AKHUWAT ISLAMIC MICROFINANCE

Financial Statements

For the Year Ended June 30, 2019.

Deloitte

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DRAFT INDEPENDENT AUDITORS' REPORT

To the members of Akhuwat Islamic Microfinance

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Akhuwat Islamic Microfinance (the Company) which comprise the statement of financial position as at June 30, 2019, and the statement of income and expenditure, the statement of changes in funds, 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, statement of income and expenditure, the statement of changes in funds 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, 2019 and of its income and expenditure, the changes in funds 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 Annual report, but does not include the financial statements and our auditor's report thereon.

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

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 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 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 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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);

b) the statement of financial position, the statement of income and expenditure, the statement of changes in equity 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) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The engagement partner on the audit resulting in this independent auditor's report is Rana M. Usman Khan.

Deloitte Yousuf Adil
Chartered Accountants

Lahore
Date: November 30, 2019

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Ord. 1984)
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019

	Note	2019	2018
		-------------Rupees-------------	
ASSETS			
NON CURRENT ASSETS			
Equipment	6	65,524,233	72,985,768
Intangible assets	7	752,458	1,290,640
Microloans receivable	8	439,350,527	2,810,707,817
Other long term advances	9	20,369,827	20,571,762
		525,997,045	2,905,555,987
CURRENT ASSETS			
Microloans receivable	8	13,510,113,781	13,590,510,918
Investments	11	130,000,000	-
Receivables, prepayments and other assets	12	1,005,754,574	346,443,619
Cash and bank balances	10	3,993,470,704	998,202,178
		18,639,339,059	14,935,156,715
		19,165,336,104	17,840,712,702
LIABILITIES AND FUNDS			
NON CURRENT LIABILITIES			
Loan for credit pool	13	16,333,137,119	15,798,748,300
CURRENT LIABILITIES			
Loan for credit pool	13	575,911,925	473,976,332
Creditors, accrued and other liabilities	14	76,752,059	80,033,584
		652,663,984	554,009,916
		16,985,801,103	16,352,758,216
FUNDS			
UNRESTRICTED			
General fund		598,216,157	188,592,061
RESTRICTED			
Donated fund		1,340,547,262	1,165,472,955
Contributed fund		233,801,614	125,150,029
Reserves for loan loss		6,969,968	8,739,441
		1,581,318,844	1,299,362,425
		2,179,535,001	1,487,954,486
CONTINGENCIES AND COMMITMENTS	15	-	-
		19,165,336,104	17,840,712,702

The annexed notes from 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

Director

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Ord. 1984)
STATEMENT OF INCOME AND EXPENDITURE AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019

	Note	Unrestricted general fund	Restricted			2019	2018
			Donated fund	Contributed fund	Reserves for loan loss		
		Rupees					
OPERATING INCOME							
Operating income	16	2,004,365,908	-	-	-	2,004,365,908	1,548,032,108
Other income	17	91,834,455	-	-	-	91,834,455	61,798,971
Donations received	18	-	225,176,057	-	-	225,176,057	263,114,845
Contributions received	19	-	-	200,165,441	-	200,165,441	206,937,905
EXPENDITURE							
Operational cost	20	1,420,973,329	-	-	-	1,420,973,329	1,257,010,811
General and administrative expenses	21	265,602,938	-	-	-	265,602,938	106,667,017
Provision for loan loss		-	-	-	1,769,473	1,769,473	56,347,118
Donations paid		-	50,101,750	-	-	50,101,750	150,000
Death claims settled	22	-	-	91,513,856	-	91,513,856	81,880,333
		1,686,576,267	50,101,750	91,513,856	1,769,473	1,829,961,346	1,502,055,279
Surplus / (deficit) for the year		409,624,096	175,074,307	108,651,585	(1,769,473)	691,580,515	577,828,550
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income / (loss) for the year		409,624,096	175,074,307	108,651,585	(1,769,473)	691,580,515	577,828,550

The annexed notes from 1 to 30 form an integral part of these financial statements.

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Chief Executive Officer

Director

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Ord. 1984)
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Unrestricted general fund	Restricted			Total
		Donated fund	Contributed fund	Reserves for loan loss	
	------------------------------------	Rupees	------------------------------------		
Balance as at June 30, 2017	(666,315)	-	-	-	(666,315)
Transferred during the year	-	702,508,110	200,092,457	8,191,684	910,792,251
Comprehensive income:					
Surplus for the year	189,258,376	262,964,845	125,057,572	547,757	577,828,550
Transfer within funds	-	200,000,000	(200,000,000)	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income	189,258,376	462,964,845	(74,942,428)	547,757	577,828,550
Balance as at June 30, 2018	188,592,061	1,165,472,955	125,150,029	8,739,441	1,487,954,486
Comprehensive income / (loss):					
Surplus for the year	**409,624,096**	**175,074,307**	**108,651,585**	**(1,769,473)**	**691,580,515**
Other comprehensive income	-	-	-	-	-
Total comprehensive income / (loss)	**409,624,096**	**175,074,307**	**108,651,585**	**(1,769,473)**	**691,580,515**
Balance as at June 30, 2019	**598,216,157**	**1,340,547,262**	**233,801,614**	**6,969,968**	**2,179,535,001**

