,000	-
		909,400,000	-

9.1 During the prior year, Karandaaz Pakistan (the Company) had entered into a share subscription agreement with Excel Labs (Private) Limited (Excel Labs), for equity investment in phases. As per terms of the agreement, the equity investment shall result in the Company's holding upto 30% shares of Excel Labs, subject to fulfilment of conditions contained in the shares subscription agreement. During the year certain conditions linked with phase 1 subscription have been completed and the Company has subscribed 15.74% shares of Excel Labs (Pvt) Limited.

9.2 In the previous year, Karandaaz Pakistan (the Company) signed a cooperation agreement effective July 1, 2018 with Techlogix Pakistan (Private) Limited (TPPL) and its holding company Techlogix International Limited (TIL) along with other shareholders of TIL to convert the entire loan amounting to Rs. 156,900,000 into 217,158 non voting, cumulative, convertible and redeemable preference shares in TPPL. During the year, aforesaid shares have been issued to the company with shareholding of 6.75% in TPPL. This represents virtual shareholding of 6.75% in TIL.

9.3 During the year, Karandaaz Pakistan entered into a share subscription agreement with Secure Logistic Group (Private) Limited (SLG), for equity investment in first and second subscription of shares amounting to Rs 540 million and 60 million respectively. All the conditions linked with aforesaid investment have been completed and the company has subscribed 13,218,429 shares representing holding of 13.707% in SLG.

10 Investment in associated companies

	Note	2020 Rupees	2019 Rupees
Pakistan Microfinance Investment Company Limited (PMIC)	10.1	2,465,445,717	2,437,334,728
HAC Agri (Private) Limited	10.2	271,241,674	210,727,476
Wahdat Poultry Farm (Private) Limited	10.3	484,842,047	-
		3,221,529,438	2,648,062,204

10.1 Pakistan Microfinance Investment Company Limited (PMIC)

Balance at beginning of the year		2,437,334,728	2,294,671,655
Share of profit of PMIC	10.1.1	28,110,989	142,663,073
Balance at end of the year		2,465,445,717	2,437,334,728

10.1.1 Share of profit of PMIC is based on audited financial statements for the nine months ended March 31, 2020 and un-audited financial statements for three months ended June 30, 2020.

	2020 Rupees	2019 Rupees
10.1.2 The Company's interest in associated company is as follows:		
Pakistan Microfinance Investment Company Limited (PMIC) - Unquoted 2,224,244 (2019: 2,224,244) fully paid ordinary shares of Rs 1,000 each; Cost Rs 2,224,244,000 (2019: Rs 2,224,244,000); Net assets as at June 30, 2020 Rs 6,522,343,167 (2019: Rs 6,447,975,470); percentage share holding as at June 30, 2020: 37.80% (2019: 37.80%)		
Carrying value	2,465,445,717	2,437,334,728

10.1.3 The table below provides summarized financial information for PMIC. The information disclosed reflects the amounts presented in the most recent audited financial statements for the 9 months ended March, 31, 2020 and unaudited financial statements of PMIC, for the quarter ended June 30, 2020 and not the reporting entity'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.

	2020 Rupees	2019 Rupees
Summarised statement of financial position		
Non- current assets	6,938,569,655	22,107,038,420
Current assets	20,743,453,437	5,124,756,317
Current liabilities	(4,020,124,852)	(2,312,849,390)
Non- current liabilities	(17,139,555,073)	(18,470,969,877)
Net assets	6,522,343,167	6,447,975,470
Reconciliation to carrying amounts:		
Opening net assets	6,447,975,470	6,070,559,935
Adjustment in opening net assets	4,358,569	(27,486,479)
Profit for the year	70,009,128	404,902,014
Other comprehensive income	-	-
Net assets as at June 30	6,522,343,167	6,447,975,470
Company's percentage shareholding in the associate	37.80%	37.80%
Summarised statement of comprehensive income		
Revenue	4,011,566,601	2,580,666,206
Profit for the year	70,009,128	404,902,014

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

10.1.5 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.

10.1.6 Investment in PMIC has been made in accordance with the requirements of the Companies Act, 2017.

	Note	2020 Rupees	2019 Rupees
10.2 HAC Agri Limited (HAC Agri)			
Balance at beginning of the year		210,727,476	-
Investment during the year in HAC Agri - at cost		110,000,000	300,000,000
Share of (loss) of HAC Agri	10.2.1	(49,485,802)	(89,272,524)
Balance at end of the year		271,241,674	210,727,476

10.2.1 Share of loss of HAC Agri is based on audited financial statements for the year ended June 30, 2020.

10.2.2 During the current year, the Company invested Rs. 110 million in HAC Agri The Company's interest in associated company is as follows:

	2020 Rupees	2019 Rupees
HAC Agri Limited - Unquoted		
41,000,000 (2019: 30,000,000) fully paid preference shares of Rs 10 each; Cost Rs 410,000,000 (2019: Rs 300,000,000); Net assets as at June 30, 2020 Rs 553,785,182 (2019: Rs 387,157,415); percentage share holding as at June 30, 2020: 36.3% (2019: 36.3%)		
Carrying value	271,241,674	210,727,476

10.2.3 The table below provides summarized financial information for HAC Agri. The information disclosed reflects the amounts presented in the most recent financial statements of HAC Agri, for the year ended June 30, 2020 and not the reporting entity'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.

	2020 Rupees	2019 Rupees
Summarised statement of financial position		
Non- current assets	1,977,076,726	1,628,827,735
Current assets	244,292,430	88,930,516
Current liabilities	(476,180,069)	(178,343,481)
Non- current liabilities	(1,191,403,905)	(1,152,257,355)
Net assets	553,785,182	387,157,415
Reconciliation to carrying amounts:		
Opening net assets	387,157,415	633,209,543
Increase in issued, subscribed and paid-up capital	302,952,290	-
(Loss) for the period	(388,693,755)	(245,929,818)
Other comprehensive income	252,369,232	(122,310)
Net assets as at June 30	553,785,182	387,157,415
Company's percentage shareholding in the associate	36.30%	36.30%
Summarised statement of comprehensive income		
Revenue	63,884,787	11,948,740
(Loss) for the period	(388,693,755)	(330,381,533)
Other comprehensive income / (loss) for the period	252,369,232	(122,310)

10.2.4 The Company has 36.30 percent shareholding in HAC Agri and is therefore treated as associated company. Moreover, the Company also has two representatives on HAC Agri's Board of Directors.

10.2.5 HAC Agri is registered under the laws of Pakistan with Securities and Exchange Commission of Pakistan. It is engaged in controlled atmospheric cold storage facility to keep fruits and vegetables fresh for a longer period of time. The registered office of HAC Agri is located in Lahore.

