



**INDEPENDENT AUDITOR'S REPORT**

**To the members of Parwaaz Financial Services Limited**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the annexed financial statements of Parwaaz Financial Services Limited (the Company), which comprise the statement of financial position as at December 31, 2024, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2024 and of the profit and other comprehensive income, the changes in equity and its cash flows for the year then ended.

**Basis for Opinion**

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

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

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

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

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

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## **Responsibilities of Management and Board of Directors for the Financial Statements**

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

### **Report on Other Legal and Regulatory Requirements**

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

- (a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- (b) the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- (c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- (d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

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

A handwritten signature in black ink, appearing to read 'Amer Raza Mir', followed by a small mark resembling a stylized 'L' or '6'.

**A. F. Ferguson & Co.**

**Chartered Accountants**

**Lahore**

**Date: April 18, 2025**

**UDIN: AR202410118PWtOK51L6**

PARWAAZ FINANCIAL SERVICES LIMITED  
STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2024

ASSETS	Note	2024 (Rupees)	2023 (Rupees)
<b>NON-CURRENT ASSETS</b>			
Property and equipment	5	45,510,646	6,331,171
Right of use asset	6	23,570,333	27,182,794
Intangible assets	7	42,063,507	30,286,352
Capital work in progress	8	-	18,575,113
Long term financing - net	9	690,572,646	197,390,037
Financing on behalf of parent entity	10	361,124,609	147,810,387
Long term deposits	11	3,776,875	3,676,875
		1,166,618,616	431,252,729
<b>CURRENT ASSETS</b>			
Advances, deposits, prepayments and other receivables	12	81,804,708	46,374,828
Short term financing - net	13	1,612,082,492	1,048,040,000
Short term investments	14	20,803,448,517	1,645,344,496
Current portion of long term financing - net	9	249,325,707	153,503,222
Current portion of financing on behalf of parent entity	10	561,318,481	253,387,376
Taxation - net	15	22,840,585	12,232,410
Cash and bank balances	16	253,559,533	234,196,887
		23,584,380,023	3,393,079,219
<b>TOTAL ASSETS</b>		<b>24,750,998,639</b>	<b>3,824,331,948</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized share capital (300,000,000 ordinary shares of Rs. 10 each)	17	3,000,000,000	3,000,000,000
Issued, subscribed and paid up capital (150,000,000 ordinary shares of Rs. 10 each)	17	1,500,000,000	1,500,000,000
Capital reserve - net of tax	18	67,386,742	67,386,742
Revenue reserve: unappropriated profit		251,662,918	201,740,807
		1,819,049,660	1,769,127,549
<b>NON-CURRENT LIABILITIES</b>			
Subordinated loan	19	1,484,412,177	1,494,391,763
Payable to parent entity	20	417,558,327	179,357,073
Lease liability	21	10,711,329	18,907,382
Deferred tax liability	22	23,511,038	25,393,470
		1,936,192,871	1,718,049,688
<b>CURRENT LIABILITIES</b>			
Accrued and other liabilities	23	142,343,790	83,067,335
Short term borrowings	24	20,283,693,837	-
Current portion of payable to parent entity	20	561,318,481	253,387,376
Current portion of lease liability	21	8,400,000	700,000
		20,995,756,108	337,154,711
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>24,750,998,639</b>	<b>3,824,331,948</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	25		

The annexed notes from 1 to 43 form an integral part of these financial statements.

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Chief Executive Officer

  
Director

  
Chief Financial Officer

**PARWAAZ FINANCIAL SERVICES LIMITED**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2024**

	Note	2024 (Rupees)	2023 (Rupees)
Markup on financing	26	385,675,906	181,405,225
Income other than markup on financing	27	706,322,890	492,680,689
<b>Total income</b>		<b>1,091,998,796</b>	<b>674,085,914</b>
Finance cost	28	(626,702,281)	(299,015,964)
		465,296,515	375,069,950
Administrative expenses	29	(333,421,416)	(214,514,021)
<b>Profit before provision and taxation</b>		<b>131,875,099</b>	<b>160,555,929</b>
Net impairment loss on financial assets	30	(51,549,714)	(33,843,663)
<b>Profit before taxation</b>		<b>80,325,385</b>	<b>126,712,266</b>
Taxation	31	(27,534,245)	(39,732,303)
<b>Profit after taxation</b>		<b>52,791,140</b>	<b>86,979,963</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>52,791,140</b>	<b>86,979,963</b>
<b>Earnings per share</b>			
- Basic	32.1	0.35	0.58
- Diluted	32.2	0.35	0.58

The annexed notes from 1 to 43 form an integral part of these financial statements.

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Chief Executive Officer

  
Director

  
Chief Financial Officer

PARWAAZ FINANCIAL SERVICES LIMITED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2024

Note	Issued, subscribed and paid-up capital	Revenue reserve	Capital reserve	Total shareholders equity
		Unappropriated profit (Rupees)	Equity portion of subordinated loan - net of tax	
Balance as at January 01, 2023	1,500,000,000	114,760,844	67,386,742	1,682,147,586
Profit for the year	-	86,979,963	-	86,979,963
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	86,979,963	-	86,979,963
Balance as at December 31, 2023	1,500,000,000	201,740,807	67,386,742	1,769,127,549
Balance as at January 01, 2024 - before adoption of IFRS 9	1,500,000,000	201,740,807	67,386,742	1,769,127,549
Impact of adoption of IFRS 9 - net of tax	2.2.1 (i) -	(2,869,029)	-	(2,869,029)
Balance as at January 01, 2024 - after adoption of IFRS 9	1,500,000,000	198,871,778	67,386,742	1,766,258,520
Profit for the year	-	52,791,140	-	52,791,140
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	52,791,140	-	52,791,140
Balance as at December 31, 2024	1,500,000,000	251,662,918	67,386,742	1,819,049,660

The annexed notes from 1 to 43 form an integral part of these financial statements.

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Chief Executive Officer

Director

Chief Financial Officer

**PARWAAZ FINANCIAL SERVICES LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2024**

	2024	2023
Note	(Rupees)	(Rupees)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	80,325,385	126,712,266
Adjustments for:		
Markup earned on financing	(385,675,906)	(181,405,225)
Profit earned on term deposit receipts, saving account and treasury bills	(665,901,674)	(487,178,333)
Finance cost	626,702,281	299,015,964
Net impairment loss on financial assets	51,549,714	33,843,663
Amortization on Intangibles	8,681,519	2,019,090
Depreciation on right of use asset	6,058,723	460,725
Depreciation on property and equipment	11,427,885	2,090,162
	<u>(347,157,458)</u>	<u>(331,153,954)</u>
<b>Operating loss before working capital changes</b>	<b>(266,832,073)</b>	<b>(204,441,688)</b>
<b>Effect of changes in working capital:</b>		
Increase in long term financing	(598,109,384)	(162,577,566)
Increase in short term financing	(614,472,600)	(649,000,000)
Increase in financing on behalf of parent entity	(521,245,327)	(245,032,273)
Increase in long term deposits	(100,000)	(2,700,000)
Decrease in advances, deposits, prepayments and other receivables	353,972,553	12,325,026
Increase in payable to parent entity	546,132,359	208,344,449
Increase in accrued and other liabilities	63,220,253	53,015,742
	<u>(770,602,146)</u>	<u>(785,624,622)</u>
<b>Cash used in operations</b>	<b>(1,037,434,219)</b>	<b>(990,066,310)</b>
Receipt of markup on financing	360,534,370	166,349,824
Receipt of income on term deposit receipts, savings accounts and treasury bills	301,640,778	477,099,810
Taxes paid	(38,852,995)	(62,680,846)
Finance cost paid	(86,753)	(93,269)
	<u>623,235,400</u>	<u>580,675,519</u>
<b>Net cash used in operating activities</b>	<b>(414,198,819)</b>	<b>(409,390,791)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(32,032,247)	(4,198,089)
Purchase of intangibles	(20,458,674)	(32,305,442)
Investments - net	(20,803,448,517)	-
Additions to capital work in progress	-	(18,575,113)
	<u>(20,855,939,438)</u>	<u>(55,078,644)</u>
<b>Net cash used in investing activities</b>	<b>(20,855,939,438)</b>	<b>(55,078,644)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Lease rentals paid	(8,400,000)	(8,400,000)
Receipt of short-term borrowings	19,947,162,570	-
Payment of markup on subordinated loan	(294,606,163)	(210,489,041)
<b>Net cash generated from/(used in) financing activities</b>	<b>19,644,156,407</b>	<b>(218,889,041)</b>
	<u>(1,625,981,850)</u>	<u>(683,358,476)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,625,981,850)</b>	<b>(683,358,476)</b>
Cash and cash equivalents at beginning of the year	1,879,541,383	2,562,899,859
<b>Cash and cash equivalents at end of the year</b>	<b>253,559,533</b>	<b>1,879,541,383</b>

The annexed notes from 1 to 43 form an integral part of these financial statements.

