PRIMUS
LEASING LIMITED

Directors' Report

The Board of Directors of Primus Leasing Limited is pleased to present the second annual report together with Audited Financial Statements of the Company for the year ended December 31, 2019.

Primus Leasing Limited (PLL / the Company) was incorporated in July 2017 as a wholly owned subsidiary of Pak Brunei Investment Company Limited. The Company is licensed to carry out leasing business as a Non-Banking Finance Company (NBFC) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 issued by the Securities and Exchange Commission of Pakistan. The Company started its operations from December, 2017 and has so far established 2 offices (2018: 2 offices), one located at Karachi and the other at Lahore.

Fiscal year 2019 was a difficult year for country's economy as it witnessed massive currency depreciation and significant rise in interest rates. Coupled with increasing inflation and slowdown of GDP growth, business conditions have not been conducive for lending institutions. This fact is also reflected in a substantial decrease in the growth of private sector credit off-take, which has declined to 4.7% YoY in December 2019 as compared to 19.1% a year ago.

Nevertheless, despite these challenges, PLL has been able to continue its growth trend, mainly due to concerted teamwork and support from the parent company. PLL managed to penetrate deep in the SME sector and succeeded in generating business from seven cities of Punjab by improving its footprint in Lahore, Multan and Faisalabad regions. During 2019, PLL also started marketing operations from Karachi and gradually increasing its outreach. In 2019, PLL achieved disbursements of Rs. 675 million (2018: Rs. 578 million) and earned total revenues of Rs. 151.7 million (2018: Rs. 84.9 million) with 66% contribution from lending operations. PLL was able to reach a PBT of Rs. 94.3 million (2018: Rs. 41.8 million) and PAT of Rs. 66.3 million (2018: Rs. 29.6 million).

The financial results of the Company are summarized below: (Figures in Rs.)

	2019	2018
Profit before taxation	94,258,202	41,781,786
Taxation	27,985,335	12,174,877
Profit for the year after taxation	66,272,867	29,606,909
Earnings per share	0.663	0.296

Going forward, PLL will continue its strategy to selectively increase outreach by exploring markets and industrial sectors offering high growth potential. In addition, focus on diversified lease portfolio in other geographic locations, with significant emphasis on SME sector, will continue to be the cornerstone of our strategy. The Company is also committed to continuously improving its governance structure, policies and procedures in order to have a strong internal control system. Policies and procedures are continuously reviewed for gaps and updated for regulatory and other changes in business processes.

The Board wishes to place its appreciation for the support and guidance of regulatory authorities.

On Behalf of the Board,

Chief Executive Officer
February 18, 2020

Director

PRIMUS LEASING LIMITED
(a wholly owned subsidiary of Pak Brunei Investment Company Limited)
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INDEPENDENT AUDITOR'S REPORT

To the members of Primus Leasing Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **Primus Leasing Limited** (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss, 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 a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, statement of profit or loss, 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, 2019 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 Annual Report or other document, 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 or 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 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 the 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 the 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.

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.

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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, 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 Salman Hussain.

A. F. Ferguson & Co

Chartered Accountants

Karachi

Dated: February 25, 2020

PRIMUS LEASING LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

2019 (US Dollars)	2018 (US Dollars)		Note	2019 (Rupees)	2018 (Rupees)
		ASSETS			
		Non-current assets			
64,564	81,901	Property and equipment	4	9,996,691	12,681,132
33,608	51,086	Intangible assets	5	5,203,647	7,909,832
3,828,780	2,224,842	Net investment in finance lease	6	592,824,166	344,480,451
347,018	259,632	Long term finances and loans	7	53,730,155	40,199,806
3,197	2,726	Long-term loans to employees	8	494,970	422,082
484	484	Long-term deposits		75,000	75,000
4,277,651	2,620,671			662,324,629	405,768,303
		Current assets			
4,546	27,207	Accrued mark-up	9	703,820	4,212,495
2,241,647	951,963	Current maturity of non current assets	10	347,082,538	147,395,969
1,679,221	3,766,454	Investments	11	260,000,000	583,173,972
3,659	4,213	Prepayments and other receivables	12	566,545	652,327
121,318	85,742	Bank balances	13	18,784,129	13,275,823
4,050,391	4,835,579			627,137,032	748,710,586
8,328,042	7,456,250	**Total assets**		1,289,461,661	1,154,478,889
		EQUITY AND LIABILITIES			
		Share capital and reserves			
		Authorised share capital			
6,458,542	6,458,542	100,000,000 ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
6,458,542	6,458,542	Issued, subscribed and paid-up capital	14	1,000,000,000	1,000,000,000
79,184	70,963	Reserves		12,260,327	10,987,460
6,537,726	6,529,505	**Total equity**		1,012,260,327	1,010,987,460
		Non-current liabilities			
1,461,422	832,409	Long-term deposits	15	226,277,408	128,885,067
94,716	19,398	Deferred taxation	16	14,665,185	3,003,493
				240,942,593	131,888,560
		Current liabilities			
160,269	-	Short-term deposits	15	24,815,000	-
8,462	56,154	Payable to Holding Company	17	1,310,207	8,694,466
58,822	17,335	Accrued expenses and other liabilities	18	9,107,608	2,684,052
2,657	-	Lease liability against right-of-use asset		411,460	-
3,968	1,449	Taxation - net		614,466	224,351
				36,258,741	11,602,869
1,790,316	926,745	**Total liabilities**		277,201,334	143,491,429
8,328,042	7,456,250	**Total equity and liabilities**		1,289,461,661	1,154,478,889
		CONTINGENCIES AND COMMITMENTS	19		

The annexed notes 1 to 34 form an integral part of these financial statements.

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CHIEF EXECUTIVE OFFICER

DIRECTOR

PRIMUS LEASING LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2019

2019	2018		Note	2019	2018
---------- (US Dollars) ---------				---------------- (Rupees) ---------------	
		INCOME			
545,655	159,746	Income from leasing operations	20	84,485,829	24,734,080
96,700	18,803	Income from finances and loans		14,972,367	2,911,268
642,355	178,549			99,458,196	27,645,348
		EXPENSES			
337,571	241,443	Administrative and general expenses	21	52,267,361	37,383,442
2,079	3,116	Provision for Sindh Workers Welfare Fund		321,971	482,395
1,096	287	Finance cost		169,810	44,410
(340,746)	(244,846)			(52,759,142)	(37,910,247)
337,258	369,807	Other income	22	52,218,952	57,258,545
638,867	303,510	**Profit for the year before provision and taxation**		98,918,006	46,993,646
(30,096)	(33,661)	Allowance for potential lease and other loan losses	23	(4,659,804)	(5,211,860)
608,771	269,849	**Profit for the year before taxation**		94,258,202	41,781,786
(180,744)	(78,632)	Taxation	24	(27,985,335)	(12,174,877)
428,027	191,217	**Profit for the year after taxation**		66,272,867	29,606,909

