Akhuwat Islamic Microfinance

Financial Statements

For the Year Ended

June 30, 2020.

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants
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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, 2020, 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, 2020 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 controls 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.

Deloitte.

Deloitte Yousuf Adil
Chartered Accountants

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.

Report on Other Legal and Regulatory Requirements

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

- proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- the statement of financial position, the statement of income and expenditure, the statement of changes in funds 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;
- investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- in our opinion 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 Rana M. Usman Khan.

Deloitte Yousuf Adil
Chartered Accountants

Lahore
Date: October 06, 2020

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Act 2017)
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020

	Note	2020	2019
		------------Rupees------------	
ASSETS			
NON CURRENT ASSETS			
Property and equipment	6	46,010,711	65,524,233
Intangible assets	7	688,169	752,458
Microloans receivable	8	2,215,299,139	439,350,527
Other long term advances	9	17,294,426	20,369,827
		2,279,292,445	525,997,045
CURRENT ASSETS			
Microloans receivable	8	15,350,110,589	13,510,113,781
Short term investments	10	383,130,880	130,000,000
Receivables, prepayments and other assets	11	2,424,231,508	1,005,754,574
Cash and bank balances	12	3,242,797,931	3,993,470,704
		21,400,270,908	18,639,339,059
		23,679,563,353	19,165,336,104
LIABILITIES AND FUNDS			
NON CURRENT LIABILITIES			
Loan for credit pool	13	19,247,529,392	16,333,137,119
CURRENT LIABILITIES			
Loan for credit pool	13	1,290,438,307	575,911,925
Creditors, accrued and other liabilities	14	149,445,706	76,752,059
		1,439,884,013	652,663,984
		20,687,413,405	16,985,801,103
FUNDS			
UNRESTRICTED			
General fund		853,295,712	598,216,157
RESTRICTED			
Donated fund		1,726,615,492	1,340,547,262
Contributed fund		405,532,261	233,801,614
Reserves for loan loss		6,706,483	6,969,968
		2,138,854,236	1,581,318,844
		2,992,149,948	2,179,535,001
CONTINGENCIES AND COMMITMENTS	15	-	-
		23,679,563,353	19,165,336,104

The annexed notes from 1 to 32 form an integral part of these financial statements.

DYK

Chief Executive Officer

Director

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Act 2017)
STATEMENT OF INCOME AND EXPENDITURE AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2020

	Note	Unrestricted general fund	Restricted			2020	2019
			Donated fund	Contributed fund	Reserves for loan loss		
		Rupees					
OPERATING INCOME							
Operating income	16	1,883,038,258	-	-	956,290	1,883,994,548	2,004,365,908
Other income	17	85,587,839	-	-	-	85,587,839	91,834,455
Donations received	18	-	386,068,230	-	-	386,068,230	225,176,057
Contributions received	19	-	-	246,164,062	-	246,164,062	200,165,441
EXPENDITURE							
Operational cost	20	1,420,360,330	-	-	-	1,420,360,330	1,420,973,329
General and administrative expenses	21	225,261,987	-	-	-	225,261,987	265,602,938
Provision for loan loss	8.6.1	67,924,225	-	-	-	67,924,225	1,769,473
Donations paid		-	-	-	-	-	50,101,750
Death claims settled	22	-	-	74,433,415	1,219,775	75,653,190	91,513,856
		1,713,546,542	-	74,433,415	1,219,775	1,789,199,732	1,829,961,346
Surplus / (deficit) for the year		255,079,555	386,068,230	171,730,647	(263,485)	812,614,947	691,580,515
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income / (loss) for the year		255,079,555	386,068,230	171,730,647	(263,485)	812,614,947	691,580,515

DYK

The annexed notes from 1 to 32 form an integral part of these financial statements.

Chief Executive Officer | **Director**

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Act 2017)

STATEMENT OF CHANGES IN FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Unrestricted general fund	Restricted			Total
		Donated fund	Contributed fund	Reserves for loan loss	
	Rupees				
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:					
Surplus / (deficit) 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)	693,349,988
Balance as at June 30, 2019	598,216,157	1,340,547,262	233,801,614	6,969,968	2,179,535,001
Comprehensive income / (loss):					
Surplus / (deficit) for the year	**255,079,555**	**386,068,230**	**171,730,647**	**(263,485)**	**812,614,947**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
Total comprehensive income / (loss)	**255,079,555**	**386,068,230**	**171,730,647**	**(263,485)**	**812,614,947**
Balance as at June 30, 2020	**853,295,712**	**1,726,615,492**	**405,532,261**	**6,706,483**	**2,992,149,948**

DYA

The annexed notes from 1 to 32 form an integral part of these financial statements.