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Chief Executive Officer

Director

Chief Financial Officer

# PARWAAZ FINANCIAL SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2024

### 1 CORPORATE AND GENERAL INFORMATION

#### 1.1 Legal status and operations

Parwaaz Financial Services Limited ("the Company") was incorporated on December 23, 2020 under the Companies Act, 2017 as a company limited by shares. The Company obtained license to carry out investment finance services as a Non-banking Finance Company ("NBFC") under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 ("the NBFC Rules") and Non-Banking Finance Companies and Notified Entities Regulations, 2008 ("the NBFC Regulations") on June 22, 2021.

The objective of the Company is to provide financing primarily to Small and Medium Enterprises (SMEs) within Pakistan. The Company also intends to provide business development services to SMEs.

The registered office of the Company is 4th Floor 34 S, Main boulevard Gulberg 2, Lahore, Punjab.

The ultimate parent of the Company is Karandaz Pakistan.

The Company has complied with insurance coverage requirement as required by NBFC Rules 2003. In accordance with Sub-section 09 of Section 07 (NBFC rules 2003), the company has obtained sufficient insurance coverage from an insurance company rated minimum A- by a credit rating agency registered with the Commission against any losses that may be incurred as a result of employee's fraud or gross negligence.

The Pakistan Credit Rating Agency Limited (PACRA) has assigned long-term rating of A+ (2023: nil) and short-term rating of A1 (2023: nil) to Parwaaz Financial Services Limited on September 26, 2024.

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

- International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Act, 2017;
- The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 and the Non-Banking Finance Companies and notified entities Regulations, 2008 (here-in-after mentioned as 'the NBFC rules and NBFC regulations');
- Directives issued by the Securities and Exchange Commission of Pakistan ("SECP"); and
- Provisions of directives issued under the Companies Act, 2017 along with part VIII A of the repealed Companies Ordinance, 1984.

Where the requirements of the Companies Act, 2017, the NBFC rules and NBFC regulations and the directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Companies Act, 2017, the NBFC Rules and NBFC Regulations, or the requirements of the said directives shall prevail.

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

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

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

There are certain new and amended standards, issued by International Accounting Standards Board (IASB), interpretations and amendments that are mandatory for the Company's accounting periods beginning on or after January 1, 2024 but are considered not to be relevant or do not have any material effect on the Company's operations and therefore are not detailed in these financial statements except for the following:

- (i) The Securities and Exchange Commission of Pakistan (SECP) issued SRO 1827(I)/2002 on September 29, 2022, notified that IFRS 9, Financial Instruments, will replace International Accounting Standard 39 (Financial Instruments: Recognition and Measurement) for reporting periods ending on or after June 30, 2024, with the option for earlier adoption. Accordingly, IFRS 9 has been adopted by the Company. IFRS 9 "Financial Instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the related guidance in IAS 39 "Financial Instruments: Recognition and Measurement" that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. It retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVTPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI, without subsequent recycling to profit or loss.

The standard also includes an expected credit losses (ECL) model that replaces the current incurred loss impairment model. The ECL model involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a loss equal to the 12-month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. Under the predecessor standard, IAS 39, impairment losses on financial assets were recognized using an incurred loss model, which required evidence of a financial loss event before recognizing impairment.

For financial liabilities, there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

The adoption of IFRS 9 has resulted in change in accounting policies of the Company. The Company has elected to follow the modified retrospective approach for restatement i.e. comparative figures have not been restated on initial application. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition has been recognized in the opening retained earnings and other reserves at the beginning of the current period without restating the comparative figures.

	Balances as of December 31, 2023 (Audited)	Impact of Recognition of ECL	Taxation	Adjusted Balances as of January 01, 2024
<b>Assets</b>				
Long term financing - net	350,893,259	251,876	-	351,145,135
Short term financing - net	1,048,040,000	(8,236,560)	-	1,039,803,440
Taxation - net	12,232,410	(1,143,701)	-	11,088,709
<b>Liabilities</b>				
Accrued and other liabilities	83,067,335	(3,943,798)	-	79,123,537
Deferred Tax	25,393,470	-	(2,315,558)	23,077,912
<b>Equity</b>				
Revenue reserve: unappropriated profit	201,740,807	(2,869,029)	-	198,871,778

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Furthermore, on January 1, 2024, the management assessed which business models apply to the financial instruments held by the Company and classified its financial instruments into the appropriate IFRS 9 categories as follows:

Financial Assets / Liabilities	Carrying amount as of December 31, 2023	Carrying amount as of January 01, 2024	Previous Classification	Classification under IFRS - 09
	(Rupees)	(Rupees)		
<b>Financial Assets</b>				
Long term financing - net	350,893,259	351,145,135	Cost	Amortised Cost
Financing on behalf of parent entity	401,197,763	401,197,763	Cost	Amortised Cost
Long term deposits	3,676,875	3,676,875	Cost	Amortised Cost
Advances, deposits, prepayments and other receivables	46,374,828	46,374,828	Cost	Amortised Cost
Short term financing - net	1,048,040,000	1,039,803,440	Cost	Amortised Cost
Short term investments	1,645,344,496	1,645,344,496	Held to Maturity	Amortised Cost
Cash and bank balances	234,196,887	234,196,887	Cost	Amortised Cost

The amount of expected credit loss has been disclosed in note 30 to these financial statements.

#### Financial Liabilities

Subordinated loan	1,494,391,763	1,494,391,763	Cost	Amortised Cost
Short term borrowings	-	-	Cost	Amortised Cost
Payable to parent entity	432,744,449	432,744,449	Cost	Amortised Cost
Accrued and other liabilities	83,067,335	79,123,537	Cost	Amortised Cost
Lease liability	19,607,382	19,607,382	Cost	Amortised Cost

- (ii) During the current year, ICAP has withdrawn Technical Release 27 'IAS 12, Income Taxes (Revised 2012)' and issued the 'IAS 12, Application Guidance on Accounting for Minimum Taxes and Final Taxes' (the Guidance). Accordingly, in accordance with the Guidance, the Company has changed its accounting policy to designate the amount calculated on taxable income using the notified tax rate as an income tax expense. Any excess over the amount designated as income tax, is then recognized as a 'Levy' under 'IAS 37, Provisions, Contingent Liabilities and Contingent Assets', which were previously being recognized as 'income tax'. However, no adjustment in this regard has been made in these financial statements for the year ended December 31, 2024, as there is no impact of the same.

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

There are certain standards, amendments to the accounting standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 01, 2025 but are considered not to be relevant to the Company's operations and are, therefore, not detailed in these financial statements, except for the following:

##### (a) Amendment to IAS 21 – Lack of Exchangeability

These amendments were in response to concerns raised when an entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

Assessing exchangeability between two currencies requires an analysis of different factors; such as the time frame for the exchange, the ability to obtain the other currency, markets or exchange mechanisms, the purpose of obtaining the other currency, and the ability to obtain only limited amounts of the other currency.

When a currency is not exchangeable into another currency, the spot exchange rate needs to be estimated. The objective in estimating the spot exchange rate at a measurement date is to determine the rate at which an orderly exchange transaction would take place at that date between market participants under prevailing economic conditions.

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

The new amendments are effective for annual reporting year beginning on or after January 1, 2025 where earlier application was also permitted.

#### **(b) Amendment to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments**

The amendments clarify the timing for recognizing and derecognizing certain financial assets and liabilities, introduce an exception for some financial liabilities settled via electronic cash transfers, provide additional guidance for assessing if a financial asset meets the Solely Payment of Principal and Interest ('SPPI') criterion, require new disclosures for instruments with cash flow changes linked to Environmental, Social and Governance ('ESG') targets, and update disclosures for equity instruments designated at FVOCI.

The Company is in the process of assessing the impact of this amendment on the Company's financial statements.

The above mentioned amendments are effective for accounting periods beginning on or after January 1, 2026.

#### **(c) IFRS 18 Presentation and Disclosure in Financial Statements**

The new standard on presentation and disclosure in financial statements, IFRS 18, focuses on updates to the statement of profit or loss. It introduces key concepts such as the structure of the statement of profit or loss, required disclosures for certain profit or loss performance measures reported outside the financial statements (management-defined performance measures), and enhanced principles on aggregation and disaggregation applicable to the primary financial statements and notes.

The Company is in the process of assessing the impact of this amendment on the Company's financial statements.

The above mentioned standard is effective for accounting periods beginning on or after January 1, 2027.

### **2.2.3 Exemption from applicability of certain standards**

#### **Amendment of IFRS 07, 'Financial Instruments'**

The SECP has deferred the application of International Financial Reporting Standard (IFRS) 07, 'Financial Instruments: Disclosures' through SRO 411(1) / 2008 on such Non-Banking Finance Companies as are engaged in investment finance services, discounting services and housing finance services.

### **2.3 Basis of measurement and preparation**

#### **2.3.1 Accounting convention**

These financial statements have been prepared under the historical cost convention except as otherwise stated.