10.2.6 Investment in HAC Agri has been made in accordance with the requirements of the Companies Act, 2017.

	Note	2020 Rupees	2019 Rupees
10.3 Wahdat Poultry Farm (Private) Limited (Wahdat Poultry Farm)			
Balance at beginning of the year		-	-
Investment during the year in Wahdat Poultry Farm - at cost		500,000,000	-
Share of (loss) of Wahdat Poultry Farm	10.3.1	(15,157,953)	-
Balance at end of the year		484,842,047	-

10.3.1 Share of loss of Wahdat Poultry Farm is based on audited financial statements for the year ended June 30, 2020.

10.3.2 During the current year, the Company utilized the investment previously placed in an escrow account to acquire 21.7 percent shareholding in Wahdat Poultry Farm (Private) Limited on January 09, 2020 and further 5.3 percent shareholding on March 18, 2020 for a total amount of Rs. 500 million. The Company's interest in associated company is as follows:

	2020 Rupees	2019 Rupees
Wahdat Poultry Farm (Private) Limited - Unquoted		
15,401,948 (2019: Nil) fully paid ordinary shares of Rs 10 each;		
Cost Rs 500,000,000 (2019: Rs Nil);		
Net assets as at June 30, 2020 Rs 866,695,036 (2019: Rs Nil); percentage share holding as at June 30, 2020: 27% (2019: Nil)		
Carrying value	484,842,047	-

10.3.3 The table below provides summarized financial information for Wahdat Poultry Farm. The information disclosed reflects the amounts presented in the most recent financial statements of Wahdat Poultry Farm, for the year ended June 30, 2020 and not the reporting entity'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.

	2020 Rupees	2019 Rupees
Summarised statement of financial position		
Non- current assets	724,969,601	-
Current assets	494,208,166	200,000
Current liabilities	(328,240,979)	(40,000)
Non- current liabilities	(24,241,752)	-
Net assets	866,695,036	160,000
Reconciliation to carrying amounts:		
Opening net assets	160,000	-
Increase in share capital and share premium	916,423,030	200,000
(Loss) for the period	(49,687,994)	(40,000)
Net assets as at June 30	866,895,036	160,000
Company's percentage shareholding in the associate		
On January 09, 2020	21.7%	-
On March 18, 2020	5.3%	-
	27%	-
Summarised statement of comprehensive income		
Revenue	721,578,055	-
(Loss) for the period	(49,687,994)	-

10.3.4 The Company has 27 percent shareholding in Wahdat Poultry Farm and is therefore treated as associated company. Wahdat Poultry Farm was incorporated on February 07, 2019 and commenced operations on October 01, 2019.

10.3.5 Wahdat Poultry Farm is registered under the laws of Pakistan with Securities and Exchange Commission of Pakistan. The principle activity of the Company is the poultry layer farming, egg and feed processing, marketing, branding, distribution, buying and selling, export and import of their related products. The registered office of the Company is situated in Islamabad. Moreover, the Company has one representative on Wahdat Poultry Farm's Board of Directors

10.3.6 Investment in Wahdat Poultry Farm has been made in accordance with the requirements of the Companies Act, 2017.

	Note	2020 Rupees	2019 Rupees
11 Long term loans, advances and other receivables			
Associated Company			
Loan to Pakistan Microfinance Company Limited unsecured considered good	11.1	2,800,000,000	2,800,000,000
Other parties			
Term loan to Orix Leasing Pakistan Limited, secured considered good	11.2	700,000,000	700,000,000
Term loan to Al Haj Faw Motors (Private) Limited secured considered good	11.3	500,000,000	500,000,000
Term loan to JSK Feeds (Private) Limited secured considered good	11.4	100,000,000	100,000,000
Soneri Bank Limited -Term Finance Certificates unsecured considered good	11.5	500,000,000	500,000,000
Advance to Techlogix Pakistan	11.6	-	156,900,000
Convertible loans	11.7	284,157,902	142,207,561
Advance to escrow agents	11.8	2,447,000,000	1,200,000,000
		7,331,157,902	6,099,107,561
Impairment loss allowance	11.9	(135,856,436)	(58,526,250)
Less: Due within 12 Months	15	(175,000,000)	-
		7,020,301,466	6,040,581,311

11.1 This represents loan provided to associated company, Pakistan Microfinance Company Limited (PMIC) during prior years in two tranches to enhance its capitalization and for upscaling micro-enterprise financing through Micro finance investments & Micro finance banks for different sectors. The tenure of loans is ten years with a grace period of nine years for each tranche, commencing from the date of its disbursement. The loan carries markup at Six Month KIBOR plus 100 basis points per annum with no floor or cap. Mark up on outstanding loan amount is due for payment on quarterly basis. The loan is unsecured and fully subordinated to all other senior debt of PMIC. Further, it will rank pari passu with all existing and future subordinated debt of PMIC. During the year maximum aggregate amount of loan outstanding was Rs 2,800 million. The loan was approved by the members of the Company in their meeting dated September 24, 2018.

11.2 This represents term finance facility of Rs 700 million provided to Orix Leasing Pakistan Limited for the purpose of providing them with a credit line for deployment in asset backed loans and/or leases to Small Enterprises. The tenure of the loan is four years with a grace period of initial three years. The loan carries a mark-up rate of six months KIBOR plus 25 basis points with no floor or cap. Mark up on outstanding loan amount is due for payment on quarterly basis. The loan is secured through a specific charge created over the hypothecated assets in favour of the Company.

11.3 This represents term finance facility of Rs 500 million provided to Al Haj Faw Motors (Private) Limited (FAW). The finance was provided through an agent Bank Alfalah Limited (BAFL) under the agency agreement. The term finance facility is provided to FAW to provide loans to eligible SME's. The tenure of the loan is three years with the grace period of initial two years. The loan carries a mark-up rate of six month KIBOR plus 200 basis points. Mark up on outstanding loan amount is due for payment on quarterly basis. During the year the Board in its 30th meeting held on May 11, 2020 approved the deferral of markup payment for a term of 12 months. The loan is secured through a specific charge created over the hypothecated assets in favour of Bank Alfalah Limited.

11.4 This represents term finance facility of Rs 100 million provided in the previous year to JSK Feeds (Private) Limited (JSK). The finance was provided through an agent Bank Alfalah Limited (BAFL) under the agency agreement. The term finance facility is provided to JSK to provide finance to farmers in its value chain. The original tenure of the loan was 18 months with the grace period of initial one year. During the year the Board in its 30th meeting held on May 11, 2020 approved the deferral of principal payment for a term of 12 months till December 2021. The loan carries a mark-up rate of six month KIBOR plus 150 basis points . Mark up on outstanding loan amount is due for payment on quarterly basis. The loan is secured through a ranking charge created over the hypothecated assets in favour of Bank Alfalah Limited with twenty five percent margin registered with SECP.

11.5 This represents listed, rated, unsecured, subordinated, perpetual, and non-cumulative debt in the form of Term Finance Certificates (TFCs) of Rs 500 million having face value of Rs 5,000 each issued by Soneri Bank Limited (SNBL) in the previous year. The TFCs carry a mark-up at the rate of 6 Month KIBOR + 2% per annum. Profit on TFC's is due for payment on biannual basis, on a non cumulative basis. SNBL may, at its sole discretion, call the TFCs, at any time on or after five years from the issue date subject to the prior approval of the State Bank of Pakistan.