The annexed notes 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

PRIMUS LEASING LIMITED
STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

2019	2018		2019	2018
(US Dollars)			(Rupees)	
428,027	191,217	**Profit for the year after taxation**	66,272,867	29,606,909
-	-	Other comprehensive income	-	-
428,027	191,217	**Total comprehensive income for the year**	66,272,867	29,606,909

The annexed notes 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

PRIMUS LEASING LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Issued, subscribed and paid-up capital	Revenue reserves Unappropriated profit	Total
	-----------------------	(Rupees)	-----------------------
Balance as at January 1, 2018	1,000,000,000	1,380,551	1,001,380,551
Total comprehensive income for the year ended December 31, 2018			
Profit for the year after taxation	-	29,606,909	29,606,909
Other comprehensive income	-	-	-
	-	29,606,909	29,606,909
Transactions with owners directly recorded in equity			
Interim cash dividend @ Rs. 0.2 per share for the year ending December 31, 2018	-	(20,000,000)	(20,000,000)
Balance as at December 31, 2018	1,000,000,000	10,987,460	1,010,987,460
Total comprehensive income for the year ended December 31, 2019			
Profit for the year after taxation	-	66,272,867	66,272,867
Other comprehensive income	-	-	-
	-	66,272,867	66,272,867
Transactions with owners directly recorded in equity			
Interim cash dividend @ Rs. 0.65 per share for the year ending December 31, 2019	-	(65,000,000)	(65,000,000)
Balance as at December 31, 2019	1,000,000,000	12,260,327	1,012,260,327

The annexed notes 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

PRIMUS LEASING LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

2019	2018		Note	2019	2018
(US Dollars)				(Rupees)	
		CASH FLOWS FROM OPERATING ACTIVITIES			
608,771	269,849	Profit for the year before taxation		94,258,202	41,781,786
		Adjustments for non-cash and other items:			
24,070	14,525	Depreciation	21	3,726,836	2,249,009
17,478	1,429	Amortisation	21	2,706,185	221,226
-	112	Capital loss on sale of government securities - net		-	17,348
-	(10,608)	Profit on term deposit receipts	22	-	(1,642,461)
-	(157,694)	Profit on certificates of investment	22	-	(24,416,341)
(323,936)	(101,585)	Profit on letters of placement	22	(50,156,176)	(15,728,774)
472	-	Finance cost on lease liability against right-of-use asset		73,111	-
(96,700)	(18,803)	Income from finances and loans		(14,972,367)	(2,911,268)
-	(89,918)	Loss on sale of government securities	22	-	(13,922,393)
30,096	33,661	Provision for potential lease and loan losses	23	4,659,804	5,211,860
260,251	(59,032)			40,295,595	(9,140,008)
		(Increase) / decrease in assets			
(2,787,205)	(2,936,258)	Net investment in finance lease		(431,553,307)	(454,631,718)
(224,370)	(434,152)	Long-term finances, loans and loans to employees		(34,740,018)	(67,221,289)
554	(1,599)	Deposit, prepayments and other receivables		85,782	(247,566)
(3,011,021)	(3,372,009)			(466,207,543)	(522,100,573)
		Increase / (decrease) in liabilities			
789,281	806,575	Deposits		122,207,341	124,885,067
(47,692)	(57,161)	Payable to Holding Company		(7,384,259)	(8,850,392)
41,487	3,558	Accrued expenses and other liabilities		6,423,556	550,915
783,076	752,971			121,246,638	116,585,590
(1,967,694)	(2,678,070)			(304,665,310)	(414,654,991)
(102,326)	(47,224)	Income tax paid		(15,843,528)	(7,311,874)
(2,070,020)	(2,725,294)	**Net cash used in operating activities**		(320,508,838)	(421,966,865)
		CASH FLOWS FROM INVESTING ACTIVITIES			
(2,059)	(131,757)	Fixed capital expenditure incurred		(318,846)	(20,400,473)
-	7,042,550	Proceeds against sale of Treasury Bills		-	1,090,424,121
29,209,619	18,850,435	Proceeds against redemption of Certificate of investments and Letters of Placement		4,522,633,374	2,918,682,581
(27,122,386)	(12,347,806)	Investments made in Letters of Placement		(4,199,459,402)	(1,911,856,554)
-	(10,269,082)	Investments made in Certificates of Investment		-	(1,590,000,000)
-	(6,863,943)	Investments made in Treasury Bills - net		-	(1,062,769,745)
443,296	277,368	Profit received on Letters of Placement and finance and loans		68,637,218	42,945,938
2,528,470	(3,442,234)	**Net cash generated from / (used in) investing activities**		391,492,344	(532,974,132)
		CASH FLOWS FROM FINANCING ACTIVITIES			
(419,805)	(129,170)	Dividend paid		(65,000,000)	(20,000,000)
(3,069)	-	Repayment of lease liability against right-of-use asset		(475,200)	-
(422,874)	(129,170)	**Net cash used in financing activities**		(65,475,200)	(20,000,000)
35,576	(6,296,698)	**Net increase / (decrease) in cash and cash equivalents**		5,508,306	(974,940,997)
85,742	6,382,440	Cash and cash equivalents at the beginning of the year		13,275,823	988,216,820
121,318	85,742	**Cash and cash equivalents at the end of the year**	13	18,784,129	13,275,823

The annexed notes 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

PRIMUS LEASING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

1 LEGAL STATUS AND NATURE OF BUSINESS

1.1 Primus Leasing Limited ("the Company") was incorporated in Pakistan as a public unlisted company on July 13, 2017 under the Companies Act, 2017. The registered office of the Company is situated at Horizon Vista, Commercial-10, Block-4, Scheme-5, Clifton, Karachi. The Company is licensed to carry out leasing business as a Non-Banking Finance Company (NBFC) under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 issued by the Securities and Exchange Commission of Pakistan (SECP). The Company has two offices with one located in Karachi and the other in Lahore.

The principal objective of the Company is to carry on and undertake the business of leasing of movable property for any purpose whatsoever including but not being limited to industrial, commercial, agricultural and other development purposes on such terms, covenants and conditions and at such rentals as may be deemed fit.

1.2 Primus Leasing Limited is a wholly owned subsidiary of Pak Brunei Investment Company Limited (Holding Company).

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 as applicable in Pakistan comprise of:

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

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

- Provision of and directives issued under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules) and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations).

Where provisions of and directives issued under the Companies Act, 2017, the NBFC Rules or the NBFC Regulations differ from the IFRSs, the provisions of and the directives issued under the Companies Act, 2017, the NBFC Rules or the NBFC Regulations prevail.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention.