### **3 Significant accounting judgments, estimates and assumptions**

The Company's material accounting policies are stated in note 4. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies that management considers critical because of the complexity, judgment of estimation involved in their application and their impact on these financial statements.

Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The area involving a higher degree of judgment or complexity and where assumptions and estimates are significant to the financial statements are as follows:

- (i) Useful lives and residual values of property and equipment - note 4.1.
- (ii) Use of discount rates and interpretation of lease terms - note 4.3.
- (iii) Recognition of deferred tax assets/liabilities and estimation of income tax provision - note 4.10
- (iv) Allowance for expected credit losses - note 4.14.
- (v) Identification and initial measurement of compound financial instruments - note 4.13.
- (vi) Classification and measurement of financial assets - 4.11.2.

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**MATERIAL ACCOUNTING POLICY INFORMATION**

The material accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**4.1 Property and equipment****4.1.1 Owned****Recognition and measurement**

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Capital work in progress and advances for capital expenditures are transferred to the respective item of property and equipment when available for intended use.

**Subsequent expenditure**

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to statement of profit or loss during the period in which they are incurred.

**Depreciation**

Depreciation is calculated to charge the cost of items of property and equipment less their estimated residual values using the straight line method and is generally recognized in statement of profit or loss at rates given in note 5 to these financial statements. Capital work in progress is not depreciated.

Depreciation on additions to property and equipment is charged on pro-rata basis from the day in which property and equipment is acquired or capitalized while no depreciation is charged for the month in which property and equipment is disposed-off / derecognized.

**Impairment**

The Company reviews the residual values and useful lives of property and equipment on a regular basis. Any change in such estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge and impairment.

**Disposal**

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized in the statement of profit or loss.

**4.2 Intangible assets****Recognition and measurement**

Intangible assets are carried at cost less accumulated amortization and impairment losses, if any. Costs associated with maintaining intangible assets, are recognized as an expense as and when incurred.

**Subsequent expenditure**

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands (if any), is recognized in the profit or loss as incurred.

**Amortization**

Amortization is calculated using the straight-line method, to allocate the cost of the intangible assets over its estimated useful life. The Company charges amortization on additions from the date the asset becomes available for the intended use up to the date when it is derecognized. Intangible assets with indefinite useful lives are not amortized.

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**Lease liability and right of use of asset:**

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which a leased asset is available for use by the Company.

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

Lease payments include fixed payments, variable lease payment that are based on an index or a rate expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable. The extension and termination options are incorporated in determination of lease term only when the Company is reasonably certain to exercise these options.

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

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

**4.4 Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and bank balances, and other short term highly liquid investments with original maturities of three months or less which form an integral part of the Company's cash management.

**4.5 Short term borrowings**

Markup bearing borrowings are initially measured at cost being the fair value of consideration received, less attributable transaction cost. Subsequent to initial recognition, they are measured at cost less subsequent payments.

**4.6 Revenue recognition and Finance Cost****(a) Revenue Recognition**

Revenue comprises of the following:

**Markup / income on financing**

Markup income / return on financing is recognized on a time proportion basis using the contractual rates except the markup income / return on non-performing financing.

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### **Income from investment**

Markup / return on investments is recognized on time proportion basis using contractual rates. Where debt securities are purchased at premium or discount, the related premiums or discounts are amortized through the profit or loss over the remaining period of maturity of said investment. Gain or loss on sale of investment is accounted for in the period in which the sale occurs.

### **Income on bank deposits**

Return on bank deposits are recognized on time proportionate basis.

### **Income on Diminishing Musharika Financing**

Profit on Diminishing Musharika arrangements is recognised under the effective profit rate method based on the amount outstanding. Income recoverable on diminishing musharika arrangements is recognised on a receipt basis.

### **Management fee**

Management fee from Parent entity is recognized in accordance with Agency agreement with Karandaaz Pakistan at the rate of 1% of the average portfolio.

## **(b) Finance Cost**

Finance cost comprise of markup expense on subordinated loans, short term borrowings, bank charges and financial charges on lease liability. Finance cost (except on subordinated loan) is recognized in profit or loss using contractual rates. Finance cost on subordinated loan is recognized in profit or loss using effective markup method.

### **4.7 Short term investments**

Investments classified as financial asset at amortized cost are recognized initially at fair value, plus attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

### **4.8 Provisions**

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

### **4.9 Contingencies and commitments**

Contingent liability is disclosed when:

- There is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company;
- or
- There is a present obligation that arises from past events but 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.

Accounting policy in respect of contingent taxation liabilities is further elaborated in note 4.10.

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## 4.10 Taxation

### Income tax

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income as the case may be.

### Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years. Where there is uncertainty in income tax accounting i.e. when it is not probable that the tax authorities will accept the treatment, the impact of the uncertainty is measured and accounted for using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty. Such judgements are reassessed whenever circumstances have changed or there is new information that affects the judgements. Where, at the assessment stage, the taxation authorities have adopted a different tax treatment and the Company considers that the most likely outcome will be in favor of the Company, the amounts are shown as contingent liabilities. In making a judgment and / or estimate relating to probability of outcome, the management considers laws, statutory rules, regulations and their interpretations. Where, based on management's estimate, a provision is required, the same is recorded in the financial statements.

### Deferred

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

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to the statement of profit or loss, except in the case of items charged or credited to equity or other comprehensive income, in which case it is included in the statement of changes in equity or statement of other comprehensive income as the case may be.

## 4.11 Financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

### 4.11.1 Initial Recognition

All financial assets and liabilities are initially measured at fair value. For financial assets classified at FVTPL, transaction costs are expensed immediately in profit or loss. For financial assets classified at amortized cost or FVOCI, transaction costs are included in the initial carrying amount.

### 4.11.2 Classification & Measurement

The Company classifies its financial assets, based on the business model for managing the financial assets and their contractual cash flow characteristics in the following measurement categories:

- at amortised cost,
- at fair value through profit or loss ("FVTPL") and;
- at fair value through other comprehensive income ("FVOCI")

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## Business model

The business model reflects how the Company manages the assets in order to generate cash flows, that is, whether the objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

The factors considered by the Company in determining the business model for a group of assets include:

- Past patterns of holding or selling similar financial assets,
- Performance evaluation metrics used by key management,
- Internal risk management strategies and,
- How returns on these assets are reported and monitored internally.

## Sole Payments of Principal and Interest ("SPPI"):

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell the underlying asset, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). 'Principal' is defined as the fair value of the financial asset on initial recognition and 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as interest margin.

In assessing whether the contractual cash flows are SPPI, the company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

A prepayment feature aligns with SPPI if it mainly represents unpaid principal and profit.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The classification requirements for debt and equity instruments are described below:

### (i) Debt instruments

#### (a) Amortised cost

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### (b) Fair value through other comprehensive income

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

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in the statement of profit or loss and presented net within other operating income/expenses in the period in which it arises.

**(ii) Equity instruments**

Equity instruments are instruments that meet the definition of equity from the issuer's perspective and are instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

All equity investments are required to be measured in the statement of financial position at FVTPL, with gains and losses recognized in the profit or loss, except where an irrevocable election has been made at the time of initial recognition to measure the investment at FVOCI.

**4.11.3 Subsequent measurement and gains and losses**

(i) Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest rate method. Interest income from these financial assets is included in markup income using the effective interest rate method. Any gain or loss arising on derecognition, foreign exchange gains and losses and impairment is recognized directly in profit or loss and presented in other income/ expenses. Impairment losses are presented as separate line item in the statement of profit or loss.
(ii) Financial assets at FVOCI	Debt instruments are subsequently measured at fair value. Interest income is calculated using effective interest rate method. Movements in the carrying amount are taken through OCI except for recognition of impairment gains or losses, markup income and foreign exchange gains & losses on the instrument which are recognized in the statement of profit or loss.
	Equity investments are subsequently measured at fair value. Net gains and losses are recognized in other comprehensive income.
(iii) Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the statement of profit or loss.

**4.11.4 Reclassifications**

The Company reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting year following the change. Such changes are expected to be very infrequent and none occurred during the year.

**4.11.5 Derecognition**

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial 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.
- The Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

**(a) Amortised cost**

On derecognition, the cumulative gain or loss is recognized in the statement of profit or loss.

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

On derecognition, the cumulative gains or losses previously recognized in OCI are reclassified from equity to the statement of profit or loss and recognized in other income/expenses.

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

On derecognition, the cumulative gain or loss is recognized in the statement of profit or loss.

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#### 4.11.6 Write-offs

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. Against each customer's outstanding exposure which stands as impaired, the Company makes an assessment with respect to the timing and amount of write-off based on the expectation of recovery. However, financial assets that are written off remain subject to legal enforcement activities for recovery of amounts due.

#### 4.11.7 Financing

Financing comprises of long term and short term facilities extended to Small and Medium Enterprises (SMEs) and non-SMEs. The Company's objective for financing facilities provided is to collect contractual cashflows and accordingly books income on straight-line basis. The Company classifies its outstanding exposure as performing, under-performing and non-performing loans. Financing is stated net of provision for performing, underperforming and non-performing financing, if any, determined as per the policy of the Company.