The annexed notes from 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

Director

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Ord. 1984)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		---------Rupees---------	
Cash flows from operating activities			
Surplus for the year		691,580,515	577,828,550
Adjustments for:			
Depreciation on equipment	6	21,714,240	18,613,276
Amortization of intangible assets	7	1,380,633	247,055
Return on bank deposits and investments		(49,378,650)	(49,234,461)
Loss on write-off of equipment		961,803	-
Loss on write-off of software		3,528,018	-
Foreign Currency exchange loss		24,439,982	10,216,010
Provision for loan loss	8.3	(15,866,734)	55,170,969
		(13,220,708)	35,012,849
		678,359,807	612,841,399
Changes in working capital			
Decrease / (Increase) in microloans receivable		2,467,621,161	(3,446,558,827)
Increase in receivables and other assets		(659,109,020)	(322,019,361)
(Decrease) / Increase in creditors, accrued and other liabilities		(3,281,525)	22,685,752
		1,805,230,616	(3,745,892,436)
Net cash generated from / (used in) operating activities		2,483,590,423	(3,133,051,037)
Cash flows from investing activities			
Purchase of equipment	6	(15,214,508)	(17,841,390)
Purchase of intangible assets	7	(4,370,469)	(1,537,695)
Purchase of investments		(130,000,000)	-
Return on bank deposits and investments		49,378,650	49,234,461
Net cash (used in) / generated from investing activities		(100,206,327)	29,855,376
Cash flows from financing activities			
Loan for credit pool received		611,884,430	2,146,441,324
Net cash generated from financing activities		611,884,430	2,146,441,324
Net increase / (decrease) in cash and cash equivalents		2,995,268,526	(956,754,337)
Cash and cash equivalents at the beginning of the year		998,202,178	-
Transfer during the year		-	1,954,956,515
Cash and cash equivalents at the end of the year	10	3,993,470,704	998,202,178

The annexed notes from 1 to 30 form an integral part of these financial statements.

DYA

Chief Executive Officer | **Director**

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Ord. 1984)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1 General information

1.1 Legal status and nature of business

Akhuwat Islamic Microfinance (the Company) was incorporated in Pakistan on January 26, 2017 as company limited by guarantee, not having a share capital and is registered as association not for profit under Section 42 of the Companies Ordinance 1984. The Company has been licensed by Securities and Exchange Commission of Pakistan (SECP) to carry out investment finance services as a non-banking finance company under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (NBFC Rules).

Principal activities of the Company are to promote, support and contribute towards the betterment of the social well being of individuals, groups and communities. The Company provides interest free microloans and undertakes various charitable programs, of short and long term nature, aimed at capacity building of poor and making them self reliant. Registered office of the Company is situated at 19-Civic Center A-2 Township, Lahore. The Company has 813 (2018 : 791) branches in Pakistan.

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 approved accounting and reporting standards in Pakistan applicable for the Company comprise of:

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

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

• Provisions of, and directives issued under the Companies Act, 2017 and the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations);and

• Provisions of, and directives issued under the Companies Act, 2017 and the NBFC Rules.

Where provisions of and directives issued under the Companies Act, 2017 and NBFC Rules differ from the IFRS or the Accounting Standard for NPOs, the provisions of and directives issued under the Companies Act, 2017 and NBFC Rules have been followed.

2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2019

The following standards, amendments and interpretations are effective for the year ended June 30, 2019.

2.2.1 Standards or interpretations with no significant impact

	Effective from accounting period beginning on or after:
Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions.	January 01, 2018
IFRS 4 'Insurance Contracts': Amendments regarding the interaction of IFRS 4 and IFRS 9.	January 01, 2018
Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property.	January 01, 2018
IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.	January 01, 2018

Certain annual improvements have also been made to a number of IFRSs.

2.2.2 Standards impacting financial statements

The following new standards become applicable for the year ended June 30, 2019:

IFRS 9 'Financial Instruments' - This standard will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.	July 01, 2018

SECP vide S.R.O No. 1332(1)/2019 -Reference No. SC/NBFC-191/IFRS-9/2019 has deferred the applicability of IFRS 9 'Financial Instruments: Recognition and Measurement' for non-banking finance companies. Accordingly, the requirements of the said standard have not been considered in the preparation of these financial statements. The management is in the process of assessing the impact of changes laid down by the IFRS 9 on its financial statements.

IFRS 15 'Revenue' - This standard will supersede IAS 18, IAS 11, IFRIC 13, 15 and 18 and SIC 31 upon its effective date.	July 01, 2018

The impact of adoption of IFRS 15 is disclosed in note 2.4.

2.3 New accounting standards / amendments and IFRS interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures, based on preliminary assessment by the management.

	Effective from accounting period beginning on or after:
Amendments to IFRS 3 'Business Combinations' - Amendments regarding the definition of business.	January 01, 2020
Amendments to IFRS 9 'Financial Instruments' - Amendments regarding prepayment features with negative compensation and modifications of financial liabilities.	January 01, 2019
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture.	Effective from accounting period beginning on or after a date to be determined. Earlier application is permitted.
IFRS 16 'Leases': This standard will supersede IAS 17 'Leases', IFRIC 4, SIC 15 and SIC 27 upon its effective date.	January 01, 2019
Amendments to References to the Conceptual Framework in IFRS Standards.	January 01, 2020
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Amendments regarding the definition of material.	January 01, 2020
Amendments to IAS 19 'Employee Benefits' - Amendments regarding plan amendments, curtailments or settlements.	January 01, 2019
Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Amendments regarding long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 01, 2019
IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.	January 01, 2019

Certain annual improvements have also been made to a number of IFRSs.

IFRS 16 'Leases' - IFRS 16 replaces the previous lease standard: IAS 17 Leases. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases. The management is in the process of assessing the impact of changes laid down by the IFRS 16 on its financial statements.

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 17 – Insurance Contracts

2.4 New accounting standards impacting financial statements

The following changes in standards have taken place effective from July 01, 2018 requiring changes in accounting policies:

2.4.1 Impact of IFRS-15 - Revenue from Contracts with Customers

IFRS 15 - Revenue from contracts with customers (IFRS 15) replaced IAS 18 - Revenue, IAS 11 - Construction contracts, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue - Barter Transactions Involving Advertising Services. IFRS 15 provides a single, principles-based approach to the recognition of revenue from all contracts with customers and focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations in a contract are satisfied. The Company has adopted IFRS 15 by applying the modified retrospective approach according to which the Company is not required to restate the prior year results. The adoption of IFRS 15 does not have any impact on the reported revenue of the Company for the year ended June 30, 2018 or June 30, 2019.