11.6 The Company provided senior loan to Techlogix Pakistan (Private) Limited (TPPL) in March 2017. The loan carried mark up at six months LIBOR plus 300 basis points per annum with no floor or cap and tenure of two years from the date of disbursement.

In the previous year, the Company signed a cooperation agreement effective July 1, 2018 with TPPL and its holding company Techlogix International Limited (TIL) along with other shareholders of TIL to convert the entire amount of loan into 217,158 non-voting, cumulative, convertible and redeemable preference shares in TPPL. In order to convert the said loan into preference shares, certain formalities specified in the agreement were pending in the previous year. The amount of markup was equivalent to the dividend amount the Company would have received, had it owned shares in Techlogix International Limited (TIL), representing the Company's shareholding of 6.75%. The Company has one representative on TPPL's Board. The aforesaid preference shares have been issued during the year.

11.7 **Convertible loans**	**Note**	**2020 Rupees**	**2019 Rupees**
Present value of convertible loans	11.7.1	267,342,461	136,236,240
Unwinding of interest		17,163,441	5,971,321
Accrued interest on convertible loan		(348,000)	-
Convertible Loans - Gross receivable		284,157,902	142,207,561

11.7.1 This represents convertible loans amounting to Rs. 306.28 million (2019: 159.60 million) provided under the Innovation Challenge Fund (ICF) program to empower women through training, mentorship and access to finance. The term of loans are three years commencing from the disbursement of first tranche and ending on the completion of loan term or on the date of conversion of loan amount and outstanding markup into equity, whichever is earlier. The Company has the option to convert the loan in whole or in part of the outstanding loan amount and outstanding profit thereon to preference shares, if converted before completion of Loan Term, which would eventually be converted into ordinary shares after completion of 3 Years from date of disbursement of first tranche.

Markup shall be paid on outstanding amount on bi-annual basis at the following rates:

- for the first year, no mark up shall be payable on outstanding loan amount; and

- for the second and third year, markup will be payable at 6 Months KIBOR minus 200 basis points or 6% of outstanding loan amount, whichever is lower.

11.8 The total equity investment placed in escrow accounts as at each year end is as follows:

	Note	2020 Rupees	2019 Rupees
Excel Labs (Private limited)	11.8.1	197,500,000	350,000,000
Wahdat Poultry Farm (Private) Limited	11.8.2	-	500,000,000
NRSP Agriculture Processing Company Limited	11.8.3	600,000,000	350,000,000
InfraZamin Pakistan Limited	11.8.4	1,649,500,000	-
		2,447,000,000	1,200,000,000

11.8.1 During the previous year, Karandaaz Pakistan (the Company) had entered into a share subscription agreement with Excel Labs (Private) Limited (Excel Labs), for equity investment in phases. As per terms of the agreement, the equity investment shall result in the Company's holding upto 30% shares of Excel Labs, subject to fulfillment of conditions contained in the shares subscription agreement. In the phase I, the Company will be entitled to hold shares equivalent to 19.67% shares. Subsequent to phase I subscription, the Company will further be entitled to subscribe remaining shares of Excel Labs. During the year, the Company has subscribed for 15.74% shares of Excel Labs.

11.8.2 During the previous year, the Company had entered into share subscription agreement with Wahdat Poultry Farm (Private) Limited (Wahdat Poultry) for equity investment in phases. Conditions precedent linked with Wahdat Poultry investment have been fulfilled and the Company has subscribed 27% shares.

11.8.3 During the previous year, the Company had entered into share subscription agreement with NRSP Agri Processing Company (Private) Limited (NRSP Agri) for equity investment in phases. As per terms of the agreement, the equity investment in NRSP Agri shall result in the Company holding upto 49% shares against a total investment of Rs. 600 million subject to fulfillment of conditions precedent in the share subscription agreement.

11.8.4 During the current year, the Company has entered into share subscription agreement with InfraZamin Pakistan Limited (InfraZamin) for equity investment. The total contractual commitment is Rs 1.65 billion and the amount is placed in an escrow account.

		2020 Rupees	2019 Rupees
11.9	Movement in impairment loss allowances		
	Balance at the beginning of the year under IAS 39	-	-
	Effect of change in accounting policy due to adoption of IFRS 9	-	29,250,000
	Balance as at beginning of the year under IFRS 9	58,526,250	29,250,000
	Impairment loss on financial assets during the year	77,330,186	29,276,250
	Balance as at end of the year	135,856,436	58,526,250

12 Long term finance to partner organizations (POs)- unsecured

	Note	2020 Rupees	2019 Rupees
Meezan Bank Limited, considered good	12.1	386,779	32,587,672
Orix Leasing Pakistan Limited, considered good	12.2	-	-
Bank Alfalah Limited, considered good	12.3	73,459,420	-
JS Bank Limited, considered good	12.4	116,257,138	154,500
MCB Islamic Bank Limited, considered good	12.5	42,366,141	831,250
Habib Metropolitan Bank Limited, considered good	12.6	-	25,000,000
		232,469,478	58,573,422

12.1 The Company entered into 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 Dollars 40 million whereas the Company's related contribution limit shall be US Dollars 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 tenure 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.

		2020 Rupees	2019 Rupees
12.1.1	Meezan Bank Limited		
	Principal contribution by Company as at June 30	845,911,224	637,034,924
	Less: Loans to SME's as at June 30	(845,524,445)	(604,447,252)
		386,779	32,587,672
12.1.2	The aging analysis of above balance is as follows;		
	Less than 12 months	386,779	32,587,672

12.2 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 Dollars 30 million whereas the Company's related contribution limit shall be US Dollars 10 million. The tenure 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.

		2020 Rupees	2019 Rupees
12.2.1	Orix Leasing Pakistan Limited		
	Principal contribution by Company	103,352,396	103,352,396
	Principal returned by SME's as at June 30	(99,662,978)	(83,375,530)
	Amount given to Orix as at June 30	3,689,418	19,976,866
	Less: Loans to SME's as at June 30	(3,689,418)	(19,976,866)
		-	-
12.2.2	The aging analysis of above balance is as follows;		
	Less than 12 months	-	-

12.3 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 10 million. The contribution by the Company carries a mark-up rate of 7.30% 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 tenure 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 BAFL is shared between the Company and BAFL based on pro-rata share agreed between the aforesaid parties.

		2020 Rupees	2019 Rupees
12.3.1	Bank Alfalah Limited		
	Principal contribution by Company	1,069,119,689	810,272,534
	Principal returned by SME's as at June 30	(333,744,505)	(217,436,958)
	Amount given to Bank Alfalah Limited as at June 30	735,375,184	592,835,576
	Less: Loans to SME's as at June 30	(661,915,764)	(592,835,576)
		73,459,420	-
12.3.2	The aging analysis of above balance is as follows;		
	Less than 12 months	73,459,420	-

12.4 The Company entered into a finance facility agreement with JS Bank Limited (JSBL) 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, JSBL will fund the disbursements of loans to SME's to the extent of Rs. 1 billion whereas the Company's related contribution limit shall be Rs. 500 million. The contribution by the Company carries a mark-up rate of 7% 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 tenure 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 JSBL is shared between the Company and JSBL based on pro-rata share agreed between the aforesaid parties.