The classifications of performing, underperforming and non-performing relates to ECL stage 1, stage 2 and stage 3 respectively. In case of a financial asset being classified in stage 3 ECL, the income on such outstanding exposure is calculated on net-basis using credit-impaired effective interest rate. The Company applies 95% provision on stage 3 ECL financial assets.

The classification of financing under the ECL model adopted by the Company is as follows:

##### **Stage 1 – 12-month ECL (Performing)**

Applies to performing financial assets with no significant increase in credit risk.

##### **Stage 2 – Lifetime ECL (Underperforming)**

Applies to financial assets with a significant increase in credit risk since initial recognition.

##### **Stage 3 – Lifetime ECL (Non-performing)**

Applies to financial assets that are credit-impaired.

For details on impairment of financial assets, refer to note 4.14.

#### **Calculating interest income under IFRS 9**

	<b>No objective evidence of impairment exists (Stage 1)</b>	<b>Objective evidence of impairment (Stage 2)</b>	<b>Credit adjusted approach (Stage 3)</b>
<b>Base on which interest income is calculated</b>	Carrying amount of the asset at the beginning of the period before allowance for ECLs	Carrying amount of the asset at the beginning of the period before allowance for ECLs	Carrying value of the asset at the beginning of the period after allowance for ECLs
<b>Interest rate to apply to base</b>	Effective interest rate	Effective interest rate	Credit adjusted effective interest rate

The effective interest rate is the rate that discounts the estimated future cash flows from the asset to the asset's Amortized Cost before any allowance for expected credit losses. The credit adjusted effective interest rate differs from the effective interest rate in that estimates of future cash flows includes an adjustment for expected credit losses.

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## 4.12 Financial liabilities

### 4.12.1 Initial Recognition

Financial liabilities are recognized at the time the Company becomes a party to the contractual provisions of the instrument. These are initially recognized at fair value less any directly attributable transaction cost.

### 4.12.2 Classification

The Company determines the classification of its financial liabilities at initial recognition. The classification of financial liabilities is as follows:

- At fair value through profit and loss ("FVTPL"), or
- At amortised cost.

A financial liability is classified as FVTPL if it is classified as held for trading or it is designated as such on initial recognition. Other financial liabilities are measured at amortised cost using the effective interest rate method.

### 4.12.3 Subsequent measurement and gains and losses

(i) Financial liabilities at amortised costs	After initial recognition, financial liabilities which are interest bearing are subsequently measured at amortised cost using the effective interest rate method. Gain and losses are recognized in the statement of profit or loss.
(ii) Financial liabilities at FVTPL	Net gains and losses, including any interest expense, are recognized in the statement of profit or loss.

### 4.12.4 Derecognition

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Any gain or loss on derecognition of financial liabilities is taken to the statement of profit or loss.

## 4.13 Compound financial instruments

In accordance with requirements of IAS 32 'Financial Instruments: Presentation', the Company assess whether a financial instrument meets the definition of financial liability or equity and recognizing the financial instrument accordingly. If the financial instrument is a compound instrument, the Company recognizes each component separately with the equity component representing the residual amount after deducting the fair values of liabilities component from the consideration. Such equity component is recognized as 'Capital Reserve' and presented net of related deferred tax.

## 4.14 Impairment

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

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

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## Expected credit loss measurement

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

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

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

### Significant increase in credit risk (SICR)

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

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

### Measuring ECL - Explanation of inputs, assumptions and estimation techniques

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

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

The ECL is determined by projecting the PD, LGD and EAD for each period and for each individual exposure or collective segment. In lieu of the peculiar nature of the Company's financial statements and the portfolio, data for calculating PD% either for specific obligors or industry at large is not available and due to the lack of publicly available information on defaults / loan loss data, current year point-in-time PDs have been sought from Standard & Poor's (S&P) Global Corporate Default Rates study for the year 2024. Forward looking PDs have been estimated through a multi-variate regression model utilizing Gross Provision Charge Ratio of top 15 banks of Pakistan as a dependent variable while the independent variables are GDP Growth Rate, and change in Consumer Price Index (CPI). The change in CPI also acts as a proxy for prevailing interest rates, due to which a separate independent variable of interest rates was excluded given presence of multi-collinearity. The thesis here is that a subdued GDP growth rate and high inflation (consequently leading to higher interest rates), results in higher provisioning charge, and portfolio infection rates on a relative basis.

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The LGD estimates which have been used across the calculation are exhibited below:

35% for fleet backed exposures

45% for Stage 1 and Stage 2 exposures

95% for stage 3 exposures

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

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

The impact of ECL on financial assets except long term and short term financing is not material.

#### **4.15 Employees' provident fund**

The Company operates a contributory provident fund for those employees who have opted for this scheme. Equal contributions are made by the Company and employee to the fund. The Company intends to create a separate provident fund trust to manage the employees' provident fund.

#### **4.16 Presentation and functional currency**

These financial statements are prepared in Pak Rupees, which is the presentation as well as functional currency of the Company. Figures have been rounded off to the nearest rupee unless otherwise specified.

#### **4.17 Foreign currency transactions and translations**

Transactions in foreign currencies are translated in Pakistan rupees at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistan rupees at the rates of exchange approximating those prevalent at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

#### **4.18 Short term leases**

The Company's policy with respect to short term leases i.e. of a period less than 12 months is to recognize payments on a straight line basis as an expense in the statement of profit or loss.

#### **4.19 Dividend and appropriation to reserves**

Dividend and other appropriation to reserves are recognized in the financial statements in the period in which these are approved.

#### **4.20 Share capital**

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, if any.

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5	Property and equipment	Note	2024	2023
			(Rupees)	(Rupees)
	Property and equipment	5.1	45,510,646	6,331,171

5.1 Property & Equipment

2024					
	Computer equipment	Office Equipment	Furniture and Fixtures	Motor Vehicle	Total
<b>Rupees</b>					
<b>Net carrying value basis</b>					
Year ended December 31, 2024					
Opening net book value (NBV) as at January 01, 2024	5,663,760	254,954	264,678	147,779	6,331,171
Additions (at cost) during the year	919,085	2,105,351	19,617,306	9,390,505	32,032,247
Transfer from CWIP	-	-	18,575,113	-	18,575,113
Depreciation charge for the year	(2,983,478)	(322,850)	(6,888,271)	(1,233,286)	(11,427,885)
Closing net book value (NBV) as at December 31, 2024	3,599,367	2,037,455	31,568,826	8,304,998	45,510,646

**Gross carrying value basis**

As at December 31, 2024

Cost	9,537,293	2,432,866	38,542,919	9,540,004	60,053,082
Accumulated depreciation	(5,937,926)	(395,411)	(6,974,093)	(1,235,006)	(14,542,436)
Net book value	3,599,367	2,037,455	31,568,826	8,304,998	45,510,646
Depreciation rate per annum	33%	20%	20%	20%	

**Net carrying value basis**

Year ended December 31, 2023

2023					
Opening net book value (NBV) as at January 01, 2023	3,568,009	320,457	334,778	-	4,223,244
Additions (at cost) during the year	4,048,590	-	-	149,499	4,198,089
Depreciation charge for the year	(1,952,839)	(65,503)	(70,100)	(1,720)	(2,090,162)
Closing net book value (NBV) as at December 31, 2023	5,663,760	254,954	264,678	147,779	6,331,171

**Gross carrying value basis**

As at December 31, 2023

Cost	8,618,208	327,515	350,500	149,499	9,445,722
Accumulated depreciation	(2,954,448)	(72,561)	(85,822)	(1,720)	(3,114,551)
Net book value (NBV)	5,663,760	254,954	264,678	147,779	6,331,171
Depreciation rate per annum	33%	20%	20%	20%	

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Depreciation expense for the year on entity's owned property & equipment has been charged to administrative expenses as referred in Note 29.

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7	<b>Intangible assets</b>	Note	<b>2024</b>	<b>2023</b>
			<b>(Rupees)</b>	<b>(Rupees)</b>
	Computer softwares and licenses	7.1	42,063,507	30,286,352
7.1	<b>Intangible assets</b>			<b>2024</b>
				<b>Computer softwares and licenses</b>
				<b>Rupees</b>
	<b>Net carrying value basis</b>			
	Year ended December 31, 2024			
	Opening net book value as at January 01, 2024			30,286,352
	Additions (at cost) during the year			20,458,674
	Amortization charge for the year			(8,681,519)
	Closing net book value as at December			42,063,507
	<b>Gross carrying value basis</b>			
	As at December 31, 2024			
	Cost			52,764,116
	Accumulated amortization			(10,700,609)
	Net book value			42,063,507
	Amortization rate per annum			25%
	<b>Net carrying value basis</b>			<b>2023</b>
	Year ended December 31, 2023			<b>Rupees</b>
	Opening net book value (NBV) as at January 01, 2023			-
	Additions during the year			32,305,442
	Amortization charge for the year			(2,019,090)
	Closing net book value			30,286,352
	<b>Gross carrying value basis</b>			
	As at December 31, 2023			
	Cost			32,305,442
	Accumulated amortization			(2,019,090)
	Net book value (NBV)			30,286,352
	Amortization rate per annum			25%

7.2

This represents computer softwares and licenses of the Company. Amortization expense for the year on the intangible assets has been charged to administrative expenses as referred in note 29.

