Pakistan Microfinance Network

Achieving Together

2019

ANNUAL REPORT

Achieving Together

The Pakistan Microfinance Network is grateful to

DFID (UK-AID)

for their continued support to fund the persevering growth of the microfinance sector

UKaid

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ANNUAL REPORT 2019

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VISION

Frontiers of Formal Financial Services reach out to all.

ABOUT PMN

The Pakistan Microfinance Network (PMN or 'the Network') is the national association for retail players in the microfinance industry and is registered under Section 42 of the Companies Ordinance. The Network's strength currently includes 46 retail microfinance providers [MFPs] that collectively account for over 99% of the total microfinance outreach in Pakistan. Over the years, PMN has emerged as an information hub publishing various reports, papers and conducting large-scale qualitative and quantitative research studies with partners in the industry on Microfinance, Financial Inclusion, Financial literacy, Digital Microfinance, Product Development, Usage and Attitude and others. At PMN, our success over the years has placed us in a position with access to all the microfinance institutions and develop in-depth institutional learning and expertise.

ROLES

ENABLING ENVIRONMENT

Promoting an enabling environment that benefits the work of all stakeholder

CAPACITY BUILDING

Building the capacity of stakeholders, especially that of retail microfinance institutions

PROVIDER

Serving our members and stakeholders as an information gateway.

DIGITAL PAYMENT ECOSYSTEM

Enabling a payment ecosystem for the microfinance Industry

ADVOCACY

Championing the interests of microfinance industry with the business community

CORE VALUES

The following values are key to PMN's culture.

TABLE OF CONTENTS

MESSAGE FROM THE CEO

Syed Mohsin Ahmed
Chief Executive Officer

Esteemed stakeholders,

As we enter the 2020s, it's worth taking a moment to reflect on how PMN has made two major sector level investments. The purchase of 9.9% shares in one of the private sector credit bureau licensed by SBP and setting up of a digital platform where focus will be end to end digitization of the MFPs, especially the non-banks.

2019 has also been a year where PMN built up its center of excellence initiative that provides training services to the industry. To ensure that this initiative is lean and focused and is able to attract best of technical expertise PMN has developed new strategic partnerships with leading institutes like ECI, Delsons, PACRA, BCG to deliver customized training programs to the MFPs under our Centre of Excellence initiative. We were also able to successfully launch our first ever Regional Microfinance Bootcamp in Dubai in collaboration with IFC, Al-Huda, SAMN and BWTP. I am also pleased to inform that PMN carried out its 3rd Annual Conference on its own and has established its brand to hold regular annual events where microfinance and financial inclusion industry comes together along with policy makers, regulators, donors and investors and share there ideas, challenges and plans.

All these investments are an outcome of PMN strategic direction where it was agreed that the organization will keep its subscription fees low and come up with fee based industry level products and services that helps in managing risks (credit bureau investment and Center of excellence) and promoting (digital services platform and annual conference) the industry, with overlaps where digital platform will also help in managing risks and center of excellence will also promote the industry. These investments and delay in approval of second phase of grant for the digital services platform (which has now been approved in April 2020) led to PMN incurring a loss in 2019, the first time since its creation.

Having said that, I am delighted to report that the microfinance industry is very well-recognized by donors, investors, policy makers and regulators as one key pillar to provide convenient and accessible financial services to the underserved and low-income households. For this our members should be heralded for their resilience and steadfastness in somewhat unstable political and economic environment.

Just to give you a glimpse, the industry has witnessed some outstanding results by reaching to 7.25 million active borrowers with a gross loan portfolio of PKR 305 billion, savings have increased by 10.7%, from PKR 239 billion to PKR 267 billion by the end of the calendar year with 47.64 million active savers. The number of insurance policy holders crossed the 8 million mark and reached 8.47 million. This has been done while adhering to the principles of client protection and responsible finance where 3 institutions have been SMART certified and 1 has completed their social audits.

We believe our success is dependent upon our members' success. With the ongoing support of our donors such as UKAID's DFID, support from both the regulators (SBP and SECP), partners like PMIC and a Board that provides strategic directions along with membership that is committed to the success of PMN and its initiatives, PMN is ready to achieve more in the face of challenges ahead in 2020. In the end, I would like to thank my team that has worked tirelessly to keep PMN as one of the top microfinance associations in the world. Without the support of all the stakeholders these achievements would not have been possible.

Syed Mohsin Ahmed
Chief Executive Officer

MESSAGE FROM THE CHAIRPERSON

Syed Nadeem Hussain
Chairperson Board of Directors
Pakistan Microfinance Network
(PMN)

I am pleased to present the Annual Report of the Pakistan Microfinance Network (Network) for the year ended December 31, 2019.

2019 – THE YEAR IN REVIEW

2019 was a direction-setting year for PMN considering that the Network is now recalibrating its strategic compass towards self-sustainability. With a clear goal to achieve sustainability by 2023, the Network made significant investments out of its endowment. These included a deal to acquire an equity stake in a Private Credit Bureau and an investment in setting up the technology infrastructure of Digital Services Platform (DSP).

In terms of its industry level initiatives, the PMN has completed all the groundwork for its Digital Services Platform (DSP) and has successfully onboarded key players in the digital finance landscape to launch the initiative in 2020. With the funding commitment from DFID/Karandaaz now in place, PMN will be to escalate the work on its Digital Services Platform (DSP) and launch the pilot by mid of 2020. This initiative will remain one of the top most priority of PMN in the coming year as it is expected to bring a transformational impact in terms of revolutionizing the customer journey and also meeting the technology-driven growth requirements of our members. In the upcoming year, we will be investing even more time and effort in making sure that the results and milestones committed to our members and donors are achieved while creating more growth opportunities for PMN.

Under its Centre of Excellence (COE) initiative, PMN provided support to its members for International training courses such as HBS-ACCION, Boulder Microfinance and Boulder Rural Agriculture training, Micro, SME & Housing Finance Summer Academy and School of Applied Microfinance. PMN also successfully organized its first ever Regional Microfinance Bootcamp held in Dubai in collaboration with IFC, Al-Huda, SAMN and BWTP. Apart from this, PMN also delivered customized training programs on Governance, Loan Officers, Enterprise Risk Management, AML/CFT etc by partnering with leading institutes like ECI, Dellsons, PACRA, BCG etc. For the next year, PMN plans take it things up a notch and add provision of certifications in Finance & Risk and graduation training programs in its service menu for each of its members.

PMN successfully organized an International Conference on "Rethinking Microfinance – Developing a New Inclusive Finance Compass". We were extremely fortunate in attracting major sponsorships and financial support for the said event for which our sincere thanks go to our many supporters in both the private and public sectors, especially UKAID's DFID that has been a longstanding donor and supporter to PMN. This was the consecutive third year in which PMN managed to secure sponsorships worth more than PKR 15 million. This shows that PMN has strategically positioned itself as a very relevant and important stakeholder in the financial inclusion space.

In the Research function, PMN was able to deliver research reports titled 'Estimating Potential for MicroCredit in Pakistan (MIMOSA Model)', funded by PROPARCO & PMIC and 'Warehouse Receipt Financing - Tackling the Financial Needs of Smallholder Farmers' funded by MEDA. Going into 2020, the key steps in this direction would be to identify and conduct tailored-made research activities to bridge specific knowledge gaps in the financial inclusion ecosystem of Pakistan for the different segments of our membership (e.g. RSPs, Telco-owned MFBs, Conventional MFPs). Another priority of PMN in terms of research and insights would be to establish relationships with Academia, research institutes and international & local donors for generating and disseminating knowledge and proactively catering to the knowledge and information needs of the MF industry.

Apart from the above milestones, please read the report for some additional exciting work that the Network did in 2019.

FUTURE OUTLOOK

With the industry crossing a 7 million mark, this is a good time to take stock of experiences to date, areas of improvement and map out a strategy for the next five years. The PMN Board has tasked the management to engage on one-on-one basis for these discussions during the coming year with its members. This will allow us to focus on the need of the hour and determine our needs especially in the areas of corporate governance, capital structuring, capacity building, digitization, risk management, sustainability etc in addition to identifying opportunities to grow and establish new partnerships.

Challenges & Risks

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

- Pakistan's economy is undergoing a phase of slow growth, moderate to high inflation and significant changes in macroeconomic management. We expect the next 18 to 24 months to be a period of uncertainty resulting in demand contraction and lower investments which will have implications for the broader MF sector. Risks to the existing portfolio as well as growth projections for the coming year will need to be evaluated to ensure the industry prudently manages expectation of growth while also pursuing its mission.

- The difficult macroeconomic situation can also result in uncertainty within government projects and initiatives. This can become a challenge for some of the key industry players on their engagements with government entities such as Interest Free Loan Schemes, BISP, etc. We will need to be cognizant of this and adapt accordingly.

- While regulators are seen as progressive, the appetite for innovation in the financial sector in Pakistan remains minimal. Pushing for new products and services that serve the financial inclusion space will remain a hurdle. Key players will have to develop strong partnerships in the financial sector to ensure individual champions lead innovation efforts.

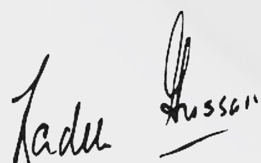
Overall, PMN Board and the management will remain committed to the vision and missionand accelerate their efforts to achieve its developmental and institutional goals.

Our sincere thanks go to our many supporters in both the private and public sectors, especially UKAID's DFID that has been a long-standing donor and supporter to PMN.

The Network and its Board also acknowledges and sincerely appreciates the ongoing support of the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Microfinance Investment Company (PMIC) for their commitment to ensuring improved governance standards, sustainability and growth of the microfinance industry.

The Network's success also relies on the dedication of management and staff who work tirelessly throughout the year. The Board and I would also like to recognize the CEO, Syed Mohsin Ahmed, for his vision, commitment and leadership since his appointment, and particularly this past year.

It has been a distinct pleasure to chair the PMN Board over the past six years (two terms). The management has benefited considerably from the guidance, advice and influence of every director. I am proud to work with such a distinguished and dedicated Board, as we continue to oversee the work of PMN's management and staff towards meeting key objectives.



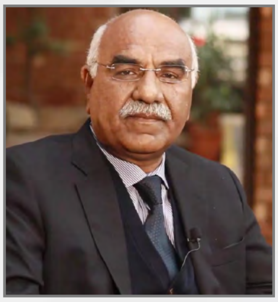
Syed Nadeem Hussain
Chairperson Board of Directors
Pakistan Microfinance Network

PMN BOARD OF DIRECTORS

CHAIRPERSON

Syed Nadeem Hussain
Founder and Coach
Planet N Group of Companies

VICE CHAIRPERSON

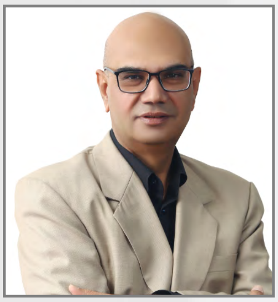


Dr Amjad Saqib
Executive Director
Akhuwat

DIRECTORS

Dr Rashid Bajwa
CEO
National Rural Support Programme (NRSP)

Mr Ghalib Nishtar
President & CEO
Khushhali Microfinance Bank Ltd



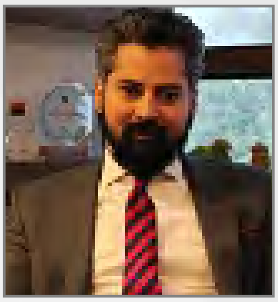
Mr. Aslam Hayat
President & CEO
Telenor Microfinance Bank Ltd.

Mr Mudassar Aqil
President & CEO
FINCA Microfinance Bank Ltd.

Dr Sono Khanghrani
CEO
Thardeep Microfinance Foundation

Qazi Shoaib Alam Farooqi
CEO
JWS Pakistan

Mr Amir Masood Khan
President & CEO
The First Microfinance Bank Ltd.



Mr Kabeer Naqvi
President & CEO
U Microfinance Bank Ltd.

Mr. Nadeem Sarwar
CEO
OPD Support Program

INDEPENDENT DIRECTORS

Mr Faisal Ejaz Khan
CIO
MCB Bank Limited.

Dr S. Akbar Zaidi
Economist

Ms Sadaffe Abid
Co-Founder
CIRCLE

KEY MILESTONES

Enabling Environment

- PMN was able to deliver final product under research projects on (i)'Estimating Potential for MicroCredit in Pakistan (MIMOSA Model)' awarded by Proparco and PMIC and (ii) 'Warehouse Receipt Financing - Tackling the Financial Needs of Smallholder Farmers' awarded by MEDA.

- PMN has successfully completed three SMART certifications for its member institutions (KBL, Kashf & SAFCO) ensuring the organization practices are complied with the Client Protection Principles.

Financial Inclusion

- PMN in partnership with ECI and All Pakistan Private School Association etc. participated in the Global Money Week 2019 campaign to promote financial inclusion and was able to reach out to more than 150000 direct and indirect beneficiaries to help them understand the importance and origins of money .

- PMN played an active role in promoting Financial Inclusion through its Client awareness campaign with support from DFID, AISL, JS Bank, EFU, TMF, TPS & ECI and was able to reach 14,530,000 persons in 15 days.

Capacity Building

- PMN has partnered with leading institutes like ECI, Delsons, PACRA, BCG etc. to deliver customized training programs to the MFPs under its Centre of Excellence initiative.

- PMN has successfully organized its first ever Regional Microfinance Bootcamp held in Dubai in collaboration with IFC, Al-Huda, SAMN and BWTP.

- PMN successfully organized an International Conference on Rethinking Microfinance – Developing a New Inclusive Finance Compass where Dr. Abdul Hafeez Shaikh, Special Advisor to the Prime Minister on Finance and Revenue graced the occasion with his presence and addressed the gathering.

- PMN provided support to its members for International training courses such as HBS-ACCION, Boulder Microfinance and Boulder Rural Agriculture training, Micro, SME & Housing Finance Summer Academy and School of Applied Microfinance.

Industry Level Initiatives

- PMN played a major role in investor pitching for local microfinance institution and was able to secure 1.5 million Euros for the institution.

01
YEAR IN REVIEW 2019

PMN creates enormous value for its members and for their staff. As our members move through their careers, PMN helps them continually build their skills and knowledge, stay connected to peers and experts, and navigate changes in their business environments. This year, PMN has been investing in enhanced service to members across the board. Some concrete signs of our progress are already in place — for instance, we have initiated the Centre of Excellence for Microfinance Providers and our Digital Services Platform — but these developments are just part of an overall program of upgrading and renewal that will continue to improve member experience and deliver tangible benefits in the years ahead.

