

Empowering Future



SAFCO Microfinance Company (Private) Limited

**ANNUAL REPORT
2023**

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ACRONYMS

AML:	Anti-Money Laundering
ESMS:	Environmental & Social Management System
FY:	Fiscal Year
MFI:	Microfinance Institution
NBFCs:	Non-Banking Finance Companies
NPO:	Not for Profit Organization
PMIC:	Pakistan Microfinance Investment Company
SECP:	Securities & Exchange Commission of Pakistan
SMCL:	Safco Microfinance Company (Private) Limited
SSF:	Safco Support Foundation

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“A vision for sustainable impact: A message from the CEO and Founder

01

I am delighted to present to you the first annual report of SAFCO Microfinance Company (Private) Limited (SMCL), a testament to the dedication, resilience, and firm commitment of our entire team at SMCL to empower individuals and communities through financial inclusion. In a world marked by constant change and unpredictable challenges, our mission remains firm; to provide access to affordable financial services, promote financial stability, and made a lasting positive difference in the lives of those we serve. The past year has been a test of our skills and a testament to our unwavering determination.

In a pivotal development for our company, we successfully transitioned from a not-for-profit entity to a for-profit microfinance institution during the past year. This strategic move was driven by our commitment to long-term sustainability and our belief that it would enable us to serve even more individuals and communities in need. The transition was meticulously planned and executed, with a strong emphasis on preserving our core mission of financial inclusion while embracing a more robust and flexible financial structure. This transformation has allowed us to attract additional investment, enhance our operational efficiency, and expand our reach, ultimately strengthening our ability to create positive change. We are proud of this transition, as it empowers us to make a more significant and lasting impact on the lives of those we serve, while ensuring the company's viability for generations to come.

FINANCIAL PERFORMANCE

SMCL continues to be committed in providing quality products and services to low income unbanked and underserved segments of the society and enhancing its product base through innovation which is an integral part of companies strategic objective to positively enhance the quality of life of our customers.

This year we achieved a profit margin of 6.39%, a rise of 14%. Total assets marginally increased by 0.3% and total liability increased by 7%. PAR remained within 5% benchmark while sales PKR 4,298 million has been achieved despite of disaster in SMCL operational areas and its impact on SMCL clients.

IMPACT ON LIVES

With a stronger financial foundation, we have extended our microfinance services to a broader spectrum of individuals who were previously underserved. This means more people have gained access to vital financial resources, enabling them to start and grow businesses, send their children to school, improve their homes, and secure their families' futures. During the FY 2022-2023, we have served loans in diversified products to about 62,000 customers, 69% of the loans served to women while 35% of financing directed towards lowest poverty band especially to rural women. We have engaged ourselves in leveraging digital platforms to facilitate easy access to financial services, especially for women in the remote areas; such as providing training on using mobile apps and online tools to enhance financial inclusion and reduce the gender gap in digital literacy. Our commitment to financial inclusion remains steady, and this transition has empowered us to create a more sustainable and lasting positive change in the lives of those who need it most.

Suleman G. Abro

Driving resilient growth with transformation drive to empower communities: A message from Managing Director



It is with great pleasure and gratitude that I present to you the Annual Report of SAFCO Microfinance Company (Private) Limited for the fiscal year 2022-2023. This report encapsulates the dedication, resilience, and impact that SMCL has achieved over the past year.

In reflecting on the past year, it is impossible to ignore the extraordinary challenges faced by the communities we serve, particularly in Sindh, Pakistan. The devastating floods that swept through the area tested the resilience of our organization and underscored the importance of our mission. In the face of unprecedented challenges, our team has demonstrated remarkable resilience, navigating through economic uncertainties and flood calamity of 2022. The commitment of our staff, the support of our stakeholders, and the trust of our valued clients have been the cornerstones of our success.

The year 2022 presented us with unforeseen challenges as the Sindh region grappled with unprecedented rains and floods. The impact on the lives and livelihoods of the affected communities was profound, and our hearts go out to all those who endured hardships during this trying time. As an organization deeply committed to social responsibility, we directed our efforts toward providing immediate relief and support to the affected individuals and families.

FINANCIAL EVOLUTION

The shift to a for-profit model has allowed us to tap into new avenues of capital, enabling us to bolster our financial strength and expand our reach. This transition has empowered us to attract investment, diversify revenue streams, and reinvest profits back into our mission. As a result, we have seen a remarkable increase in our financial capacity, paving the way for more extensive support to entrepreneurs and communities in need.

We have witnessed steady growth in total assets, reflecting the trust and confidence placed in our organization by our shareholders and investors.