		2020 Rupees	2019 Rupees
12.4.1	JS Bank Limited		
	Principal contribution by Company	389,307,000	123,918,500
	Less: Loans to SME's as at June 30	(273,049,862)	(123,764,000)
		116,257,138	154,500
12.4.2	The aging analysis of above balance is as follows;		
	Less than 12 months	116,257,138	154,500

12.5 The Company entered into finance facility agreement with MCB Islamic Bank Limited (MIB) 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, MIB will fund the disbursements of loans to SME's to the extent of Rs. 1 billion whereas the Company's related contribution limit shall be Rs. 500 million. The monthly profit that is payable to the Company on the funds with MIB 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 tenure 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 MIB is shared between the Company and MIB based on pro-rata share agreed between the aforesaid parties.

		2020 Rupees	2019 Rupees
12.5.1	MCB Islamic Bank Limited		
	Principal contribution by Company	202,000,000	125,000,000
	Less: Loans to SME's as at June 30	(159,633,859)	(124,168,750)
		42,366,141	831,250

		2020 Rupees	2019 Rupees
12.5.2	The aging analysis of above balance is as follows;		
	Less than 12 months	42,366,141	831,250

12.6 The Company entered into a finance facility agreement with Habib Metropolitan Bank Limited (HMB) 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, HMB will fund the disbursements of loans to SME's to the extent of Rs. 1 billion whereas the Company's related contribution limit shall be Rs. 500 million. The contribution by the Company carries a mark-up rate of 7.5% 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 tenure 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 HMB is shared between the Company and HMB based on pro-rata share agreed between the aforesaid parties.

		2020 Rupees	2019 Rupees
12.6.1	Habib Metropolitan Bank Limited		
	Principal contribution by Company	-	25,000,000
12.6.2	The aging analysis of above balance is as follows;		
	Less than 12 months	-	25,000,000

13 Long term portion of small and medium sized enterprises (SMEs)

	Note	2020 Rupees	2019 Rupees
Considered good		1,894,798,892	1,445,772,284
Considered doubtful		49,014,456	19,420,160
		1,943,813,348	1,465,192,444
Impairment loss allowance	13.1	(49,014,456)	(19,420,160)
		1,894,798,892	1,445,772,284
Less: Amount receivable within next twelve months		(1,549,232,429)	(762,192,798)
		345,566,463	683,579,486

13.1 Movement in impairment loss allowances

Balance at the beginning of the year under IAS 39	-	-
Effect of change in accounting policy due to adoption of IFRS 9	-	8,745,232
Balance as at beginning of the year under IFRS 9	19,420,160	8,745,232
Impairment loss on financial assets	29,594,296	10,674,928
Balance as at end of the year	49,014,456	19,420,160

13.2 As referred to in note 12, Meezan Bank Limited, Orix Leasing Pakistan Limited, Bank Alfalah Limited, JS Bank Limited and MCB Islamic Bank Limited disbursed 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 plus spread. These loans are secured in the name of POs 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 Company and partner organization.

14 Long term security deposits

This includes security deposit paid for using of office premises.

15 Current portion of long term loans, advances and other receivables

	Note	2020 Rupees	2019 Rupees
Short term Portion of Loan to Orix Leasing Pakistan secured considered good		175,000,000	-
Loan to Excel Labs (Private) Limited	15.1	26,365,536	-
Less: Impairment loss allowance	30	(3,460,169)	-
		197,905,367	-

15.1 This represents shareholder loan provided to Excel Labs (Private) Limited to set up a 110 sq. ft. BSL Level 3 facility, on World Health Organization (WHO) standards, solely for the purpose of COVID-19 testing. The total facility amount is Rs 28.009 million with allocation of Rs 5.509 million and 22.500 million in tranche 1 and tranche 2 respectively. The present value of the loans discounted is Rs. 26.37 million. The facility is interest free and tenure of both tranches is 12 months from the date of disbursement.

16 Advances, deposits, prepayments and other receivables

	2020 Rupees	2019 Rupees
Advances to employees - unsecured considered good	3,018,672	1,230,121
Prepaid rent	-	10,331,458
Prepaid insurance	8,148,750	4,605,809
Short term security deposits	1,842,315	356,176
Accrued interest :		
Savings account/ short term investment	43,227,715	3,321,214
Profit receivable from SME's	19,148,275	15,417,656
Profit receivable from PMIC	101,152,110	82,373,699
Finance to partner organizations	70,938,681	38,930,515
	234,466,781	140,043,084
Other receivables	4,465,159	836,325
	251,941,677	157,402,973

17 Short term investments

This represents investment in term deposit receipt in US Dollarss maturing on December 29, 2020 at markup rate of 3.65% per annum. These funds are placed with United Bank Limited.

18 Cash and bank balances

	Note	2020 Rupees	2019 Rupees
Cash in hand		-	100,000
Cash at bank in savings account			
Local currency	18.1	3,800,449,595	1,650,998,415
Foreign currency		135,615,920	1,151,570,000
		3,936,065,515	2,802,568,415
		3,936,065,515	2,802,668,415

18.1 This includes profit of Rs. 125.51 (2019: Rs. 16.93 million) on bank balances of the Company maintained with the POs.

Further, this also includes Rs. 1.10 million (2019: Rs. 1.10 million) marked under lien for the corporate credit card.

18.2 Bank balances on deposit accounts in PKR carried interest at a rate ranging from 7.3% to 12.39% per annum (2019: ranging from 5.5% to 11.4% per annum) whereas deposit accounts in USD carried interest at a rate ranging from 1.08% to 6.25% per annum (2019: ranging from 1.04% to 6.25% per annum).

19 Deferred Taxation

	Note	2020 Rupees	2019 Rupees
Deferred tax assets in respect of investment in associate - restricted grant	19.1	(20,813,749)	(13,390,879)
Deferred tax asset in respect of investment in associate - restricted grant	19.2	(2,273,693)	-
Deferred tax liability in respect of investment in associate - endowment fund	19.3	36,180,258	31,963,614
		13,092,816	18,572,735

19.1 Deferred tax asset has been recognised on share of loss on investment in HAC Agri Limited.
19.2 Deferred tax asset has been recognised on share of loss on investment in Wahdat Poultry Farm.
19.3 Deferred tax liability has been recognised on share of profit on investment in Pakistan Microfinance Investment Company.

20 Lease liability

The company has leased office building in Islamabad having a lease term of 3 years. This liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of July 01, 2019. The lessee's incremental borrowing rate applied to the lease liabilities on July 01, 2019 was 14.07%. The lease rentals are payable semi-annually in advance.