2.5 Use of estimates and judgments

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision effects only that period, or in the period of revision and future periods if revision affects both current and future periods. The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies are as follows:

- Provision for loan losses - (note 4.5.1)
- Useful life of depreciable assets - (note 4.1)
- Useful life of intangibles - (note 4.2)

3 Basis of measurement

The financial statements have been prepared under the historical cost convention, except for:

- Certain foreign currency translation adjustments.

4 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below.

4.1 Equipment

Equipment are stated at cost less accumulated depreciation and any identified impairment loss. Depreciation on all equipment are charged to income on straight line method so as to write off the historical cost of an asset over its estimated useful life at the rates referred to in note 6 to the financial statements.

Depreciation on additions to equipments are charged from the month in which the asset is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off.

The Company assesses at each reporting date whether there is any indication that equipments may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed the respective recoverable amounts, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in statement of income and expenditure. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the 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 income during the period in which they are incurred.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the income in the year the asset is derecognized.

4.2 Intangible assets

Intangible assets are stated at cost less accumulated amortization and any identified accumulated impairment loss. These are amortized using the straight line method at useful life of 3 to 10 years. Amortization on additions is charged from the month in which an intangible asset is acquired, while no amortization is charged for the month in which intangible asset is disposed off.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are charged to income as and when incurred.

The carrying amount of the intangible is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An Impairment loss is recognised in the income & expenditure for the amount by which the asset's carrying amount exceeds its recoverable amount. Reversal of impairment losses are also recognised in the income & expenditure, however, it is restricted to the original cost of the asset.

4.3 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting of financial instruments

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

Write-off policy

The Company writes off financial assets in accordance with the Company's policy i.e. for loans exceeding expiry by 90 days. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made against financial assets written-off are recognised in Income & Expenditure.

Company has underwritten a Takaful policy for protection against any loss that may be incurred as a result of employee's fraud or gross negligence as per NBFC rules 2003.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of cash flow statement, cash and cash equivalents comprise of cash in hand and bank balances.

4.4 Creditors, accrued and other liabilities

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

4.5 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.5.1 Impairment of financial assets

The NBFC Rules and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC and NE Regulations) describe the basis for recording of provisions.

Specific provision

Specific provision is created against balances which are known to have financial issues based on their repayments being overdue for certain days. It is created when a balance remains unpaid for following days:

Overdue Range	Percentage of Specific Provision
60-90 Days	25%
90-180 Days	50%
180 Days or more	100%

Additional provision can also be made if recovery of a specific balance is considered doubtful by the management. Loan losses (write-offs) are charged against the allowance for loan losses when management believes that the principal is unlikely to be recovered.

General provision

The Company recognises allowance for impairment of loan portfolio considering: a) applicable regulatory requirements, and b) internal provisioning threshold i.e. 1%. The amount of impairment allowances thereagainst is updated at each reporting date.

Regulatory general provision is charged at 0.5% of the net Outstanding microfinance portfolio (Finance net of specific provision).

Accordingly the specific and general provisions recognised during the year are charged to the statement of income and expenditure.

4.6 Recognition of grants and donations

Grants are recognized when there is reasonable assurance that the entity will comply with the relevant conditions, if any, and the grant will be received.

Grants related to assets are initially recognized at fair value in statement of financial position, as deferred income, that is amortized over the useful life of the asset.

Grants related to project expenses are recognized as revenue in the income and expenditure account on a systematic basis in the same periods in which the expenses are incurred, on a net basis i.e. offset the grant against the related expenditure.

Grants where no conditions are associated by the donor with its utilization are recognized as income in the period in which it is received.

4.7 Taxation

Provision for taxation is recognised based on taxable income, if any, for the year determined in accordance with prevailing Law and regulation. The Company is entitled to one hundred percent tax credit of the income tax payable, including minimum and final taxes payable, under section 100(C) of the Income Tax Ordinance, 2001. Therefore, no provision of income tax has been accounted for in these financial statements.

4.8 Revenue recognition

Unrestricted / General fund

The Company policy for revenue recognition under different contracts with customers meets the IFRS 15 recognition criteria so it stands same as follows:

The Company manages the loan portfolios for several institutions. The contract entered into with the institutions includes one performance obligation i.e. disbursement of loan to borrowers. Service charges against the disbursement of loans is recognized when the company satisfies a performance obligation under a contract by providing the promised service i.e. the disbursement of loan to borrower. The service is considered to be provided on the point of time i.e. date of loan disbursement.

Restricted funds

The Company has adopted the restricted fund method for recognition of its following funds, as prescribed in Accounting Standards for Not-for-Profit Companies (NPOs).

a) Donated fund

Donations received mainly from borrowers under the donated fund are recognized on receipt basis and are used for providing microloans and for paying donations. Donations received in kind are measured at the market value prevailing at the time of the transaction.

b) Contributed fund

The voluntary contribution by borrowers, 1% of loan amount is recognized on receipt basis and used to write off loans of deceased / disabled borrowers and to pay funeral charges to the heirs of deceased borrowers. The accumulated balance is reflected in Contributed fund.

c) Reserves for loan loss

As per the agreement between the Company and Prime Minister Interest Free Loan Scheme, a reserve for loan losses to be maintained of outstanding portfolio under this scheme. This reserve is used for the write-off of loans given under this scheme.

Return on bank deposits

Return on bank deposits is recognized when earned.

5 Transfer of Microloans operations

The Board of Directors of the Akhuwat (a society registered under Societies Registration Act, 1860), in their meeting held on September 11, 2016, approved the transfer of its microloans operations to the Company. Akhuwat is an associated concern of the Company due to common directorship.