Chief Executive Officer

Director

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Act 2017)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
		---------Rupees---------	
Cash flows from operating activities			
Surplus for the year		**812,614,947**	691,580,515
Adjustments for:			
Depreciation on property and equipment	6	**28,703,424**	21,714,240
Amortization of intangible assets	7	**240,634**	1,380,633
Return on bank deposits and investments		**(66,603,424)**	(49,378,650)
Loss on write-off of property and equipment		**-**	961,803
Loss on write-off of Intangible assets		**-**	3,528,018
Foreign currency exchange (gain) / loss		**(4,485,122)**	24,439,982
Provision for loan loss	8.6.1	**67,924,225**	(15,866,734)
		25,779,737	(13,220,708)
		838,394,684	678,359,807
Changes in working capital			
(Increase) / decrease in microloans receivable		**(3,683,869,645)**	2,467,621,161
Increase in receivables and other assets		**(1,415,401,533)**	(659,109,020)
Increase / (decrease) in creditors, accrued and other liabilities		**72,693,647**	(3,281,525)
		(5,026,577,531)	1,805,230,616
Net cash (used in) / generated from operating activities		**(4,188,182,847)**	2,483,590,423
Cash flows from investing activities			
Purchase of property and equipment	6	**(9,189,902)**	(15,214,508)
Purchase of intangible assets	7	**(176,345)**	(4,370,469)
Purchase of investments - net		**(253,130,880)**	(130,000,000)
Return on bank deposits and investments		**66,603,424**	49,378,650
Net cash used in investing activities		**(195,893,703)**	(100,206,327)
Cash flows from financing activities			
Loan for credit pool received - net		**3,633,403,777**	611,884,430
Net cash generated from financing activities		**3,633,403,777**	611,884,430
Net (decrease) / increase in cash and cash equivalents		**(750,672,773)**	2,995,268,526
Cash and cash equivalents at the beginning of the year		**3,993,470,704**	998,202,178
Cash and cash equivalents at the end of the year	12	**3,242,797,931**	3,993,470,704

DYA

The annexed notes from 1 to 32 form an integral part of these financial statements.

Chief Executive Officer

Director

AKHUWAT ISLAMIC MICROFINANCE (A Company set up under Section 42 of Companies Act 2017)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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 a company limited by guarantee, not having share capital and is registered as association not for profit under Section 42 of the Companies Ordinance, 1984 (now Companies Act, 2017). 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 826 (2019 : 813) 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, 2020

The following standards, amendments and interpretations are effective for the year ended June 30, 2020.

2.2.1 Standards or interpretations with no significant impact	Effective from accounting period beginning on or after:
IFRS 16 Leases, this standard will supersede IAS 17 'Leases', IFRIC 4, SIC 15 and SIC 27 upon its effective date.	January 01, 2019
IFRS 14 – Regulatory Deferral Accounts - IFRS 14 was originally issued in January 2014 and applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016. However, SECP has adopted from July 01, 2019.	July 01, 2019
Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Long-term interests in associates and joint ventures	January 01, 2019
Amendments to IAS 19 'Employee Benefits' - Plan amendment, curtailment or settlement	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.

2.2.2 Impact of IFRS 16 - Leases

IFRS 16 Leases replaced IAS 17 Leases, the former lease accounting standard, and became effective for periods beginning on or after January 01, 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

IFRS 16 introduced a single, on - balance sheet accounting model for leases. However, all lease agreements entered into by the Company fall under the recognition exemption criteria of IFRS 16. Accordingly, application of IFRS 16 has no impact on the financial statements of the Company.

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 the conceptual framework for financial reporting, including amendments to references to the conceptual framework in IFRS	January 01, 2020
Amendments to IFRS 3 'Business Combinations' - Definition of a business	January 01, 2020
Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' - Interest rate benchmark reform	June 30, 2021
Amendments to IFRS 3 'Business Combinations' - Reference to the conceptual framework	January 01, 2022
Amendment to IFRS 16 'Leases' - Covid-19 related rent concessions	January 01, 2020
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Clarify the definition of 'Material' and align the definition used in the Conceptual Framework and the Standards	January 01, 2020
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current	January 01, 2023
Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before intended use	January 01, 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' regarding the costs to include when assessing whether a contract is onerous.	January 01, 2022

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

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 17 – Insurance Contracts

2.3.1 Standards impacting financial statements

IFRS 9 'Financial Instruments' has superseded IAS 39 'Financial Instruments: Recognition and Measurement' upon its effective date of July 01, 2018. However, SECP vide S.R.O No. SRO 273(I)/2020 - Reference No. SC/NBFC-191/IFRS-9/2020 has deferred the applicability of IFRS 9 'Financial Instruments' for non-banking finance companies until June 2021. 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.

3 **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 5.5.1)
- Useful life of depreciable assets - (note 5.1)
- Useful life of intangibles - (note 5.2)

4 **Basis of measurement**

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

- Certain foreign currency translation adjustments.

5 **Summary of significant accounting policies**

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

5.1 **Property and equipment**

Property and equipment is stated at cost less accumulated depreciation and any identified impairment loss. Depreciation on all property and equipment is 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 property and equipment is 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 property and equipment 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 or 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 property and 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.