2.3 Standards, interpretations and amendments to published accounting and reporting standards that are effective in the current period:

The Company has applied the following standards for the first time for its accounting year commencing January 1, 2019:

2.3.1 Effective from January 1, 2019, the Company has adopted IFRS 9: 'Financial instruments' which has replaced IAS 39: 'Financial instruments: recognition and measurement'. The standard addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on 'Expected Credit Losses' (ECL) approach rather than 'incurred credit losses' approach, as previously given under IAS 39.

As per the requirement of IFRS 9, the Company has conducted assessment of expected credit loss using specified methodology. The results of such assessment were materially consistent with the provision maintained by the Company under NBFC Regulation. Accordingly, no adjustment was required to be made in this respect.

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IFRS 9 has provided a criteria for debt securities whereby these debt securities are either classified as:

- at amortised cost
- at fair value through other comprehensive income (FVOCI)
- at fair value through profit or loss (FVPL)

based on the business model of the entity and the characteristics of contractual cash flows (SPPI).

IFRS 9 allows an investment in debt securities to be classified as 'at amortised cost' or 'at fair value through OCI' if the characteristics of SPPI are met and the business model of the entity is:

- to hold such investments in order to collect contractual cash flows; or
- to both, collect the contractual cash flows and sell the investments

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the financial statements of the Company.

Classification and measurement of financial instruments

The measurement category and the carrying amounts of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2019 are summarised as follows:

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount**	**Measurement category**	**Carrying amount**
Financial assets		**Rupees**		**Rupees**
	- Loans and receivables		***- At amortised cost***	
Finances and loans	Amortised cost	66,554,207	Amortised cost	66,554,207
Loans to employees	Amortised cost	667,082	Amortised cost	667,082
Long-term deposits	Amortised cost	75,000	Amortised cost	75,000
Accrued mark-up	Amortised cost	4,212,495	Amortised cost	4,212,495
Other receivables	Amortised cost	244,740	Amortised cost	244,740
Bank balances	Amortised cost	13,275,823	Amortised cost	13,275,823
		85,029,347		85,029,347

Consequently, on adoption of IFRS 9 all investments in letters of placement which were previously classified as "loans and receivable" have been redesignated at amortised cost and there was no impact on their carrying values. The Company has adopted modified retrospective approach for adopting IFRS 9 and accordingly, all changes arising on adoption of IFRS 9 have been adjusted at the beginning of the current year as disclosed in note 11 and summarised below.

	As at December 31, 2018 (as previously stated)	Change	As at January 1, 2019
	Rupees		
Investments - 'Loans and receivable'	583,173,972	(583,173,972)	-
Investments - 'Amortised cost'	-	583,173,972	583,173,972

There is no impact on the Statement of Profit or Loss, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows on adoption of IFRS 9.

2.3.2 Effective from January 1, 2019, the Company has also adopted IFRS 16: 'Leases' which has replaced IAS 17, 'leases.' The Standard addresses recognition and measurement of leases for both lessor and lessee.

IFRS 16 introduces an on-balance sheet lease accounting model for leases entered by the lessee. A lessee recognises a right-of-use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

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The Company has adopted IFRS 16 from January 1, 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions of the Standard.

On adoption of IFRS 16, the Company has recognised a lease liability in respect of monthly rentals paid as per the rent agreement for sub-lease of premises on which the Company operates. This liability has been measured at the present value of the remaining rentals, discounted using the Company's incremental weighted average borrowing rate of 12.18% per annum as of January 1, 2019. The lease liability is subsequently measured at amortised cost using the effective interest rate method.

The right-of-use asset recognised subsequent to the adoption is 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. The right-of-use asset is depreciated on a straight line basis 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 lease liability.

Impact of IFRS 16	**December 31, 2019**	**January 1, 2019**
	(Rupees)	
Impact on statement of financial position		
Increase in right-of-use asset	389,087	813,549
Increase in lease liability	(411,460)	(813,549)
Decrease in tax liability	6,488	-
Decrease in net assets	(15,885)	-

	December 31, 2019 Rupees
Impact on statement of profit or loss	
Decrease in rent expense	475,200
Increase in finance cost	(73,113)
Increase in depreciation expense	(424,460)
Decrease in tax expense	6,488
Decrease in profit after tax	(15,885)

There are certain other new and amended standards, interpretations and amendments that are mandatory for the Company's accounting period beginning on or after January 1, 2019, but are considered not to be relevant or do not have any significant effect on the Company's operations and are therefore not detailed in these financial statements.

2.4 Standards, interpretations and amendments to published accounting and reporting standards that are not yet effective:

The following revised standards, amendments and interpretations with respect to the accounting and reporting standards would be effective for the dates mentioned below against the respective standards, amendments or interpretations:

Standards, amendments or interpretations	**Effective date (period beginning on or after)**
- IAS 1 - 'Presentation of financial statements' (amendments)	January 1, 2020
- IAS 8 - 'Accounting policies, changes in accounting estimates and errors ' (amendments)`	January 1, 2020
- IFRS-9 - 'Financial Instruments' (amendments)	January 1, 2020

The management is in the process of assessing the impact of these amendments on the financial statements of the Company.

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There are certain other new and amended standards, interpretations and amendments that are mandatory for the Company's accounting period beginning on or after January 1, 2020, but are considered not to be relevant or will not have any significant effect on the Company's operations and are therefore not detailed in these financial statements.

2.5 Critical accounting estimates and judgments

The preparation of these financial statements in conformity with accounting and reporting standards requires the management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgment in the application of the Company's accounting policies. The estimates, judgments and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions in accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in the application of accounting policies are as follows:

i) classification, valuation and impairment of investments (notes 3.1.1 and 11);
ii) determination of residual values and useful lives of property and equipment (notes 3.3 and 4);
iii) allowances for potential lease and other loan losses (notes 3.6 and 23); and
iv) provision for taxation (notes 3.11, and 24).

2.6 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements have been presented in Pakistani Rupees, which is the functional and presentational currency of the Company.

The US dollar amounts shown in the Statement of Financial Position, Statement of Profit or Loss, Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows are stated as additional information solely for the convenience of readers and are not audited. For the purpose of conversion to US Dollars, the rate of Rs. 154.8337 to US Dollars has been used as it was the prevalent rate as on December 31, 2019.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all years presented except for the changes mentioned in notes 2.3.1 and 2.3.2 to these financial statements.

3.1 Financial instruments

3.1.1 Financial assets

3.1.1.1 Classification and subsequent measurement

The Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- at amortised cost;
- at fair value through other comprehensive income (FVOCI); and
- at fair value through profit or loss (FVPL).

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

(i) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and puttable instruments like units of open-ended mutual funds.