	Rupees
Balance as at June 30, 2019	-
Balance as at July 01, 2019	-
Initial application of IFRS 16 on July 01, 2019	44,580,720
Adjusted balance as at July 01, 2019 under IFRS 16	44,580,720
Additions to lease liability	-
Finance cost	5,717,745
Rentals paid	(11,022,000)
	39,276,465
Current portion shown under current liabilities	19,883,900
Long term portion shown under non-current liabilities	19,392,565
Balance as at June 30, 2020	39,276,465

21 Deferred Grant

	Note	2020 BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	2020 DFID- Sustainable Energy and Economic Development (SEED)	2020 DFID - Enterprise and Assets Growth (EAGR) Programme	2020 Total	2019 BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	2019 DFID - Enterprise and Assets Growth (EAGR) Programme	2019 Total
		(Rupees)				(Rupees)		
Opening balance		4,000,544	-	13,515,432	17,515,976	3,393,431	11,927,730	15,321,161
Transferred from restricted grants	21.1	34,845	8,783,589	5,966,325	14,784,759	701,000	8,307,795	9,008,795
Amortization charge for the year representing depreciation and amortisation on related items of property, plant and equipment and intangible assets	21.2	(136,413)	(978,073)	(7,959,496)	(9,073,982)	(93,887)	(6,720,093)	(6,813,980)
Net book value		3,898,976	7,805,516	11,522,261	23,226,753	4,000,544	13,515,432	17,515,976
As at June 30								
Cost		4,393,444	8,783,589	37,975,022	51,152,055	4,415,999	32,115,296	36,531,295
Accumulated Amortization		(494,468)	(978,073)	(26,452,761)	(27,925,302)	(415,455)	(18,599,864)	(19,015,319)
Net book value		3,898,976	7,805,516	11,522,261	23,226,753	4,000,544	13,515,432	17,515,976

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

	Note	2020				2019		
		BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID- Sustainable Energy and Economic Development (SEED)	DFID - Enterprise and Assets Growth (EAGR) Programme	Total	BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID - Enterprise and Assets Growth (EAGR) Programme	Total
		----------(Rupees)----------				----------(Rupees)----------		
Property, plant and equipment								
Office equipment	6	34,845	660,796	285,782	981,423	-	1,610,194	1,610,194
Computers	6	-	1,966,440	1,714,700	3,681,140	701,000	3,578,485	4,279,485
Furniture and fixtures	6	-	6,156,353	3,965,843	10,122,196	-	3,119,116	3,119,116
Intangibles assets								
Computer softwares	8	-	-	-	-	-	-	-
		34,845	8,783,589	5,966,325	14,784,759	701,000	8,307,795	9,008,795

21.2 Amortization charge for the year representing depreciation and amortization on related items of property, plant and equipment, intangible assets has been allocated as follows;

	Note	2020				2019		
		BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID- Sustainable Energy and Economic Development (SEED)	DFID - Enterprise and Assets Growth (EAGR) Programme	Total	BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID - Enterprise and Assets Growth (EAGR) Programme	Total
		----------(Rupees)----------				----------(Rupees)----------		
Property, plant and equipment								
Vehicles	6	-	-	799,392	799,392	-	981,964	981,964
Office equipment	6	14,670	117,524	955,556	1,087,750	-	875,827	875,827
Computers	6	117,700	137,353	2,354,431	2,609,484	93,887	2,039,989	2,133,876
Furniture and fixtures		4,043	723,196	3,030,981	3,758,220	-	2,003,177	2,003,177
Intangibles assets								
Computer softwares	8	-	-	819,136	819,136	-	819,136	819,136
		136,413	978,073	7,959,496	9,073,982	93,887	6,720,093	6,813,980

22 Accrued and other liabilities

	2020 Rupees	2019 Rupees
Creditors	346,405,162	181,808,026
Accrued liabilities	1,685,861	1,840,503
Income tax deducted at source	13,555,975	825,019
Other payables	177,406	82,554
	361,824,404	184,556,102

22.1 The maximum aggregate amount due to the employees provident fund at the end of any month during the year amounts to Rs. 4.77 million (2019: Rs.3.75 million).

23 General Fund

	Note	2020 Rupees	2019 Rupees
Contribution	23.1	600,000	600,000
		600,000	600,000

23.1 This represents amount contributed by the original sponsors of the Company at the time of incorporation.

24 Endowment fund

This represents the amount paid by DFID for the purpose of investment in Pakistan Microfinance Investment Company Limited engaged in microfinancing activities and income / loss arising thereof.

25 Restricted donors' fund / grant

	Note	2020					2019		
		DFID-Sustainable Energy and Economic Development (SEED)	DFID - Financial Inclusion Program (FIP)	BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID - Enterprise and Assets Growth (EAGR) Programme	Total	BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID - Enterprise and Assets Growth (EAGR) Programme	Total
		(Rupees)					(Rupees)		
Opening balance		-	-	2,041,680,084	8,734,939,358	10,776,619,442	913,995,148	4,808,876,775	5,722,871,923
Effect of changes in accounting policies due to adoption of IFRS 9		-	-	-	-	-	-	(37,995,232)	(37,995,232)
		-	-	2,041,680,084	8,734,939,358	10,776,619,442	913,995,148	4,770,881,543	5,684,876,691
Grants received during the year		10,436,589	1,630,000,000	620,820,000	3,688,893,673	5,950,150,262	1,385,000,000	3,997,078,644	5,382,078,644
Grant receivable from DFID		2,318,743	-	-	-	2,318,742	-	-	-
Deferred tax - asset - HAC Agri	19	-	-	-	7,422,870	7,422,870	-	13,390,879	13,390,879
Deferred tax - asset - Wahdat Poultry Farm	19	-	-	-	2,273,693	2,273,693	-	-	-
Unwinding of interest	11.7	-	-	-	17,163,441	17,163,441	-	5,971,321	5,971,321
Other income - restricted	27	750,606	70,136,284	166,362,635	1,225,770,717	1,463,020,242	270,656,049	548,763,758	819,419,807
		13,505,938	1,700,136,284	787,182,635	4,941,524,394	7,442,349,250	1,655,656,049	4,565,204,602	6,220,860,651
Transferred to deferred grant	21	(8,783,589)	-	(34,845)	(5,966,325)	(14,784,759)	(701,000)	(8,307,795)	(9,008,795)
Finance cost on lease liability	20	(311,877)	-	(2,167,545)	(3,238,323)	(5,717,745)	-	-	-
Depreciation on right of use asset	7	(1,059,504)	-	(7,363,550)	(11,001,179)	(19,424,233)	-	-	-
Loss share of HAC Agri		-	-	-	(49,485,802)	(49,485,802)	-	(89,272,524)	(89,272,524)
Loss on share of Wahdat Poultry Farms		-	-	-	(15,157,953)	(15,157,953)	-	-	-
Loss of below market loans	28	-	-	-	(23,498,820)	(23,498,820)	-	(23,363,760)	(23,363,760)
Transferred to endowment fund		-	-	-	-	-	-	(70,427,655)	(70,427,655)
Grant income recognised	31 & 32	(2,162,143)	(172,602,802)	(831,268,048)	(367,740,481)	(1,373,773,474)	(527,270,113)	(369,823,875)	(897,093,988)
Impairment loss on financial assets	30	-	-	-	(110,384,651)	(110,384,651)	-	(39,951,178)	(39,951,178)
		(12,317,113)	(172,602,802)	(840,833,988)	(586,473,534)	(1,612,227,437)	(527,971,113)	(601,146,787)	(1,129,117,900)
Closing balance		1,188,825	1,527,533,482	1,988,028,731	13,089,990,218	16,606,741,256	2,041,680,084	8,734,939,358	10,776,619,442

26 Contingencies and commitments

Contingencies

26.1 The Company had filed an application for recognition as a not for profit organization under Section 2(36) of the Income Tax Ordinance, 2001 in September 2016. The Company's request for the aforesaid recognition is pending for approval. The application was rejected by the Commissioner Inland Revenue (IR) however, an appeal against the rejection order was filed before Chief Commissioner IR where it was remanded back to Commissioner IR with the direction to review the case. No provision for taxation has been recognised by the Company as the management and its tax advisors believes that a favorable outcome is expected in the related matter, and that in case of an adverse order, the Company would have right to contest the matter in appeal.