5.2 **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.

5.3 **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 bank balances

Cash and bank balances 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.

5.4 Investments

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

Investments other than held-for-trading are initially measured at fair value plus transaction costs associated with investments. Held-for-trading investments are initially measured at fair value and transaction costs are expensed out in the statement of income and expenditure.

Held-for-trading

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists. After initial measurement, such investments are carried at fair value and the surplus / (deficit) arising as a result of revaluation is taken to the statement of income and expenditure.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities in respect of which the Company has positive intent and ability to hold to maturity. After initial measurement, such investments are carried at amortized cost less impairment, if any.

Available-for-sale

These represent securities, which do not fall under the held-for-trading or held-to-maturity categories. After initial measurement, such investments are measured at fair value. The surplus / (deficit) arising on revaluation is shown in the statement of financial position which is taken to the profit and loss account when actually realized upon disposal.

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

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment.

5.5 Microloans

Microloans are stated net of specific and general provisions which are determined on the basis of Non-Banking Finance Companies and Notified Entities Regulations, 2008. Microloans are written off according to the Non-Banking Finance Companies and Notified Entities Regulations,2008 or when there is no realistic prospect of recovery.

5.6 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.

5.7 **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

5.7.1 **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
61-90 Days	25%
91-180 Days	50%
181 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 is updated at each reporting date.

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

5.8 **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.

5.9 **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.

5.10 **Revenue recognition**

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

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:

a) Operational income / service charges

The Company manages the loan portfolios for several institutions. 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.

b) Documentation fee

Documentation fee is received from prospective borrowers against application forms. This is recognised when cash is received.

c) Income from Community Donation Programme

Income from Community Donation Programme relates to donations collected through donation boxes placed at different community centers and branches. This income is recognised in relation to the actual cash collection through boxes.

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 is 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.

5.11 Ijarah tul Musha

Financing provided to customers under Low Cost Housing Scheme are treated under Ijarah tul Musha arrangement. At the time of granting of financing, the Company enters into agreement for co-ownership of property of the customer. The property is then leased to the customer and the monthly rental excluding principal portion is recognized as rent income in the statement of income and expenditure over the financing term. At the end of the contract, the property is given to the customer as gift.

6. **Property and equipment**

AS AT JUNE 30, 2020	**Cost**				**Accumulated depreciation**					
Particulars	**As at July 1, 2019**	**Additions/ (Disposals)**	**Write-off**	**As at June 30, 2020**	**As at July 1, 2019**	**For the year**	**Write-off**	**As at June 30, 2020**	**Net book value as at June 30, 2020**	**Dep. rate %**
		(-			*Rupees*			*- - - - - - - - - - - -)*		
Owned										
Furniture, fixtures and office equipments	67,188,674	5,549,387	-	72,738,061	26,281,386	21,652,327	-	47,933,713	24,804,348	20 - 50
Vehicles	37,827,877	3,640,515	-	41,468,392	13,210,932	7,051,097	-	20,262,029	21,206,363	20
	105,016,551	9,189,902	-	114,206,453	39,492,318	28,703,424	-	68,195,742	46,010,711	

AS AT JUNE 30, 2019	Cost				Accumulated depreciation					
Particulars	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	Dep. rate %
		(-			*Rupees*			*- - - - - - - - - - - -)*		
Owned										
Furniture, fixtures and office equipments	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	

7. **Intangible assets**

AS AT JUNE 30, 2020	**Cost**				**Accumulated amortization**					
Particulars	**As at July 1, 2019**	**Additions/ (Disposals)**	**Write-off**	**As at June 30, 2020**	**As at July 1, 2019**	**For the year**	**Write-off**	**As at June 30, 2020**	**Net book value as at June 30, 2020**	**Amort. rate %**
		(-			*Rupees*			*- - - - - - - - - - - -)*		
Owned										
Software	**1,492,487**	**176,345**	-	**1,668,832**	**740,029**	**240,634**	-	**980,663**	**688,169**	**10 - 33**

AS AT JUNE 30, 2019	Cost				Accumulated amortization					
Particulars	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

	Note	2020	2019
		---------Rupees---------	

8 Microloans receivable

	Note	2020	2019
Un-secured			
Individual loans	8.2	15,947,469,245	14,084,315,614
Low cost housing scheme	8.3	1,806,563,695	-
Educational loans	8.5	5,686,774	6,052,374
		17,759,719,714	14,090,367,988
Less: provision for loan loss	8.6	(194,309,986)	(140,903,680)
		17,565,409,728	13,949,464,308

8.1 Maturity microloans receivable

	2020	2019
Due within one year	15,350,110,589	13,510,113,781
Over one year	2,215,299,139	439,350,527
	17,565,409,728	13,949,464,308

8.2 Individual loans

	2020	2019
Balance as at beginning of the year	14,084,315,614	16,560,190,492
Disbursed during the year	26,040,776,300	20,937,617,952
	40,125,091,914	37,497,808,444
Recovered during the year	(24,163,104,750)	(23,404,594,368)
	15,961,987,164	14,093,214,076
Written off during the year	(14,517,919)	(8,898,462)
Balance as at end of the year	15,947,469,245	14,084,315,614

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.