02
DIGITAL SERVICES PLATFORM (DSP)

The Pakistan Microfinance Network (PMN) commenced a project with the aim of Digitizing the Microfinance Industry. There are two overarching objectives i) Provide Loan Management System in a hosted environment to Microfinance providers along with an integrated Digital Field Assistance Mobile application, and ii) Connect Microfinance providers to Digital Service Providers through a financial middleware so they can access the financial services distribution channels of DFS providers and Commercial Banks. The DSP will act as an aggregator for MFPs and DFS providers initially.

Other objectives of DSP are specified below:

- To create an enabling digital environment as per SBP's and PMN's vision to increase Financial Inclusion through Digitization.
- To promote the use of Alternate Delivery Channels (ADCs) for various use cases of MFPs.
- To reduce operations costs through automation of the processes while improving efficiency and decreasing Turn-Around-Time.
- To enable MFPs to expand their outreach by diversifying their products menu and customer segments.
- To support PMN's ambition to increase outreach of financial services as envisaged by National Financial Inclusion Strategy (NFIS) and Financial Inclusion Programme (FIP).
- To provide MFPs a centralized platform to manage their operations via a suite of Digital Services.
- To aggregate available agent networks of DFS and provide a single touch-point to MFPs for integration with them.

DSP project gained significant momentum in 2019. Following are the highlights of the achievements in 2019.

Data Center Setup:

Hardware procurement for primary site was completed and hardware was deployed by mid of 2019. Software for both LMS and Middleware were deployed on the hardware and testing was initiated.

Data Migration:

Data Migration activity was kickstarted for LMS MFIs where PMN team carried out detailed analysis of current databases of MFIs, performed data cleansing activities and exported it to the new LMS.

MFIs Workshop:

Pilot MFIs who are going to use the LMS were invited in a weeklong workshop in October 2019, conducted in Lahore where detailed overview was given for LMS and feedback was taken from the MFIs.

Interaction with FIP Committee and regulators:

Detailed interactions were carried out with the FIP committee comprising of members from SBP and DFID for securing funding for initial CAPEX of the project. The project was presented in detail, after which FIP committee recommended presenting the project to PSD and BPRD departments of SBP. Subsequently the project was presented to the relevant departments for their feedback. It was also presented to SECP for their feedback. The funding was eventually approved by FIP committee by end of 2019, through Karandaaz.

03

RESEARCH AND PUBLICATIONS

To ensure that our work is grounded in solid evidence about members' needs and wants, we conducted an extensive course of research and other publications this year. The studies included a variety of topics identified by our members and the findings have been shared across our membership, donors and strategic alliances. These insights will drive our work to enhance member experience and create added value next year and beyond.

WAREHOUSE RECEIPT FINANCING - TACKLING THE FINANCIAL NEEDS OF SMALLHOLDER FARMERS

The aim of this research activity was to investigate the potential of Warehouse Receipt Financing (WRF) for Smallholder Farmers (SHFs) in Pakistan and to provide key information on the current landscape in this regard. The report findings suggest that the existing eco-system for WRF lacks available warehouses, appropriate financing products and an adequate number of Microfinance Institution partners. The report recommends that in order for WRF to move forward, there is a need for the development of an institutional framework for collateral management and a mapping of existing storage facilities. There is thus a need to create awareness regarding the concept and benefits of WRF among SHFs for MFIs to enter this landscape and thrive. In addition, there is a need for the government to develop an appropriate regulatory framework for MFIs and other Financial Service Providers (FSPs) to enter the landscape of WRF, specifically, an environment which enables and supports the use of receipts as collateral. Furthermore, the following also must be created: warehouses to grade and store commodities, licensed and professionally managed warehouses and transport and supporting facilities at affordable costs.

Read More at: https://pmn.org.pk/wp-content/uploads/2020/04/warehousereceiptfinancing.pdf

MICROFINANCE AND ENTERPRISE GROWTH STUDY - ABILITY TO PAY

This study aims to contribute to literature that focuses on the financial health and profile of a micro-enterprise, with a focus on understanding the employment profile and growth trajectory of the business. Specifically, the study aims to answer the questions and see the impact of loans on revenue growth, the employment profile on the microenterprise, the affordability of the loan and the use of the loan. The study analyzes the dynamics of a microenterprise from a financial perspective. It shows that microenterprises do grow as seen by the increase in their annual revenue, they support employment (including employment for women and youth) and mostly use the loans for productive purposes.

Key results from the sample of the study show that on average there is an increase of 25 percent in the annual revenue of the microenterprise, but this is found to vary across economic sectors; on average it is seen that a microenterprise directly supports 2.6 full-time jobs and creates 0.15 additional full-time equivalent jobs over one year with an overall 40 percent of the employees being women and 45 percent being youth in the 20-34 years' age group. Moreover, it is seen that approximately 12.2 percent of the loan amount and about 13.1 percent of borrowers divert loans towards consumption rather than business purposes. The full publication is available at Karandaaz website.

MICRO-CREDIT IN PAKISTAN (MIMOSA MODEL) COUNTRY REPORT – PAKISTAN

This study, conducted by Pakistan Microfinance Network (PMN) in collaboration with MIMOSA with funding from Department for International Development (DFID), PROPARCO and Pakistan Microfinance Investment Company (PMIC), shows Pakistan has a Microfinance Index of Market Outreach and Saturation (MIMOSA) score of 2. This signifies a normal to a moderately underserved level.

Overall the study found that the country has capacity to support higher levels of lending with the presence of with strong regulation, high market transparency, and robust institutions. The presence of credit bureaus makes capturing credit information effective, though without the capacity to combine information on a single platform, its usefulness is reduced (while this is changing). Growth is relatively high, though without posing concerns over sustainability in the medium term. Islamic finance has significant penetration levels and operates as a complementary offering to traditional credit, though its provision by MFPs is more limited. Overall, prospects for continuing to expand the credit component of financial inclusion are positive.

Read More at: https://pmn.org.pk/wp-content/uploads/2020/04/MIMOSA-Country-Report-Pakistan.pdf

GRADUATING MICROENTERPRISE CLIENTS TO SME LENDING – ARE WE REALLY THERE YET?

By Jaffar Jassim, Amal Naeem Qureshi, Shanza Faiq

This MicroNote discusses the question of client graduation and whether a microfinance client can move up to higher loan categories based on the graduation model. The Note outlines the current landscape of microenterprises in Pakistan along with its importance and contributions to the economy, growth, practices of client graduation, characteristics and whether there is a need for developing specialized financial products. It is seen that large-scale graduation of clients from microenterprise to higher loan amounts has not been observed. It is further seen that the needs of both micro and small enterprise clients differ significantly from each other, which needs to be addressed by having a robust ecosystem providing multiple financial products suited to the needs of different microenterprise segments. A segmented framework addressing the diverse needs of micro, small and medium enterprises is thus required to develop appropriate products catering to the needs of each category.

Read More at: https://pmn.org.pk/graduating-microenterprise-clients-to-sme-lending-are-we-really-there-yet/

HOW AND WHY OF MICROFINANCE LENDING RATES

By Ali Basharat & Zeenoor Sohail Sheikh

The How & the Why of Microfinance Lending Rates addresses the concerns of critics about the lending rates charged by microfinance players. The MicroNote elaborates of the purpose of the industry and its aim to provide financial services to the unbanked and predominantly lower income strata of the society. The paper shows that while these services are Financial, they are generally complemented with non-financial services provided to clients.

The MicroNote also explains the current status of the industry and highlights the critical role being played by the sector in furthering the national financial inclusion agenda. The paper moves on to justify the microfinance lending rates by breaking down into its components while also comparing the prevailing charges with other countries in the region. Finally, it elaborates on how these components can eventually be rationalized resulting in building efficiency and reducing costs.

Read More at: https://pmn.org.pk/wp-content/uploads/2020/03/howwhyofmflendingrates.pdf

MICROFINANCE - POISED TO PLAY A VITAL ROLE IN ACHIEVING DEVELOPMENTAL OBJECTIVES OF THE GOVERNMENT

By Syed Mohsin Ahmed, Jaffar Jassim, Ali Basharat & Waseem Malik

This policy paper aims to explore how the microfinance sector can play a catalytic role in accomplishing the social & economic milestones set by the current government; including initiatives of deepening financial inclusion; contributing to inclusive economic growth; and improving socio economic indicators (reflected in SDG 2030) leading to poverty reduction. The key areas highlighted in the paper include leveraging funding for microfinance to increase access to low-penetration areas; offering life and health insurance products in conjunction with government-led programs; contributing to job creation for micro and small entrepreneurs; utilizing microfinance outreach to support achievement of the government's 5 million houses goal; and leveraging digital services platform to increase outreach to underserved areas thereby influencing financial inclusion.

Read More at: https://www.pmn.org.pk/publications/Microfinance%20poised%20to%20play%20a%20vital%20role.pdf

CLIENT PROTECTION: A MICROFINANCE INDUSTRY SNAPSHOT OF LOAN COLLECTION PRACTICES IN PAKISTAN

By Jaffar Jassim and Maheen Malik

This MicroNote highlights the level of compliance of Microfinance Providers (MFPs) in Pakistan on fair and respectful loan recovery practices. Using data collected from 9 Microfinance Institutions (MFIs) and 5 Microfinance Banks on the standard of Fair and Respectful Treatment of Clients, the Note gives an overview of current loan recovery practices in Pakistan, the challenges associated with their implementation and provides recommendations and key lessons to improve industry practices. The Note highlights that while there is substantial compliance on fair and respectful treatment of clients, there is opportunity to further improve performance on these indicators by instituting policies in formal documentation, having in place proper mechanisms for oversight of cases of misconduct and adequate training and monitoring of loan officers and third-party agents.

Read More at: https://www.pmn.org.pk/publications/Client%20Protection%20-%20A%20Microfinance%20Industry%20Snapshot.pdf

ESTIMATING THE POTENTIAL MARKET FOR MICROFINANCE IN PAKISTAN INCLUDING CREDIT, SAVINGS, PAYMENTS AND INSURANCE

By Jaffar Jassim, Bilal Ghani, Amna Imtiaz, Amal Naeem Qureshi

This MicroNote estimates the potential market for various microfinance products, including credit, deposits, savings and insurance in Pakistan, by using data collected from three studies: Access to Finance Survey, Household Integrated Economic Survey and the National Poverty Report.

The study was prompted by the growth in microfinance over the last 5 years to update the potential size of microfinance which would yield valuable insights for industry stakeholders and policy makers, providing a macro-level picture that would assist stakeholders in planning strategies that would assist them in tapping into underserved markets and expanding microfinance in the country. According to the study, market potential estimates stand at; 60.9 million for microdeposits; 96.8 million for microinsurance; 82.1 million for micropayments; 40.9 million for microcredit; and 5.8 million for microenterprise credit.

Read More at: https://pmn.org.pk/estimating-the-potential-market-for-microfinance-in-pakistan-including-credit-savings-payments-and-insurance/

IDENTIFICATION AND ASSESSMENT OF RISK 2019 (RISK REGISTER & MATRIX)

By Ali Basharat & Zeenoor Sohail Sheikh

As part of PMN's long term strategy to achieve sustainable growth in the Pakistan microfinance sector, PMN had launched the first Risk Register for the microfinance sector in Pakistan in 2016. The risk register is a tool used for the identification and assessment of risks. The tool is considered a vital component of the risk management process as it serves as a central source for the organization's risk information and acts as a risk directory. The Risk Register focuses on four broad risk categories: Operational Risk, Financial Risk, External Risk and Strategic Risk. For each major risk category, the template further includes specific risk sub-categories. The potential threat faced by an institute from each sub-subcategory of risk is determined by the severity and probability of impact. Both measures are a vital component of the Risk Register, and are calculated by a combination of quantitative and qualitative risk indicators.

The consolidated information is utilized to formulate a Risk Map on which different risk categories are visually displayed. The unification of risk indicators by PMN provides a holistic view of the sector's footing on risk management as weak and vulnerable areas are easily identifiable, along with emerging and potential threats. This information proves beneficial when devising sector-wide risk mitigation strategies for long term sustainability and growth. Based on the findings of the Risk Register and Risk Map, the issues being faced by the industry are discussed at the PMN's Risk Forum for the development of potential risk mitigation strategies. Furthermore, trainings and capacity building exercises for MFPs under PMN's Center of Excellence (CoE) are organized to develop and improve controls that aim to mitigate these risks.

Read More at: https://pmn.org.pk/wp-content/uploads/2020/04/Identification-Assessment-of-Risks-2019.pdf

PAKISTAN MICROFINANCE REVIEW 2018

Every year, PMN publishes its flagship publication known as the Pakistan Microfinance Review (PMR). The report features major initiatives and regulations during the year, an in-depth analysis of the financial and social position of the industry and the outlook of the sector moving forward.

The microfinance industry witnessed another year of continued growth and expansion. Increasingly microfinance is being recognized as happening part of the financial landscape and a key player in furthering financial inclusion agenda in the country. The expansion in the industry has been backed by a supportive ecosystem. Growth in the industry has been buoyed by improving security situation in the country and the subsiding of the energy crisis.

The year 2018 saw the general elections in the country and saw transition to new administration. The new government as part of its election manifesto had committed itself to promoting access to finance in the country which was evident when National Financial Inclusion Strategy (NFIS) has been extended from the year 2020 to 2023. On the macro-economy, the new administration faces increasing current account and fiscal deficit. In order to contain the government is likely to impose austerity measures which will result in devaluation of currency, increased inflation and increased interest rates. This will result in higher cost of funds for the microfinance providers (MFPs) impacting their profitability.

The review of MFPs and the microfinance sector of Pakistan showed double digit growth across credit, savings and insurance during the year 2018. Total outreach surpassed 6.7 million while GLP stood at an unprecedented high of PKR 255.7 billion. The provision of credit services continued to be focused on the marginalized segment of the sector with women accounting for 53 percent of total outreach, while 51 percent of the total outreach was attributable to clients in rural regions. The industry's primary lending portfolio continued to focus on the livestock/poultry, trade and the agriculture sectors. The total depositors stood at over 31.8 million with deposits outstanding worth PKR 238.6 billion. The surge came from the success of MFBs in the mobilization of deposits to fund their operations and increasing average deposit sizes. Credit life continued to dominate the microinsurance segment as the total number of policy holders stood at over 8.4 million with a total insured portfolio of PKR 248.8 billion. The asset base of the industry grew to PKR 438 billion while profitability soared as the net income surpassed PKR 11.7 billion out of a revenue of over PKR 88.9 billion. The sector remained sustainable with an OSS and FSS of over 100 percent. Both, nominal and real yield increased significantly for the year as expenses stabilized with productivity indicators pointing towards improvement. In terms of portfolio quality, PAR > 30 days increased as write offs decreased.