Our portfolio has reached close to 4 billion mark demonstrating our commitment to providing accessible

and responsible financial solutions to entrepreneurs and small businesses. We have been quite successful in mitigating our portfolio risk as PAR remained below 5% despite unprecedented economic and environmental challenges. In a dynamic economic environment, effective risk management remains paramount. I am pleased to report that our risk management strategies have been instrumental in maintaining the stability and integrity of our financial operations.

TRANSFORMATION DRIVE

The transformation from NPO to for-profit has opened doors to a broader range of financial services and products, allowing us to better cater to the evolving needs of our clients. We have expanded our loan portfolio, introduced innovative financial products, and deepened our impact on financial inclusion. The journey from an NPO to a for-profit organization has not diminished our commitment to our social mission; rather, it has amplified our ability to drive sustainable change.

MOVING FORWARD

As we celebrate the successes of the past year, we look forward to the opportunities that lie ahead. The transformation to a for-profit organization positions us for sustained growth, increased impact, and long-term sustainability. I express my sincere gratitude to our shareholders, partners, and team members for their unwavering support during this transformative period.

Looking forward, we remain committed to transparency, accountability, and the highest standards of corporate governance. We understand that our success is intricately linked to the success of those we serve, and we approach the future with a sense of responsibility and purpose. In the spirit of collaboration, we invite our stakeholders to continue partnering with us on this exciting journey. Your insights, feedback, and support are invaluable as we navigate the dynamic landscape of microfinance and work towards creating a more inclusive and sustainable financial ecosystem.

Syed Sajjad Ali Shah

ABOUT SMCL

SAFCO Microfinance Company (Private) Limited ("SMCL") is a for-profit, non-depository microfinance company, operating as a lending company with Non-Banking Microfinance Company ("NBFC") license regulated by the Securities & Exchange Commission of Pakistan ("SECP"). SMCL is a wholly owned subsidiary of SAFCO Support Foundation (SSF), one of the leading MFI operating in Pakistan.

Safco's leadership wanted to further expand its functional scope and enhance its offerings to reach more deprived and marginal communities and individuals specially underserved women of the society with greater sustainability and provision of easy and accessible financial products on a larger scale. The idea was to engage a greater number of national and international investors and partners, increasing the company's capital base to reach more clients and provide a broader range of financial products focusing on women inclusive financing. This also allowed us to be more competitive and scalable, and serve a larger customer base, mainly in underserved and remote areas, and tap into new geographic markets.

Therefore in 2022, SAFCO Microfinance Company (Private) Limited was established to provide social and economic empowerment to low-income households through provision of access to responsive financial offerings on a sustainable base. Today, SMCL in presence of its strong governance structure and adequate financial sustainability is catering to the huge unmet demand for timely and affordable finance to the unbanked communities; with financial and business solutions in socially, economically and environmentally sustainable approaches, through the efficient use of capital, technology and human resources.



SMCL IN BRIEF

55 Total Branches Operating in 13 Districts

Certified
Corporate Governance
& **Experienced**
Management Team

36+ Years of Successful
Experience
Diversified Investment Partnerships with
National & International FIs & DFIs

Over **120,000**
Active Borrower

A - Rated Instrument
by PACRA
Clients Protection Certified (CPC)
NBFC by MicroFinanza

Leading MFI
In Sindh Province
(Southren Region of Pakistan)

Fully **Digitalized** Process
Robust Internal Control System
- Risk Based Audit (CAMELS Rating)
- Risk Management Framework
- Business Continuity Plan
- Systems Integration with Partners

Service Cater to **Small Business & Rural** Population



OUR STRATEGIC OBJECTIVES

ENHANCE BUSINESS OUTREACH

Increase the size and diversity of the loan portfolio to reach a larger number of underserved clients.



DIVERSIFICATION

Diversify the product offerings, such as offering Disaster Resilient Products and introducing Islamic Microfinance Facility.



TECHNOLOGICAL ENHANCEMENT

Enhance technology to improve operational efficiency, reduce costs, and enhance the customer experience.



SUSTAINABLE GROWTH

Balancing growth objectives with sustainability concerns, ensuring environmental and social responsibility and contribution to sustainable development goals.



ROBUST RISK MANAGEMENT FRAMEWORK

Ensure strong risk management framework is in place to assess and mitigate various types of risks, including credit risk, interest rate risk, and operational risk.



CLIENT PROTECTION

Ensure that clients are treated fairly and ethically, adhering to industry standards, and avoiding over-indebtedness through responsible lending practices.