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Classification and subsequent measurement of debt instruments depend on:

- the Company's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments in one of the following three measurement categories:

a) At amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

b) Fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at Fair Value through Other Comprehensive Income (FVOCI). Movements in the carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in Statement of Profit or Loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to Statement of Profit or Loss.

c) Fair value through profit or loss (FVPL):

Assets that do not meet the criteria for classification at amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in Statement of Profit or Loss 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 fair value, with gains and losses recognised in the Statement of Profit or Loss, except where an irrevocable election has been made at the time of initial recognition to measure the investment at FVOCI.

The dividend income for equity securities classified under FVOCI are to be recognised in the Statement of Profit or Loss. However, any surplus / (deficit) arising as a result of subsequent movement in the fair value of equity securities classified as FVOCI is to be recognised in other comprehensive income and is not recycled to the statement of profit or loss on derecognition.

3.1.1.2 Impairment

The Company assesses on a forward-looking basis the Expected Credit Losses (ECL) associated with its debt instruments carried at amortised cost and FVOCI. The Company recognises 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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3.1.1.3 Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either:

(i) the Company transfers substantially all the risks and rewards of ownership; or

(ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

3.1.1.4 Regular way contracts

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Company commits to purchase or sell the asset.

3.1.2 Financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost except for:

- Financial liabilities at fair value through profit and loss; and
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer.

3.1.2.1 Derecognition

Financial liabilities are derecognised at the time when these are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of financial assets and financial liabilities is taken to the Statement of Profit or Loss.

3.1.3 Initial recognition

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. These are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs associated with these financial assets are taken directly to the statement of profit or loss.

3.1.4 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

3.2 Prepayments and other receivables

These are recognised at cost, which is the fair value of the consideration given. However, an assessment is made at each reporting date to determine whether there is an objective evidence that a financial asset or a group of assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying amount.

3.3 Fixed assets

3.3.1 Property and equipment

Owned assets

Operating fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the statement of profit or loss using the straight line method at the rates stated in note 4.1. Depreciation is charged from the date when the asset is available for use while no depreciation is charged from the date the asset is disposed off.

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Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss in the financial year in which these are incurred.

Residual values and useful lives are reviewed at each reporting date and adjusted if the impact on depreciation is considered significant. Gain / loss on disposal of fixed assets is recognised in the statement of profit or loss in the period in which disposal is made.

3.3.2 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised using the straight line method at the rate stated in note 5.1. The residual values and useful life are reviewed and adjusted, if appropriate at each reporting date.

Amortisation is charged from the date when the asset is available for use and no amortisation is charged from the date when the asset is disposed off.

3.3.3 Capital work-in-progress

Capital work-in-progress is stated at cost impairment in value, if any. These are transferred to specific assets as and when assets are available for use.

3.4 Impairment of non-financial assets

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of that asset is estimated and impairment losses are recognised in the statement of profit or loss.

3.5 Net investment in finance lease

Leases in which the Company transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. A receivable is recognised at an amount equal to the fair value of leased asset, including any guaranteed residual value which are included in the financial statements as "net investment in finance lease".

3.6 Allowance for potential lease and finances and loans losses

The allowance for potential lease and finances and loans losses is maintained at a level which, in the judgment of the management, is adequate to provide for potential losses on lease and finances and loans portfolio which can be reasonably anticipated. The allowance is increased by provisions charged to income and is decreased by charge-offs, net of recoveries.

Calculating the allowance for potential lease and finances and loans losses is subject to numerous judgments and estimates. In evaluating the adequacy of allowance, the management considers various factors, including the requirements of the NBFC Regulations, the nature and characteristics of the obligor, current economic conditions, credit concentrations or deterioration in collateral, historical loss experience and delinquencies. Lease receivables are charged off, when in the opinion of management, the likelihood of any future collection is believed to be minimal.

3.7 Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purpose of statement of cash flows, cash and cash equivalents comprise of cash in hand, balances with banks in current and savings accounts and other short-term highly liquid investments with original maturities of three months or less which are subject to insignificant risk of changes in value.

3.8 Accrued expenses and other liabilities

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

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3.9 Provisions, contingent assets and contingent liabilities

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

Contingent assets are not recognised and are also not disclosed unless an inflow of economic benefits is probable. Contingent liabilities are not recognised and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

3.10 Revenue recognition

- The Company follows the 'financing method' in accounting for recognition of finance lease. The total unearned finance income i.e. the excess of aggregate installment contract receivables plus residual value over the cost of the leased asset is deferred and then amortised over the term of the lease, so as to produce a systematic return on the net investment in finance leases. Accrual of income is suspended when rent is past due by ninety days or more.

- Front-end fee and other lease related income is recognised as income on a receipt basis.

- Profit on savings accounts and letters of placement is recognised on an accrual basis.

- Realised capital gains / (losses) arising on sale of investments are included in the statement of profit or loss on the date at which the transaction takes place.

3.11 Taxation

3.11.1 Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any, and taxes paid under the final tax regime. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalised during the year.

3.11.2 Deferred

Deferred taxation is recognised using the balance sheet method on all major temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantially enacted by the end of the reporting period.

3.12 Proposed dividends and transfers between reserves

Dividends declared and transfers between reserves made subsequent to the reporting date are considered as non-adjusting events and are recognised in the financial statements in the period in which such dividends are declared / transfers are made.

4 PROPERTY AND EQUIPMENT	Note	2019	2018
		(Rupees)	
Operating fixed assets	4.1	9,996,691	8,153,132
Capital work-in-progress	4.2	-	4,528,000
		9,996,691	12,681,132

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4.1 Operating fixed assets

Description	Cost			Accumulated depreciation			Net book value	Depreciation rate (% per annum)
2019	As at January 1, 2019	Additions / (disposals) during the year	As at December 31, 2019	As at January 1, 2019	Charge for the year / (reversal on disposal)	As at December 31, 2019	As at December 31, 2019	
	Rupees							
Leasehold improvements	4,632,035	-	4,632,035	926,407	926,407	1,852,814	2,779,221	20%
Furniture, fittings and office equipment	3,925,678	220,246	4,145,924	720,988	802,179	1,523,167	2,622,757	20%
Computers and accessories	1,814,704	98,600	1,913,304	626,557	620,040	1,246,597	666,707	33%
Motor vehicles	64,000	4,438,000	4,502,000	9,333	953,748	963,081	3,538,919	25%
Right-of-use asset- note 2.3.2	813,549	-	813,549	-	424,462	424,462	389,087	52%
	11,249,966	4,756,846	16,006,812	2,283,285	3,726,836	6,010,121	9,996,691	