The analysis of Microfinance Providers (MFPs) with respect to their social performance shows there is strong commitment to improve on the indicators to address the needs of the various marginalized segments of the society. MFPs in Pakistan are engaged in a range of development goals which include increased contribution towards achieving access to financial services, development of start-up and existing enterprises, poverty alleviation, employment generation, promoting gender equality and empowerment. The commitment of the microfinance sector to its social goals is also visible in their governance structures whereby there is compliance on ensuring that the board members are oriented and experienced in social performance management. This implies regular oversight and reporting on social performance metrics at the highest level which is likely to ensure compliance in management and operations. It can also be seen that MFPs are increasingly focused on making their products and services client-centric. The current year shows positive compliance to client protection principles, particularly with most reporting MFPs showing compliance on internal audit mechanisms, full pricing terms disclosure and on clients' complaint reporting systems. The objective of achieving the triple bottom-line objective has gained traction in the microfinance sector, resulting in MFPs increasing focus on environmentally viable products and services.

The year 2018 was another successful year for the microfinance industry in the country. Several new initiatives were launched, and previous ones were expanded upon. On the macroeconomic front, MFPs face challenges with increasing interest rates which will negatively impact their profitability especially at a time where players are relying on profits to not only meet their increasing capital adequacy requirement but also declare dividends. On the policy side there is a need to analyze existing laws governing the industry and modify them according to the new and evolving requirements.

The coming year appears to be challenging for the industry but with core industry infrastructure in place and experience of the players, MFPs could continue to grow at the same rate.

Read More at: https://pmn.org.pk/wp-content/uploads/2020/04/PMR-2018.pdf

04

CAPACITY BUILDING INITIATIVES

The microfinance industry in Pakistan has massive potential to achieve greater scale, and to tap that potential, the capacity of retail institutions needs to be enhanced through capacity building. PMN uses several tools to achieve this goal such as events, trainings (local and international), and exposure and exchange visits (local and international).

Under the umbrella of PMN's Center of Excellence, PMN has been involved in arranging some trainings at local level and awarding scholarships to candidates for International Microfinance trainings such as Boulder and HBS-Accion, Frankfurt School for Finance and Management, and School of Applied Microfinance.

REGIONAL MICROFINANCE TRAINING BOOTCAMP

Under the auspices of CoE, PMN organized a successful 'Microfinance Bootcamp' in Pakistan in 2018 with the purpose of giving an opportunity for the mid-level managers in the sector to engage in training workshop sessions along with interaction with eminent industry speakers. Building on the success, PMN conducted a 'Regional Microfinance Bootcamp' in Dubai for participants from the South Asia, MENA, & Central Asia regions to immerse in a learning experience and exchange ground-breaking ideas with their counterparts from other regions.

The program featured training workshops along with Power Talks on emerging and future trends in Microfinance & Financial Inclusion from erudite global experts in the areas of Microfinance and Financial Inclusion.

The program was aimed at creating a learning environment for attendees to reflect on highlighted challenges and deliberate on strategies on how to effectively counter these with use of new approaches and skills. The program brought together more than 50 professionals from the wide variety of entities which is not exclusive for microfinance providers but also fintech's, digital service providers, donors, regulators, government authorities, investors, and academic institutions.

The overall objectives of the program were to:

- Bring the participants up to speed about the global Microfinance & Financial Inclusion trends and learn about what led to the organizational success stories.
- Augment skills and competencies to prepare for address institutional and sectoral growth & risk challenges.
- Indulge in practical case studies and cautionary examples across from experienced and globally acclaimed faculty.
- Enhance critical skills with unique techniques and approaches that will equip participants to perform their tasks efficiently and effectively.
- Learn innovative cutting-edge microfinance business intelligence tools that will help in enhancing productivity and efficiency of your organization.
- Broaden your network of personal contacts and learn from the experience of your counterparts.

PMR 2018 & MIMOSA COUNTRY REPORT (PAKISTAN) LAUNCH

The Pakistan Microfinance Network (PMN) in an event unveiled the "Pakistan Microfinance Review (PMR) 2018" at a local hotel in Karachi. Syed Mohsin Ahmed, CEO PMN, gave an overview of the microfinance landscape in the country highlighting key developments of the sector and outlined the current and future challenges facing the industry. It was followed by a panel discussion about the microfinance industry in which leading players participated. During a panel discussion chaired by Mr. Mudassar Aqil, CEO & President FINCA Microfinance Bank, the participants deliberated on key developments such as enabling policy environment to realize growth objectives, growing international investors' interest in the sector, impact of digitization, and responsible finance initiatives.

In addition, the Microfinance Index of Market Outreach and Saturation (MIMOSA) report for Pakistan was launched in which Mr. Daniel Rozas, co-founder MIMOSA and Microfinance expert at the European Microfinance Platform (e-MFP) presented the findings for market saturation and outreach for Pakistan. He highlighted that Pakistan is a normal-to-moderately underserved market with the country's capacity to support higher levels of lending is substantial, with strong regulation, high market transparency, and generally mature institutions and overall, prospects for continuing to expand the credit component of financial inclusion are positive.

The event was well-attended by representatives from the State Bank of Pakistan, DFID, Pakistan Microfinance Investment Company (PMIC), Commercial Banks, Digital Finance players, PMN members (Microfinance Banks, Microfinance Institutions, Rural Support Program) and other stakeholders.

MICROFINANCE ANNUAL CONFERENCE 2019 - RETHINKING MICROFINANCE – DEVELOPING A NEW INCLUSIVE FINANCE COMPASS

The Rethinking Microfinance – Developing a New Inclusive Finance Compass Conference was held at Serena Hotel on December 4th and 5th, 2019 where, Dr. Abdul Hafeez Shaikh, Special Advisor to the Prime Minister on Finance and Revenue inaugurated the two-day Microfinance Conference on Rethinking Microfinance, with leaders of the sector in attendance. The conference was hosted by Pakistan Microfinance Network (PMN), where industry stakeholders came together to share experiences, engaged in dialogue on the latest developments globally and locally and formulated directions for the future of microfinance in Pakistan.

The primary objective of this conference was to initiate a dialogue for concerted efforts among all relevant stakeholders, to identify the possible bottlenecks that exist in the industry that can possibly hinder the financial inclusion process and propose ideas to overcome it.

Another purpose of this event was to provide a platform to all stakeholders such as microfinance providers, financial service providers involved in financial inclusion (like banks, digital financial service providers, FinTechs) insurance companies), donor agencies, policy makers, regulators, development agencies and government authorities and discuss the ways to broaden the horizons of the microfinance industry.

Syed Nadeem Hussain, Chairperson Pakistan Microfinance Network, gave an overview of the microfinance industry in Pakistan today and what the ambitions of the industry are for the future. He highlighted that the future of the industry rests with embracing technology and mechanizing the customer experience. In addition, he stated the need for engaging in product and liquidity intervention and customer right to protection of data.

Mr. Naved A. Khan, Chairman PMIC, said that although funding appetite of the sector is being addressed through institutions like PMIC, there is still a long way to go. He mentioned that one of the frontiers that the stakeholders now need to turn their attention to is capital creation for microfinance institutions. He stated that despite good progress, microfinance industry needed seed capital for creating more organizations to tap into low penetration areas.

Ms. Anqa Butt, Group Head, Economic Growth Group, DFID Pakistan acknowledged and thanked the hosts for conducting the event, as it gives an opportunity to hear from stakeholders and hold a conducive dialogue around pressing issues facing the sector.

Mr. Samar Hasnain, Executive Director, State Bank of Pakistan, shared how the State Bank has the financial inclusion strategy as its key objective and the central bank is focusing on developing an enabling regulatory environment, building a risk-sharing mechanism for microfinance borrowers and building the capacity of bankers and loan officers.

While addressing the gathering, Mr. Shuazab Ali, Commissioner Securities and Exchange Commission of Pakistan, commended the role of microfinance institutions in plugging the gap of providing services for the base of the pyramid clients. He further added that the there was a need to develop innovation in products and delivery and the microfinance industry is well-placed to provide these services. Over the two days of the conference, over 200 distinguished guests and eminent speakers from the world's leading microfinance organizations discussed the prevailing challenges and recent developments in the microfinance sector.

The conference presents a unique opportunity for policy makers, microfinance professionals, trainers, practitioners, donors, regulators and other members to engage in a dialogue and showcase a wide variety of success stories, explore recent innovations, and connect with the institutions that are involved in the digitization of microfinance in developing countries.

ALL MEMBERS MEETING

An all PMN members' meeting was organized by the Pakistan Microfinance Network on the 20th of November 2019 in Islamabad. The meeting began with Syed Mohsin Ahmed, CEO, Pakistan Microfinance Network (PMN), sharing what PMN has been able to achieve at the institutional and policy and advocacy level in the areas of creating linkages between the Microfinance sector and the overall Inclusive Finance Ecosystem, andthe non-bank MFIs regulation amongst others.

The first session highlighted some of the innovation in the sector like AML/CFT Software, HR Portal by AISL and a presentation by PMN on Microfinance Concentration. In the second session, Abacus presented on their customer loyalty software, discussions were held against Code of Conduct and a special address was given by the Chairman SECP in light of which PMN will work on some initiatives including launch of Industry Bond at a competitive price, develop a strategy to reach 20 million clients, concept note on security concerns and its impact on the industry etc.

Syed Nadeem Hussain asked the members for their feedback and recommendations in the last session in response to furthering PMNs role for the development and enhancing the microfinance industry.

The AMM was attend by most of the membership and they highly appreciated the facilitation done by the management.

05
TRAININGS AND WORKSHOPS

ESSENTIAL SKILLS FOR LOAN OFFICERS

The Pakistan Microfinance Network (PMN) in collaboration with the Buildstone Consulting Group (BCG) has organized multiple sessions on the 'Essential Skills for Loan Officers' in Lahore, Karachi and Hyderabad. The training sessions were attended by 60 participants representing different microfinance providers.

The course was designed to cover people and money management, micro-lending practices, SBP's prudential regulations, Branchless Banking along with the Responsible Finance, lending policies & processes, statistical evaluation process and financial analysis. PMN will continue its effort to organize such training initiatives in order to polish the skills of the manpower serving this industry.

AML/CFT TRAINING PROGRAM

Pakistan Microfinance Network in collaboration with Delson Associates organized a two-day training program on AML/CFT. Money laundering has become a global problem as a result of the confluence of several remarkable changes in world markets (i.e. the globalization of markets). In recent years, three factors have heightened the risk banks face when combating financial crimes. First, the growth in volume of cross-border transactions and greater integration of the world's economies. Second, regulators are continually revising rules as their focus expands from organized crime to terrorism. Finally, governments have expanded their use of economic sanctions, targeting individual countries and even specific entities as part of their foreign policies.

The training was attended by 28 participants representing both Microfinance Institutions and the Banks.

MICROFINANCE ENTERPRISE RISK MANAGEMENT CERTIFICATION PROGRAM

Pakistan Microfinance Network in collaboration with PACRA Analytics has organized a Bootcamp on Microfinance Enterprise Risk Management in October 2019 where 50 persons attended the certification program representing from tiers such as Microfinance Banks, Non-Bank Microfinance companies, donors, regulators, multilaterals and investors under one roof to participate in a series of interactive and informative sessions.

This 5-day certification program was organized to provide an in-depth understanding of risks facing all segments of microfinance industry and opportunities that are there to capture for growth and profit.

The key features of the Certification Program included:

1. Detailed review and analysis of each critical factor that will create conditions in which the galaxy of enabling ecosystems will evolve to support the goal and mission of full financial inclusion for accelerated growth.

2. To share microfinance industry concerns and listen to what both the regulators (SECP and SBP) expect from the industry.

3. Special sessions are included to make it more comprehensive.

A unique opportunity for participants to Connect, and Collaborate with practitioners as well as their peers, who share the same interests and concerns, and Learn from industry leaders about how to apply and benefit from the 21st Century advancements in Risk Management and Compliance.

INTERNATIONAL MICROFINANCE TRAININGS

As an important component of the capacity building function, training is aimed at enhancing the work-related capacity of the existing human resource of the MFPs. This activity has been tiered to include International Trainings and Exposure Visits to cater to the training needs of the senior management level. The international trainings and exposure visits provide opportunities to the senior management of the MFPs to learn about global microfinance best practices, so they can further thrive in their leadership roles.

Keeping in view the growing demand for building the capacity of MFP managers and cultivating the 'next generation' of leadership in MFP's, the Pakistan Microfinance Network sponsors 9 candidates annually from the member institutions for the following international trainings:

- HBS-ACCION, Program on Strategic Leadership for Microfinance
- Boulder Microfinance Training Program
- Boulder Rural and Agriculture Finance program
- School of Applied Microfinance
- Micro, SME Housing Finance Summer Academy

All these training are intensive training programmes providing participants from all over the world an opportunity to learn about microfinance best practices and share experiences with leaders in the field.

SNAPSHOT OF TRAININGS DURING 2019

INTERNATIONAL TRAININGS

PARTICIPANTS TRAINED	3	6	2	1	3	50
TYPE OF TRAINING	HBS – ACCION Strategic Leadership Course	Boulder Microfinance Course	Boulder Rural & Agriculture Finance Program	School of Applied Microfinance	Micro, SME Housing Finance Summer Academy	Regional Microfinance Bootcamp

LOCAL TRAININGS

PARTICIPANTS TRAINED	50	60	28
TYPE OF TRAINING	Microfinance Enterprise Risk Management Certification Program	ESSENTIAL SKILLS FOR LOAN OFFICERS	AML/CFT Training Program

203

Total industry participants trained (approximate)

06

POLICY ADVOCACY

The Network values its relationship with key stakeholders in the Government, in particular with SBP, PMIC, DFID, SECP and the Ministry of Finance. PMN continued to hold dialogues with SBP through sector level discussions at one on one meeting between the PMN CEO and the Director MFD. Since PMN is a member of most of the SBP committees that oversee microfinance issues, the sector's view is discussed at those forums also. PMN also sits on the task force set up by the Planning Commission that reviews Pakistan's achievements and challenges to its commitment with the United Nations on the Millennium Development Goals.

The following are some of the key policy level issues - especially during the year 2019 - that PMN has been engaged in and/or has raised at certain policy level forums.