SAFCO'S FINANCIAL INCLUSION STRATEGY

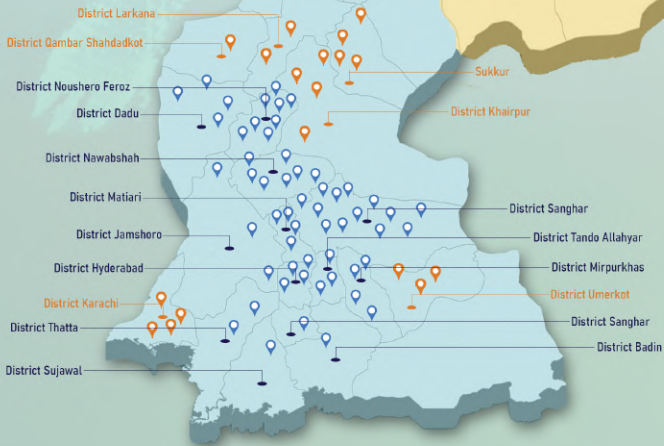
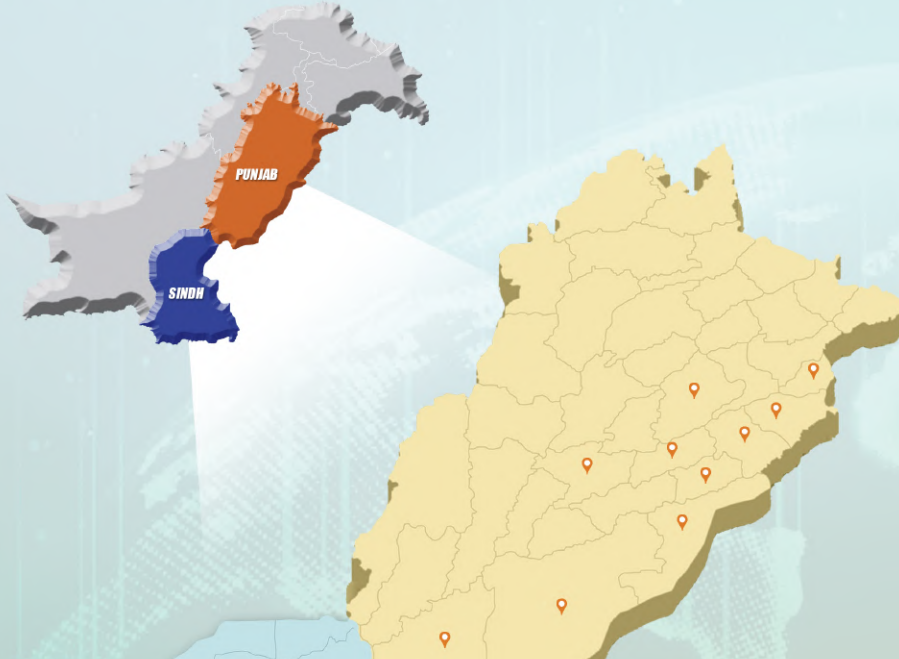
"Catering the huge unmet demand for timely and affordable finance to the unbanked communities and micro enterprises; with financial and business solutions in socially, economically and environmentally sustainable approaches, through the efficient use of capital, technology and human resources."



CORE VALUES

INTEGRITY Upholding unwavering honesty and moral principles in all our actions and decisions is the bedrock of our organization's success.	TRANSPARENCY We believe in fostering an open and honest environment where information is readily shared, enabling trust and informed decision-making among all stakeholders.	CUSTOMER CENTRICITY Our clients are at the heart of our business activities. We are dedicated to understanding their needs and aspirations, tailoring our products and services to meet their unique requirements. Our client-centric approach ensures that our impact is meaningful and sustainable.	INNOVATION Embracing creativity and innovative solutions is our catalyst for staying at the forefront of our industry and providing exceptional value to our customers.	FINANCIAL PRUDENCE We are committed to the responsible management of our resources, ensuring sustainable growth and long-term stability for our organization.
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GEOGRAPHICAL OUTREACH



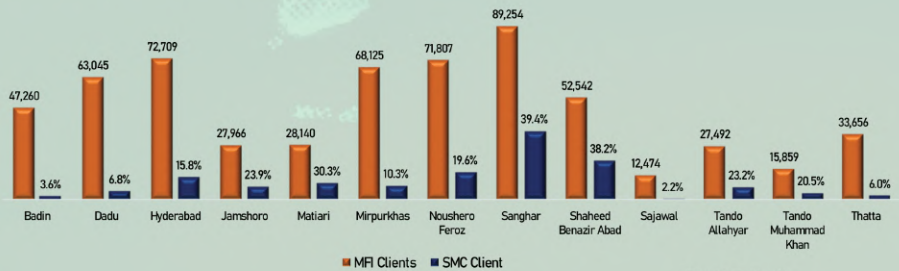
DISTRICT WISE PRESENCE

DISTRICTS	NO. OF BRANCHES
HYDERABAD	4
JAMSHORO	3
MATIARI	4
MIRPURKHAS	4
TANDO ALLAHYAR	3
TANDO M. KHAN	1
THATTA	2
BADIN	1
SUJAWAL	1
SANGHAR	13
SHAHEED BENAZIRABAD	7
NOUSHERO FERAZ	8
DADU	4
TOTAL NO. OF BRANCHES	55