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	2024	2023
	(Rupees)	(Rupees)
Note		
8.1	18,575,113 (18,575,113)	- 18,575,113
		18,575,113

**8 Capital work in progress**

Opening Balance  
(Transfers)/Additions  
Closing balance

8.1 This included architectural designing, equipment installation cost and equipment cost.

**9 Long term financing - net**

Financing - gross  
Less:  
Current maturity

9.1	954,346,195	356,236,811
	249,325,707	153,503,222

**Provision for expected credit loss:**

Stage 1 & 2 ECL  
Stage 3 ECL

**Total Provision**

9.3	14,447,842	5,343,552
	14,447,842	5,343,552
	690,572,646	197,390,037

**Net Long Term financing**

This represents term finance facilities provided on a markup basis, with rates ranging from 14.18% to 25.99% per annum (2023: 19.00% to 27.28%). These loans are repayable over 3 to 7 years from the disbursement date and are secured through personal guarantees of directors, mortgages, or charges over plant and machinery.

9.1

Additionally, it covers musharikah finance facilities offered to customers at a profit rate of 15.14% per annum (2023: nil). These facilities have a repayment term of 5 years (2023: nil) and are secured by assets covered under the musharikah agreement.

**9.2 Financing - Exposures**

Opening Balance

Additions

Transfer to Stage 1

Transfer to Stage 2

Transfer to Stage 3

Closing Balance

	2024			Total
	Stage 1	Stage 2	Stage 3	
	261,472,299	94,764,512	-	356,236,811
	598,109,384	-	-	598,109,384
	(7,465,727)	7,465,727	-	-
	(7,465,727)	7,465,727	-	-
	852,115,956	102,230,239	-	954,346,195

**9.3 Particulars of provision against financing**

Balance at 01 January  
Opening ECL adjustment  
Balance at 01 January- As restated  
Provision charge for the year  
Balance at 31 December

	2024			2023		
	Stage 1 & 2	Stage 3	Total	Stage 1 & 2	Stage 3	Total
	(Rupees)			(Rupees)		
	5,343,552	-	5,343,552	2,904,889	-	2,904,889
	(251,876)	-	(251,876)	-	-	-
	5,091,676	-	5,091,676	2,904,889	-	2,904,889
	9,356,166	-	9,356,166	2,438,663	-	2,438,663
	14,447,842	-	14,447,842	5,343,552	-	5,343,552

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10 **Financing on behalf of parent entity**

This represents loans disbursed by the Company to the identified borrowers under programs originated by Karandaaz Pakistan through agency agreement as referred in note 20. These loans are repayable by identified borrowers within a period of two to four years from the date of disbursement.

	<b>2024</b>	<b>2023</b>
	<b>(Rupees)</b>	<b>(Rupees)</b>
Financing on behalf of parent entity	922,443,090	401,197,763
Less: Current portion	561,318,481	253,387,376
Net financing on behalf of parent entity	<u>361,124,609</u>	<u>147,810,387</u>

11 **Long term deposits**

These deposits include a security deposit for the Company's head office at 4th Floor, 34-S, Main Boulevard, Gulberg 2, paid to the landlord, and a deposit with PSO for managing employee fuel cards.

		<b>2024</b>	<b>2023</b>
	<b>Note</b>	<b>(Rupees)</b>	<b>(Rupees)</b>
<b>12 Advances, deposits, prepayments and other receivables</b>			
Prepayments		2,920,467	1,015,462
Short term security deposits		-	105,000
Other receivables	12.1	8,054,628	5,365,076
Accrued interest on financing		61,263,246	38,389,032
Accrued interest on term deposit receipts (TDRs) and saving accounts		9,566,367	1,500,258
		<u>81,804,708</u>	<u>46,374,828</u>

12.1 This includes an amount of Rs. 1,274,284 (2023: Rs. 3,554,280) receivable from parent entity against management fee for managing its portfolio under agency agreement and expenses incurred on behalf of parent entity.

12.2 The aggregate maximum amount due from related parties at the end of any month during the year was Rs. 2,350,731 (2023: Rs. 1,974,451). The amounts due from related parties are less than 180 days old.

		<b>2024</b>	<b>2023</b>
	<b>Note</b>	<b>(Rupees)</b>	<b>(Rupees)</b>
<b>13 Short term financing - net</b>			
Financing markup bearing - gross	13.1	1,700,472,600	1,086,000,000
<b>Less:</b>			
<b>Provision for expected credit loss:</b>			
Stage 1 & 2 ECL		59,155,973	15,960,000
Stage 3 ECL		29,234,135	22,000,000
<b>Total Provision</b>	13.3	88,390,108	37,960,000
Net financing - Markup bearing		<u>1,612,082,492</u>	<u>1,048,040,000</u>

13.1 This represents short term finance facilities provided on markup basis. The markup on these loans ranges from 13.14% to 32% (2023: 18.5% to 26.91%) per annum. These are secured against personal guarantees of directors, mortgagors, charge over plant and machinery and/or post dated cheques.

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13.2 Financing - Exposures

	2024			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	1,054,000,000	10,000,000	22,000,000	1,086,000,000
Additions				
Transfer to Stage 1	589,472,600	25,000,000	-	614,472,600
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(101,500,000)	101,500,000	-	-
Closing Balance	(101,500,000)	101,500,000	-	-
	1,541,972,600	136,500,000	22,000,000	1,700,472,600

13.3 Particulars of provision against financing

	2024		2023	
	Stage 1 & 2	Stage 3	Stage 1 & 2	Stage 3
Balance at 01 January	15,960,000	22,000,000	6,555,000	-
Opening ECL adjustment	5,589,952	2,646,608	8,236,560	-
Balance at 01 January- As restated	21,549,952	24,646,608	6,555,000	-
Provision charge for the year	37,606,021	4,587,527	42,193,548	22,000,000
Balance at 31 December	59,155,973	29,234,135	88,390,108	31,405,000

13.4 Particulars of non-performing financing

Category of classification	2024				2023			
	Provision rate	Amount outstanding	Provisions required	Provisions held	Provision rate	Amount outstanding	Provisions required	Provisions held
Sub-standard	35%	-	-	-	25%	-	-	-
Doubtful	45%	-	-	-	50%	-	-	-
Loss	95%	30,772,774	29,234,135	29,234,135	100%	22,000,000	22,000,000	22,000,000
		30,772,774	29,234,135	29,234,135		22,000,000	22,000,000	22,000,000

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			2024	2023
		Note	(Rupees)	(Rupees)
14	<b>Short Term Investments</b>			
	<b>Amortised cost</b>			
	Pakistan Investment Bonds	14.1	1,527,685,174	-
	Treasury Bills	14.2	19,275,763,343	1,645,344,496
			<u>20,803,448,517</u>	<u>1,645,344,496</u>
14.1	The redemption value of these Pakistan Investment Bond amounts to Rs 1,541,920,180 (2023: Nil). These carry markup of 13.25% (2023: Nil) per annum having maturity falling in the month of January 2025 (2023: Nil).			
14.2	The redemption value of these Treasury Bills amounts to Rs 19,443,089,000 (2023: Rs 1,760,00,000). These carry effective markup rate ranging from 11.89% 21.95% (2023: 15.10% to 22.5%) per annum. These instruments have maturity falling in the months of January, March, May, June and December 2025.			
15	<b>Taxation - net</b>		2024	2023
			(Rupees)	(Rupees)
	Balance at January 1		12,232,410	(6,973,702)
	Income tax paid /withheld during the year		38,852,995	62,680,846
	Current tax charge	31	(27,101,119)	(43,474,734)
	Impact of ECL as per adoption of IFRS 9	2.2.1	(1,143,701)	-
	Balance at December 31		<u>22,840,585</u>	<u>12,232,410</u>
16	<b>Cash and bank balances</b>			
	Cash at bank:			
	Savings Accounts	16.1	253,537,968	234,196,792
	Cash in hand		21,565	95
			<u>253,559,533</u>	<u>234,196,887</u>
16.1	The rate of markup on these accounts ranges from 8.69% to 20.57% (2023: 7.50% to 20.73%) per annum.			
17	<b>Share capital and reserves</b>			
17.1	<b>Authorised share capital</b>			
			2024	2023
			(Number of shares)	(Rupees)
			<u>300,000,000</u>	<u>300,000,000</u>
17.2	<b>Issued, subscribed and paid up share capital</b>			
			2024	2023
			(Number of shares)	(Rupees)
			<u>150,000,000</u>	<u>150,000,000</u>
			Ordinary shares of Rs.10 each, fully paid in cash	<u>1,500,000,000</u>
			<u>1,500,000,000</u>	<u>1,500,000,000</u>
17.3	<b>Movement in ordinary shares</b>			
	There was no movement in ordinary shares during the year.			
17.4	Karandaaz Pakistan holds 149,999,996 shares representing 99.99% shares of the Company.			