INTERACTION WITH SBP TO ALLOW SIMILAR ENQUIRY FEE FOR MFPS AS IS AVAILABLE TO DFSP

PMN is in discussion with the State Bank of Pakistan for allowing similar enquiry fee for MFPs as is available to DFSP.

DISASTER RISK MANAGEMENT FUND

PMN CEO is a member of the SEEP Network global Steering Committee on Disaster Risk Reduction Framework. PMN is actively involved in developing DRRF with this forum. PMN continued its interaction with insurance providers, donors and regulators to set up a disaster risk management insurance facility for the microfinance in the industry in the country.

INTERACTIONS WITH PPAF & WORLD BANK

PMN continued its interactions with PPAF and the World Bank to arrange for equity/second tier capital for MFIs as they transform into NBMFCs. So far, 3 MFIs were able to access tier II capital through PMIC.

REGULATORY FRAMEWORK FOR NBMFCS

PMN played a major role with SECP for putting in place a regulatory framework for NBMFCs. So far, 26 NBMFCs have received licensing.

REVIEW OF MFI ORDINANCE 2001

PMN policy committee has met SBP to request review of MFI Ordinance 2001, to reflect current industry dynamics at multiple forums. As a result, industry's views have been shared and majority of them have been incorporated by SBP in its proposals to the parliament. These amendments are with the standing committee on finance for review.

EXEMPTION TO CONTINUE AS NBMFIS

PMN played a pivotal role in getting an exemption for the microfinance institution with less than 5000 active borrowers and allowing them to continue as NBMFIs. This has been approved by the federal cabinet and anexemption has been granted from regulation to MFIs having less than 5000 active borrowers or having outstanding portfolio of less than 50 million rupees.

WAY FORWARD

1. Fully Functional Digital Services Platform
2. Making Centre of Excellence a premium institute for MF industry
3. Cutting-edge Research function
4. Interact with Finance Minister. Engagement with bi-lateral and multi-lateral donors.
5. Client Data Privacy
6. Staff Reference Bureau
7. Micromundi: Microfinance Product Mapping
8. Loan Officers Graduation Training Program

PMN TEAM MEMBERS

Syed Mohsin Ahmed
Chief Executive Officer

Mr. Ali Basharat
Head of Operations

Muhammad Waqas Khan
Chief Financial Officer &
Company Secretary

Mr. Moazzam Iqbal
Manager Industry Initiatives

Ms. Anum Shakoor
Manager HR &
Communications

Ms. Maheen Malik
Social Responsibility
Associate

Mr. Zeenoor Sheikh
Finance Associate

Mr. Ahsan Mansoor
Manager Digital Services

Mr. Laique Malik
Business Process
Development &
Reengineering Expert

Mr. Amjad Raza
Database & System
Administrator

Muhammad Hasnain
Internal Control &
Audit Coordinator

Mr. Nadir Murad Khan
Admin Manager

07

FINANCIAL STATEMENTS 2019

PAKISTAN MICROFINANCE NETWORK
(A company set up under section 42 of the Companies Ordinance, 1984)

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

	NOTE	2019	2018
		RUPEES	
NON-CURRENT ASSETS			
Property and equipment	4	7,758,588	9,181,951
Intangible assets	5	37,163,057	37,999,170
Long-term loans	6	284,932	908,779
Long-term investments	7	37,478,000	82,918,709
		82,684,577	131,008,609
CURRENT ASSETS			
Grant receivable	8	10,672,818	46,126,618
Consultancy fees receivable	9	2,530,970	9,404,443
Loans and advances	10	7,148,724	5,523,397
Deposits and short term prepayments	11	5,420,108	5,699,745
Other receivables	12	20,477,395	35,593,990
Short term investments	13	20,139,265	-
Current portion of long term investments	7	26,636,714	12,357,684
Bank balances	14	1,803,047	6,760,638
		94,829,041	121,466,515
TOTAL ASSETS		177,513,618	252,475,124
FUNDS AND RESERVES			
Unrestricted funds		74,615,873	143,925,063
Endowment fund		70,485,728	70,485,728
		145,101,601	214,410,791
NON CURRENT LIABILITIES			
Deferred capital grants	15	879,810	1,933,338
CURRENT LIABILITIES			
Accrued and other liabilities	16	31,532,207	36,130,995
TOTAL FUNDS, RESERVES AND LIABILITIES		177,513,618	252,475,124
CONTINGENCIES AND COMMITMENTS	17		

The annexed notes, from 1 to 37, form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER	DIRECTOR
Syed Mohsin Ahmed	Syed Nadeem Hussain

PAKISTAN MICROFINANCE NETWORK
(A company set up under section 42 of the Companies Ordinance, 1984)

INCOME AND EXPENDITURE STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2019

	NOTE	2019	2018
		RUPEES	
INCOME			
Grant income	18	57,938,882	163,531,064
Members' contributions	19	14,626,125	13,522,291
Income from trainings	20	20,194,568	10,972,500
Income from research projects	21	4,729,824	15,352,389
Income from sponsorships	22	15,471,558	20,552,713
Other income	23	7,403,732	12,580,807
		120,364,689	236,511,764
EXPENDITURE			
Governance and management	24	(20,492,172)	(31,399,109)
Capacity building	25	(45,901,032)	(29,686,833)
Enabling environment	26	(74,979,420)	(96,149,642)
Information hub	27	(43,480,968)	(54,684,232)
		(184,853,592)	(211,919,816)
Net Impairment (gain) / loss on receivables	30	3,709,394	(7,399,926)
(DEFICIT) / SURPLUS FOR THE YEAR		(60,779,509)	17,192,022

The annexed notes, from 1 to 37, form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER
Syed Mohsin Ahmed

DIRECTOR
Syed Nadeem Hussain

PAKISTAN MICROFINANCE NETWORK
(A company set up under section 42 of the Companies Ordinance, 1984)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	2019	2018
	RUPEES	
(DEFICIT) / SURPLUS FOR THE YEAR	(60,779,509)	17,192,022
Other comprehensive income for the year		
Items that will not be reclassified to income and expenditure statement		
Equity investments at FVOCI – net change in fair value	4,228,000	-
TOTAL OTHER COMREHENSIVE INCOME FOR THE YEAR	(56,551,509)	17,192,022

The annexed notes, from 1 to 37, form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER
Syed Mohsin Ahmed

DIRECTOR
Syed Nadeem Hussain

PAKISTAN MICROFINANCE NETWORK

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2019

	NOTE	2019	2018
		RUPEES	
CASH FLOWS FROM OPERATING ACTIVITIE			
(Deficit) / Surplus for the year		**(60,779,509)**	**17,192,022**
Adjustments for:			
Depreciation	4.1	2,121,158	2,152,550
Amortization	5.1	836,113	761,042
Net Impairment (gain) / loss on receivables		(3,709,394)	7,399,926
Amortization of deferred capital grant	18	(1,053,528)	(1,164,324)
Interest income	23	(5,198,925)	(8,923,676)
		(7,004,576)	225,518
Changes in:			
Consultancy fees receivable		3,503,699	(3,884,482)
Loans and advances		(1,625,327)	(189,044)
Deposits and short-term prepayments		279,637	151,809
Grant receivable		35,453,800	10,198,074
Other receivables		9,438,082	(7,179,255)
Accrued and other liabilities		(4,598,788)	7,245,957
		42,451,103	6,343,059
Net cash (used in) / generated from operating activities		**(25,332,982)**	**23,760,599**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property and equipment		(697,795)	(5,857,184)
Payments for Intangible assets		0	(37,775,676)
Investment in equity securities		(33,250,000)	0
Short term investments made		(30,000,000)	0
Short term investments redeemed		10,000,000	20,000,000
Long term investments made		0	(20,000,000)
Long term investments redeemed		63,242,958	10,000,000
Long term loans		623,847	(231,502)
Interest received		10,456,381	2,838,041
Net cash generated from / (used in) investing activities		**20,375,391**	**(31,026,321)**

CASH FLOWS FROM FINANCING ACTIVITIES		0	0
Net decrease in cash and cash equivalents during the year		(4,957,591)	(7,265,722)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		6,760,638	14,026,360
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	**1,803,047**	**6,760,638**

The annexed notes, from 1 to 37, form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER
Syed Mohsin Ahmed

DIRECTOR
Syed Nadeem Hussain

PAKISTAN MICROFINANCE NETWORK
(A company set up under section 42 of the Companies Ordinance, 1984)

STATEMENT OF CHANGES IN FUNDS AND RESERVE

FOR THE YEAR ENDED DECEMBER 31, 2019

		Funds and Reserves		
	NOTE	Unrestricted funds	Endowment fund	Total
Balance as at 01 January 2018		126,733,041	70,485,728	197,218,769
Total comprehensive income for the year		17,192,022	0	17,192,022
Balance as at 31 December 2018		143,925,063	70,485,728	214,410,791
Balance as at 01 January 2019		143,925,063	70,485,728	214,410,791
Adjustment on initial application of IFRS 9	3.2	(12,757,681)	0	(12,757,681)
Adjusted balance as at 1 January 2019		131,167,382	70,485,728	201,653,110
Total comprehensive income for the year				
- Deficit for the year		(60,779,509)	0	(60,779,509)
- Other comprehensive income for the year		4,228,000	0	4,228,000
Total comprehensive income for the year		(56,551,509)	0	(56,551,509)
Balance as at 31 December 2019		**74,615,873**	**70,485,728**	**145,101,601**

The annexed notes, from 1 to 37, form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER
Syed Mohsin Ahmed

DIRECTOR
Syed Nadeem Hussain

1 LEGAL STATUS AND OPERATIONS

1.1 Pakistan Microfinance Network (the Company), was incorporated on April 24, 2001, under section 42 of the Companies Ordinance, 1984 (the Ordinance) (repealed on promulgation of the Companies Act 2017 w.e.f. 30 May 2017) as a guarantee limited company. The mission of the Company is to enhance the scale, quality, diversity and sustainability of retail Microfinance Institutions (MFIs) in Pakistan. The Company pursues this mission through the achievement of the following three primary objectives:

I. Enhancing the capacity of retail MFIs;
II. Establishing the use of performance measures and promoting financial transparency in retail MFIs; and
III. Creating an enabling policy environment for retail MFIs.

The registered office of the Company is situated at 1st Floor, 85-East, Kamran Centre, Blue Area, Islamabad.

1.2 The Company applied for registration with the Economic Affairs Division (EAD) on 1 August 2019, in compliance with the requirements of 'Policy for regulation of organizations receiving foreign contributions' notified by the EAD on November 28, 2013 via notification No. 1(5)INGO/05.The Company also applied for the same registration in compliance with the requirement of the Securities and Exchange Commission of Pakistan (SECP) circular no. 16 of the 2019 whereby all the Companies licensed under section 42 of the Companies Act, 2017 were directed to submit requisite documents to SECP for seeking prior permission from Ministry of Interior.

Subsequent to year end, in efforts to fight against COVID-19, EAD, through Notification No.F.2(19)NGO/EAD/2019 dated 26 March 2020, provided exemption to all the local NGO's for six months from signing of Memorandum of Understanding (MOU) with EAD. Company's application is currently under review by the EAD.

2 STATEMENT OF COMPLIANCE& BASIS OF PREPARATION

2.1 Statement of Compliance

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

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

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

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

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

2.2 Basis of measurement and preparation

The accompanying financial statements have been prepared under historical cost convention except for long term equity investment which has been measured on fair value.The method used to measure fair values are disclosed in respective policy notes.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the Company's functional currency i.e. the currency of the primary economic environment in which the Company operates.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments, which are significant to the financial statements:

Note 3.3 - useful lives, reassessed values, residual values and depreciation method of property and equipment

Note 3.6- recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Note 3.8- recognition of tax liabilities and assets and estimation of income tax provisions

Note 3.10- measurement of ECL allowance for receivables

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, both for financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the approved accounting standards as applicable in Pakistan, including the level in the fair value hierarchy in which the valuations should be classified.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1, which are observable and available for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable and available market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2.5 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 January 2020:

1- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

2- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general-purpose financial statements in accordance with IFRS Standards.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies as set out below have been applied consistently to all periods presented in these financial statements, except for the changes as indicated in note 3.1 and 3.2 below:

3.1 IFRS 15 -Revenue from Contracts with Customers

The Company has adopted IFRS 15 'Revenue from Contracts with Customers' with a date of initial application of 01 January 2019. IFRS 15 replaces the previous revenue standards: IAS 18 'Revenue', IAS 11 'Construction Contracts and the related interpretations on revenue recognition.

IFRS 15 introduces a single five-step model for revenue recognition with a comprehensive framework based on core principle that an entity should recognize revenue representing the transfer of promised goods or services under separate performance obligations under the contract to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those promised goods or services. The standard also requires revenue from customers to be disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Company has reviewed its income streams and as a result of this review, it was noted that grant income, income from research studies (consultancy income), membership fee, sponsorship and training income meets revenue recognition criteria of this IFRS. Further, the adoption of this IFRS did not have a material impact on the Company statement of comprehensive income and statement of financial position. However, the Company has expanded the disclosures in the notes to its financial statements as prescribed by IFRS 15 'Revenue from Contracts with Customers', including disclosing the Company's disaggregated income as disclosed in notes 18 to 22.

The change in accounting policy as a result of application of IFRS 15 has been applied retrospectively, however, the change in accounting policy has no impact on the reported amount of unrestricted funds as at 01 January 2019.

Further,there was no impact on the comparative figures presented in the statement of financial position, income and expenditure statement, statement of comprehensive income, statement of changes in funds and reserves and statement of cash flows.Relevant accounting policy notes on adoption of the new standard have been explained in note 3.11.

3.2 IFRS – 9 Financial Instruments

The Company has also adopted IFRS 9 'Financial Instruments' with a date of initial application of 01 January 2019. IFRS 9 replaced IAS 39 'Financial Instruments – Recognition and Measurement' and includes the requirements on the classification and measurement of financial assets and liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting. It also includes an expected credit losses impairment model that replaces the current incurred loss impairment model. The Securities and Exchange Commission of Pakistan vide its notification dated 02 September 2019 has deferred the application of expected credit loss model on financial assets due from the Government of Pakistan which continues to be accounted for under the previously applicable requirements of IAS 39 'Financial Instruments: Recognition and Measurement" till 30 June 2021.

The Company has changed its accounting policy for classification and measurement of its financial instruments and as a result financial assets previously classified as 'loans and receivables' are now classified as 'amortized cost' with the exception of deposits which are classified as Fair value through profit or loss (FVTPL) as they do not meet "solely payment of principal and interest" (SPPI) test criteria, 'held to maturity' is now classified as 'amortized cost' and 'available for sale' is now classified as 'fair value through other comprehensive income (FVTOCI)' while financial liabilities previously classified as 'other financial liabilities' are now classified as 'amortized cost'.