8.3 Low cost housing scheme

	2020	2019
	---------Rupees---------	
Balance as at beginning of the year	-	-
Disbursed during the year	1,865,051,374	-
	1,865,051,374	-
Recovered during the year	(58,487,679)	-
Balance as at end of the year	1,806,563,695	-

These represent financing given to individuals under Ijarah tul Musha arrangement for the construction of new houses, addition of rooms, kitchen or bathroom including renovation. These financing have a repayment term ranging from 2 year to 5 years.

8.4 Aggregate disbursements

Aggregate disbursement detail for Individual loans since commencement of Akhuwat's interest free loan project are as follows:

	Note	2020	2019
Aggregate amount disbursed till (Rupees)	8.4.1	114,184,887,883	86,279,060,209
Aggregate number of beneficiaries - not unique			
- Total (Numbers)	8.4.2	4,171,146	3,410,649
- Male (Numbers)	8.4.2	2,424,688	1,992,039
- Female (Numbers)	8.4.2	1,746,458	1,418,610
Active loans at June 30 (Numbers)	8.4.2	813,585	898,755
Recovery for the year (Percentage)		99.91%	99.92%

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

8.4.2 Disbursement segregation

	------ 2020 ------				
	LCHS	PSIC	PPAF	Others	Total
Aggregate amount disbursed till (Rupees)	1,865,051,374	75,767,824,400	263,454,000	36,288,558,109	114,184,887,883
Total Recovery till (Rupees)	58,487,679	65,449,200,641	220,665,400	30,687,983,304	96,416,337,024
Outstanding Loan portfolio (Rupees)	1,806,563,695	10,318,623,759	42,788,600	5,586,056,886	17,754,032,940
Aggregate number of beneficiaries till					
- Total (Numbers)	4,230	3,030,885	10,881	1,125,150	4,171,146
- Male (Numbers)	3,605	1,574,511	10,301	836,271	2,424,688
- Female (Numbers)	625	1,456,371	580	288,882	1,746,458
Active loans at June 30 (Numbers)	4,230	580,970	2,589	225,796	813,585
Recovery for the year (Percentage)	98.71%	99.98%	100%	99.75%	99.91%

	LCHS	PSIC	PPAF	Others	Total
		2019			
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%

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

8.6 Provision for loan loss

The Company's policy for loan loss provision became inline with the policy as per applicable NBFC and NE Regulations during the current year and the following specific and general provisions are recognized as at June 30:

	Note	2020	2019
		---------Rupees---------	
Specific provision		**16,881,605**	7,753,373
General provision		**177,428,381**	133,150,307
	8.6.1	**194,309,986**	140,903,680

8.6.1 Movement of provision during the year

Balance as at beginning of the year	**140,903,680**	165,668,876
Charge / (reversal) for the year	**67,924,225**	(15,866,734)
	208,827,905	149,802,142
Written off against individual loans	**(14,517,919)**	(8,898,462)
Balance as at end of the year	**194,309,986**	140,903,680

9 Other long term advances

Due in more than one year	**9.1**	**17,294,426**	20,369,827

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	2020	2019
10 Short term investments		---------Rupees---------	
10.1 Investments designated at FVTPL		**Amount**	**Amount**
NBP Islamic Mahana Amdani Fund - 11,515,364 units (2019: nil)		**115,268,041**	-
Al-Ameen Islamic Cash Fund - 562 units (2019: nil)		**51,494**	-
JS Islamic Income Fund - 110 units (2019: nil)		**10,286**	-
Meezan Rozana Amdani Fund - 2,486,021 units (2019: nil)		**124,301,059**	-
		239,630,880	-
10.2 Financial assets designated as Held to Maturity			
Term deposit receipts	**10.2.1**	**143,500,000**	130,000,000
		383,130,880	130,000,000

10.2.1 These term deposit receipts are held in various banking accounts carrying return rates ranging from 7.35% to 13.25% (2019: 11.4% to 13.25%), with maturity upto December 2020.

		Note	2020	2019
			---------Rupees---------	
11	**Receivables, prepayments and other assets**			
	Advance tax		**8,767,947**	8,038,760
	Advances to suppliers		**28,759,820**	17,015,741
	Advances to employees	9.1	**17,412,815**	16,675,134
	Security deposits		**18,697,674**	20,415,794
	Accrued service charges	11.1	**2,336,958,833**	935,776,919
	Accrue return on investments	11.2	**513,870**	-
	Prepaid rent		**599,751**	556,320
	Other receivables	11.3	**12,520,798**	7,275,906
			2,424,231,508	1,005,754,574

11.1 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.