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17.5 All ordinary shares rank equally with regard to the company's residual assets. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the company.

	Note	2024 (Rupees)	2023 (Rupees)
<b>18</b>	<b>Capital reserve - net of tax</b>		
	Capital reserve - net of tax	67,386,742	67,386,742

18.1 This represents equity portion of subordinated loan as referred to in note 19.

**19 Subordinated loan**

	Subordinated loan from parent entity	19.1	1,484,412,177	1,494,391,763
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19.1 This represents the liability component of a subordinated loan classified as a compound financial instrument, obtained under an agreement between Karandaaz Pakistan (the parent entity) and the Company, dated November 28, 2022, following SECP approval. The loan has a tenure of five years and currently carries a markup of 3-month KIBOR minus 2% per annum, payable quarterly. The loan is subordinated to other indebtedness of the Company.

	Note	2024 (Rupees)	2023 (Rupees)	
<b>20</b>	<b>Payable to parent entity</b>			
	Payable to parent entity	20.1	978,876,808	432,744,449
	Less: Current portion		561,318,481	253,387,376
	Net payable to parent entity		417,558,327	179,357,073

20.1 This represents amount payable to Karandaaz Pakistan under the agency agreement and addendum to aforesaid agreement between the two companies which has been provided to borrower entities.

	Note	2024 (Rupees)	2023 (Rupees)	
<b>21</b>	<b>Lease liability</b>			
	Lease liability	21.1	19,111,329	19,607,382
	Less: Current portion of lease liability		8,400,000	700,000
	Non-current lease liability		10,711,329	18,907,382

21.1 The lease obligation relates to a 5 year rental agreement (expiring on November 30, 2028) for the Company's head office. Rentals are payable in advance on annual basis, with an increment of 25% after 3 years from the initial date (December 01, 2023). The Company has recognized a right of use asset at the present value of the lease payments at the incremental borrowing rate of 22.69% and prepaid rental installment. The Company is reasonably certain that it will not exercise its option to terminate the agreement early.

	2024 (Rupees)	2023 (Rupees)
<b>21.2</b>		
Opening balance	19,607,382	-
Adjustments / Additions during the year	2,446,262	27,643,519
Finance cost	5,457,685	363,863
Repayments	(8,400,000)	(8,400,000)
Closing balance	19,111,329	19,607,382

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	2024 (Rupees)	2023 (Rupees)
<b>21.3 Maturity Analysis</b>		
Undiscounted lease payments are as follows:		
1 year	8,400,000	700,000
2 years	10,500,000	8,400,000
3 years	10,500,000	8,575,000
4 years	-	10,500,000
5 years	-	9,625,000
	<u>29,400,000</u>	<u>37,800,000</u>
Future finance cost	(10,288,671)	(18,192,618)
Lease liability as at December 31, 2024	<u>19,111,329</u>	<u>19,607,382</u>

## 22 Deferred tax liability

The deferred tax liability/(asset) comprises of temporary differences relating to:

Pre-commencement expenses	(750,614)	(1,501,229)
Accrued interest on term deposit receipts (TDRs), t-bills and saving account	122,858,636	9,191,547
Accelerated tax depreciation	2,816	540,152
Right of use asset	6,835,395	7,883,010
Lease liability	(5,542,285)	(5,686,142)
Provision for financing	(29,823,005)	(12,558,030)
Accrued finance cost	(97,594,067)	-
Impact of tax on subordinated loan	27,524,162	27,524,162
	<u>23,511,038</u>	<u>25,393,470</u>

**22.1** The gross movement in net deferred tax liability/(asset) during the year is as follows:

	Note	2024 (Rupees)	2023 (Rupees)
Opening balance		25,393,470	29,135,901
Charged to statement of profit or loss		433,126	(3,742,431)
Charged to equity (Impact of adoption of IFRS 9)		(2,315,558)	-
Closing balance		<u>23,511,038</u>	<u>25,393,470</u>

## 23 Accrued and other liabilities

Payable to parent entity	23.1	12,142,602	7,008,114
Provident fund payable	23.2	58,990,177	26,910,909
Accrued liabilities		27,272,544	20,852,654
Tax deducted at source		4,934,606	2,825,965
Other payables		39,003,861	25,469,693
		<u>142,343,790</u>	<u>83,067,335</u>

### 23.1 Payable to parent entity

Interest accrued on financing on behalf of parent entity		12,142,602	6,399,746
Payable under service level agreement	23.1.1	-	608,368
		<u>12,142,602</u>	<u>7,008,114</u>

**23.1.1** This represents payable to parent entity with regards to human resource and operational support being provided under the service level agreement. However, no such expense incurred during the year.

**23.2** The Company is in the process of establishing a separate trust to manage the provident fund.

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24	Short term Borrowings	Note	2024	2023
			(Rupees)	(Rupees)
	Short term borrowings	24.1	20,283,693,837	-
24.1	This represents short-term borrowings taken from Allied bank at 3-months KIBOR minus 2% to be reinvested in PIBs and T-bills. These borrowings have maturities falling in the month of January 2025.			
25	<b>Contingencies and commitments</b>			
25.1	There are no known contingencies at the reporting date.			
25.2	The Company has commitments in respect of contractual obligations amounting to Rs. 17,702,100 as at December 31, 2024 (2023: Rs. 44,676,443).			
26	Markup on financing	Note	2024	2023
			(Rupees)	(Rupees)
	Markup on long term financing	26.1	120,592,631	64,271,659
	Markup on short term financing	26.2	265,083,275	117,133,566
			385,675,906	181,405,225
26.1	This represents markup on financing on long term basis bearing markup as mentioned in note 9 to these financial statements.			
26.2	This represents markup on financing on short term basis bearing markup as mentioned in note 13 to these financial statements.			
27	Income other than markup on financing	Note	2024	2023
			(Rupees)	(Rupees)
	Interest income on term deposit receipts (TDRs)		-	11,810,520
	Interest income on treasury bills		605,499,383	406,973,873
	Interest income on Pakistan investment bonds		27,694,500	-
	Interest income on savings accounts		60,402,291	68,393,940
	Management fee from parent entity		6,398,100	3,123,545
	Processing fee on financing		6,328,616	2,378,811
			706,322,890	492,680,689
28	<b>Finance cost</b>			
	Markup on subordinated loan	28.1	284,626,576	298,558,832
	Markup on short-term borrowing	28.2	336,531,267	-
	Bank charges		86,753	93,269
	Financial charges on lease liability		5,457,685	363,863
			626,702,281	299,015,964
28.1	This represents markup on subordinated loan from Karandaaz Pakistan as mentioned in note 19 to these financial statements.			
28.2	This represents markup on short-term borrowings taken from Allied bank at 3-months KIBOR minus 2% which has been invested in PIBs and T-bills as mentioned in note 24 to these financial statements.			

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	Note	2024	2023
		(Rupees)	(Rupees)
<b>29 Administrative expenses</b>			
Salaries, wages and benefits		232,032,845	137,787,978
Legal and professional fees		9,038,266	22,616,104
Auditors remuneration	29.1	2,177,337	1,917,375
Travel, lodging and per diems		23,489,562	13,235,179
Short term lease expense		7,767,912	11,603,446
Utilities		7,016,461	1,273,032
Depreciation on property and equipment	5	11,427,885	2,090,162
Depreciation on ROU Asset	6	6,058,723	460,725
Amortization on Intangibles	7	8,681,519	2,019,090
Printing and stationery		943,069	656,178
Advertisement		-	38,000
Marketing/branding		1,859,855	316,192
Fees and subscription		2,648,049	1,438,893
Human resource and operational support cost charged by parent entity		-	7,292,303
Vehicle operations and maintenance		479,656	57,135
Consultancy		4,662,439	1,149,000
Insurance expense		484,345	201,483
Office expenses		6,394,652	2,424,246
Digital portfolio cost		3,008,841	-
Directors' fees		5,250,000	7,937,500
		<u>333,421,416</u>	<u>214,514,021</u>

**29.1 Auditor's remuneration**

Statutory audit	1,600,000	1,112,500
Review of interim financial statements	400,000	287,500
Other certifications	-	423,125
Out of pocket expenses	177,337	94,250
	<u>2,177,337</u>	<u>1,917,375</u>