Further, effective 01 January 2019, the Company implemented expected credit loss impairment model for financial assets. For receivables, the calculation methodology has been updated to consider expected losses based on ageing profile and forward-looking estimates such as economic profiling related to receivables.

The Company has adopted IFRS 9 by taking cumulative effect of initially applying IFRS 9 'Financial Instruments' to the opening unrestricted funds at the beginning of annual reporting period i.e. 01 January 2019. In choosing the transition method for IFRS 9, the Company has taken advantage of exemption allowed from IFRS 9 from restating prior period in respect of IFRS 9's classification and measurement including impairment requirement.

As a result of adoption of IFRS 9 the Company has adopted consequential amendments to IAS 1 'Presentation of Financial Statements', which require impairment of financial assets to be presented in a separate line item in the income and expenditure statement. Previously, the Company's approach was to include the impairment of other receivables in 'governance and management expenses'.

Additionally, the Company has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about financial year 2019 but have not been generally applied to comparative information.

The following table summarizes the impactof transition to IFRS 9 on the opening balance of retained earnings:

Retained earnings	**Impact of adopting IFRS 9 at 01 January 2019**
Recognition of expected credit losses under IFRS 9 on:	
Consultancy Fee receivables	3,369,774
Other receivables	9,387,907
Impact at 01 January 2019	**12,757,681**

3.2.1 Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 3.5.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2019.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			(Rupees)	
Financial Assets				
Grant receivable	Loans and receivables	Amortised cost	46,126,618	46,126,618
Consultancy fees receivable	Loans and receivables	Amortised cost	9,404,443	6,034,669
Deposits	Loans and receivables	Amortised cost	980,060	980,060
Long term investments	Held to maturity	Amortised cost	82,918,709	82,918,709
Short term investments	Held to maturity	Amortised cost	-	-
Other receivables	Loans and receivables	Amortised cost	35,593,990	26,206,083
Bank balances	Loans and receivables	Amortised cost	6,760,638	6,760,638
	Total Financial Assets		**181,784,458**	**169,026,777**
Financial Liabilities				
Accrued and other liabilities	Other financial liabilities	Amortised cost	36,130,995	36,130,995
	Total Financial Liabilities		**36,130,995**	**36,130,995**

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 01 January 2019:

	Original carrying amount under IAS 39	Remeasurement	New carrying amount under IFRS 9
	(Rupees)		
Financial Assets			
Grant receivable Brought forward: Loans and receivables Remeasurement Carry forward: Amortised cost	46,126,618	-	46,126,618
Consultancy fees receivable Brought forward: Loans and receivables Remeasurement Carry forward: Amortised cost	9,404,443	(3,369,774)	6,034,669
Deposits Brought forward: Loans and receivables Remeasurement Carry forward: Amortised cost	980,060	-	980,060
Long term investments Brought forward: Held to maturity Remeasurement Carry forward: Amortised cost	82,918,709	-	82,918,709
Other receivables Brought forward: Loans and receivables Remeasurement Carry forward: Amortised cost	35,593,990	(9,387,907)	26,206,083
Bank balances Brought forward: Loans and receivables Remeasurement Carry forward: Amortised cost	6,760,638	(12,757,681)	6,760,638
	181,784,458	**(12,757,681)**	**169,026,777**
Financial Liabilities			
Accrued and other liabilities Brought forward: other financial liabilities Remeasurement Carry forward: Amortised cost	36,130,995	-	36,130,995
	36,130,995	**-**	**36,130,995**

3.2.2 Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and investments at FVOCI, but not to investments in equity instruments.Under IFRS 9, credit losses are recognized earlier than under IAS 39- see note 3.10.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9 impairment requirements at 1 January 2019 results in increase in loss allowance for impairment as follows:

	Rupees
Loss allowance at 31 December 2018 under IAS 39	8,350,147
Impairment recognized at 01 January 2019 on:	
Increase in loss allowance forreceivables	12,757,681
Loss allowance at 01 January 2019 under IFRS 9	21,107,828

Additional information about how the Company measures the allowance for impairment is described in Note 3.10.

3.3 Property and equipment

These are stated at cost less accumulated depreciation and impairment, if any. Cost comprises of acquisition and other directly attributable costs.

Depreciation is charged to income applying the straight-line method, whereby the cost of an asset is written off over its estimated useful life. The rates of depreciation are stated in note 4.1 to the financial statements. Depreciation on assets is charged from the date of acquisition till the date of disposal.

Useful lives are determined by the management based on the expected usage of assets, the expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of assets and other similar factors.

The assets' residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each financial year end. The effect of any adjustment to residual values, useful lives and methods is recognized prospectively as a change in accounting estimate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. Any change in the estimates in the future might affect the carrying amount of the respective item of property and equipment, with a corresponding effect on the related depreciation charge and impairment.

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 the carrying amount of the asset), is included in the income and expenditure statement, in the year the asset is derecognized.

Normal repairs and maintenance costs are charged to the income and expenditure statement as and when incurred.

3.4 Intangible assets

These are stated at cost less accumulated amortization and impairment, if any. Cost comprises of acquisition and other directly attributable costs.

Amortization is provided for by applying the straight-line method. In respect of additions and disposals of intangible assets made during the year, amortization is charged to the income and expenditure statement from the month of acquisition, and up to the month preceding the disposal of such assets. The rate of amortization, which is disclosed in note 5.1, is designed to write off the cost of intangible assets over the estimated useful lives.

The carrying values of intangible assets are reviewed for impairment, when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts, the assets or cash generating units are written down to their recoverable amounts. The recoverable amount of intangible assets is the greater of fair value less cost to sell and value in use. Any change in the estimates in the future might affect the carrying amount of the respective item of intangible assets, with a corresponding effect on the related amortization and impairment.

Gains and losses on disposal of intangible assets are charged to income.

3.5 Financial instruments

The Company initially recognizes financial assets on the date when they are originated. Financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

3.5.1 Financial asset

Classification
On initial recognition, a financial asset is classified and measured at:

- amortized cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

a) **Amortized cost**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) **Fair value through other comprehensive income (FVOCI)**

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

c) **Fair value through profit or loss (FVTPL)**

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

Subsequent measurement

Financial assets at amortized cost

Measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in income and expenditure statement. Any gain or loss on de-recognition is recognized in income and expenditure statement.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in income and expenditure statement. Other net gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to income and expenditure statement.

Financial assets at FVTPL

Measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in income and expenditure statement.

Equity investment at FVOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in income and expenditure statement unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to income and expenditure statement.

De-recognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

3.5.2 Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in income and expenditure statement. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in income and expenditure statement. Any gain or loss on de-recognition is also included in income and expenditure statement.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. Any gain / (loss) on the recognition and de-recognition of the financial assets and liabilities is included in the income and expenditure statement for the period in which it arises.

3.5.3 Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable 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.

3.5.4 Financial instruments – accounting policy applied before 01 Jan 2019

Non-derivative financial assets and financial liabilities – Recognition andderecognition

The Company initially recognized loans and receivables on the date when they were originated. All other financial assets and financial liabilities were initially recognized on the trade date when the Company becomes a party to the contractual provisions of the instrument.

The Company derecognized a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset were transferred, or it neither transferred nor retained substantially all of the risks and rewards of ownership and did not retained control over the transferred asset. Any interest in such derecognized financial assets that was created or retained by the Company was recognized as a separate asset or liability.

The Company derecognized a financial liability when its contractual obligations were discharged or cancelled or expired.

Financial assets and financial liabilities were offset and the net amount was presented in the statement of financial position when, and only when, the Company had a legally enforceable right to offset the amounts and intended either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets – Measurement

Held-to-maturity financial assets

Held to maturity financial assets comprise of long and short-term investments. These assets were initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at amortized cost using the effective interest method.

Loans and receivables

'Loans and receivables comprise of loans, grant and other receivables, consultancy fee receivables, cash and cash equivalents and deposits. These assets were initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at amortized cost using the effective interest method.

Non-derivative financial liabilities – Measurement

Non derivative financial liabilities comprise of accrued expenses, accounts payables and other liabilities. Non-derivative financial liabilities were initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities were measured at amortized cost using the effective interest method.

3.6 Provisionsand Contingencies

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of such obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.The unwinding of the discount is recognized as finance cost, if any.

Where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability, it is disclosed as contingent liability.

3.7 Staff retirement benefits

Defined contribution plans

The Company operates a defined contribution voluntary pension scheme for its permanent employees. Contributions to the scheme are made by the Company and its employees, in accordance with the employment contract. The rate of employer and employee contributions is 10% of the basic pay of permanent employees. The scheme is fully funded and is being managed by MCB - Arif Habib Savings and Investments Limited, on behalf of each individual employee.

The Company has also entered into an arrangement with an insurance company, EFU Life Insurance Limited (EFU), in respect of a post-employment benefit scheme for its employees, whereby the premium is paid annually to EFU in respect of the scheme and charged to income. As per the scheme, EFU is required to pay, one gross salary for every year of service to permanent employees, upon completion of three years of service.

Under the above-mentioned arrangements, the Company is only liable to pay the agreed contributions / premiums to MCB - Arif Habib Savings and Investments Limited and EFU, and the liability towards employees, rests with MCB - Arif Habib Savings and Investments Limited and EFU.

3.8 Taxation

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company's view differs from that taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

Previously, the Company obtained registration as a non-profit organization, under section 2(36) of Income Tax Ordinance, 2001 (the Ordinance). Owing to a change in rule 214 of the Income Tax Rules, 2002, the Company's registration under the section 2(36) of the Ordinance, now requires renewal after every three years. Management has applied for the renewal and is confident of the registration.

As a non-profit organization, in accordance with section 100C of the Ordinance, the Company is eligible for tax credit equal to one hundred percent of the tax payable, including minimum tax and final tax payable, under any of the provisions of the Ordinance. The credit is subject to compliance with certain conditions listed in section 100C. The management believes that the Company is entitled to this credit and accordingly, no provision for taxation has been made in these financial statements.

3.9 Foreign currency translation

These financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency. Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange which approximate those prevailing on the statement of financial position date. Gains and losses on translation are taken to income currently. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair value was determined.

3.10 Impairment

Financial assets

The Company recognizes loss allowance for Expected Credit Losses (ECLs) on financial assets measured at amortized cost, other than those due from the Government of Pakistan entities. For receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Lifetime ECLs are those that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

At each reporting date, the Company assesses whether the financial assets carried at amortized cost are credit impaired. A financial asset is credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of the financial assets have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For recognition of impairment on financial assets due from the Government of Pakistan entities, the Company continues to apply the accounting policy as stated below.

Impairment of financial assets – accounting policy applied before 01 January 2019

A financial asset is assessed at each statement of financial position date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the asset.

Non-financial assets

The carrying values of non-financial assets are assessed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the non-financial assets is estimated. An impairment loss is recognized as an expense in the income and expenditure statement, for the amount by which the non-financial asset's carrying value exceeds its recoverable amount.

3.11 Income recognition

I. Income related Grants

Grants, of a non-capital nature, received for specific purposes, and any bank interest earned on them, are classified as restricted grants. Subsequently, these are recognized in the income and expenditure statement to the extent of expenditure incurred against them which approximately corresponds to the satisfaction of related performance obligations. Expenditure incurred against grants, against which grant funds have been committed but not received, is recognized in the income and expenditure statement and reflected as a receivable from donors.

II. Capital Grants

Grants received for the purchase of fixed assets are initially recorded as deferred income upon receipt. Subsequently, these are recognized in the income and expenditure statement, on a systematic basis, over the periods necessary to match them with the carrying value of the related assets.

III. Contracts with Customers

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers including significant payment terms, and the related revenue recognition policies.

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Training Income	The Company delivers local and international trainings to participants of the member organizations. The consideration is pre-agreed at the time of receipt of nominations from member organizations. Income comprises the invoiced value for the delivery of trainings, which is recognized over time as the customers simultaneously receive and consume the benefits provided by the Company's performance of delivery of trainings. Invoices are usually payable in 30 days. Other than the trade discounts which are provided at the time of negotiation of the rates, the Company does not provide any discounts for early settlement of the invoices.	Revenue is recognized over time to the extent that performance obligations have been satisfied. Progress of satisfaction of performance obligations is determined by the number of days in which trainings have been delivered against total of duration of trainings in days.
Membership Fee	The Company receives annual membership fees from Microfinance institutions (MFIs) as consideration for being members of the Company and for provision of continuous support and representation on different forums.	Income is recognized over time as and when performance obligation is satisfied. Since Membership fee is received for twelve-month period (January-December) and services rendered evenly during the period hence income is recognized evenly over the period of twelve months.
Sponsorship Income	The Company generates sponsorship income from its Annual Microfinance Conference. As per the agreed sponsorship packages, the Company provides brand visibility to its members. Income comprises the invoiced value for the provision of the brand visibility service, which is recognized over time as the MFIs simultaneously receive and consume the benefits provided by the Company's performance of brand visibility services. Invoices are usually payable in 30 days. Other than the trade discounts which are provided at the time of negotiation of the rates, the Company does not provide any discounts for early settlement of the invoices.	Revenue is recognized over time to the extent that performance obligations have been satisfied. Progress of satisfaction of performance obligations is determined by the number of days in which brand visibility is provided against total of duration of the Annual Microfinance event.

Type of services	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Research Studies / Consultancy Income	The Company carries out research studies for members and other donor organizations. The consideration is pre-agreed through formal agreements and payment is linked with the achievement of milestones. Income comprises the invoiced value for carrying out research studies which is recognized at a point in time as the Company achieves the milestone agreed and thereafter submits research reports. Invoices are usually payable in 30 days. The Company does not provide any discounts for early settlement of the invoices.	Income is recognized at a point in time as and when the performance obligation is satisfied i.e. when the Company has achieved a pre-agreed milestone and submits research reports.

IV. Profit on bank deposits and investments

Mark-up / interest on bank deposits and return on investments is recognized using the effective interest rate method.

V. Other Income

Other income is recognized when the right to receive the same is established.

3.12 Fair value measurement

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.

3.13 Unrestricted funds

This represents a general fund of the Company, comprising of the surplus generated from the Company's operations, and is available for utilization for the day to day operations of the Company.