11.2 These comprise return accrued on term deposit receipts.

11.3 It includes petty cash advances of Rs. 1,737,648 (2019: Rs. 96,483) and operational advances of Rs. 2,492,826 (2019: Rs. 134,738) given to employees against official expenses.

		Note	2020	2019
			---------Rupees---------	
12	**Cash and bank balances**			
	Cash in hand		**3,817,880**	1,568,960
	Cash at bank			
	In current accounts - local currency		**515,661,708**	479,241,652
	In saving accounts - local currency	12.1	**2,637,235,099**	3,510,262,365
	- foreign currency		**86,083,244**	2,397,727
			2,723,318,343	3,512,660,092
			3,242,797,931	3,993,470,704

12.1 These balances are held in various bank accounts and carry return rate ranging from 3.75% to 12.25% (2019: 4.65% to 5.98%) per annum.

		Note	2020	2019
			---------Rupees---------	
13	**Loan for credit pool**			
	Un-secured			
	Punjab Small Industries Corporation	13.2	**12,000,000,000**	12,000,000,000
	Low Cost Housing Scheme loan from - Government of Pakistan	13.3	**2,999,997,100**	-
	Agricultural Department - Government of the Punjab	13.4	**2,000,000,000**	2,000,000,000
	Small Industries Corporation - Azad Kashmir	13.5	**750,000,000**	750,000,000
	Youth Affairs Department - Gilgit Baltistan	13.6	**575,000,000**	575,000,000
	Finance Department - Government of Balochistan	13.7	**550,000,000**	-
	Development Authority - Federally Administered Tribal Areas	13.8	**500,000,000**	500,000,000
	Technical Education & Vocational Training Authority	13.9	**500,000,000**	500,000,000
	Prime Minister Interest Free Loan	13.10	**372,532,292**	372,532,292
	Punjab Social Protection Authority	13.11	**170,000,000**	73,836,000
	Care International UK	13.12	**93,101,187**	92,591,132
	Other donors	13.13	**27,337,120**	45,089,620
			20,537,967,699	16,909,049,044
13.1	**Maturity of loan for credit pool**			
	Up to one year		**1,290,438,307**	575,911,925
	Over one year		**19,247,529,392**	16,333,137,119
			20,537,967,699	16,909,049,044

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 Government of Islamic Republic of Pakistan - Ministry of Housing and Works. The loan amount is to be used For the construction of new houses or addition of rooms, kitchen or bathroom including renovation. The loan was extended on November 2, 2019 for the period of seven years.

13.4 This represents fund received from Government of the 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.

13.5 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.

13.6 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.

13.7 This amount represents interest free loan received from Government of Balochistan - Finance Department. The loan amount is to be used For lending of micro loans to the affectees of COVID-19. The loan was extended on May 2, 2020 for the period of seven years.

13.8 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 newly merged tribal districts (Ex- FATA).

13.9 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.

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

13.11 This represents interest free loan received from Punjab Small Industries Corporation (PSIC) through 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.

13.12 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.

		Note	2020	2019
			---------Rupees---------	
13.13	**Loans from other donors**			
	Loan from Jamshed & Mumtaz Tarin Trust		**10,700,000**	10,700,000
	Loan from Louis Berger		**-**	17,752,500
	Loan from Ihsaan Trust		**8,500,000**	8,500,000
	Loan from Foundation of Faithful		**237,120**	237,120
	Loan from Muhammad Ibrahim Haji Welfare trust		**7,500,000**	7,500,000
	Loan from others		**400,000**	400,000
			27,337,120	45,089,620

13.14 **Movement of Loan for Credit Pool :**

	Opening	Repayment/ Transfer	Receipt	Foreign currency loss	Closing
	------------	------------	Rupees	------------	------------
2020	**16,909,049,044**	**(20,177,500)**	**3,648,586,100**	**510,056**	**20,537,967,699**
2019	16,272,724,632	(136,215,899)	748,100,330	24,439,981	16,909,049,044

		Note	2020	2019
			---------Rupees---------	
14	**Creditors, accrued and other liabilities**			
	Profit payable to lenders	14.1	**56,842,194**	20,774,339
	Accrued expenses		**9,010,376**	4,536,764
	Health takaful payable	14.2	**27,604,932**	16,397,494
	EOBI payable		**3,012,360**	1,199,640
	Payable to related parties	14.3	**22,353,043**	27,253,523
	Other liabilities		**30,622,801**	6,590,299
			149,445,706	76,752,059

14.1 This represents the amount payable in respect of profit earned on the loan amounts received from lenders and held intermittently in 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 consist of amount payable to Akhuwat in respect of assets transferred on July 01, 2017.

15 Contingencies and commitments

15.1 Contingencies

There are no contingencies as at June 30, 2020 and June 30, 2019.

15.2 Commitments

Low value lease arrangements

Low value 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.