**30 Net impairment loss on financial assets**

	Note	2024		
		Long term financing (Rupees)	Short term financing (Rupees)	Total (Rupees)
Balance at the beginning of the year		5,343,552	37,960,000	43,303,552
Opening adjustments due to ECL		(251,876)	8,236,560	7,984,684
Provision charge during the year		9,356,166	42,193,548	51,549,714
Balance at the end of year	30.1.2	<u>14,447,842</u>	<u>88,390,108</u>	<u>102,837,950</u>
		2023		
		Long term financing (Rupees)	Short term financing (Rupees)	Total (Rupees)
Balance at the beginning of the year		2,904,889	6,555,000	9,459,889
Provision charge during the year		2,438,663	31,405,000	33,843,663
Balance at the end of the year		<u>5,343,552</u>	<u>37,960,000</u>	<u>43,303,552</u>

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30.1 Particulars of Credit Loss Allowance

30.1.1 Financing - Exposures

	2024			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	1,315,472,299	104,764,512	22,000,000	1,442,236,811
Additions/(Reversals)	1,248,653,867	(36,071,883)	-	1,212,581,984
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(108,965,727)	108,965,727	-	-
Transfer to Stage 3	-	-	-	-
Closing Balance	(108,965,727)	108,965,727	-	-
	2,455,160,439	177,658,356	22,000,000	2,654,818,795

30.1.2 Provision against Financing

	Note	2024	2023
Long-term financing	9	14,447,842	5,343,552
Short-term financing	13	88,390,108	37,960,000
		102,837,950	43,303,552

30.1.3 Particulars of provision/credit loss allowance against financing

	2024			Total
	Stage 1	Stage 2	Stage 3	
Opening balance - as reported	-	-	-	43,303,552
Impact of adoption of IFRS 9 - 01 January 2024	26,235,422	406,206	24,646,608	7,984,684
Opening balance - as restated	26,235,422	406,206	24,646,608	51,288,236
Transfer to stage 1	(1,247,420)	-	-	-
Transfer to stage 2	-	1,247,420	-	-
Transfer to stage 3	-	-	-	-
Charge for the year	14,571,725	47,506,819	4,587,527	66,666,071
Reversal for the year	(14,938,250)	(178,107)	-	(15,116,357)
Net charge/(reversal) against financing	(366,525)	47,328,712	4,587,527	51,549,714
Closing balance	24,621,477	48,982,338	29,234,135	102,837,950

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31	Taxation	Note	2024	2023
			(Rupees)	(Rupees)
	Income tax:			
	- Current year		27,101,119	43,474,734
	Deferred taxation	22.1	433,126	(3,742,431)
			<u>27,534,245</u>	<u>39,732,303</u>

### 31.1 Tax charge reconciliation

Applicable tax rate		29.00%	29.00%
Tax effect of:			
Tax effect of permanent differences		5.28%	2.36%
Effective tax rate		<u>34.28%</u>	<u>31.36%</u>

32	Earnings per share	Note	2024	2023
			(Rupees)	(Rupees)

### 32.1 Basic earnings per share

Profit for the year	<b>Rupees</b>		52,791,140	86,979,963
Weighted average number of ordinary shares	<b>Number</b>	17	150,000,000	150,000,000
Basic earnings per share	<b>Rupees</b>		<u>0.35</u>	<u>0.58</u>

### 32.2 Diluted earnings per share

Profit for the year	<b>Rupees</b>		52,791,140	86,979,963
Weighted average number of ordinary shares	<b>Number</b>	17	150,000,000	150,000,000
Diluted earnings per share	<b>Rupees</b>		<u>0.35</u>	<u>0.58</u>

32.2.1 For the purpose of diluted earnings per share the weighted average number of shares for the year ended December 31, 2023 has been restated to correct a computational error.

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33	Cash and Cash Equivalents	Note	2024	2023
			(Rupees)	(Rupees)
	Cash and bank balances	16	253,559,533	234,196,887
	Short term investments	14	-	1,645,344,496
			<u>253,559,533</u>	<u>1,879,541,383</u>

### 34 Related party transactions

The Company's related parties comprise of its directors, associated undertakings, parent company and key management personnel. Remuneration of CEO and key management personnel has been disclosed in note 35. Other significant transactions with related parties and the balances with them are as follows:

Relationship with the Company	Nature of transactions	Year ending December 31, 2024	Year ending December 31, 2023
		(Rupees)	(Rupees)
1) Parent	Management fee charged by the Company	6,398,100	3,123,545
	Interest on financing on behalf of parent entity	58,779,301	16,780,083
	Principal on financing on behalf of parent entity	952,303,966	-
	Repayment on financing on behalf of parent entity	258,334,426	64,009,964
	Financing on behalf of parent entity	1,108,579,053	305,812,237
	Human resource and operational support cost under service level agreement	-	7,292,303
	Expenses incurred by company on behalf of parent entity	3,971,848	2,553,107
	Advance received under agency agreement	808,421,031	237,577,727
	Markup on subordinated loan	284,626,576	298,558,832
2) Directors	Meeting fee paid to the directors	5,250,000	7,937,500
3) Group Entities	Fee for Renewal of Exemption Certification of CCP - Infra Zamin Pakistan Limited	100,000	-
	Fee for Renewal of Exemption Certification of CCP - Pakistan Microfinance Company Limited (PMICL)	100,000	-

All transactions with related parties have been carried out at mutually agreed terms and conditions.

	2024	2023
	(Rupees)	(Rupees)
<b>Year end balances</b>		
Payable to parent entity	991,019,410	439,752,563
Accrued markup on subordinated loan	57,358,323	89,302,667
Liability portion of subordinated loan	1,484,412,177	1,494,391,763
Capital Reserve (Equity portion of subordinated loan - net of tax)	67,386,742	67,386,742
Receivable from parent entity	1,274,284	3,554,280
CCP exemption renewal fee receivable - PMICL	100,000	-

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35 **Remuneration of chief executive (CEO) and key management personnel**

The aggregate amount charged in the financial statements for the year for remuneration, to the Chief Executive and executives is as under:

<b>For the Year ended Dec 31, 2024</b>				
----- Rupees -----				
	Note	Chief Executive	Executives	Total
Managerial remuneration		43,036,000	138,141,476	181,177,476
Company's contribution to provident fund		2,838,600	11,035,472	13,874,072
Reimbursements	35.1	1,954,229	12,113,410	14,067,639
		47,828,829	161,290,358	209,119,187
Number of persons		1	26	27

<b>For the Year ended Dec 31, 2023</b>				
----- Rupees -----				
		Chief Executive	Executives	Total
Managerial remuneration	35.2	26,160,000	66,306,978	92,466,978
Company's contribution to provident fund		2,436,000	5,531,417	7,967,417
Reimbursements	35.1	2,170,262	7,464,973	9,635,235
		30,766,262	79,303,368	110,069,630
Number of persons		1	24	25

35.1 This includes communication and fuel reimbursements allowed to employees as per the Company's policy.

35.2 This includes remuneration of CFO charged by parent entity as human resource and operational support cost under service level agreement that was charged during the prior year. However, no such amount was charged during the current year.

36 **Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions. Capital includes ordinary share capital and reserves.

The Company monitors capital using a gearing ratio, which is long term debt divided by total capital.

37	Number of Employees	Year ending December 31, 2024	Year ending December 31, 2023
	Number of Employees at reporting date	37	31
	Average number of employees during the year*	36	24

\* Represents the average taken of the number of employees at the end of each month in the year

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## 38.2 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:

- 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).

If the inputs used to measure the fair value of an asset or a liability might be categorized in 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.

There were no financial assets or financial liabilities measured at fair value as at December 31, 2024.

## B FINANCIAL RISK MANAGEMENT

The Company has exposure to following risk from its use of financial instruments.

- Credit risk
- Market risk
- Liquidity risk

### Risk management framework

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

The Board oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

## 38.3 Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from components of financial statements as disclosed below:

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**i. Concentration of credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Note	2024 (Rupees)	2023 (Rupees)
Long term financing - net	9	939,898,353	350,893,259
Short term financing - net	13	1,612,082,492	1,048,040,000
Financing on behalf of parent entity	10	922,443,090	401,197,763
Long term deposits	11	3,776,875	3,676,875
Advances prepayments and other receivable	12	10,975,095	6,485,538
Markup accrued - receivable	12	61,263,246	38,389,032
Accrued interest on term deposit receipts (TDRs) and saving accounts	12	9,566,367	1,500,258
Short term investments- PIB	14	1,527,685,174	-
Short term investments- Treasury Bills	14	19,275,763,343	1,645,344,496
Cash and bank balances	16	253,559,533	234,196,887
		<u>24,617,013,568</u>	<u>3,729,724,108</u>

**ii- Impairment losses**

Under the earlier approach, the Company created a general provision of 1.5% based on historical loss trends and management judgment and specific provision was created against non-performing loans. However, IFRS 9 introduces a more risk-sensitive impairment methodology based on a three-stage ECL model, which classifies financial assets into the following categories:

Stage 1 – 12-month ECL: Applies to performing financial assets with no significant increase in credit risk.

Stage 2 – Lifetime ECL: Applies to under performing financial assets with a significant increase in credit risk since initial recognition.

Stage 3 – Lifetime ECL (Credit-Impaired): Applies to non performing financial assets that are credit-impaired.