The transaction resulted in transfer of microloans portfolio, credit pool and other associated balances of Akhuwat to the Company. As per the decision of the Board, the balances related to microloans operations, related assets, loan for credit pool, other related liabilities and funds of the Akhuwat, based on its audited financial statements as at June 30, 2017, were transferred with effect from July 01, 2017. Summary of balances transferred are mentioned below:

	---------Rupees---------
ASSETS	
Cash and cash equivalents	1,954,956,515
Microloans receivable	13,009,830,877
Receivables and other assets	44,996,020
Equipment	73,757,654
Total assets transferred	15,083,541,066
LIABILITIES	
Creditors, accrued and other liabilities	35,013,291
Loan for credit pool	14,116,067,298
Total liabilities transferred	14,151,080,589
FUNDS	
Donated fund	702,508,110
Contributed fund	200,092,457
Reserves for loan loss	8,191,684
Total funds transferred	910,792,251

The Company considers the transfer as a 'Common Control Transaction' and accordingly has recognized the transferred assets and liabilities at respective book values. These transactions have been presented in these financial statements as transfers from related party.

6. Equipment

AS AT JUNE 30, 2019

Particulars	Cost					Depreciation					
	As at July 1, 2018	Transfer from related party	Additions/ (Disposals)	Write-off	As at June 30, 2019	As at July 1, 2018	For the year	Write-off	As at June 30, 2019	Net book value as at June 30, 2019	Dep. Rate %
	(----------				Rupees				----------)		
Owned											
Furniture, fixture and office equipment	57,902,519	-	9,842,430	556,275	67,188,674	12,181,126	14,439,162	338,902	26,281,386	40,907,288	20 - 33
Vehicles	33,696,525	-	5,372,078	1,240,726	37,827,877	6,432,150	7,275,078	496,296	13,210,932	24,616,945	20
	91,599,044	-	**15,214,508**	**1,797,001**	**105,016,551**	**18,613,276**	**21,714,240**	**835,198**	**39,492,318**	**65,524,233**	

AS AT JUNE 30, 2018

Particulars	Cost					Depreciation					
	As at July 1, 2017	Transfer from related party	Additions/ (Disposals)	Write-off	As at June 30, 2018	As at July 1, 2017	For the year	Write-off	As at June 30, 2018	Net book value as at June 30, 2018	Dep. Rate %
	(----------				Rupees				----------)		
Owned											
Furniture, fixture and office equipment	-	46,447,508	11,455,011	-	57,902,519	-	12,181,126	-	12,181,126	45,721,393	20 - 33
Vehicles	-	27,310,146	6,386,379	-	33,696,525	-	6,432,150	-	6,432,150	27,264,375	20
	-	73,757,654	17,841,390	-	91,599,044	-	18,613,276	-	18,613,276	72,985,768	

7. **Intangible assets**

AS AT JUNE 30, 2019

Particulars	Cost				Amortization					
	As at July 1, 2018	**Additions/ (Disposals)**	**Write-off**	**As at June 30, 2019**	**As at July 1, 2018**	**For the year**	**Write-off**	**As at June 30, 2019**	**Net book value as at June 30, 2019**	**Amort. Rate %**
	(-------	-------	-------	-------	------- *Rupees* -------	-------	-------	-------)		
Owned										
Software	**1,537,695**	**4,370,469**	**4,415,677**	**1,492,487**	**247,055**	**1,380,633**	**887,659**	**740,029**	**752,458**	**10 - 33**

AS AT JUNE 30, 2018

Particulars	Cost				Amortization					
	As at July 1, 2017	Additions/ (Disposals)	Write-off	As at June 30, 2018	As at July 1, 2017	For the year	Write-off	As at June 30, 2018	Net book value as at June 30, 2018	Amort. Rate %
	(-------	-------	-------	-------	------- Rupees -------	-------	-------	-------)		
Owned										
Software	-	1,537,695	-	1,537,695	-	247,055	-	247,055	1,290,640	10 - 33

8 Microloans receivable

	Note	2019	2018
		---------Rupees---------	
Individual loans	8.1	14,084,315,614	16,560,190,492
Educational loans	8.2	6,052,374	6,697,119
		14,090,367,988	16,566,887,611
Due within one year		13,651,017,461	13,590,510,918
Less: provision for loan loss	8.3	(140,903,680)	(165,668,876)
		13,510,113,781	13,424,842,042
		439,350,527	2,810,707,817

8.1 Individual loans

	2019	2018
Balance as at July 1	16,560,190,492	-
Transferred during the year	-	13,127,641,498
Disbursed during the year	20,937,617,952	21,633,965,978
	37,497,808,444	34,761,607,476
Recovered during the year	(23,404,594,368)	(18,180,502,458)
	14,093,214,076	16,581,105,018
Written off during the year	(8,898,462)	(20,914,526)
Balance as at June 30	14,084,315,614	16,560,190,492

These represent interest free loans given to individuals for productive / income generating activities against personal guarantees. Application form fee of Rs. 200 is charged and borrowers are also encouraged to contribute voluntarily out of their own savings / income towards the Community Donation Programme. These loans have a repayment term ranging from 1 year to 2.5 years. Aggregate disbursement detail for Individual loans since commencement of Akhuwat's interest free loan project are as follows:

	Note	30-Jun-19	30-Jun-18
Aggregate amount disbursed till (Rupees)	8.1.1	86,279,060,209	65,341,442,257
Aggregate number of beneficiaries till			
- Total (Numbers)	8.1.2	3,410,649	2,767,547
- Male (Numbers)	8.1.2	1,992,039	1,613,771
- Female (Numbers)	8.1.2	1,418,610	1,153,776
Active loans at June 30 (Numbers)	8.1.2	898,755	965,612
Recovery for the year (Percentage)		99.92%	99.95%