3.14 Endowment fund

Endowment, amounting to Rs 60 million, was received in year 2013 from the Pakistan Poverty Alleviation Fund (PPAF), under a Financing Agreement, dated September 2013. The endowment remained restricted for a period of three years, commencing September 01, 2013, during which period, PPAF reserved the right to suspend or terminate PMN's right to this endowment and the income thereon, under specified circumstances.

The restriction period of three years, expired on 31 August 2016 and all the conditions mentioned in the agreement were fully complied with by the Company and accordingly, the Company transferred the endowment fund payable amount to Endowment Fund reserve account. The fund is available for utilization for the day to day operations of the Company.

4 PROPERTY AND EQUIPMENT

	NOTE	2019	2018
		RUPEES	
Operating fixed assets	4.1	2,170,768	3,594,131
Advance for acquisition of hardware	4.2	5,587,820	5,587,820
		7,758,588	9,181,951

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

4.1 OPERATING FIXED ASSETS

	COST					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at 01 January	Additions	(Disposals)	As at 31 December	Rate %	As at 01 January	Charge for the year	(On disposals)	As at 31 December	As at 31 December
2019										
Leasehold improvements	4,829,121	-	-	4,829,121	20	3,403,666	965,824	-	4,369,490	459,631
Furniture and fittings	1,634,944	-	-	1,634,944	20	941,242	213,087	-	1,154,329	480,615
Office equipment	3,300,996	697,795	-	3,998,791	20	2,631,877	288,770	-	2,920,647	1,078,144
Computer equipment	2,971,549	-	-	2,971,549	33	2,165,694	653,477	-	2,819,171	152,378
	12,736,610	697,795	-	13,434,405		9,142,479	2,121,158	-	11,263,637	2,170,768
2018										
Leasehold improvements	4,829,121	-	-	4,829,121	20	2,437,842	965,824	-	3,403,666	1,425,455
Furniture and fittings	1,634,944	-	-	1,634,944	20	723,209	218,033	-	941,242	693,702
Office equipment	3,031,632	269,364	-	3,300,996	20	2,352,982	278,895	-	2,631,877	669,119
Computer equipment	2,971,549	-	-	2,971,549	33	1,475,896	689,798	-	2,165,694	805,855
	12,467,246	269,364	-	12,736,610		6,989,929	2,152,550	-	9,142,479	3,594,131

4.2 ADVANCE FOR ACQUISITION OF HARDWARE

This represents mobilization advance amounting to Rs. 5.6 million paid to Pakistan Telecommunication Company Limited (PTCL) for provision of hardware infrastructure for setting up Digital Services Platform (DSP). (Also refer note 17 to the financial statements).

5 INTANGIBLE ASSETS

	NOTE	2019	2018
		RUPEES	
Softwares	5.1	962,381	1,798,494
Advance for acquisition of software	5.2	36,200,676	36,200,676
		37,163,057	37,999,170

5.1 SOFTWARES

	COST					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at 01 January	Additions	(Disposals)	As at 31 December	Rate %	As at 01 January	Charge for the year	(On disposals)	As at 31 December	As at 31 December
2019										
GIS based support system MicroEye	4,004,755	-	-	4,004,755	33	2,604,738	524,948	-	3,129,686	875,069
Accounting and anti-virus software	2,432,523	-	-	2,432,523	33	2,034,046	311,165	-	2,345,211	87,312
Staff Information Bureau	273,311	-	-	273,311	33	273,311	-	-	273,311	-
Pakistan Microfinance Review	1,117,555	-	-	1,117,555	33	1,117,555	-	-	1,117,555	-
	7,828,144	-	-	**7,828,144**		**6,029,650**	**836,113**	-	**6,865,763**	**962,381**
2018										
GIS based support system MicroEye	2,429,755	1,575,000	-	4,004,755	33	2,429,755	174,983	-	2,604,738	1,400,017
Accounting and anti-virus software	2,432,523	-	-	2,432,523	33	1,447,987	586,059	-	2,034,046	398,477
Staff Information Bureau	273,311	-	-	273,311	33	273,311	-	-	273,311	-
Pakistan Microfinance Review	1,117,555	-	-	1,117,555	33	1,117,555	-	-	1,117,555	-
	6,253,144	**1,575,000**	-	**7,828,144**		**5,268,608**	**761,042**	-	**6,029,650**	**1,798,494**

5.2 ADVANCE FOR ACQUISITION OF SOFTWARE

This represents mobilization advance amounting to Rs. 36.2 million given to TPS Pakistan Private Limited (TPS) for provision of software for setting up Digital Services Platform (DSP).

6 LONG TERM LOANS

	NOTE	2019	2018
		RUPEES	
Considered good - unsecured			
Loans to employees	6.1	1,102,209	1,487,349
Current portion shown under current assets	10	- (817,277)	- (578,570)
		284,932	**908,779**

6.1

Interest at the rate of 5% per annum (2018: 5%) is charged on the long-term loans extended to employees. Management considers that, in context of overall financial statements, impact of recognizing long term loans at present value of the future cash flows, would be immaterial.

7 LONG TERM INVESTMENTS

	NOTE	2019	2018
		RUPEES	
Term deposit receipts	7.1	-	82,918,709
Investment in equity securities	7.2	37,478,000	-
		37,478,000	**82,918,709**

7.1 INVESTMENTS IN TERM DEPOSIT RECEIPTS - AT AMORTISED COST

In associated companies:			
FINCA Microfinance Bank Limited	7.1.1	13,398,002	39,094,694
NRSP Microfinance Bank Limited		-	33,487,336
U Microfinance Bank Limited		-	10,674,203
In others	7.1.2	13,238,712	12,020,160
		26,636,714	95,276,393
Less: current portion of long-term investments		- (26,636,714)	- (12,357,684)
		-	82,918,709

7.1.1 DETAILS OF INVESTMENT IN FINCA MICROFINANCE BANK LIMITED ARE AS FOLLOWS:

Purchase Date	Maturity Date	Payment terms	Profit rate (per annum)	Effective interest rate (per annum)	Cost (Rupees)
16-Jan-17	16-Jan-20	Upon maturity	11.5%	10.38%	10,000,000

7.1.2 DETAILS OF INVESTMENT IN OTHER COMPANIES ARE AS FOLLOWS:

Purchase Date	Maturity Date	Payment terms	Profit rate (per annum)	Effective interest rate (per annum)	Cost (Rupees)
6-Feb-17	6-Feb-20	Upon maturity	11.2%	10.14%	10,000,000

7.2 INVESTMENT IN EQUITY SECURITIES - AT FAIR VALUE THROUGH OTHER COMPREHENSIVE

	NOTE	2019	2018
		RUPEES	
Cost of investment	7.2.1	33,250,000	-
Gain on measurement to fair value	7.2.2	4,228,000	-
Fair value at initial recognition		37,478,000	-
Gain / (loss) on re-measurement to			
Fair value at reporting date		-	-
		37,478,000	-

7.2.1

This represents equity investment in Aequitas Information Services Limited for 3,325,000 shares (representing 9.5% shareholding in the investee) issued on May 23, 2019, pursuant to share purchase agreement dated 6 December 2018, entered into between the Company and Aequitas Information Services Limited.

7.2.2 DESIGNATION AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

The Company designated the above investment as equity securities at FVOCI because these equity securities represent investment that the Company intends to hold for the long term for strategic purposes. Refer to Note 30.1 of the financial statements for detail of unobservable inputs used in determination of fair value.

8 GRANT RECEIVABLE

		SBP "NFIS Technical Assistance for Sub-Committees (Note 8.1)"	DFID "PMN Business Plan Funding (Note 8.2)"	TOTAL 2019	TOTAL 2018
	NOTE		RUPEES		
Balance as at 01 January		2,752,027	2,752,027	46,126,618	61,039,472
Grants received during the year		(4,450,386)	(4,450,386)	(92,339,154)	(171,993,194)
Profit on bank placements		-	-	-	(571,620)
		(1,698,359)	(1,698,359)	(46,212,536)	(111,525,342)
Expenditure:					
Governance and management	24	1,124,652	2,252,392	3,377,044	23,773,172
Capacity building	25	-	2,315,633	2,315,633	12,642,538
Enabling environment	26	11,246,525	24,607,123	35,853,648	77,365,017
Information hub	27	-	15,339,029	15,339,029	48,586,013
		12,371,177	44,514,177	56,885,354	162,366,740
Others:					
Grant receivable written off		-	-	-	(4,714,780)
Balance as at 31 December		**10,672,818**	-	**10,672,818**	**46,126,618**

8.1

The State Bank of Pakistan (SBP), on behalf of DFID, awarded the Company a grant of Rs. 30 million on a draw down funds basis under the "Financial Inclusion Programme - Technical Assistance Component". The objective of the grant is to provide technical assistance to National Financial Inclusion Strategy (NFIS) Technical Committees, to enhance formal financial access to the adult population of Pakistan.

8.2

This grant under the "Business Plan Funding" agreement, for an aggregate amount of GBP 2.7 million, was for the period 1 August, 2016 to 30 September, 2019. The grant agreement, now closed, aimed to fund the activities in areas of research, knowledge management, digital payment ecosystem, client protection and center of excellence.

9 CONSULTANCY FEES RECEIVABLE

	NOTE	2019	2018
		RUPEES	
Unsecured - Considered good			
Ghana Microfinance Institutions Network (GHAMFIN)		3,878,750	3,487,500
World Bank		21,655	1,379,174
Karandaaz Pakistan		-	3,836,015
Mennonite Economic Development Associates		1,532,863	701,754
		5,433,268	**9,404,443**
Less: Provision against doubtful receivables	9.1	(2,902,298)	-
		2,530,970	**9,404,443**

9.1 MOVEMENT OF PROVISION FOR DOUBTFUL RECEIVABLES IS AS FOLLOWS:

Balance as at January 01		-	-
Recognition of expected credit losses under IFRS 9	3.2	3,369,774	-
Provision reversed during the year		(467,476)	-
		2,902,298	-

10 LOANS AND ADVANCES

Loans - unsecured considered good			
Current portion of long term loans	6	817,277	578,570
Advances			
to employees - considered good	10.1	1,551,579	831,919
to vendors - unsecured considered good		231,611	231,611
to consultants - unsecured considered good		4,548,257	3,881,297
	10.4	**7,148,724**	**5,523,397**

10.1

This includes advances to Chief Executive Officer and Chief Operating Officer amounting to Rs. 961,570 (2018: 6,129) and Rs. 50,000 (2018: 791) respectively. The maximum aggregate amount outstanding to Chief Executive Officer and Chief Operating Officer at any time during the year was PKR. 961,569 and Rs. 400,961 respectively. Provision for doubtful advance and aging are not disclosed as advance is not past due or impaired as at the reporting date.

10.2 MOVEMENT OF ADVANCE TO CHIEF EXECUTIVE OFFICER IS AS FOLLOWS:

	NOTE	2019	2018
		RUPEES	
Balance as at January 01		6,129	78,109
Disbursements	10.3	1,595,064	709,829
Repayments		(639,623)	(781,808)
		961,570	**6,129**

10.3

Advance to Chief Executive Officer was issued for official purposes amounting to Rs. 267,260 (2018: 585,850) and for personal purposes amounting to Rs. 1,327,804 (2018: 123,979). Advance issued for personal purposes is settled against salary.

10.4

Loans and advances, except for the current portion of the long-term loan, are interest free, and are due on demand.

11 DEPOSITS AND SHORT TERM PREPAYMENTS

	NOTE	2019	2018
		RUPEES	
Deposits		1,590,024	980,060
Short term prepayments			
Rent		2,162,576	578,103
Employees' benefits		1,644,648	4,078,722
Others		22,860	62,860
		3,830,084	**4,719,685**
		5,420,108	**5,699,745**

12 OTHER RECEIVABLES

	NOTE	2019	2018
Considered good:		RUPEES	
Membership fees		1,765,000	2,240,000
Training fees		2,704,786	2,057,338
Sponsorship fees	12.1	21,359,057	26,352,713
Salary survey fee		-	80,000
Social audit fee		-	2,713,729
Investor linkages fee		500,000	200,000
Receivable from South Asian Microfinance Network	12.2	3,972,423	6,690,531
Others		4,672,265	3,609,826
	12.4	**34,973,531**	**43,944,137**
Less: Provision against doubtful receivables	12.3	(14,496,136)	(8,350,147)
		20,477,395	**35,593,990**

12.1 This represents sponsorship fee receivable against annual microfinance conference.

12.2 This represents receivable against expenses incurred for South Asian Microfinance Network's operations by the Company.

12.3 MOVEMENT OF PROVISION FOR DOUBTFUL RECEIVABLES IS AS FOLLOWS:

	NOTE	2019	2018
		RUPEES	
Balance as at January 01		8,350,147	5,665,001
Recognition of expected credit losses under IFRS 9	3.2	9,387,907	-
Provision booked during the year		3,448,613	2,685,146
Provision reversed during the year	23	(6,690,531)	-
		14,496,136	**8,350,147**

12.2 Other receivables include following receivables from associated companies. Aging for these receivables have been disclosed in note 31.1.1 to the financial statements.

	2019		2018
	Maximum aggregate amount outstanding during the year		
Membership fees			
Organization for Participatory Development	100,000	100,000	-
FINCA Microfinance Bank Limited			300,000
	100,000	**100,000**	**300,000**
Training fees			
FINCA Microfinance Bank Limited	270,000	125,500	270,000
U Microfinance Bank Limited	95,000	95,000	-
Akhuwat Islamic Microfinance Company	50,250	50,250	-
Telenor Microfinance Bank Limited	150,000	-	150,000
Khushhali Microfinance Bank Limited	75,000	-	75,000
Thardeep Microfinance Foundation	270,000	-	270,000
NRSP Bank Limited	125,000	125,000	-
	1,035,250	**395,750**	**765,000**
Sponsorship fees			
FINCA Microfinance Bank Limited	500,000	500,000	-
Akhuwat Islamic Microfinance Company	72,713	72,713	-
Telenor Microfinance Bank Limited	1,000,000	1,000,000	-
Thardeep Microfinance Foundation	250,000	250,000	-
Khushhali Microfinance Bank Limited	1,000,000	-	1,000,000
	2,822,713	**1,822,713**	**1,000,000**

Social audit fee			
U Microfinance Bank Limited	1,592,729	-	1,592,729
National Rural Support Programme	410,000	-	410,000
Thardeep Microfinance Foundation	711,000	-	711,000
	2,713,729	-	2,713,729
Others			
Akhuwat Islamic Microfinance Company	120,000	120,000	120,000
Khushhali Microfinance Bank Limited	349,955	12,971	-
U Microfinance Bank Limited	9,781	9,781	-
Thardeep Microfinance Foundation	24,826	24,826	-
	504,562	**167,578**	**120,000**
	7,176,254	**2,486,041**	**4,898,729**

13 SHORT TERM INVESTMENTS

	NOTE	2019	2018
		RUPEES	
Amortised cost			
Investments in associated companies:			
Term Deposit Receipts	13.1	20,000,000	-
Accrued Interest on term deposit receipts		139,265	-
		20,139,265	-

13.1 This represented investment in TDR of FINCA and U Microfinance Bank Limited which carries interest rate of 12.5% and 13.5% per annum respectively.