The new ECL model incorporates historical data, current conditions, and forward-looking macroeconomic factors to estimate credit losses. This transition may result in higher or lower impairment provisions compared to the previous

The Company calculated ECL on the exposures of long term and short term financing.

	2024 (Rupees)	2023 (Rupees)
Opening balance	43,303,552	9,459,889
Impact of adoption of IFRS 9	7,984,684	-
Opening balance - as restated	51,288,236	9,459,889
Charge for the year:		
Stage 1 & 2	46,962,187	11,843,663
Stage 3	4,587,527	22,000,000
	51,549,714	33,843,663
Closing balance	<u>102,837,950</u>	<u>43,303,552</u>

The provision account in respect of financing are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrevocable is written off against the financial asset directly.

Based on past experience, the management believes that except as already provided for in these financial statements, no further impairment is required to be recognized against any financial assets of the Company.

**iii. Credit quality of financial assets**

The credit quality of major financial assets that are not impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

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An analysis of the credit quality of financial assets is as follows:

		2024 (Rupees)	2023 (Rupees)
<b>Short term investment - Pakistan Investment Bonds</b>			
Allied Bank Limited	A1+/AAA	1,527,685,174	-
		<u>1,527,685,174</u>	<u>-</u>
<b>Short term investments- Treasury Bills</b>			
Habib Metropolitan Bank Limited	A1+/AA+	19,386,419	25,393,122
United Bank Limited	A1+/AAA	407,760,299	1,619,951,374
Allied Bank Limited	A1+/AAA	18,848,616,622	-
		<u>19,275,763,340</u>	<u>1,645,344,496</u>
<b>Ratings</b>			
<b>Bank balances</b>			
United Bank Limited	A1+ / AAA	80,087,746	107,187,327
Allied Bank Limited	A1+/AAA	1,683,321	-
Bank Alfalah Limited	A1+/AA+	650,276	595,447
Habib Metropolitan Bank Limited	A1+/AA+	171,116,625	126,414,018
		<u>253,537,968</u>	<u>234,196,792</u>

#### 38.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's current market risk exposure is limited to interest rate risk. The objective of market risk management is to manage and control market risk exposures within an acceptable range.

##### 38.4.1 Foreign currency risk

The PKR is the functional currency of the Company and as a result currency exposures arise from transactions and balances in currencies other than PKR. The Company's potential foreign currency exposure comprise:

- Transactional exposure in respect of non functional currency monetary items; and
- Transactional exposure in respect of non functional currency expenditure and revenues.

##### Transactional exposure in respect of non functional currency monetary items

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of the Company are periodically restated to PKR equivalent, and the associated gain or loss is taken to the profit or loss. The foreign currency risk related to monetary items is managed as part of the risk management strategy.

##### Transactional exposure in respect of non functional currency expenditure and revenues

Certain operating and capital expenditure is incurred by the Company in currencies other than the functional currency. Certain sales revenue is earned in currencies other than the functional currency of the Company. These currency risks are managed as part of overall risk management strategy. The Company does not enter into forward exchange contracts.

There is no foreign currency risk on year end monetary balances.

##### 38.4.2 Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. The Company has financing and subordinated loan in Pakistani Rupees at variable rates. The financing and subordinated loan has variable rate pricing that is dependent on the Karachi Inter Bank Offer Rate (KIBOR).

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i. **Exposure to markup rate risk**

At the reporting date the markup rate profile of the Company's markup bearing financial instruments was as follows:

	2024	2023	2024	2023
	Effective rate %	Effective rate %	(Rupees)	(Rupees)
<b>Financial Assets</b>				
<b>- Fixed rate instruments</b>				
Saving accounts	8.69% to 20.57%	7.50% - 20.73%	253,537,968	234,196,792
Treasury Bills	11.89% to 21.95%	15.1% to 22.5%	19,275,763,343	1,645,344,496
Pakistan Investment Bonds	13.25%	nil	1,527,685,174	-
			<u>21,056,986,485</u>	<u>1,879,541,288</u>
<b>Variable rate instruments</b>				
Short term financing	13.14% to 32.00%	18.50% to 26.91%	1,612,082,494	1,048,040,000
Long term financing	14.18% to 25.99%	19.00% - 27.28%	939,898,353	350,893,259
			<u>2,551,980,847</u>	<u>1,398,933,259</u>
<b>Financial Liabilities</b>				
<b>- Fixed rate instruments</b>				
Lease liability	22.69%	22.69%	19,111,329	18,907,382
			<u>19,111,329</u>	<u>18,907,382</u>
<b>- Variable rate instruments</b>				
Subordinated loan	14.13% - 19.99%	15% - 20.91%	1,484,412,177	1,494,391,763
Short term borrowings	11.25% - 11.50%	-	20,283,693,837	-
			<u>21,768,106,014</u>	<u>1,494,391,763</u>

ii. **Fair value sensitivity analysis for fixed rate instruments**

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 effect the statement of profit or loss.

iii. **Cash flow sensitivity analysis for variable rate instruments**

If interest rates on saving account, at the period end date, fluctuates by 1 % higher / lower with all other variables held constant, profit before taxation for the period would have been Rs. 2.54 million higher / lower, mainly as a result of higher / lower interest income on floating rate instruments.

38.4.3 **Other market price risk**

The primary goal of the Company's investment strategy is to maximize investment returns on surplus funds. The Company adopts a policy of ensuring to minimize its price risk by investing in securities having sound market performance.

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**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, prudent fund management practices 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.

**Exposure to liquidity risk**

There were no defaults on loans payable during the year.

The maturity profile of the Company's financial liabilities based on the contractual amounts is as follows:

	Carrying amount	Contractual cash flows	Maturity up to one year	Maturity after one year and up to five years	Maturity after five years
<b>(Rupees)</b>					
December 31, 2024					
Accrued and other liabilities	142,343,790	142,343,790	142,343,790	-	-
Short term borrowings	20,283,693,837	20,283,693,837	20,283,693,837	-	-
Payable to parent entity	978,876,808	978,876,808	561,318,481	417,558,327	-
Subordinated loan	1,484,412,177	1,484,412,177	-	1,484,412,177	-
Lease liability	19,111,329	19,111,329	8,400,000	10,711,329	-
	<u>22,908,437,941</u>	<u>22,908,437,941</u>	<u>20,995,756,108</u>	<u>1,912,681,833</u>	<u>-</u>
December 31, 2023					
Accrued and other liabilities	83,067,335	83,067,335	83,067,335	-	-
Short term borrowings	-	-	-	-	-
Payable to parent entity	432,744,449	432,744,449	253,387,376	179,357,073	-
Subordinated loan	1,494,391,763	1,494,391,763	-	1,494,391,763	-
Lease liability	19,607,382	19,607,382	700,000	18,907,382	-
	<u>2,029,810,929</u>	<u>2,029,810,929</u>	<u>337,154,711</u>	<u>1,692,656,218</u>	<u>-</u>

39 **Statutory minimum capital requirement and management of capital**

Capital requirements applicable to the Company are set and regulated by the Securities and Exchange Commission of Pakistan ("SECP"). These requirements are put in place to ensure sufficient solvency margins. The Company manages its capital requirements by assessing its capital structure against the required level on a regular basis at the reporting date, the minimum equity requirement as per the NBFC Regulations for the non deposit taking NBFC is Rs. 100 million (2023: 100 million). As at December 31, 2024, the Company's total equity is Rs.1,819 million (2023: Rs. 1769.12 million)

The Company manages its capital structure and makes adjustments to it in light of the changes in regulatory and economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the return on capital to shareholders or issue new shares.

40 **Corresponding figures**

Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purposes of comparison and better presentation. However, no significant re-arrangements or reclassifications have been made in these financial statements during the year, except otherwise specified.

41 **Events after the reporting date**

Subsequent to December 31, 2024, the Company finalized arrangements to issue Rs. 1,000,000,000 Green Bonds (Term Finance Certificates) through a private placement, which is expected to be listed on the Pakistan Stock Exchange. These instruments rated AA- by PACRA, are to provide financing relating to renewable energy, clean agriculture, and transportation initiatives. This issuance is supported by Karandaaz Pakistan with a Debt Service Reserve Arrangement (DSRA). Major terms of these bonds will be as follows:

Minimum Subscription: Rs. 50,000,000

Maturity Date: 3 Years from the issue date

Expected profit rate, payment and frequency: 3-month KIBOR + 1%, with quarterly interest payments payable in arrears and within 5 days of due date.

Principal Repayments: Amortization of principal will occur in four quarterly installments during the last year and payable along with profit within 5 days of due date.

This has been classified as a non-adjusting event. Therefore, no adjustment has been made to the financial statements for the year ended December 31, 2024.

42 **General**

Figures reported in these financial statements have been rounded off to the nearest rupee unless otherwise stated.

43 **Authorization of financial statements**

These financial statements were authorized for issue on 17<sup>th</sup> April, 2025, 2025 by the Board of Directors of the Company.

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Chief Executive Officer

Director

  
Chief Financial Officer