Description	Cost			Accumulated depreciation			Net book value	Depreciation rate (% per annum)
2018	As at January 1, 2018	Additions / (disposals) during the year	As at December 31, 2018	As at January 1, 2018	Charge for the year / (reversal on disposal)	As at December 31, 2018	As at December 31, 2018	
	Rupees							
Leasehold improvements	-	4,632,035	4,632,035	-	926,407	926,407	3,705,628	20%
Furniture, fittings and office equipment	707,000	3,218,678	3,925,678	7,856	713,132	720,988	3,204,690	20%
Computers and accessories	1,781,944	32,760	1,814,704	26,420	600,137	626,557	1,188,147	33%
Motor vehicles	-	64,000	64,000	-	9,333	9,333	54,667	25%
	2,488,944	7,947,473	10,436,417	34,276	2,249,009	2,283,285	8,153,132	

	Note	2019	2018
4.2 Capital work-in-progress		(Rupees)	
Opening		4,528,000	-
Additions during the year		-	4,528,000
Less: Transfers during the year		(4,528,000)	-
Closing		-	4,528,000

5 INTANGIBLE ASSETS

	Note	2019	2018
Computer software and license	5.1	5,188,647	7,894,832
Capital work-in-progress	5.2	15,000	15,000
		5,203,647	7,909,832

5.1 Following is a statement of intangible assets:

Description	Cost			Accumulated amortisation			Net book value	Amortisation rate (% per annum)
2019	As at January 1, 2019	Additions / (disposals)	As at December 31, 2019	As at January 1, 2019	Charge for the year / (reversal of charge on disposals)	As at December 31, 2019	As at December 31, 2019	
	Rupees							
Computer software and license	8,118,569	-	8,118,569	223,737	2,706,185	2,929,922	5,188,647	33%

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Description	2018							
	Cost			Accumulated amortisation			Net book value	Amortisation rate (% per annum)
	As at January 1, 2018	Additions / (disposals)	As at December 31, 2018	As at January 1, 2018	Charge for the year / (reversal of charge on disposals)	As at December 31, 2018	As at December 31, 2018	
	Rupees							
Computer software and license	208,569	7,910,000	8,118,569	2,511	221,226	223,737	7,894,832	33%

5.2 This represents advance paid against purchase of trademark.

	Note	2019	2018
		(Rupees)	
6 NET INVESTMENT IN FINANCE LEASE			
Net investment in finance lease	6.1	893,180,335	465,942,561
Less: current maturity	6.1 & 10	(300,356,169)	(121,462,110)
		592,824,166	344,480,451

6.1 Details of investment in finance lease:

	Note	2019			
		Not later than one year	Later than one year and less than five years	Over five years	Total
		Rupees			
Minimum lease payments		371,141,070	432,334,771	-	803,475,841
Add : residual value of leased assets		24,815,000	226,277,408	-	251,092,408
Gross investment in finance lease		395,956,070	658,612,179	-	1,054,568,249
Less: unearned finance income		(92,566,000)	(59,799,890)	-	(152,365,890)
		303,390,070	598,812,289	-	902,202,359
Less: allowance for potential lease losses	6.4 & 23	(3,033,901)	(5,988,123)	-	(9,022,024)
		300,356,169	592,824,166	-	893,180,335

	Note	2018			
		Not later than one year	Later than one year and less than five years	Over five years	Total
		Rupees			
Minimum lease payments		163,592,000	248,352,802	-	411,944,802
Add : residual value of leased assets		-	128,885,067	-	128,885,067
Gross investment in finance lease		163,592,000	377,237,869	-	540,829,869
Less: unearned finance income		(40,903,000)	(29,277,817)	-	(70,180,817)
		122,689,000	347,960,052	-	470,649,052
Less: allowance for potential lease losses	6.4 & 23	(1,226,890)	(3,479,601)	-	(4,706,491)
		121,462,110	344,480,451	-	465,942,561

6.2 The net investment in finance lease is secured against leased assets and security deposit amounting to Rs 251.092 million (2018: Rs 128.89 million). The above security deposit averages about 21.59% (2018: 23.48%) of the cost of leased asset. The implicit rate of return on lease ranges between 11.03% and 21.00% per annum (2018: 11.00% - 18.00% per annum).

6.3 Lease rentals received during the year were Rs 255.893 million (December 31, 2018: 72.14 million) and no income was suspended as at December 31, 2019.

6.4 This represents general provision made against potential lease losses at 1 percent of the outstanding amount as approved by the Board of Directors, in accordance with NBFC Regulations, 2008 which is higher than the provision required under IFRS-9.

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	Note	2019	2018
		(Rupees)	

7 LONG TERM FINANCES AND LOANS

	Note	2019	2018
Considered good			
Vehicle finance - secured	7.1	100,981,321	66,554,207
Less: allowance for potential loan losses	7.2 & 23	(1,009,813)	(665,542)
		99,971,508	65,888,665
Less: current maturity	10	(46,241,353)	(25,688,859)
		53,730,155	40,199,806

7.1 This represents vehicle finance offered to various customers on a mark-up basis. The mark-up on these loans ranges from 14.75% to 20.08% (2018: 11.97% to 16%) per annum. These are secured against personal guarantees and lien over vehicles along with post dated cheques.

7.2 This represents general provision made against potential lease losses at 1 percent of the outstanding amount as approved by the Board of Directors, in accordance with NBFC Regulations, 2008 which is higher than the provision required under IFRS-9.

8 LONG-TERM LOANS TO EMPLOYEES

	Note	2019	2018
		(Rupees)	
Loans to employees	8.1	979,986	667,082
Less: current maturity	10	(485,016)	(245,000)
		494,970	422,082

8.1 These represent interest free loans provided to employees of the Company for meeting their personal expenditure. The loans are unsecured and are recoverable within three years.

9 ACCRUED MARK-UP

	Note	2019	2018
		(Rupees)	
Mark-up accrued on:			
- Letters of placement		181,643	3,994,347
- Finance and loans		522,177	218,148
		703,820	4,212,495

10 CURRENT MATURITY OF NON CURRENT ASSETS

	Note	2019	2018
Current maturity of:			
Net Investment in finance lease	6	300,356,169	121,462,110
Long term finances and loans	7	46,241,353	25,688,859
Long-term loans to employees	8	485,016	245,000
		347,082,538	147,395,969

11 INVESTMENTS

	Note	2019	2018
Loans and receivable			
Letters of placement		-	583,173,972
At amortised cost			
Letters of placement		260,000,000	-
	11.1	260,000,000	583,173,972

11.1 These have been issued by the Holding Company, carrying mark-up at the rate of 12.75% (2018: 10%) per annum and are due to mature latest by January 30, 2020.