Commitments

26.2 As referred to in note 12, the Company entered into an financing agreement with Meezan Bank. In furtherance of aforementioned agreement, Meezan has the right to make drawdown requests of a minimum US Dollars 50,000 each upto to a total amount of disbursement of US Dollars 10 million. As at June 30, 2020 funds amounting to US Dollars 5.06 million (Rs. 845.91 million), (2019: US Dollars 3.91 million) (Rs. 637.03 million) have been provided to Meezan Bank Limited in this respect. The remaining drawdown allocation of US Dollars 4.94 million (Rs. 826.53 million) (2019: US Dollars 6.08 million) (Rs. 988.99 million) is yet to be made by Meezan.

26.3 As referred to in note 12, the Company entered into a financing agreement with Orix. In furtherance of aforesaid agreement, Orix has the right to make drawdown requests of a minimum US Dollars 50,000 each upto to a total amount of disbursement of US Dollars 10 million. As at June 30, 2020 funds amounting to US Dollars 0.62 million (Rs. 103.35 million) (2019: US Dollars 1 million (Rs. 103.35 million)) have been provided to Orix in this respect. The remaining drawdown allocation of US Dollars 9.38 million (Rs. 1.57 billion) (2019: US Dollars 9 million (Rs. 1.46 billion)) is yet to be made by Orix.

26.4 As referred to in note 12, the Company entered into a financing agreement with Bank Alfalah Limited (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 10 million. As at June 30, 2020 funds amounting to GBP 5.4 million (Rs. 1.07 billion) (2019: GBP 3.9 million (Rs. 810.27 million)) have been provided to BAFL in this respect. The remaining drawdown allocation of GBP 4.6 million (2019: Rs. 1.26 billion) ((2019: GBP 6.1 million) (Rs. 1.26 billion)) is yet to be made.

26.5 As referred to in note 12, the Company entered into a financing agreement with JS Bank Limited (JSBL). In furtherance of aforesaid agreement, JSBL has the right to make drawdown requests of a minimum Rs. 100 million each upto to a total amount of disbursement of Rs. 500 million. As at June 30, 2020 funds amounting to Rs. 389 million (2019: Rs. 125) have been provided to JSBL in this respect. The remaining drawdown allocation of Rs. 111 million (2019: Rs. 375 million) is yet to be made.

26.6 As referred to in note 12, the Company entered into a financing agreement with MCB Islamic Bank Limited (MIB). In furtherance of aforesaid agreement, MIB has the right to make drawdown requests of a minimum Rs. 100 million each upto to a total amount of disbursement of Rs. 500 million. As at June 30, 2020 funds amounting to Rs. 202 million (2019: Rs. 125 million) have been provided to MIB in this respect. The remaining drawdown allocation of Rs. 298 million (2018: Rs. 375 million) is yet to be made.

26.7 As referred to in note 12, the Company entered into a financing agreement with Habib Metropolitan Bank Limited (HMB). In furtherance of aforesaid agreement, HMB has the right to make drawdown requests of a minimum Rs. 100 million each upto to a total amount of disbursement of Rs. 500 million. As at June 30, 2020 funds amounting to Rs nil (2019: Rs. 25 million) have been provided to HMB in this respect. The remaining drawdown allocation of Rs. 500 million (2019: Rs. 475 million) is yet to be made.

26.8 There are no other known contingencies and commitments.

27 Other Income

	2020					2019		
	BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID- Sustainable Energy and Economic Development (SEED)	DFID- Financial Inclusion Program (FIP)	DFID - Enterprise and Assets Growth (EAGR) Programme	Total	BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID - Enterprise and Assets Growth (EAGR) Programme	Total
	(Rupees)					(Rupees)		
Restricted donors' fund / grant								
Profit on;								
Savings account	104,335,305	750,606	70,136,284	385,658,366	560,880,561	98,231,824	83,641,231	181,873,055
Long term finance to partner organizations	-	-	-	6,685,395	6,685,395	-	39,330,672	39,330,672
SME loans	-	-	-	170,872,375	170,872,375	-	86,071,343	86,071,343
Long term loans and advances	-	-	-	664,326,251	664,326,251	-	365,220,512	365,220,512
Exchange gain / (loss)	62,027,330	-	-	(1,810,519)	60,216,811	172,424,225	(25,500,000)	146,924,225
Others	-	-	-	38,849	38,849	-	-	-
	166,362,635	750,606	70,136,284	1,225,770,717	1,463,020,242	270,656,049	548,763,758	819,419,807
Endowment Fund								
Profit on share of PMIC	-	-	-	28,110,989	28,110,989	-	142,663,073	142,663,073

27.1 Other income has been credited to relevant endowment fund and restricted grant.

28 Finance Cost

	Note	2020 Rupees	2019 Rupees
Lease finance charges	20	5,717,745	-
Loss on below market loans	25	23,498,820	23,363,760
		29,216,565	23,363,760

29 Depreciation and amortization

Depreciation on property, plant and equipment	6	8,254,846	5,994,844
Depreciation on right of use asset	7	19,424,233	-
Amortization of intangible asset	8	819,136	819,136
		28,498,215	6,813,980

30 Impairment loss on financial assets

Impairment loss on long term loans, advances and other receivables	11.9	77,330,186	29,276,250
Impairment loss on long term portion of SME loans disbursed through POs	13.1	29,594,296	10,674,928
Impairment loss on current portion of long term loans and advances	15	3,460,169	-
		110,384,651	39,951,178

31 Operation support expenditure

	Note	BMGF-Pakistan Centre for Digital Financial Inclusion (CDFI)	DFID-Sustainable Energy and Economic Development (SEED)	DFID - Enterprise and Assets Growth (EAGR) Programme (202495)	2020	2019
		(Rupees)			Rupees	Rupees
Salaries, wages and benefits	31.1	36,140,925	1,709,962	60,277,284	98,128,171	80,905,349
Office rent		-	-	-	-	5,678,235
Travel, lodging and perdiems		4,564,608	-	5,369,638	9,934,246	15,968,535
Professional and legal charges		2,932,215	162,156	6,891,393	9,985,764	9,723,412
Audit remuneration	31.2	455,567	-	846,053	1,301,620	912,000
Vehicle operation and maintenance		806,546	-	1,253,506	2,060,052	2,498,969
Office expenses		1,636,320	-	3,484,088	5,120,408	3,993,465
Office security charges		1,116,711	177,547	1,896,345	3,190,603	2,227,663
Utilities		4,950,142	-	7,717,612	12,667,754	5,223,663
Repair & Maintenance		251,573	-	423,304	674,877	264,953
Meeting & conferences		363,780	-	1,945,340	2,309,120	2,016,589
Website and software maintenance		1,194,501	112,478	2,105,881	3,412,860	3,139,566
Training		1,798,918	-	886,960	2,685,878	1,875,776
Bank charges		90,016	-	167,173	257,189	279,267
Miscellaneous expenses		94,619	-	909,336	1,003,955	290,570
		56,396,441	2,162,143	94,173,913	152,732,497	134,998,012

31.1 Salaries, wages and benefits include charges against employees retirement benefits amounting to Rs 7.93 million (2019: Rs 6.43 million).