14 BANK BALANCES

	NOTE	2019	2018
		RUPEES	
Cash at banks in local currency			
Savings accounts		1,610,999	6,760,538
Current accounts		192,048	100
	14.1 & 14.2	**1,803,047**	**6,760,638**

14.1 Bank balances include balances in saving accounts of FINCA Microfinance Bank Limited and Khushhali Microfinance Bank Limited of Rs. 683 (2018: 171) and Rs. 37,034 (2018: 34,778) respectively and balances in current accounts of U Microfinance Bank Limited and NRSP Microfinance Bank Limited of Rs. 192,048 (2018: Nil)and Rs. Nil (2018: 100) respectively.

14.2 Savings accounts carry mark up at rates ranging between 8% to 9% (2018: 6% to 7%), per annum.

15 DEFERRED CAPITAL GRANTS

	NOTE	2019	2018
		RUPEES	
Capital grants	15.1	879,810	1,933,338

15.1 Capital grants

Balance as at January 01	1,933,338	3,097,662
Transfers to the income and expenditure statement		
Amortization for the year	(1,053,528)	(1,164,324)
	(1,053,528)	**(1,164,324)**
	879,810	**1,933,338**

16 ACCRUED AND OTHER LIABILITIES

	NOTE	2019	2018
Accrued expenses		1,305,598	3,649,158
Accounts payable	16.1	20,304,642	29,063,521
Withheld income tax payable		4,283,847	1,674,580
Withheld sales tax payable		1,436,967	-
Payable to employees' voluntary pension scheme		318,824	804,900
Other liabilities	16.2	3,882,329	938,836
		31,532,207	**36,130,995**

16.1 This includes payable to following associated companies and related parties for expenses incurred on behalf of the Company.

	2019	2018
Related party:		
Chief Executive Officer	-	41,087
Chief Operating Officer	-	19,396
Associated Companies:		
FINCA Microfinance Bank Limited	-	59,719
Organization for Participatory Development	-	3,000
Thardeep Microfinance Foundation	67,682	37,270
	67,682	**160,472**

16.2 This includes balances payable to following associated companies and related parties.

	2019	2018
Related party:		
Chief Operating Officer	2,433	-
Associated companies:		
National Rural Support Program	168,091	477,441
Thardeep Microfinance Foundation	863,024	-
	1,033,548	**477,441**

17 CONTINGENCIES AND COMMITMENTS

17.1 Contingencies

There were no contingencies as at 31 December 2019 (2018: Nil).

17.2 Commitments

There were no contingencies as at 31 December 2019 (2018: Nil).

17.2.1 The Company entered into an agreement with Pakistan Telecommunications Company Limited (PTCL) for the acquisition of hardware infrastructure for setting up Digital Services Platform (DSP) in 2018. Subsequent to year end the Company signed an addendum to the original agreement whereby the tenure is now reduced to one year as opposed to five years of the original agreement. This addendum is effective from 01 January 2019. As per the terms of the addendum the payment for the said infrastructure will now be made in one year. The committed payments as of 31 December 2019 are as follows:

	NOTE	2019	2018
		RUPEES	
Amount payable within 1 year		130,753,063	28,317,978
Amount payable in 2 to 5 years		-	113,271,912
		130,753,063	**141,589,890**

17.2.2 The Company has entered into two agreements with TPS Pakistan (Private) Limited for the acquisition of intangibles for setting up Digital Services Platform (DSP). As per the terms of the agreement the Company has committed to pay for the license and implementation fee by year 2020. Other than this software support & maintenance fee would be payable on yearly basis for period of remaining 4 years.

	NOTE	2019	2018
		RUPEES	
Amount payable within 1 year		64,759,290	80,672,436
Amount payable in 2 to 5 years		105,937,500	72,610,200
		170,696,790	**153,282,636**

18 GRANT INCOME

	NOTE	2019	2018
Restricted grants			
State Bank of Pakistan (SBP)			
- Impact Assessment Study		-	114,570
- NFIS Technical Assistance for Sub-committees		12,371,177	2,071,697
Department for International Development (DFID)			
- PMN Business Plan Funding		44,514,177	160,180,473
		56,885,354	**162,366,740**
Capital grants			
Amortization of deferred capital grant	15.1	1,053,528	1,164,324
		57,938,882	**163,531,064**

19 MEMBERS' CONTRIBUTIONS

	NOTE	2019	2018
		RUPEES	
Membership fee	19.1	8,625,000	8,975,000
Contribution against international trainings	19.2	6,001,125	4,547,291
		14,626,125	**13,522,291**

19.1 Membership fees have been further disaggregated as from:

Microfinance Banks		2,925,000	2,775,000
Non-Banking Microfinance Institutions		5,700,000	6,200,000
		8,625,000	**8,975,000**

19.2 Contribution against international trainings include the following:

Boulder microfinance training		3,594,541	2,980,295
Harvard training course		2,157,840	1,566,996
School of African Microfinance		248,744	-
	19.3	**6,001,125**	**4,547,291**

19.3 Contribution against international trainings has been further disaggregated as from:

Microfinance Banks		3,310,014	1,542,185
Non-Banking Microfinance Institutions		2,691,111	3,005,106
		6,001,125	**4,547,291**

20 INCOME FROM TRAININGS

Training Income-Gross		25,137,353	11,122,500
Less: Trade discount		(2,443,212)	(150,000)
Less: Sales Tax	20.1	(2,499,574)	-
Training Income - net	20.2	**20,194,568**	**10,972,500**

20.1 No sales tax was charged in year 2018. During the year 2019 the company paid arrears of sales tax amounting to 4.7 million which has been charged to expense of the year.

20.2 Training income has been further disaggregated into the following categories

Microfinance Banks		2,335,225	3,686,525
Non-Banking Microfinance Institution		14,277,144	4,907,225
Non member organizations		3,582,199	2,378,750
		20,194,568	**10,972,500**

21 INCOME FROM RESEARCH PROJECTS / Consultancy

	NOTE	2019	2018
		RUPEES	
Karandaaz Pakistan		-	12,450,560
Mennonite Economic Development Associates		2,509,993	1,401,829
PROPARCO		2,219,831	1,500,000
		4,729,824	**15,352,389**

22 INCOME FROM SPONSORSHIPS

This represents the income received as sponsorships from various donors, organizations and members on account of various conferences on microfinance innovation and growth conducted by the Company. Sponsorship income has been disaggregated into the following categories.

Microfinance Banks	3,500,000	1,500,000
Non-Banking Microfinance Institution	3,550,000	3,500,000
Non member organisations	8,421,558	15,552,713
	15,471,558	20,552,713

23 OTHER INCOME

Income from financial assets		1,406,311	332,053
Profit on savings accounts		59,600	71,016
Interest income on loans to employees		3,733,014	8,520,607
Interest income on investments	23.1	**5,198,925**	**8,923,676**
Income from non-financial assets			
Income on enquiries from DataCheck		-	558,869
Social audits		-	1,621,000
Investor linkage		1,589,210	-
Others		615,597	1,477,262
		2,204,807	**3,657,131**
		7,403,732	**12,580,807**

23.1 This amount is net of loss on premature redemption of long term investments.

24 GOVERNANCE AND MANAGEMENT

	NOTE	2019 RUPEES	2018 RUPEES
Salaries and benefits		7,898,849	13,137,302
Events / conferences / meetings		681,343	4,513,226
Rent and utilities		1,701,487	1,525,231
Depreciation and amortization		2,957,271	2,913,591
Legal and professional		225,620	863,220
Travel		856,666	2,162,576
Auditors' remuneration	24.1	795,000	408,000
Internal audit and other certifications		-	572,300
Office supplies		1,433,095	1,077,672
Designing and printing		604,604	138,347
Office maintenance		615,618	639,589
Insurance		144,340	118,060
Entertainment		125,473	649,812
Other expenses		2,361,226	2,607,870
Bank charges		59,928	72,312
Exchange loss		31,653	-
		20,492,172	**31,399,108**

24.1 Auditors' remuneration include the following:

	2019	2018
Audit fee	750,000	363,000
Out of pocket expense	45,000	45,000
	795,000	**408,000**

25 CAPACITY BUILDING

	NOTE	2019 RUPEES	2018 RUPEES
Tuition and accommodation fee		9,131,256	9,639,546
Per diem and other allowances		2,866,324	1,630,296
Consultant cost		4,930,584	4,717,253
Events / conferences / meetings		8,652,725	2,410,664
Designing and printing		742,887	9,482
Travel		6,590,354	1,804,707
Entertainment		99,838	624,812
Salaries and benefits		8,043,189	6,775,305
Rent and utilities		1,701,487	1,525,231
Exchange loss		31,653	174,034
Other expenses		3,110,736	375,503
		45,901,032	**29,686,833**

26 ENABLING ENVIRONMENT

	NOTE	2019 RUPEES	2018 RUPEES
Consultant cost		12,559,052	11,598,326
Salaries and benefits		27,931,623	38,629,158
Rent and utilities		1,701,487	1,525,231
Travel		10,337,871	12,107,344
Events / conferences / meetings		8,362,588	11,881,497
Per diem and allowances		4,918,197	10,194,800
Direct project costs		-	-
Entertainment		99,838	624,812
Accommodation		4,985,247	6,353,255
International memberships		736,598	1,171,965
Designing and printing		432,410	747,993
Exchange loss		31,653	277,362
Other expenses		2,882,857	1,037,899
		74,979,420	**96,149,642**

27 INFORMATION HUB

	NOTE	2019 RUPEES	2018 RUPEES
Salaries and benefits		24,136,157	24,897,943
Consultant cost		9,487,722	19,159,625
Travel		1,248,822	1,728,574
Rent and utilities		1,701,487	1,525,231
Accommodation		1,909,821	1,821,137
Entertainment		99,838	624,812
Events / conferences / meetings		1,084,526	1,256,888
Designing and printing		1,490,514	1,814,437
Per diem and allowances		-	180,000
Exchange Loss		31,653	242,782
Other expenses		2,290,429	1,432,803
		43,480,968	**54,684,232**

28 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, including benefits, to the Chief Executive Officer and executives are as follows:

	NOTE	CHIEF EXECUTIVE OFFICER 2019	CHIEF EXECUTIVE OFFICER 2018	EXECUTIVES 2019	EXECUTIVES 2018
		RUPEES			
Managerial remuneration	28.1	9,474,828	9,066,816	21,494,400	33,459,790
Bonus for the year		1,662,250	2,644,488	4,758,942	7,482,003
Pension fund scheme		332,448	604,452	988,066	2,230,658
Contribution for gratuity		500,000	500,000	1,376,667	3,040,000
Reimbursements		115,463	137,951	582,601	977,795
Other benefits	28.2	1,479,557	1,935,067	1,312,412	1,024,774
		13,564,546	**14,888,774**	**30,513,088**	**48,215,020**
Number of person(s)		**1**	**1**	**6**	**10**

28.1 No remuneration was paid to the Company's directors in the current and previous year.

28.2 This represents payment for leave encashment, health insurance and contribution to Employees Old Age Benefits Institution. This also includes vehicle allowance of Chief Executive Officer.

29 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company comprise of key management personnel and entities under common directorship.

Balances with related parties have been disclosed in note 10, 12, 14, 16 and remuneration to Chief Executive Officer and Executives has been disclosed in Note 28. Transactions with related parties are as follows:"

29.1 TRANSACTIONS DURING THE YEAR:

	NOTE	2019	2018
		RUPEES	
Transactions with associated companies:			
Training fee income		7,583,699	8,311,566
Membership and registration fee income		3,050,000	3,000,000
Sponsorship fee income		3,250,000	2,500,000
Social audit fee income		-	1,621,000
Interest income earned on TDRs		4,613,472	7,414,216
Remuneration to key management personnel		18,362,468	22,770,841

29.2 Following are the associated companies and related parties with whom the Company had entered into transactions during the year:

Associated Companies	Basis of Relationship	Number of shares held in the Company	Aggregate %age shareholding in the Company
U Microfinance Bank Limited	Common directorship	N/A	N/A
FINCA Microfinance Bank Limited	Common directorship	N/A	N/A
Telenor Microfinance Bank Limited	Common directorship	N/A	N/A
First Microfinance Bank Limited	Common directorship	N/A	N/A
Khushhali Microfinance Bank Limited	Common directorship	N/A	N/A
National Rural Support Programme	Common directorship	N/A	N/A
Akhuwat Islamic Microfinance Company	Common directorship	N/A	N/A
JWS Pakistan	Common directorship	N/A	N/A
Thardeep Microfinance Foundation	Common directorship	N/A	N/A
Organization for Participatory Development	Common directorship	N/A	N/A

Related Parties	Basis of Relationship	Number of shares held in the Company	Aggregate %age shareholding in the Company
Syed Mohsin Ahmed	Chief Executive Officer	N/A	N/A
Ali Basharat	Chief Operating Officer	N/A	N/A
Muhammad Waqas Khan	Chief Financial Officer	N/A	N/A

30 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Fair value is the amount that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between carrying values and fair value estimates. Underlying the definition of fair value is the presumption that the entity is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the institute is current bid price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13 'Fair Value Measurements' requires the Company to classify fair value measurements 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:

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

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

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

30.1 Valuation techniques and significant unobservable inputs

Equity Securities

Fair Value of equity securities has been determined using discounted cash flow valuation technique. The expected cashflows over period of five years have been discounted under multiple scenarios while varying the cost of equity (15%-19%) and terminal growth rate (2%-4%). Fair value has been determined using risk free rate of 11% being the Yield to Maturity of 10 year PIB. The risk free rate has been adjusted for equity risk premium of 8%.

30.2 Fair value of financial assets and liabilities

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.