8.1.1 The interest free microloan programme was previously managed by Akhuwat upto year 2017.

8.1.2 Disbursement Segregation

	--------------- 30-Jun-19 ---------------			
	PSIC	PPAF	Others	Total
Aggregate amount disbursed till (Rupees)	59,003,496,780	196,454,000	27,079,109,429	86,279,060,209
Total Recovery till (Rupees)	50,158,555,545	160,265,150	21,875,923,900	72,194,744,595
Outstanding Loan portfolio (Rupees)	8,844,941,235	36,188,850	5,203,185,529	14,084,315,614
Aggregate number of beneficiaries till				
- Total (Numbers)	2,501,625	8,504	900,520	3,410,649
- Male (Numbers)	1,316,123	8,104	667,812	1,992,039
- Female (Numbers)	1,185,502	400	232,708	1,418,610
Active loans at June 30 (Numbers)	664,938	2,828	230,989	898,755
Recovery for the year (Percentage)	99.99%	100%	99.77%	99.92%

	------ 30-Jun-18 ------			
	PSIC	PPAF	Others	Total
Aggregate amount disbursed till (Rupees)	46,597,360,600	146,997,000	18,597,084,657	65,341,442,257
Total Recovery till (Rupees)	35,003,496,306	105,543,700	13,672,211,759	48,781,251,765
Outstanding Loan portfolio (Rupees)	11,593,864,294	41,453,300	4,924,872,898	16,560,190,492
Aggregate number of beneficiaries till				
- Total (Numbers)	2,073,491	6,605	687,451	2,767,547
- Male (Numbers)	1,097,799	6,358	509,614	1,613,771
- Female (Numbers)	975,692	247	177,837	1,153,776
Active loans at June 30 (Numbers)	752,197	2,903	210,512	965,612
Recovery for the year (Percentage)	99.99%	100%	99.86%	99.95%

8.2 These are long term interest free microloans given to needy students for their educational expenses.

8.3 Provision for loan loss

As per the applicable NBFC and NE Regulations, the Company is required to maintain following specific and general provisions:

	2019	2018
	------Rupees------	
Specific Provision	7,753,373	11,686,888
General Provision	70,413,082	82,776,004
	78,166,455	94,462,892

As per company policy the total provision for loan loss was higher then the amount as per applicable NBFC and NE Regulations, so the Company has recognized the following specific and general provisions as at June 30:

	Note	2019	2018
		------Rupees------	
Specific Provision		7,753,373	11,686,888
General Provision		133,150,307	153,981,988
	8.3.1	140,903,680	165,668,876

8.3.1 Movement of provision during the year

	2019	2018
Balance as at July 01	165,668,876	-
Transferred from related party during the year	-	131,412,433
(Reversal) / Charge for the year	(15,866,734)	55,170,969
	149,802,142	186,583,402
Written off against individual loans	(8,898,462)	(20,914,526)
Balance as at June 30	140,903,680	165,668,876

9 Other long term advances

	Note	2019	2018
Due in more than one year	9.1	20,369,827	20,571,762
		20,369,827	20,571,762

9.1 These represent long term loans to employees for purchase of motorcycles, construction of new house(s), repair/maintenance of existing house and for their personal needs. These loans are payable over a period of 1 to 7 years by way of equal monthly installments, are unsecured and interest free.

	Note	2019	2018
10 Cash and bank balances		------Rupees------	
Cash in hand		1,568,960	1,770,122
Cash at bank			
In current accounts - local currency		479,241,652	360,601,570
In saving accounts - local currency	10.1	3,510,262,365	635,281,352
- foreign currency		2,397,727	549,134
		3,512,660,092	635,830,486
		3,993,470,704	998,202,178

10.1 These balances are held in various bank accounts and carry return rate ranging from 4.65% to 5.98% (2018: 3.07% to 4.65%) per annum.

11	Investments	Note	2019	2018
			---------Rupees---------	
	Term deposit receipts	11.1	130,000,000	-

11.1 These term deposit receipts are held in Islamic banking accounts carrying return rates of 11.4% per annum.

12	Receivables, prepayments and other assets	Note	2019	2018
			---------Rupees---------	
	Advance tax		8,038,760	7,748,414
	Advances to suppliers		17,015,741	23,338,769
	Advances to employees	9.1	16,675,134	13,710,989
	Security deposit		20,415,794	13,709,688
	Accrued income	12.1	935,776,919	273,349,700
	Prepaid rent		556,320	964,880
	Office supplies		-	4,572,996
	Other receivables	12.2	7,275,906	9,048,183
			1,005,754,574	346,443,619

12.1 These comprise service charges receivable from the providers of loan for credit pool and are generally secured against the respective loan for credit pool balance.

12.2 It includes petty cash and operational advance(s) given to employees against official expenses.

13	Loan for credit pool	Note	2019	2018
			---------Rupees---------	
	Loan from Punjab Small Industries Corporation	13.2	12,000,000,000	12,000,000,000
	Loan from Gilgit Baltistan	13.3	575,000,000	575,000,000
	Loan from Lend with Care	13.4	92,591,132	71,148,300
	Loan from Prime Minister Interest Free Loan	13.5	372,532,292	446,000,000
	Loan from Technical Education & Vocational Training Authority	13.6	500,000,000	500,000,000
	Loan from Federally Administered Tribal Areas	13.7	500,000,000	500,000,000
	Loan from Govt. of Punjab, Agricultural department	13.8	2,000,000,000	2,000,000,000
	Loan from Azad Jamu & Kashmir	13.9	750,000,000	57,100,000
	Loan from Punjab Social Protection Authority	13.10	73,836,000	80,000,000
	Loans from other donors	13.11	45,089,620	43,476,332
			16,909,049,044	16,272,724,632
13.1	Particulars of loan for credit pool			
	Up to one year		575,911,925	473,976,332
	Over one year		16,333,137,119	15,798,748,300
			16,909,049,044	16,272,724,632

13.2 This amount represents interest free loan received from Punjab Small Industries Corporation (PSIC). The loan amount is to be used on a revolving basis to provide interest free microloans. The loan was extended on October 24, 2017 for the period of five years.

13.3 This amount represents interest free loan received from the Government of Gilgit-Baltistan (GB). The loan amount is to be used on a revolving basis to provide interest free microloans. The loan agreement was extended on November 6, 2019 for the period of five years.