31.2 **Auditors' Remuneration**

	2020	2019
	----------Rupees----------	
Audit fees	1,071,840	770,000
Out of pocket expenses	162,500	77,000
Other services - audit of provident fund	67,280	65,000
	1,301,620	912,000

31.3 The above expenditures are net of the expenditure incurred for project purposes which are charged directly to respective projects as appearing in note 32.

32 **Project expenditure**	Note	2020				2019		
		BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI) (OPP1088669)	DFID- Financial Inclusion Program (FIP)	DFID - Enterprise and Assets Growth (EAGR) Programme (202495)	Total	BMGF - Pakistan Centre for Digital Financial Inclusion (CDFI) (OPP1088669)	DFID - Enterprise and Assets Growth (EAGR) Programme (202495)	Total
		----------(Rupees)----------				----------(Rupees)----------		
Salaries, wages and benefits	32.1	100,680,318	2,955,968	107,927,033	211,563,319	85,169,280	92,915,955	178,085,235
Professional and legal charges		-	-	25,325,671	25,325,671	-	18,563,900	18,563,900
Office rent		-	-	2,158,953	2,158,953	4,191,078	6,254,094	10,445,172
Travel, lodging and perdiems		10,551,584	-	7,805,177	18,356,761	11,352,570	8,986,513	20,339,083
Seminars, research and studies		25,394,333	-	45,450,396	70,844,729	15,325,228	60,895,636	76,220,864
Digitization projects		635,380,372	-	-	635,380,372	323,285,003	-	323,285,003
Financial inclusion programe		-	169,646,834	-	169,646,834			
Innovation Challenge Fund		-	-	60,798,238	60,798,238	-	25,807,420	25,807,420
Other projects	32.2	2,865,000	-	24,101,100	26,966,100	40,342,945	69,006,354	109,349,299
		774,871,607	172,602,802	273,566,568	1,221,040,977	479,666,104	282,429,872	762,095,976

32.1 Salaries, wages and benefits include charges against employees retirement benefits amounting to Rs 17.89 million (2019: Rs 14.77 million).

32.2 This includes expenses incurred for provision of technical assistance.

33 Financial instruments

33.1 Financial assets and liabilities

	2020			2019		
	Amortized Cost	Other financial assets FVTOCI	Total	Amortized Cost	Other financial assets FVTOCI	Total
	(Rupees)			(Rupees)		
Financial Assets						
Maturity upto one year						
Current portion of SMEs loans disbursed through POs	1,549,232,429	-	1,549,232,429	762,192,798	-	762,192,798
Current portion of long term loans, advances and other receivables	197,905,367	-	197,905,367	-	-	-
Short term investments	1,505,196,061	-	1,505,196,061	150,000,000	-	150,000,000
Advances, deposits and other receivables	243,792,927	-	243,792,927	142,465,706	-	142,465,706
Cash and bank balances	3,936,065,515	-	3,936,065,515	2,802,668,415	-	2,802,668,415
Maturity after One Year						
Long term finance to partner organizations - unsecured	232,469,478	-	232,469,478	58,573,422	-	58,573,422
Long term investments	-	909,400,000	909,400,000	-	-	-
Long term portion of small and medium sized enterprises (SMEs)	345,566,463	-	345,566,463	683,579,486	-	683,579,486
Long term loans and advances and other receivables	7,020,301,466	-	7,020,301,466	6,040,581,311	-	6,040,581,311
	15,030,529,706	909,400,000	15,939,929,706	10,640,061,138	-	10,640,061,138

	2020		2019	
	Amortized Cost	Total	Amortized Cost	Total
	(Rupees)		(Rupees)	
Financial Liabilities				
Maturity upto one year				
Trade and other payables	361,824,404	361,824,404	183,731,083	183,731,083
Lease Liabilitiy	19,883,900	19,883,900	-	-
	381,708,304	381,708,304	183,731,083	183,731,083
Maturity after One Year				
Lease Liabilitiy	19,392,565	19,392,565	-	-
	19,392,565	19,392,565	-	-

34 Financial instruments and risk management

34.1 Financial risk factors

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

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. All treasury related transactions are carried out within the parameters of these policies.

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, with respect to the United States Dollar (USD) and Great Britain Pound (GBP). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable / payable from / to the foreign entities. The Company's exposure to currency risk at the reporting date is as follows:

	2020	2015
Payable to external parties - USD	1,474,131	915,577

The following significant exchange rates were applied during the year:

Rupees per USD		
Average rate	158.45	137.31
Reporting date rate	167.24	162.66
Rupees per GBP		
Average rate	201.17	191.66
Reporting date rate	206.25	205.97

If the functional currency, at reporting date, had fluctuated by 1% against all foreign currencies with all other variables held constant, the impact on profit before taxation for the year would have been Rs. 2.47 million (2019: Rs. 1.49 million) higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments. Currency risk sensitivity to foreign exchange movements has been calculated on a symmetric basis.

(ii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The financial instrument held by the Company does not trade on the stock exchange and has therefore, no correlation with the equity index of the stock exchange. Therefore, it is not possible to measure the impact of the change in equity index on the Company's loss for the period.

(iii) Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on bank deposits, short term borrowings and long term borrowing. The interest rate profile of the Company's interest-bearing financial instruments at balance sheet date was as under:

	Effective rate		Carrying amount	
Floating rate instruments	**2020**	**2019**	**2020 Rupees**	**2019 Rupees**
Financial assets:				
Loan to PMIC	14.49%	11.80%	2,800,000,000	2,800,000,000
Loan to Orix Leasing Pakistan Limited,	13.74%	11.05%	700,000,000	700,000,000
Term loan to Al Haj Faw Motors (Private) Limited	15.49%	12.80%	500,000,000	500,000,000
Term loan to JSK Feeds (Private) Limited	14.99%	14.55%	100,000,000	100,000,000
Soneri Bank Limited -Term Finance Certificates	15.50%	15.03%	500,000,000	500,000,000
Convertible loans	6% - 15.5%	6% - 15.5%	284,157,902	142,207,561
			4,884,157,902	4,742,207,561

Cash flow sensitivity analysis for variable rate instruments

If interest rates on short term and long term loans, at the year end date, fluctuate by 1 % higher / lower with all other variables held constant, profit before taxation for the year would have been Rs. 14.03 million (2019: Rs. 6.73 million) higher / lower, mainly as a result of higher / lower interest income on floating rate borrowings.