		Note	2020	2019
			---------Rupees---------	
	Commitments under low value leases		**56,616,960**	66,898,360
16	**Operating income**			
	Operational income / service charges	**16.1**	**1,732,110,686**	1,858,234,985
	Documentation fee	**16.2**	**137,848,662**	144,521,110
	Rental income	**16.3**	**11,650,814**	-
	Income from Community Donation Programme	**16.4**	**1,428,096**	1,609,813
			1,883,038,258	2,004,365,908
16.1	**Operational income / service charges**			
	Foreign sources	**16.1.1**	**19,215,136**	20,088,499
	Local sources	**16.1.2**	**1,712,895,550**	1,838,146,486
			1,732,110,686	1,858,234,985
16.1.1	**Foreign sources**			
	Lend with Care		**-**	694,750
	British Asian Trust		**8,239,388**	9,466,801
	Louis Burger		**339,500**	2,485,350
	United Nation Development Program		**10,636,248**	7,441,598
			19,215,136	20,088,499

16.1.2 This represents 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 rent income collected from borrowers of low cost housing scheme loans under Ijarah tul Musha at the rate of 4.49% per annum.

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

		Note	2020	2019
			---------Rupees---------	
17	**Other income**			
	Return on bank deposits		**55,332,218**	40,637,855
	Return on investments		**11,271,206**	8,740,795
	Dividend income		**9,466,234**	-
	Exchange gain		**4,485,122**	-
	Bad debts recovered		**479,534**	3,059,162
	Income from hide donations		**-**	19,032,979
	Reversal of provision for loan loss	**8.6.1**	**-**	15,866,734
	Miscellaneous		**4,553,525**	4,496,930
			85,587,839	91,834,455
18	**Donations received**			
	Foreign sources	**18.1**	**253,981,934**	44,725,000
	Local sources	**18.2**	**132,086,296**	180,451,057
			386,068,230	225,176,057

18.1 This includes donations received from British Asian Trust of Rs. 14,856,934 (2019: 1,500,000).

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

Contributions received

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	2020	2019
			---------Rupees---------	
20	**Operational cost**			
	Salaries, wages and benefits		**1,173,836,162**	1,161,885,423
	Rent		**92,711,879**	92,120,903
	Stationery		**41,940,448**	47,573,156
	Depreciation	6	**28,703,424**	21,714,241
	Travelling and conveyance		**21,141,216**	21,956,493
	Security expenses		**16,333,718**	9,532,909
	Utilities		**14,187,714**	14,116,439
	Communication		**6,466,993**	9,352,451
	Consultancy services		**5,977,018**	6,242,000
	Repair and maintenance		**5,528,526**	6,932,264
	Office supplies		**4,615,256**	7,288,650
	Staff training		**3,640,526**	672,091
	Bank charges		**2,500,239**	7,834
	Program promotion		**1,391,676**	4,122,040
	Miscellaneous		**1,356,535**	17,456,435
	Fees and subscription		**29,000**	-
			1,420,360,330	1,420,973,329
21	**General and administrative expenses**			
	Salaries, wages and benefits		**85,352,459**	82,761,986
	Program promotion	21.1	**64,820,231**	73,522,994
	Fees and subscription		**12,204,445**	9,506,680
	Consultancy services		**8,087,862**	6,779,838
	Repair and maintenance		**7,834,055**	11,593,589
	Communication		**7,531,972**	5,980,378
	Travelling and conveyance		**5,998,574**	8,098,532
	Utilities		**4,628,591**	4,024,389
	Office supplies		**2,760,989**	3,466,971
	Rent		**2,638,360**	2,286,297
	Stationery		**2,149,476**	13,391,214
	Security expenses		**1,702,375**	1,488,194
	Bank charges		**360,086**	799,594
	Staff training		**329,046**	741,650
	Auditors' remuneration	21.2	**1,265,000**	1,147,500
	Amortization	7	**240,634**	1,380,633
	Loss on write-off of property, equipment and software		-	4,489,821
	Exchange loss		-	23,380,276
	Miscellaneous		**17,357,832**	10,762,402
			225,261,987	265,602,938

21.1 **Program promotion**

Program promotion consists of marketing through different platforms like news papers, TV channels and brochures, seeking donations from general public.

		2020	2019
		---------Rupees---------	
21.2	**Auditors' remuneration**		
	Annual audit fee	**1,150,000**	1,047,500
	Out of pocket expenses	**115,000**	100,000
		1,265,000	1,147,500

22 **Death claims settled**

During the year 3,464 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	2020	2019
		---------Rupees---------	
Akhuwat	Expenses paid on behalf of the Company	**4,900,480**	4,419,022
	Donations collected on behalf of Company	**21,395,688**	-
	Donations paid by the Company	-	50,000,000

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

24 Financial instruments by category

The Company finances its operations through restricted/un-restricted funds and borrowings with a view to maintaining an approximate mix between various sources of finance to minimize risk. Taken as a whole, the Company's risk arising from financial instruments is limited as there is no significant exposure to cash flow risk in respect of such instruments.