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	Note	2019	2018
		(Rupees)	

12 PREPAYMENTS AND OTHER RECEIVABLES

Prepayments		438,681	407,587
Other Receivables		127,864	244,740
		566,545	652,327

13 BANK BALANCES

Balances with banks in:			
Current accounts		7,269,805	4,825,457
Savings accounts	13.1	11,514,324	8,450,366
		18,784,129	13,275,823

13.1 These carry mark-up at the rates ranging between 8.00% - 12.00% per annum (2018: 6.5% - 8.5% per annum).

14 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2019	2018		Note	2019	2018
Number of shares				(Rupees)	
100,000,000	100,000,000	ordinary shares of Rs. 10 each fully paid in cash	14.1	1,000,000,000	1,000,000,000

14.1 As at December 31, 2019, the Holding Company and its nominee directors own 100% of the issued, subscribed and paid-up capital of the Company.

	Note	2019	2018
		(Rupees)	

15 LONG-TERM DEPOSITS

Security deposit on finance lease	15.1	251,092,408	128,885,067
Less: repayable / adjustable within 12 months		24,815,000	-
		226,277,408	128,885,067

15.1 These represent deposits received from lessees under finance lease contracts which are adjustable at the expiry of the lease period.

	Note	2019	2018
		(Rupees)	

16 DEFERRED TAX

Deferred tax assets arising on deductible temporary differences			
- Allowance for potential lease and other loan losses		2,616,387	1,557,890
- Preliminary expenses		1,368,342	2,052,513
- Lease liability		119,323	-
- Accelerated tax depreciation and amortisation		23,334	-
- Excess of Alternate Corporate Tax over corporate tax		12,091,384	587,959
		16,218,770	4,198,362
Deferred tax liabilities arising on taxable temporary differences			
- Right-of-use asset		112,835	-
- Accelerated tax depreciation and amortisation		-	591,233
- Net investment in finance lease		30,771,120	6,610,622
		30,883,955	7,201,855
		14,665,185	3,003,493

17 PAYABLE TO HOLDING COMPANY

Amount payable in respect of purchase of intangible assets		-	7,910,000
Rent expense incurred on behalf of the Company		587,300	42,800
Other payables	17.1	722,907	741,666
		1,310,207	8,694,466

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17.1 This includes amounts payable in respect of service level agreement and other general and administrative expenses paid by Holding Company on behalf of the Company. The balance is net of payments made by the Company on behalf of Holding Company.

	2019	2018
	(Rupees)	
18 ACCRUED EXPENSES AND OTHER LIABILITIES		
Accrued expenses	7,845,541	2,128,483
Provision for Sindh Workers' Welfare Fund	2,374,770	482,395
Advance tax on purchase of motor vehicles	334,110	55,360
Withholding taxes payable	5,818	5,224
Other payables	117,773	12,590
	10,678,012	2,684,052

19 CONTINGENCIES AND COMMITMENTS

There were no material contingencies and commitments as at December 31, 2019 and December 31, 2018.

	Note	2019	2018
		(Rupees)	
20 INCOME FROM LEASING OPERATIONS			
Lease finance income		82,015,318	22,782,952
Front-end fee		1,549,557	1,129,130
Documentation charges		805,988	821,998
Other charges		114,966	-
		84,485,829	24,734,080
21 ADMINISTRATIVE AND GENERAL EXPENSES			
Salaries and other allowances	21.1 & 21.2	35,532,887	27,085,907
Rent and utility		2,455,271	2,599,053
Insurance		695,636	146,254
Communication		1,240,182	814,120
Legal and professional charges		2,377,176	1,114,751
Depreciation	4.1	3,726,836	2,249,009
Amortisation	5.1	2,706,185	221,226
Travelling		341,624	463,551
Vehicle running expenses		1,437,919	627,395
Printing and stationery		98,759	319,351
Repairs and maintenance		208,915	269,135
Office general expenses		735,821	750,721
Directors' fee for attending meetings		400,000	400,000
Auditors' remuneration	21.3	310,150	322,969
		52,267,361	37,383,442

21.1 These include Rs. 9.306 million (2018: Rs. 10.184 million) allocated to the Company in respect of employees of finance, internal audit, research, credit risk management and other departments of PBICL utilised by the Company under the Service Level Agreement entered into between the two entities.

21.2 These include Rs. 0.794 million (2018: Rs. Nil) in respect of contributions made to the employees' provident fund during the year.

	2019	2018
	(Rupees)	
21.3 Auditors' remuneration		
Annual audit fee	165,000	150,000
Half yearly review fee	82,500	75,000
Fee for other certifications	15,000	50,000
Sales tax on audit fee and other services	22,900	35,750
Out of pocket expenses	24,750	12,219
	310,150	322,969

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		2019	2018
		(Rupees)	

22 OTHER INCOME

	2019	2018
Profit on bank deposits	2,062,776	1,565,924
Income on Term Deposit Receipts	-	1,642,461
Income on Certificates of Investment issued by the Holding Company	-	24,416,341
Income on Letters of Placement issued by the Holding Company	50,156,176	15,728,774
Income from government securities	-	13,922,393
Loss on sale of government securities - net	-	(17,348)
	52,218,952	57,258,545

23 ALLOWANCE FOR POTENTIAL LEASE AND OTHER LOAN LOSSES

	2019		
	Finance leases	Finances and loans	Total
	Rupees		
Balance at beginning of the year	4,706,491	665,542	5,372,033
Provision made during the year	4,315,533	344,271	4,659,804
	9,022,024	1,009,813	10,031,837

	2018		
	Finance leases	Finances and loans	Total
	Rupees		
Balance at beginning of the year	160,173	-	160,173
Provision made during the year	4,546,318	665,542	5,211,860
	4,706,491	665,542	5,372,033

24 TAXATION

	Note	2019	2018
		(Rupees)	
Current		16,078,629	7,105,853
Prior year charge		245,015	-
Deferred		11,661,691	5,069,024
	24.1 & 24.2	27,985,335	12,174,877

24.1 Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the provision for income tax for the current year has been made under the provisions of Alternate Corporate Tax under Section 113C of the Income Tax Ordinance, 2001.

24.2 The returns of income for tax year 2019 has been filed and is treated to be deemed assessment under the provisions of section 120 of the Income Tax Ordinance, 2001. Till date no tax year has been opened for assessment by the tax authorities.

25 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year in respect of the remuneration and benefits to the Chief Executive, Directors and executives are as follows:

	2019			
	Chief Executive	Directors	Executives	Total
	Rupees			
Managerial remuneration	4,290,000	-	-	4,290,000
Vehicle allowance	-	-	-	-
Other allowances	3,510,000	-	-	3,510,000
Bonus and incentives	3,075,989	-	-	3,075,989
Fee for attending Board meetings	-	400,000	-	400,000
	10,875,989	400,000	-	11,275,989
Number of persons	1	2	-	3

	2018			
	Chief Executive	Directors	Executives	Total
	---------- Rupees ----------			
Managerial remuneration	3,547,500	-	-	3,547,500
Vehicle allowance	-	-	-	-
Other allowances	2,910,300	-	-	2,910,300
Bonus and incentives	813,836	-	-	813,836
Fee for attending Board meetings	-	400,000	-	400,000
	7,271,636	400,000	-	7,671,636
Number of persons	1	2	-	3

26 TRANSACTIONS WITH RELATED PARTIES

The related parties of the Company comprise Holding Company, directors and key management personnel of the Company, entities under common control and other state-owned entities.