13.4 This amount represents interest free loan received from Care International, UK. The loan amount is to be used on a revolving basis to provide interest free microloans.

13.5 This represents interest free loan received from Pakistan Poverty Alleviation Fund under Prime Minister Interest Free Loan Scheme (PMIFL).

13.6 This represents interest free loan received from Technical Education & Vocational Training Authority (TEVTA) for a period of five years which commenced from October 09, 2015. The loan amount is to be used on a revolving basis to provide interest free microloans to TEVTA graduates.

13.7 This represents interest free loan received from FATA Development Authority for a period of five years which commenced from September 22, 2015. The loan amount is to be used on a revolving basis to provide interest free microloans to the people of FATA.

13.8 This represents fund received from Government of Punjab, Agriculture Department regarding disbursement of interest free loan under "Empowerment of Kissan through Financial & Digital Inclusion Scheme" for a period of five years which commenced from December 08, 2016. The loan amount is to be used on a revolving basis to provide interest free microloans to the small farmers, tenants and share croppers, having landholding up to 5 acres of agriculture land.

13.9 This represents interest free loan received from Azad Kashmir Small Industries Corporation for a period of five years which commenced from April 09, 2018. The loan amount is to be used on a revolving basis to provide interest free microloans.

13.10 This represents interest free loan received from Punjab Small Industries Corporation (PSIC) and Punjab Social Protection Authority (PSPA) for a period of two years starting from August 21, 2017. The loan amount is to be used on a revolving basis to provide interest free microloans.

	2019	2018
	---------Rupees---------	
13.11 Loans from other donors		
Loan from Jamshed & Mumtaz Tarin Trust	10,700,000	2,000,000
Loan from Louis Burger	17,752,500	7,500,000
Loan from Ihsaan Trust	8,500,000	8,500,000
Loan from Friends of Akhuwat	-	398,500
Loan from Foundation of Faithful	237,120	-
Loan from Muhammad Ibrahim Haji Welfare trust	7,500,000	6,500,000
Loan from others	400,000	18,577,832
	45,089,620	43,476,332

13.12 Movement of Loan for Credit Pool :

	Opening/Transfer	Repayment/ Adjustment	Reciept	Foreign currency loss	Closing
2019	16,272,724,632	(136,215,899)	748,100,330	24,439,981	16,909,049,044
2018	14,116,067,298	(15,627,576)	2,162,068,901	10,216,010	16,272,724,632

14 Creditors, accrued and other liabilities

	Note	2019	2018
Profit payable to lenders	14.1	20,774,339	30,582,667
Accrued expenses		4,536,764	7,382,976
Health Takaful Payable	14.2	16,397,494	5,461,528
EOBI payable		1,199,640	1,219,920
Payable to related parties	14.3	27,253,523	31,993,645
Other liabilities		6,590,299	3,392,848
		76,752,059	80,033,584

14.1 This represents the amount payable in respect of profit earned on the loan amounts received from lenders and held in intermittently bank accounts. This profit is on balances maintained for the purpose of disbursement to and recovery from the individual borrowers and the same is payable to lenders as per the loan agreements.

14.2 This represents the reserve created for payment for employees under Health Takaful Scheme.

14.3 This represents the amount payable to Akhuwat in respect of assets transferred in the year ended June 30, 2017.

15 Contingencies and commitments

15.1 Contingencies

There are no contingencies as at June 30, 2019 and June 30, 2018.

15.2 Commitments

Operating lease arrangements

Operating lease payments represent rentals payable by the Company for certain branches. Leases are negotiated upto 1 year and rentals are fixed for the lease term.

	2019	2018
	---------Rupees---------	
Commitments under operating leases	66,898,360	70,511,409

16	Operating income	Note	2019	2018
			---------Rupees---------	
	Operational income / service charges - net	16.1	1,858,234,985	1,388,848,942
	Documentation fee	16.2	144,521,110	157,268,100
	Income from Community Donation Programme	16.3	1,609,813	1,915,066
			2,004,365,908	1,548,032,108

16.1	Operational income / service charges			
	Foreign sources	16.1.1	20,088,499	13,638,598
	Local sources	16.1.2	1,838,146,486	1,375,210,344
			1,858,234,985	1,388,848,942

16.1.1 Foreign sources		
Lend with Care	694,750	-
British Asian Trust	9,466,801	13,638,598
Louis Burger	2,485,350	-
United Nation Development Program	7,441,598	-
	20,088,499	13,638,598

16.1.2 This represents the service charges against disbursement of interest free microloans to meet operational expenses.

16.2 This represents fee received from prospective borrowers of Rs. 200 per application form.

16.3 This represents donations collected through donation boxes placed at different community centers and branches.

17	Other income	Note	2019	2018
			---------Rupees---------	
	Return on investments		8,740,795	-
	Profit on bank deposits		40,637,855	49,234,461
	Income from hide donations		19,032,979	-
	Bad debts recovered		3,059,162	2,351,818
	Reversal of provision for loan loss	8.3.1	15,866,734	1,723,906
	Miscellaneous		4,496,930	8,488,786
			91,834,455	61,798,971

18	Donations received	Note		
	Foreign sources	18.1	44,725,000	42,500,000
	Local sources	18.2	180,451,057	220,614,845
			225,176,057	263,114,845

18.1 This includes donations received from British Asian Trust of Rs. 1,500,000 (2018: 42,500,000).

18.2 This represents donations received mainly from borrowers which are used for providing interest free microloans and for paying donation.

19 The amount mainly represents the voluntary Contribution by borrowers upto 1% of loan amount, which is used exclusively to write off outstanding loans of any deceased / disabled borrowers and to pay funeral charges to the heirs of deceased borrowers.