2019	Note	Carrying Amount: Amortised Cost	FVTPL	FVOCI-Equity instruments	Other financial liabilities	Total	Fair Value: Level 1	Level 2	Level 3	Total
Financial assets measured at Fair Value										
Investment in equity securities	7	-		37,478,000	-	37,478,000	-	-	37,478,000	37,478,000
Deposits	11	-	1,590,024	-	-	1,590,024	-	-	1,590,024	1,590,024
Financial assets not measured at Fair Value										
Long term investment - TDRs	7	26,636,714	-	-	-	26,636,714	-	-	-	-
Long term loans	6 & 10	1,102,209	-	-	-	1,102,209	-	-	-	-
Grant receivable	8	10,672,818	-	-	-	10,672,818	-	-	-	-
Consultancy fees receivable	9	2,530,970	-	-	-	2,530,970	-	-	-	-
Other receivables	12	20,477,395	-	-	-	20,477,395	-	-	-	-
Short term investments	7 & 13	20,139,265	-	-	-	20,139,265	-	-	-	-
Bank balances	14	1,803,047	-	-	-	1,803,047	-	-	-	-
Financial liabilities not measured at Fair Value										
Accrued and other liabilities	16	-		-	25,811,393	25,811,393	-	-	-	-

2018	Note	Carrying Amount: Held to maturity	Loans and receivables	Other financial liabilities	Total	Fair Value: Level 1	Level 2	Level 3	Total
Financial assets measured at Fair Value									
Financial assets not measured at Fair Value									
Long term investments	7	95,276,393	-	-	95,276,393	-	-	-	-
Long term loans	6 & 10	-	1,487,349	-	1,487,349	-	-	-	-
Deposits	11	-	980,060	-	980,060	-	-	-	-
Grant receivable	8	-	46,126,618	-	46,126,618	-	-	-	-
Consultancy fees receivable	9	-	9,404,443	-	9,404,443	-	-	-	-
Other receivables	12	-	35,593,990	-	35,593,990	-	-	-	-
Short term investments	16	-	-	-	-	-	-	-	-
Bank balances	14	-	6,760,638	-	6,760,638	-	-	-	-
Financial liabilities not measured at Fair Value					-				
Accrued and other liabilities	16	-	-	34,456,415	34,456,415	-	-	-	-

31 FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

31.1 Risk management framework

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

31.1.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's all receivables, investments (excluding equity investments) and bank balances.

The carrying amounts of financial assets represent the maximum credit exposure. 'Reversal of impairment loss on financial assets' recognized in income and expenditure account amounts to Rs.3.7 million and relates only to consultancy and other receivables.

The maximum exposure to credit risk at the reporting date was:

		2019	2018
	NOTE	RUPEES	
Grant receivable	8	10,672,818	46,126,618
Consultancy fees receivable	9	2,530,970	9,404,443
Deposits	11	1,590,024	980,060
Long term investments	7	26,636,714	95,276,393
Short term investments	7 & 13	20,139,265	-
Other receivables	12	20,477,395	35,593,990
Bank balances	14	1,803,047	6,760,638
		83,850,233	**194,142,142**

I) **Consultancy, Grant and other receivables**

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its Geographically there is no concentration of credit risk.

Company's receivables mainly arise from its members and donors. Maximum of the Company's members have been transacting with the Company for many years and none of these members' balances have been written off or are credit-impaired at the reporting date. The Company attempts to control the credit risk by monitoring credit exposures, limiting transactions with specific parties and continuing assessment of credit worthiness of these parties. As part of these processes the financial viability of all counterparties is regularly monitored and assessed.

The maximum exposure to credit risk for financial assets at the reporting date by type of counter party was:

	NOTE	2019	2018
		RUPEES	
Associated companies		8,586,475	4,898,729
Banks - Associated companies		33,537,267	83,256,233
Banks - other than Associated Companies		15,041,759	18,780,798
Others		26,684,732	87,206,382
		83,850,233	**194,142,142**

The aging of receivables from associated companies and provision there against at the reporting date was as follows:

	Gross 2019	**Impairment 2019**	**Gross 2018**	**Impairment 2018**
Associated companies	1,925,250	8,107	1,495,000	-
Banks - Associated companies	268,078	12,425	-	-
Banks - other than Associated Companies	172,713	56,778	570,000	-
Others	120,000	120,000	2,833,729	-
	2,486,041	**197,309**	**4,898,729**	-

Comparative information under IAS 39

Analysis of the credit quality of receivables that were neither past due nor impaired and aging of receivables as at 31 December 2018 is as follows.

The aging of grant receivables at the reporting date was as follows:

	Gross	Impairment
	2018	**2018**
Past due 0-60 days	45,446,288	-
Over 365 days	680,330	-
	46,126,618	-

The aging of consultancy receivables at the reporting date was as follows:

	Gross	Impairment
	2018	**2018**
Past due 0-60 days	5,673,975	-
Over 365 days	3,730,467	-
	9,404,443	-

The aging of other receivables at the reporting date was as follows:

	Gross	Impairment
	2018	**2018**
Past due 0-60 days	20,049,869	-
Past due 60-180 days	1,566,961	-
Past due 180-365 days	6,544,972	-
Over 365 days	15,782,335	8,350,147
	43,944,137	**8,350,147**

Expected credit loss assessment as at 01 January 2019 and 31 December 2019

The Company allocates each exposure to a credit risk based on data that is determined to be predictive of the loss (including but not limited to external ratings, audited financial statements, management accounts, cash flow projection and available press information about customers) and applying experienced credit judgment. Credit risk are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definition from agencies (Rating agencies Pakistan Credit Rating Agency (PACRA) and JCR - VIS.

Exposure within each credit risk are segmented by type of receivables like consultancy, grant and others and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past 3 years. These rates are multiplied by scalar factors to reflect the difference between economic conditions during the period over which the historical data has been collected, current conditions and the Company’s view of economic conditions over the expected lives of the receivables.

Scalar factors are based on GDP forecast, unemployment rate, Consumer Price Index and exchange rate which are as follows.

Years	GDP Forecast	Unemployment Rate	Exchange Rate
2019	3.10	6.30	150.00
2018	5.83	6.00	121.82
2017	5.55	5.80	105.46
2016	5.53	5.80	104.77

The Company uses an allowance matrix to measure the ECLs of receivables, which comprises a very large number of small balances.

Loss rates are calculated using "roll rate" method based on the probability of a trade debt progressive through successive stages of delinquency to calculate the weighted average loss rate. Roll rates are calculated separately for exposure in different segments based on following common characteristics - geographic region and age of customer relationship.

The following table provides information about the exposure to credit risk and ECL for other receivables as at 31 December 2019.

	Weighted average loss rate %	Gross carrying amount	Loss allowance	Credit impaired
Current	0.0%	16,731,333	6,980	No
0-30 days past due	0.3%	1,738,397	4,575	No
30-60 days past due	0.0%	-	-	No
60-90 days past due	0.0%	-	-	No
91-150 days past due	4.7%	296,597	13,803	No
151 days and above	89.3%	16,207,204	14,470,778	No
		34,973,531	**14,496,136**	

Scalar factors are based on GDP forecast, unemployment rate, Consumer Price Index and exchange rate which are as follows.

	Weighted average loss rate %	Gross carrying amount	Loss allowance	Credit impaired
Current	0.0%	1,532,863	-	No
0-30 days past due	0.0%	-	-	No
30-60 days past due	0.0%	-	-	No
60-90 days past due	0.0%	-	-	No
91-150 days past due	0.0%	-	-	No
151 days and above	74.4%	3,900,405	2,902,298	No
		5,433,268	**2,902,298**	

Movement in the allowance for expected credit losses in respect of other receivables

The movement in the allowance for expected credit losses in respect of consultancy and other receivables during the year was as follows. Comparative amounts for 2018 represent the allowance amount for impairment losses under IAS 39.

	NOTE	2019	2018
		RUPEES	
Balance at 01 January under IAS 39		8,350,147	8,350,147
Adjustment on initial application of IFRS 9	3.2	12,757,681	-
Balance at 01 January under IFRS 9		21,107,828	8,350,147
Remeasurement of loss allowance		(3,709,394)	
Balance as at 31 December		17,398,434	8,350,147

Investments

The Company held investments of Rs. 46.7 million as at 31 December 2019 (2018: Rs. 82.9 million). These investments are held with the banks which are rated A1+ to AAA based on PACRA and JCR - VIS ratings.

Impairment on investments has been measured on 12 month expected loss basis and reflect the short maturities of the exposures. The Company considers that its investments have low credit risk based on external credit rating of the counterparties.

Cash at Bank

The Company held cash at bank of Rs. 1,803,047 as at 31 December 2019 (2018: Rs. 6,760,638). These balances are held with the banks which are rated A1+ to AAA based on PACRA and JCR - VIS ratings.

Impairment on cash at bank has been measured on 12 month expected loss basis and reflect the short maturities of the exposures. The Company considers that its cash at bank have low credit risk based on external credit rating of the counterparties.

31.1.2 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The maturity profile of the Company's financial liabilities based on the contractual amount is as follows:

	Carrying amount	Contractual cash flows	Payable within one year
2019			
Accrued expenses	1,305,598	(1,305,598)	(1,305,598)
Accounts payable	20,304,642	(20,304,642)	(20,304,642)
Payable to employees' voluntary			
pension scheme	318,824	(318,824)	(318,824)
Other liabilities	3,882,329	(3,882,329)	(3,882,329)
Accrued and other liabilities	**25,811,393**	**(25,811,393)**	**(25,811,393)**
2018			
Accrued expenses	3,649,158	(3,649,158)	(3,649,158)
Accounts payable	29,063,521	(29,063,521)	(29,063,521)
Payable to employees' voluntary			
pension scheme	804,900	(804,900)	(804,900)
Other liabilities	938,836	(938,836)	(938,836)
Accrued and other liabilities	**34,456,415**	**(34,456,415)**	**(34,456,415)**

31.1.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

A Currency risk

The Pak Rupee is the functional currency of the Company and as a result currency exposures arise from transactions and balances in currencies other than the Pak Rupee.

	2019		2018	
	Rupees	USD	Rupees	USD
Consultancy fee receivable	5,433,268	35,019	5,568,428	39,917
Net exposure	5,433,268	35,019	5,568,428	39,917

The following significant exchange rates were applied during the year:

	Average rates		Statement of Financial Position date rate	
	2019	2018	2019	2018
US Dollars	147.33	125.28	155.15	139.50

31.1.2 Sensitivity Analysis

A 1% strengthening of the functional currency against USD as at 31 December 2019 would have decreased surplus by Rs. 54,262 (2018: Rs. 55,677). A 1% weakening of the functional currency against USD as at 31 December 2018 would have had the equal but opposite effect of these amounts. The analysis assumes that all other variables remain constant.

B) Interest rate risk

The interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. At the reporting date, the Company's interest bearing financial instruments comprise of cash at bank in savings accounts, short and long term investments carrying fixed interest rates.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

C) Other market price risk

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

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

32 CAPITAL RISK MANAGEMENT

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

33 NUMBER OF EMPLOYEES

	2019 Number	2018 Number
Number of employees of the Company at the reporting date	16	20
Average number of employees during the year	18	21

34 COMPARATIVE FIGURES - RECLASSIFICATIONS

Following comparative reclassifications have been made in the income and expenditure statement. As detailed below since these reclassifications does not have any impact on the information in the statement of financial position at the beginning of the preceding period hence presentation of third statement of financial position is not required.

34.1 EXPENDITURE

Following comparative reclassifications have been made in the income and expenditure statement. As detailed below since these reclassifications does not have any impact on the information in the statement of financial position at the beginning of the preceding period hence presentation of third statement of financial position is not required.

34.1.1 First time adoption of IFRS 9

As mentioned in note 3.2 as a result of adoption of IFRS 9 the impairment of financial assets have been presented in a separate line item in the income and expenditure statement. Previously, the Company's approach was to include the impairment of receivables in 'governance and management' expenses. As a result of this reclassification provision for doubtful receivables amounting to Rs. 2,685,146 and grant receivables written off amounting to Rs. 4,714,780 have now been presented as separate line item in Income and expenditure Statement. This reclassification does not have any impact on the surplus for the year 2018.

34.1.2 Presentation of non-donor funded expenses

Previously non-donor funded expenses were deducted from governance and management, Capacity building, Enabling environment and information hub and were presented as separate line item 'other operating expenses' in Income and Expenditure Statement. Since non-donor funded expenses are also operating expenses of the Company hence for better presentation these have not been classified as 'Other Expenses' in 'Income and Expenditure Statement'. As a result of change in such presentation comparatives have also been reclassified. This reclassification did not have any impact on the reported amount of surplus for the previous year.

34.1.3 Following is the impact of above reclassifications on amounts reported in income and expenditure statement for the year ended 31 December 2018.

	Amount previously reported	Effect of reclassification of note 34.1	Effect of reclassification of note 34.2	Balance after reclassification
Governance and management	23,773,172	(7,399,926)	15,025,863	31,399,109
Capacity building	12,642,538	-	17,044,295	29,686,833
Enabling environment	77,365,017	-	18,784,625	96,149,642
Information hub	48,586,013	-	6,098,219	54,684,232
Other operating expenses	56,953,002	-	(56,953,002)	-

34.2 INCOME

34.2.1 Members' contributions from international trainings

Contributions received from members towards the cost of the international trainings is now separately presented and clubbed under the broader category of Members' Contributions in note 19 which also includes contributions received from members in the form of membership fee. Previously, the Company's approach was to include contribution against international trainings in note 20 Income from Trainings.

	Note	Amount previously reported	Effect of reclassification of note 34.2.1	Balance after reclassification
Income from trainings	20	15,519,791	(4,547,291)	10,972,500
Members' contributions	19	8,975,000	4,547,291	13,522,291

35 SUBSEQUENT EVENTS

Subsequent to the year-end, the COVID-19 pandemic emerged which impacted the economy in general. At this stage, the management believes that this event may not significantly impact the operations and financials of the Company in subsequent periods; however, since the situation is still developing and changing rapidly, the assessment of potential impact cannot be ascertained. Management believes that the COVID – 19 will not have any impact on the underlying assumption for its assessment of going concern and impairment of non-current assets.

36 DATE OF AUTHORIZATION

These financial statements were approved by the Board of Directors of the Company in their meeting held on 25-June-2020

37 GENERAL

The amounts presented in these financial statements have been rounded-off to the nearest Pak Rupee, unless otherwise stated.

CHIEF EXECUTIVE OFFICER	DIRECTOR
Syed Mohsin Ahmed	Syed Nadeem Hussain

Pakistan Microfinance Network

ANNUAL REPORT 2019

Achieving Together

UKaid
from the British people

The Pakistan Microfinance Network is grateful to
DFID (UK-AID)
for their continued support to fund the persevering growth of the microfinance sector