(b) 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 and loans and advances. The Company is exposed to credit related losses in the event of non-performance to the extent of Rs 9.18 billion (2019:Rs 7.56 billion). The Company manages the credit risk through review of SME finance documentation to the extent provided by Partner organization which the Company has the right to object to within 10 days of the receipt of the said documentation. The credit risk on finance to partner organizations, investments, loans and advances 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.

(i) Exposure to credit risk

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets.

	2020 Rupees	2019 Rupees
Long term loans, advances and other receivables	7,020,301,466	6,040,581,311
Long term finance to partner organizations (POs)- unsecured	232,469,478	58,573,422
Long term portion of small and medium sized enterprises (SMEs) loans disbursed through POs	345,566,463	683,579,486
Current portion of SMEs loans disbursed through POs	1,549,232,429	762,192,798
Current portion of long term loans, advances and other receivables	197,905,367	-
Advances, deposits, prepayments and other receivables	251,941,677	157,402,973
Short term investments	1,505,196,061	150,000,000
Cash and bank balances	3,936,065,515	2,802,668,415
Long term security deposits	952,515	952,515
	15,039,630,971	10,655,950,920

(ii) Credit quality of major 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;

	Rating		Rating		
	Short term	Long term	Agency	2020	2019
				Rupees	
United Bank Limited	A-1+	AAA	JCR-VIS	2,176,463,512	856,796,164
Bank Alfalah Limited	A-1+	AA+	JCR-VIS	2,332,037,124	1,164,878,611
Habib Bank Limited	A-1+	AAA	JCR-VIS	991,272,368	-
Meezan Bank Limited	A-1+	AA+	JCR-VIS	386,779	32,587,672
JS Bank Limited	A1+	AA-	PACRA	116,257,138	154,500
MCB Islamic Bank Limited	A1	A	PACRA	42,366,141	831,250
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	-	25,000,000
Orix Leasing	A1+	AA+	PACRA	-	-
Soneri Bank - TFCs	-	A+	PACRA	500,000,000	500,000,000
				6,158,783,062	2,580,248,197

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses.

The following are the contractual maturities of financial liabilities:

Year ended 30 June 2020	Carrying Amount	Less than 1 year	Between 1 to 5 years	Over 5 years
	----------	----------	Rupees	----------
Lease liability	39,276,465	19,883,900	19,392,565	-
Accrued and other liabilities	361,824,404	361,804,124	-	-
	401,100,869	381,688,024	19,392,565	-

Year ended 30 June 2019	Carrying Amount	Less than 1 year	Between 1 to 5 years	Over 5 years
	----------	----------	Rupees	----------
Lease liability	-	-	-	-
Accrued and other liabilities	184,556,102	184,556,102	-	-
	184,556,102	184,556,102	-	-

34.2 Fair value of financial assets and financial liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

34.3 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms. The carrying values of all financial assets and liabilities reflected in these financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

Specific valuation techniques used to value financial instruments include:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

34.4 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.

35 Employees' retirement benefits

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

Staff provident fund	2020 Rupees	2019 Rupees
Net assets	127,657,102	93,236,325
Cost of investments made	102,800,598	80,371,342
Fair value of investments made	127,657,102	80,371,342
%age of investments made	81%	86%

Breakup of investment - at cost	2020 Rupees	2020 %age	2019 Rupees	2019 %age
Bank deposits	102,800,598	81%	80,371,342	86%

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

36 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 basis of relationship is explained in note 1 and note 10. The transactions with sponsors are disclosed in respective notes of the financial statements. Remuneration of chief executive and key management personnel's are disclosed in note 37.

	2020 Rupees	2019 Rupees
Sponsors		
Bill and Melinda Gates Foundation (BMGF)		
Grant received during the year	620,820,000	1,385,000,000
Department For International Development, United Kingdom (DFID)		
Grant received during the year	5,329,330,261	3,997,078,644
Associated Company - PMIC		
Loan to PMIC released during the year	-	1,075,000,000
Markup on loan for the year	401,750,137	235,651,507
Share of profit of associated company	28,110,989	142,663,073
Associated Company - HAC Agri		
Equity Investment	110,000,000	300,000,000
Share of (loss) of associated company	(49,485,802)	(89,272,524)
Associated Company - Wahdat Poultry Farms		
Equity Investment	500,000,000	-
Share of (loss) of associated company	(15,157,953)	-
Employees' Provident Fund		
Contribution paid to staff provident fund	51,679,741	42,411,344

36.1 Following are the related parties with whom the Company had entered into transactions or have arrangements / agreements in place:

Name of Company	Basis of Relationship	Aggregate % of Shareholding in the Company
Bill and Melinda Gates Foundation (BMGF)	Sponsor	N/A
Department of International Development, United Kingdom (DFID)	Sponsor	N/A
Pakistan Microfinance Investment Company Limited (PMIC)	Associate	37.8%
HAC Agri Limited	Associate	36.3%
Wahdat Poultry Farms (Private) Limited	Associate	27.0%
Employees Provident Fund	Employees Provident Fund	N/A

37 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:

	2020			2019		
	CEO	Executives	Total	CEO	Executives	Total
		----------Rupees----------			----------Rupees----------	
Managerial remuneration	23,985,468	223,229,428	247,214,896	21,634,356	185,269,906	206,904,262
Car allowance		9,420,000	9,420,000	-	12,066,492	12,066,492
Child care assistance allowance		1,440,000	1,440,000	-	839,000	839,000
Company's contribution to provident fund	2,398,547	22,322,943	24,721,490	2,163,436	18,526,991	20,690,427
	26,384,015	256,412,371	282,796,386	23,797,792	216,702,389	240,500,181
Number of persons	1	44	45	1	42	43

38 Number of employees

	2020	2019
Number of employees of the Company at the end of reporting year	55	51
Average number of employees during the year	53	47

39 Corresponding figures

Corresponding figures have been reclassified wherever necessary, to reflect more appropriate presentation of events and transactions for the purpose of comparison. During the year, the following major reclassifications were made:

Reclassified from component	Reclassified to component	Note	2019 Rupees
Other Income	Restricted donors' fund / grant	25 & 27	89,272,524
Finance cost	Finance cost	28	17,392,439

40 Impact of COVID-19 (Corona virus)

The pandemic of COVID-19 that has rapidly spread all across the world has not only endangered human lives but has also adversely impacted the global economy. On March 23, 2020, the Government of Pakistan announced a temporary lock down as a measure to reduce the spread of the COVID-19. The Company's Islamabad and Karachi offices were shut down on March 23, 2020. After implementing all the necessary Standard Operating Procedures (SOPs) to ensure safety of employees, the Company continued to carry out its operations and has taken all necessary steps to ensure smooth and adequate continuation of its business. Due to this, management has assessed the accounting implications of these developments on these financial statements, however, according to management's assessment, there is no significant accounting impact of the effects of COVID-19 on these financial statements.

41 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 October 02, 2020.

CHIEF EXECUTIVE OFFICER

DIRECTOR

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