		Note	2019	2018
			---------Rupees---------	
20	**Operational cost**			
	Salaries, wages and benefits		1,161,885,423	1,011,528,728
	Stationery		47,573,156	31,810,824
	Rent		92,120,903	79,858,396
	Travelling and conveyance		21,956,493	24,086,236
	Depreciation	6	21,714,241	18,613,276
	Program promotion		4,122,040	17,524,799
	Repair and maintenance		6,932,264	11,096,631
	Communication		9,352,451	10,450,743
	Utilities		14,116,439	12,158,692
	Office supplies		7,288,650	17,081,143
	Consultancy services		6,242,000	5,797,338
	Staff training		672,091	8,500,381
	Security expenses		9,532,909	688,389
	Bank charges		7,834	40,975
	Fees and subscription		-	364,436
	Miscellaneous		17,456,435	7,409,824
			1,420,973,329	1,257,010,811
21	**General and administrative expenses**			
	Salaries, wages and benefits		82,761,986	68,046,362
	Stationery		13,391,214	2,054,591
	Rent		2,286,297	419,721
	Travelling and conveyance		8,098,532	2,257,688
	Program promotion		73,522,994	2,793,159
	Repair and maintenance		11,593,589	3,087,028
	Licenses		8,528,967	-
	Communication		5,980,378	2,683,583
	Utilities		4,024,389	1,260,408
	Office supplies		3,466,971	2,615,343
	Consultancy services		6,779,838	2,130,025
	Staff training		741,650	690,852
	Security expenses		1,488,194	290,651
	Amortization	7	1,380,633	247,055
	Auditor's remuneration	21.1	1,147,500	900,000
	Bank charges		799,594	331,172
	Fees and subscription		977,713	300,000
	Loss on write-off of equipment and software		4,489,821	-
	Foreign Currency exchange loss		23,380,276	10,329,332
	Miscellaneous		10,762,402	6,230,047
			265,602,938	106,667,017
21.1	**Auditors' remuneration**			
	Annual audit fee		1,047,500	800,000
	Out of pocket expenses		100,000	100,000
			1,147,500	900,000

22 During the year 4,467 death claims were settled under Contributed funds.

23 Transactions with related party

Related parties comprise of the organizations with common directors and key management personnel. The Company in the normal course of business carries out various transactions with its related parties. The balance due from related parties have been disclosed in the relevant notes to the financial statements. Details of transactions with related parties are as follows:

Entity name	Nature of transaction	2019	2018
		---------Rupees---------	
Akhuwat	Paid on behalf of the company	**4,419,022**	10,325,419
	Assets transferred during the year	-	15,083,541,066
	Liabilities and funds transferred	-	15,061,872,840
	Donations paid	**50,000,000**	-

Akhuwat is an associated undertaking of the Company due to all directors being common.

24 Risk management of financial instruments

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

There have been no substantive changes in the Company's exposure to these risks, its objectives, policies and processes for managing these risks or the methods used to measure them from the year ended June 30, 2019, unless otherwise noted.

Credit Risk — Credit risk is the potential for financial loss resulting from the failure of a client or counterparty to honor its financial or contractual obligations. Credit risk arises from the Company's microfinance activities.

Credit risk of the Company arises principally from the microloans, investments, receivables and other assets. The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk the Company has developed a formal approval process whereby credit limits are applied to its borrowers. The management continuously monitors the credit exposure towards the borrowers and makes required provision and write off the necessary balances.

The Company's aggregate loan portfolio was Rs. 14.09 billion (2018 : 16.566 billion). The Company's total allowances for impairments totaled Rs. 140.90 million at June 30, 2019, a coverage ratio of 1% of total loans.

The Company conducts annual historical loan-loss migration analysis across its portfolio in order to determine the probability of default, defined as all loans in arrears in excess of 90 days, as well as an examination of other current observable factors (e.g. macroeconomic, operational, policy and systems changes, political risk, etc.) in order to establish credit reserves.

The observations collected in 2019 were included in the migration analysis that forms the statistical base of the credit risk calculation. The migration analysis performed on advances portfolio estimates the probability of default of a loan portfolio over a year based on historical observations.

Exposure to credit risk at June 30, 2019 is as follows:

	Note	2019	2018
		---------Rupees---------	
Cash and cash equivalents	10	3,991,901,744	996,432,056
Microloans receivable-net	8	13,949,464,308	16,401,218,735
Investments	11	130,000,000	-
Accrued income	12	935,776,919	273,349,700
Advances to staff	12	20,369,827	34,282,751
Security deposit	12	20,415,794	13,709,688
		19,047,928,592	17,718,992,930

- Impaired Loans — Impaired loans are loans for which the Company determines that it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement.

- Past Due but Not Impaired Loans — Past due, but not impaired loans are loans where contractual amounts are past due, but the Company believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Company.

- Allowances for Impairment — the Company establishes an allowance for impairment losses that represents an estimate of probable or expected losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets with respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

- Write-Off Policy — the Company writes off a loan (and any related allowances for impairment losses) after the specified days. These days are based on the Company's policy. Charge-off decisions are generally based on past due status.

The credit quality of major financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate. At the year end, the Company has bank balances with the following banks:

	Rating		Rating Agency	2019	2018
	Short term	Long term		---------Rupees---------	
Habib Bank Limited	A-1+	AAA	JCR-VIS	3,154,897,468	665,633,523
Muslim Commercial Bank Limited	A-1+	AAA	PACRA	386,478,893	150,798,269
Bank Islami Pakistan	A-1	A+	PACRA	153,221,020	104,896,610
United Bank Limited	A-1+	AAA	JCR-VIS	199,172,476	29,777,673
Telenor Microfinance Bank Limited	A-1	A+	PACRA	783,367	26,655,395
National Bank of Pakistan	A-1+	AAA	PACRA	1,880,688	11,591,860
Silk Bank Limited	A-2	A-	JCR-VIS	900,000	200,000
Faysal Bank Limited	A-1+	AA	JCR-VIS	88,285,067	-
Meezan Bank	A-1+	AA+	JCR-VIS	-	28,486
Allied Bank Limited	A-1+	AAA	PACRA	301,445	-
Others	N/A	N/A	N/A	5,981,320	6,850,240
				3,991,901,744	996,432,056

Due to the Company's long standing business relationships with banks and after giving due consideration to their strong financial standing, management does not expect non-performance by them on their obligations to the Company. Accordingly, the credit risk is minimal.