The details of transactions carried out with related parties during the year and balances outstanding with them as at the year end are as follows:

26.1 Transactions with related parties during the year

		2019	2018
		---- (Rupees) ----	
Holding Company			
Payment for purchase of fixed assets on behalf of the Company		-	7,238,435
Purchase of fixed assets by the Company		-	7,910,000
Salaries and allowances paid on behalf of the Company		9,306,528	10,184,430
Rent and maintenance expense paid on behalf of Company		2,650,285	2,435,128
Expenses paid by the Company on behalf of Holding Company		727,752	1,363,675
Investments encashed during the year		4,522,633,374	2,918,682,582
Markup received on investment		53,968,879	36,150,770
Dividend paid by the Company		65,000,000	20,000,000
Payment made against intra company balance with Holding Company		18,613,319	35,251,110
Investments purchased by the Company		4,199,459,402	3,501,856,554
Investments sold by the Company		-	54,734,195
Directors and key management personnel			
Irfan Ahmed (Chief Executive Officer)	Remuneration of Chief Executive	10,875,989	7,271,636
Zafar Sobani (director*)	Fee for attending board meetings	200,000	200,000
Ayyaz Ahmad (director*)	Fee for attending board meetings	200,000	200,000
Khalil Anwar (Team Lead Marketing)	Staff loans provided	143,750	225,000
	Remuneration for the year	1,137,360	1,042,645
Muhammad Nadeem (Team Lead Marketing)	Staff loans provided	199,998	-
	Remuneration for the year	1,139,661	-
Mohsin Siraj (Head of Operations)	Staff loans provided	95,000	180,000
	Remuneration for the year	1,909,104	1,778,410
Zia Mohiuddin (Chief Accountant)	Staff loans provided	183,328	330,000
	Remuneration for the year	1,712,892	1,594,092
Mohsin Javed (Zonal Head)	Staff loans provided	249,160	-
	Remuneration for the year	1,990,704	1,894,092

*These directors hold one nominee share each

26.2 Amounts due to and from related parties have been disclosed separately in the statement of financial position and in the respective notes to the financial statements.

26.2 Balances with related parties as at period end

	2019	2018
	---- (Rupees) ----	
Letters of placement	260,000,000	583,173,972
Payable to Holding Company	1,310,207	8,694,466

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27 STAFF STRENGTH

	2019	2018
	Number of staff	
Total number of employees at the end of the year	11	9
Average number of employees during the year	10	7

28 FINANCIAL INSTRUMENTS BY CATEGORY

Particulars	2019		
	At fair value through profit or loss	Amortised cost	Total
	Rupees		
Financial assets			
Net investment in finance lease	-	893,180,335	893,180,335
Finances and loans	-	99,971,508	99,971,508
Loans to employees	-	979,986	979,986
Long-term deposits	-	75,000	75,000
Accrued mark-up	-	703,820	703,820
Investments	-	260,000,000	260,000,000
Bank balances	-	18,784,129	18,784,129
	-	1,273,694,778	1,273,694,778

Particulars	2019		
	At fair value through profit or loss	Amortised cost	Total
	Rupees		
Financial liabilities			
Payable to Holding Company	-	1,310,207	1,310,207
Lease liability against right-of-use asset	-	411,460	411,460
Accrued expenses and other liabilities	-	8,297,424	8,297,424
	-	10,019,091	10,019,091

Particulars	2018		
	At fair value through profit and loss	Loans and receivables	Total
	Rupees		
Financial assets			
Net investment in finance lease	-	465,942,561	465,942,561
Finances and loans	-	65,888,665	65,888,665
Loans to employees	-	667,082	667,082
Long-term deposits	-	75,000	75,000
Accrued mark-up	-	4,212,495	4,212,495
Investments	-	583,173,972	583,173,972
Bank balances	-	13,275,823	13,275,823
	-	1,133,235,598	1,133,235,598

Particulars	2018		
	At fair value through profit or loss	Amortised cost	Total
	Rupees		
Financial liabilities			
Payable to Holding Company	-	8,694,466	8,694,466
Accrued expenses and other liabilities	-	2,196,433	2,196,433
	-	10,890,899	10,890,899

29 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks which mainly include market risk, credit risk and liquidity risk. The Board of Directors of the Company has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

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29.1 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices (e.g. foreign exchange rates, interest rates, equity prices, etc.). The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimizing returns to shareholders.

Market risk comprises three types of risks: currency risk, yield / interest rate risk and other price risk.

29.1.1 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company, at present, is not exposed to currency risk as its operations are geographically restricted to Pakistan and all transactions are carried out in Pak Rupees.

29.1.2 Yield / interest rate risk

Yield / interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's floating interest rates financial assets. Financial instruments include balances of Rs. 1.265 billion which are subject to interest rate risk.

a) Sensitivity analysis for variable rate financial instruments

The Company has extended KIBOR based leases and finances to various counter parties that expose the Company to cash flow interest risk. In case of increase / decrease in KIBOR by 100 basis points on the last repricing date with all other variables held constant, the profit before tax for the year ended December 31, 2019 would have been higher / lower by Rs. 9.932 million (2018: Rs. 5.318 million).

b) Sensitivity analysis for fixed rate financial instruments

As at December 31, 2019, the Company maintains balances with banks in savings accounts which are interest bearing and holds fixed rate letters of placements issued by the holding company which expose the Company to fair value interest rate risk. The income from these financial assets is substantially independent of changes in market interest rates except for changes, if any, arising as a result of fluctuations in their respective fair values.

The yield / interest rate sensitivity position for on-balance sheet financial instruments is based on the earlier of the contractual repricing or maturity date and for off-balance sheet instruments is based on the settlement date.