The accounting policies for financial instruments have been applied for line items as below:

	2020	2019
	---------Rupees---------	
Financial Assets - Loans and receivables		
Cash and cash equivalents	**3,238,980,051**	3,991,901,744
Microloans receivable-net	**17,565,409,728**	13,949,464,308
Accrued service charges	**2,336,958,833**	935,776,919
Accrued return on investments	**513,870**	-
Advances to staff	**34,707,241**	37,044,961
Security deposit	**18,697,674**	20,415,794
	23,195,267,397	18,934,603,726
Financial Assets - Held to maturity		
Investments in term deposit receipts	**143,500,000**	130,000,000
Financial Assets - FVTPL		
Investments in mutual funds	**239,630,880**	-
	23,578,398,277	19,064,603,726
Financial Liabilities - At amortized cost		
Creditors, accrued and other liabilities	**149,445,706**	76,752,059
Loan for credit pool	**20,537,967,699**	16,909,049,044
	20,687,413,405	16,985,801,103

25 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, 2020, 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. 17.76 billion (2019 : 14.09 billion). The Company's total allowances for impairments totaled Rs. 194.31 million at June 30, 2020, a coverage ratio of1.09% 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 2020 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, 2020 is as follows:

	Note	2020	2019
		---------Rupees---------	
Cash and cash equivalents	12	**3,238,980,051**	3,991,901,744
Microloans receivable-net	8	**17,565,409,728**	13,949,464,308
Short term investments	10	**143,500,000**	130,000,000
Accrued service charges	11	**2,336,958,833**	935,776,919
Accrue return on investments	11	**513,870**	-
Security deposit	11	**18,697,674**	20,415,794
		23,304,060,156	19,027,558,765

- 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	2020	2019
	Short term	Long term		---------Rupees---------	
Habib Bank Limited	A-1+	AAA	JCR-VIS	**434,195,898**	3,154,897,468
MCB Bank Limited	A1+	AAA	PACRA	**392,390,297**	386,478,893
Bank Islami Pakistan Limited	A1	A+	PACRA	**265,565,809**	153,221,020
United Bank Limited	A-1+	AAA	JCR-VIS	**219,862**	199,172,476
Telenor Microfinance Bank Limited	A1	A+	PACRA	**800,980**	783,367
National Bank of Pakistan	A1+	AAA	PACRA	**6,364,628**	1,880,688
Silk Bank Limited	A-2	A-	JCR-VIS	**900,000**	900,000
Faysal Bank Limited	A-1+	AA	JCR-VIS	**11,921,974**	88,285,067
Allied Bank Limited	A1+	AAA	PACRA	**2,109,144,165**	301,445
Others	N/A	N/A	N/A	**17,476,438**	5,981,320
				3,238,980,051	3,991,901,744

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, 2020:

	Profit Sensitive Balances	Non-Profit Sensitive Balances	Total
	Rupees		
Cash and cash equivalents	2,723,318,343	519,479,588	3,242,797,931
Microloans receivable-net	-	17,565,409,728	17,565,409,728
Short term investments	143,500,000	-	143,500,000
Receivables and other assets	-	2,356,170,377	2,356,170,377
Total assets	**2,866,818,343**	**20,441,059,693**	**23,307,878,036**
Creditors, accrued and other liabilities	-	149,445,706	149,445,706
Loan for credit pool	-	20,537,967,699	20,537,967,699
Total liabilities	-	**20,687,413,405**	**20,687,413,405**
Open position	**2,866,818,343**	**(246,353,712)**	**2,620,464,631**

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
Short term investments	-	130,000,000	130,000,000
Receivables and other assets	-	976,562,540	976,562,540
Total assets	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. 2.9 million (2019: 3.5 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, 2020:	Up to 1 year	1 year to 3 years	3 years to 5 years	More than 5 years	Total
			Rupees		
Cash and bank balances	3,242,797,931	-	-	-	3,242,797,931
Microloans receivable	15,350,110,589	1,537,197,895	666,395,144	11,706,101	17,565,409,728
Short term investments	143,500,000	-	-	-	143,500,000
Receivables, prepayments and other assets	2,373,464,803	13,231,312	2,254,721	1,808,393	2,390,759,229
	21,109,873,323	1,550,429,207	668,649,865	13,514,494	23,342,466,888
Creditors, accrued and other liabilities	149,445,706	-	-	-	149,445,706
Loan for credit pool	1,290,438,307	14,750,000,000	4,497,529,392	-	20,537,967,699
	1,439,884,013	14,750,000,000	4,497,529,392	-	20,687,413,405
Liquidity gap	19,669,989,310	(13,199,570,793)	(3,828,879,527)	13,514,494	2,655,053,483

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.