Market Risk — Market risk includes price risk and currency risk, which arise in the normal course of the Company's business:

- Price risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market prices, other than those arising from profit rate risk or currency risk.
- Interest rate is the risk is that the fair value or future cash flows of financial instrument will fluctuate because of changes in market interest rates.
- Currency risk is the extent to which the Company is exposed to the currencies in which donations or funding are received and the respective functional currency of the Company. The Company is not exposed to any currency risk currently.

The Company's financial performance is subject to some degree of risk due to changes in profit rates; however, due to nature of operations, the Company has significantly less interest rate risk that of a traditional financial institution.

- The tenor mismatch between assets and liabilities is far less.
- The short-term nature of the Company's loans to clients renders the benefit of prepayments to be immaterial — thus, changes in market rates have an immaterial effect on prepayments.

Below is a consideration of profit rate risk by term of asset and liability as of June 30, 2019:

	Profit Sensitive Balances	Non-Profit Sensitive Balances	Total
	------------------------------ Rupees ------------------------------		
Cash and cash equivalents	3,512,660,092	480,810,612	3,993,470,704
Microloans receivable-net	-	13,949,464,308	13,949,464,308
Investments	-	130,000,000	130,000,000
Receivables and other assets	-	976,562,540	976,562,540
	3,512,660,092	15,536,837,460	19,049,497,552
Creditors, accrued and other liabilities	-	76,752,059	76,752,059
Loan for credit pool	-	16,909,049,044	16,909,049,044
Total liabilities	-	16,985,801,103	16,985,801,103
Open position	3,512,660,092	(1,448,963,643)	2,063,696,449

A reasonably possible change of 10 basis points in profit rates at the reporting date would have increased / (decreased) profit by amounts by Rs. 35 million. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

Liquidity Risk — Liquidity risk management includes (at a minimum) the identification, measurement and establishment of limits on potential losses arising from the difficulty of renewing liabilities under normal market conditions. The Company's funding and liquidity objective is to fund its existing asset base (and maintain sufficient excess liquidity) so that it can operate under unusual / adverse market conditions. At the aggregate level, the Company's goal is to ensure that there is sufficient funding in amount and tenor so that adequate liquid resources are available for all operating activities. The liquidity framework requires that entities be liquidity self-sufficient or net providers of liquidity. The primary sources of funding are non-profit bearing loans for credit pool and donations.

The Company works to ensure that the structural tenor of these funding sources is sufficiently long in relation to the tenor of its asset base. In fact, the key goal of the Company's asset-liability management is to ensure that there is excess tenor in the liability structure so as to provide excess liquidity to fund all assets. The excess liquidity resulting from a longer term liability tenor can effectively offset potential downward pressures on liquidity that may occur under market stress. This excess funding is held in the form of Company deposits and in unencumbered liquid securities.

Liquidity management is the responsibility of senior management of the Company and is overseen by the board of directors. The Company maintains legal reserve requirements in accordance with local regulations.

A traditional view of the Company's liquidity is provided by a GAP analysis. Considering the contractual terms of client loans, the Company has a substantial amount of excess liquidity in the under 1 year timeframe.

At June 30, 2019:	Up to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total
			Rupees		
Cash and bank balances	3,993,470,704	-	-	-	3,993,470,704
Microloans receivable	13,510,113,781	437,770,735	551,472	1,028,320	13,949,464,308
Investments	130,000,000	-	-	-	130,000,000
Receivables, prepayments and other assets	952,452,053	13,590,184	6,054,292	725,351	972,821,880
	18,586,036,538	451,360,919	6,605,764	1,753,671	19,045,756,892
Creditors, accrued and other liabilities	76,752,059	-	-	-	76,752,059
Loan for credit pool	575,911,925	3,008,137,119	13,325,000,000	-	16,909,049,044
	652,663,984	3,008,137,119	13,325,000,000	-	16,985,801,103
Liquidity gap	17,933,372,554	(2,556,776,200)	(13,318,394,236)	1,753,671	2,059,955,789

The Company's statements of financial position remain liquid owing to the short asset tenor.

Counterparty Risk — the Company's exposure to the financial loss associated with balances held in other financial institutions is managed in accordance with prescribed limits. The Company looks at counterparty exposure on a monthly basis to make sure that Company holds liquid funds with Companies of high reputation or to invest in mutual funds.

The level of counterparty risk incurred reflects the nature and purpose of the assets held by the Company (aside from its loan portfolio). Such assets are largely transactional in nature (generated by the routine payments by clients). In addition, a minimum amount of cash and liquid securities is held to ensure sufficient liquidity for the Company. While the Company tries to generate some income from these assets, the overriding objective is to ensure their secure placement and high level of availability — risk considerations predominate. This is particularly visible in the area of Company placements, where the Company is able to take active decisions with respect to the selection of counterparties and the maturity of placements.

25 Number of employees

The average and total number of employees during year ended June 30, 2019 are as follows:

	2019	2018
	Number of Employees	
Total number of employees at head office as at June 30	190	174
Total number of employees at branches as at June 30	4,005	4,232
Average number of employees at head office during the year	199	147
Average number of employees at branches during the year	4,198	4,136

26 Remuneration of chief executive, directors and executives

	Number of persons	2019	Number of persons	2018
		--Rupees--		--Rupees--
Chief executive	1	-	1	-
Directors	6	-	6	-
Executives	29	52,771,925	14	25,994,798
Total		52,771,925		25,994,798

27 Fair values of financial assets and liabilities

The carrying amounts 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.

28 Date of authorization

These financial statements were authorized on ______ by the Board of Directors of the Company.

29 Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made during the year.

30 General

Figures have been rounded off to the nearest Rupee.

Chief Executive Officer

Director