The maturity analysis and interest rate profile of the Company's financial instruments are as follows:

	2019							
	Effective yield / interest rate %	Exposed to yield / interest rate risk					Not exposed to yield / interest rate risk	Total
		Upto one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five years		
		Rupees						
On-balance sheet financial instruments								
Financial assets								
Net investment in finance lease	11.03% to 21%	31,007,689	48,972,450	220,376,030	592,824,166	-	-	893,180,335
Finances and loans	14.75% to 20.08%	20,133	-	46,221,220	53,730,155	-	-	99,971,508
Loans to employees	-	-	-	-	-	-	979,986	979,986
Long-term deposits	-	-	-	-	-	-	75,000	75,000
Accrued mark-up	-	-	-	-	-	-	703,820	703,820
Investments	12.75%	260,000,000	-	-	-	-	-	260,000,000
Bank balances	8.0% to 12.0%	11,514,324	-	-	-	-	7,269,805	18,784,129
Total		302,542,146	48,972,450	266,597,250	646,554,321	-	9,028,611	1,273,694,778
Financial liabilities								
Payable to Holding Company		-	-	-	-	-	1,310,207	1,310,207
Lease liability against right-of-use asset		-	-	411,460	-	-	-	411,460
Accrued expenses and other liabilities		-	-	-	-	-	8,297,424	8,297,424
		-	-	411,460	-	-	9,607,631	10,019,091
On-balance sheet gap (a)		302,542,146	48,972,450	266,185,790	646,554,321	-	(579,020)	1,263,675,687
Off-balance sheet financial instruments		-	-	-	-	-	-	-
Off-balance sheet gap (b)		-	-	-	-	-	-	-
Total interest rate sensitivity gap (a+b)		302,542,146	48,972,450	266,185,790	646,554,321	-		
Cumulative interest rate sensitivity gap		302,542,146	351,514,596	617,700,386	1,264,254,707	1,264,254,707		

	Effective yield / interest rate %	Exposed to yield / interest rate risk: Upto one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five years	Not exposed to yield / interest rate risk	Total
	2018							
		----------------	----------------	----------------	Rupees	----------------	----------------	----------------
On-balance sheet financial instruments								
Financial assets								
Net investment in finance lease	11% to 18%	9,443,555	19,300,018	92,718,537	344,480,451	-	-	465,942,561
Finances and loans	11.97% to 16%	1,896,070	2,825,303	20,967,486	40,199,806	-	-	65,888,665
Loans to employees	-	-	-	-	-	-	667,082	667,082
Long-term deposits	-	-	-	-	-	-	75,000	75,000
Accrued mark-up	-	-	-	-	-	-	4,212,495	4,212,495
Investments	10.00%	-	583,173,972	-	-	-	-	583,173,972
Bank balances	6.5% to 8.5%	8,450,366	-	-	-	-	4,825,457	13,275,823
Total		19,789,991	605,299,293	113,686,023	384,680,257	-	9,780,034	1,133,235,598
Financial liabilities								
Payable to Holding Company		-	-	-	-	-	8,694,466	8,694,466
Accrued expenses and other liabilities		-	-	-	-	-	2,196,433	2,196,433
		-	-	-	-	-	10,890,899	10,890,899
On-balance sheet gap (a)		19,789,991	605,299,293	113,686,023	384,680,257	-	(1,110,865)	1,122,344,699
Off-balance sheet financial instruments		-	-	-	-	-	-	-
Off-balance sheet gap (b)		-	-	-	-	-	-	-
Total interest rate sensitivity gap (a+b)		19,789,991	605,299,293	113,686,023	384,680,257	-		
Cumulative interest rate sensitivity gap		19,789,991	625,089,284	738,775,307	1,123,455,564	1,123,455,564		

29.1.3 Other price risk

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

Currently, the Company does not have any instruments which expose it to price risk.

29.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Company has established procedures to manage credit exposure including credit approval limit, credit exposure limits, collateral and guarantee requirements. These procedures incorporate both internal guidelines as well as the requirements of the NBFC Rules and the NBFC Regulations. The Company also manages credit risk through an independent credit department which evaluates customers' credit worthiness and obtains adequate securities where applicable.

All investing transactions are settled / paid for upon delivery. The Company's policy is to enter into financial instrument contracts by following internal guidelines for approval.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. As at December 31, 2019, the assets which were subject to credit risk amounted to Rs. 1,273.695 million (2018: Rs 1,133.236 million). The maximum exposure to credit risk at the reporting date is the carrying amount of these financial assets. None of these assets are past due or impaired.

The Company controls the credit quality of receivables through diversification of activities to avoid undue concentration of risks with individuals, groups or specific industry segments. For such purpose, the Company has established exposure limits for single lessees and industrial sectors. The Company has an effective rental monitoring system which allows it to evaluate customers' credit worthiness and identify potential problem accounts. An allowance for potential lease losses is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on lease portfolios that can be reasonably anticipated. The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history.

The credit quality of the Company's bank balances and investment portfolio is assessed with reference to external credit ratings which in all cases are above the minimum investment grade rating.

Particulars	Long-term rating	Short-term rating	Rating agency	As at December 31, 2019
				-----Rupees----
Bank balances				
Bank Alfalah Limited	AA+	A-1+	VIS	2,403,873
United Bank Limited	AAA	A-1+	VIS	16,370,256
State Bank of Pakistan	Unrated	Unrated	-	10,000
Letters of placement				
Pak Brunei Investment Company Limited	AA+	A-1+	VIS	260,000,000

The Company does not hold any other financial assets which are rated.

29.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as these fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The table below summarises the Company's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	2019				
	Carrying amount	Contractual cash flows	Upto three months	More than three months and upto one year	More than one year
	Rupees				
Payable to Holding Company	1,310,207	1,310,207	1,310,207	-	-
Lease liability against right-of-use asset	411,460	411,460	-	411,460	-
Accrued expenses and other liabilities	8,297,424	8,297,424	8,297,424	-	-
	10,019,091	10,019,091	9,607,631	411,460	-

	2018				
	Carrying amount	Contractual cash flows	Upto three months	More than three months and upto one year	More than one year
	Rupees				
Payable to Holding Company	8,694,466	8,694,466	8,694,466	-	-
Accrued expenses and other liabilities	2,196,433	2,196,433	2,196,433	-	-
	10,890,899	10,890,899	10,890,899	-	-

30 CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to maintain healthy capital ratios, strong credit rating and optimal capital structures in order to ensure ample availability of finance for its existing and potential investment projects, to maximise shareholders' value and reduce the cost of capital.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. As at the reporting date, the Company is primarily financed through equity.

The Company is subject to externally imposed minimum equity requirement laid down under the NBFC Rules, 2003 and the NBFC Regulation, 2008 for providing leasing services and, being a non-deposit taking NBFC, is required to maintain minimum equity of Rs 50 million at all times. The Company has maintained and complied with this minimum equity requirement throughout the current year.

31 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the reporting date. The estimated fair value of all financial assets and liabilities is considered not to be significantly different from book values as the items are either short-term in nature or are periodically repriced.

Fair value hierarchy

As per the requirements of IFRS 13 "Fair Value Measurement", the Company shall classify fair value instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

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

32 CORRESPONDING FIGURES

Corresponding figures have been reclassified and rearranged in these financial statements, wherever necessary, for the purpose of better presentation. No significant rearrangements or reclassifications were made in these financial statements.

33 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on ____________________ by the Board of Directors of the Company.

34 GENERAL

Figures have been rounded off to the nearest Rupee unless otherwise stated.

CHIEF EXECUTIVE OFFICER

DIRECTOR