26 Number of employees

The average and total number of employees during year ended June 30, 2020 are as follows:

	2020	2019
	Number of Employees	
Total number of employees at head office as at June 30	190	190
Total number of employees other then head office as at June 30	3,736	4,005
Average number of employees at head office during the year	199	199
Average number of employees other then head office during the year	3,792	4,198

27 Remuneration of chief executive, directors and executives

	2020 Number of persons	2020 --Rupees--	2019 Number of persons	2019 --Rupees--
Chief Executive	1	-	1	-
Directors	6	-	6	-
Executives	29	51,069,883	29	52,771,925
Total		51,069,883		25,994,798

28 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.

The company is required to classify financial instruments using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Transfer between levels of the fair value hierarchy is recognized at the end of the reporting period during which the changes have occurred.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2020						
	Carrying amount			Fair value			
	At Amortized Cost	At Fair Value	Total	Level 1	Level 2	Level 3	Total
	Rupees						
Financial assets - measured at fair value							
Investment in mutual funds	-	239,630,880	239,630,880	239,630,880	-	-	239,630,880
	-	239,630,880	239,630,880	239,630,880	-	-	239,630,880
Financial assets - not measured at fair value							
Cash and cash equivalents	3,238,980,051	-	3,238,980,051	-	-	-	-
Microloans receivable-net	17,565,409,728	-	17,565,409,728	-	-	-	-
Investment in term deposit receipts	143,500,000	-	143,500,000	-	-	-	-
Accrued service charges	2,336,958,833	-	2,336,958,833	-	-	-	-
Accrued return on investments	513,870	-	513,870	-	-	-	-
Advances to staff	34,707,241	-	34,707,241	-	-	-	-
Security deposit	18,697,674	-	18,697,674	-	-	-	-
	23,338,767,397	-	23,338,767,397	-	-	-	-
Financial liabilities - not measured at fair value							
Creditors, accrued and other liabilities	149,445,706	-	149,445,706	-	-	-	-
Loan for credit pool	20,537,967,699	-	20,537,967,699	-	-	-	-
	20,687,413,405	-	20,687,413,405	-	-	-	-

	2019						
	Carrying amount			Fair value			
	At Amortized Cost	At Fair Value	Total	Level 1	Level 2	Level 3	Total
	Rupees						
Financial assets - measured at fair value							
Investment in mutual funds	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Financial assets - not measured at fair value							
Cash and cash equivalents	3,991,901,744	-	3,991,901,744	-	-	-	-
Microloans receivable-net	13,949,464,308	-	13,949,464,308	-	-	-	-
Investment in term deposit receipts	130,000,000	-	130,000,000	-	-	-	-
Accrued service charges	935,776,919	-	935,776,919	-	-	-	-
Accrue return on investments	-	-	-	-	-	-	-
Advances to staff	37,044,961	-	37,044,961	-	-	-	-
Security deposit	20,415,794	-	20,415,794	-	-	-	-
	19,064,603,726	-	19,064,603,726	-	-	-	-
Financial liabilities - not measured at fair value							
Creditors, accrued and other liabilities	76,752,059	-	76,752,059	-	-	-	-
Loan for credit pool	16,909,049,044	-	16,909,049,044	-	-	-	-
	16,985,801,103	-	16,985,801,103	-	-	-	-

29 COVID - 19 Impact Assessment

The World Health Organization declared Corona Virus (COVID-19) as public health emergency on January 30, 2020 and a pandemic on March 11, 2020. COVID-19 has spread throughout the country and measures have been taken by the Government of Pakistan to reduce the spread of the COVID-19 that includes lockdown of businesses, suspension of flight operations, intercity movements, cancellation of major events etc.

The outbreak of Covid-19 pandemic did not adversely impact the overall financial situation of the Company. The financial situation of the Company was affected for the month of April 2020 which was later normalized and the business operations were as they were before.

The Company has operated during the pandemic situation with full protective measures. It has ensured that the poverty stricken are facilitated and supported during these hard times. For this, the Company has managed to disburse its loans at an accelerated pace during May and June 2020, compensating the reduced loans provided during March and April 2020.

Service charges are directly related to disbursement of loans which were not affected by Covid-19 as described in the previous paragraph. Furthermore expenses of the Company have no material relation with the lockdown or suspension of branches. The liabilities of the Company are mainly long term in nature thus there was no requirement for deferment or restructuring.

The only way which impacted the financial position of the entity was the deferral of loan installments during April to June 2020 in compliance with the requirements of SECP Circular No. 9 of 2020 regarding Relaxation of Lending NBFCs including NBMFCs under regulation 67A of the Non-Bank Finance Companies and Notified Entities Regulations, 2008.

The Company has regained its recovery trend by the end of June 2020 and the recovery due in July 2020 and August 2020 was recovered in time and there was no deferral during this period.

30 Date of authorization

These financial statements were authorized on 05 OCT 2020 by the Board of Directors of the Company.

31 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.

32 General

Figures have been rounded off to the nearest Rupee.

Chief Executive Officer | **Director**