3 YEARS' EXPANSION PLAN

DISTRICTS	NO. OF BRANCHES
KARACHI	4
KHAIROPUR	4
SUKKUR	4
LARKANA	2
QAMBAR SHAHDADKOT	1
UMERKOT	3
CENTRAL PUNJAB	10
TOTAL NO. OF BRANCHES	28

DISTRICT WISE MARKET SHARE



Source: MicroWatch Issue 67
<https://pma.org.pk/microwatch-issue-67>



CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Muhammad Ismail Kumbhar

Nominee Director

Mr. Suleman G. Abro

Nominee Director

Mr. Fazal Noor

Independent Director

Mr. Faheem Ali Khowaja

Independent Director

HUMAN RESOURCE COMMITTEE

Mr. Muhammad Ismail Kumbhar - **Convner**

Mr. Suleman G. Abro - **Member**

Mr. Harish Kumar - **Secretary**

AUDIT COMMITTEE

Mr. Faheem Ali Khowaja - **Convner**

Mr. Fazal Noor - **Member**

Mr. Muhammad Ismail Kumbhar - **Member**

Mr. Suleman G. Abro - **Member**

Ms. Aleena Iftikhar - **Secretary**

RISK MANAGEMENT COMMITTEE

Mr. Fazal Noor - **Convner**

Mr. Faheem Ali Khowaja - **Member**

Mr. Suleman G. Abro - **Member**

Mr. Syed Sajjad Ali Shah - **Member**

Mr. Rameez Memon - **Secretary**

SOCIAL PERFORMANCE MANAGEMENT COMMITTEE

Mr. Fazal Noor - **Convner**

Mr. Suleman G. Abro - **Member**

Mr. Zulfiqar Ali Muttaqi - **Secretary**

CREDIT COMMITTEE

The Credit Committee is responsible for reviewing and approving credit related strategies and policies for the company and is led by Managing Director.

CRISES MANAGEMENT COMMITTEE

Crisis Management Committee is responsible to ensure the adequacy of business continuity or disaster recovery plans and is led by CEO. The committee holds the responsibility for implementing the crisis management plan, assessing an emergency and taking command of crisis response.

DISCIPLINARY ACTION COMMITTEE

The Disciplinary Action Committee is responsible for taking action on any violation of policies and procedures, acts of frauds and forgery, breaches of discipline and code of conduct, ethics and business practices and is led by Managing Director.

STAFF WELFARE COMMITTEE

The Staff Welfare Committee of Management in SMCL is responsible for ensuring the well-being and satisfaction of the employees and is led by Managing Director. The Committee ensures to provide assistance and support to employees, addressing their concerns, grievances, and ensuring a healthy work environment. The committee also promotes work-life balance initiatives, such as flexible working hours, wellness programs, and recreational activities, to enhance employee well-being and productivity.

CLIENT GRIEVANCE COMMITTEE

Client Grievance Committee led by Managing Director is responsible for ensuring timely and fair treatment of the client's complaints with appropriate actions taken to resolve these complaints.

STAFF GRIEVANCE COMMITTEE

Staff Grievance Committee reviews, monitors and recommends to the Board on strategies to resolve issues regarding staffing, compensation, benefits and other employee's related issues of strategic importance and is led by CEO.

IT STEERING COMMITTEE

IT Steering committee led by Managing Director is responsible for assisting the management in implementing IT and digital strategies and for playing an advisory role to management on technology related products.

ASSETS & LIABILITY COMMITTEE

The Asset Liability Committee (ALCO) led by Managing Director is responsible for overseeing the management of assets and liabilities by ensuring adequate liquidity while managing the spread between the interest income and interest expense.



LEGAL ADVISORS

Icon Concilium (SMC Pvt.) Limited

Office No. 24, 1st Floor, Capital Plaza G-11 Markaz Islamabad

Tel: 0342-5307073 | Email: iconislamabad@gmail.com

TAX ADVISORS

Bhatti & Associates

Office No.518, 10th Floor, Dawood Centre, Auto Bhan Road, Hyderabad.

Tel: 022-3823111 | Email: bhattiassociate@hotmail.com

AUDITORS

Yousuf Adil - Chartered Accountant

Cavish Court, A-35 Block 7&8 KCHSU, Sharah-e-Faisal, Karachi

Tel: 021-3454 6494-7 | Website: www.yousufadil.com

OUR PARTNERS

CREDIT LINE

NATIONAL PARTNERS



INTERNATIONAL PARTNERS



BRANCHLESS BANKING



RATING AGENCY



ASSOCIATIONS



LEGAL AND AUDIT

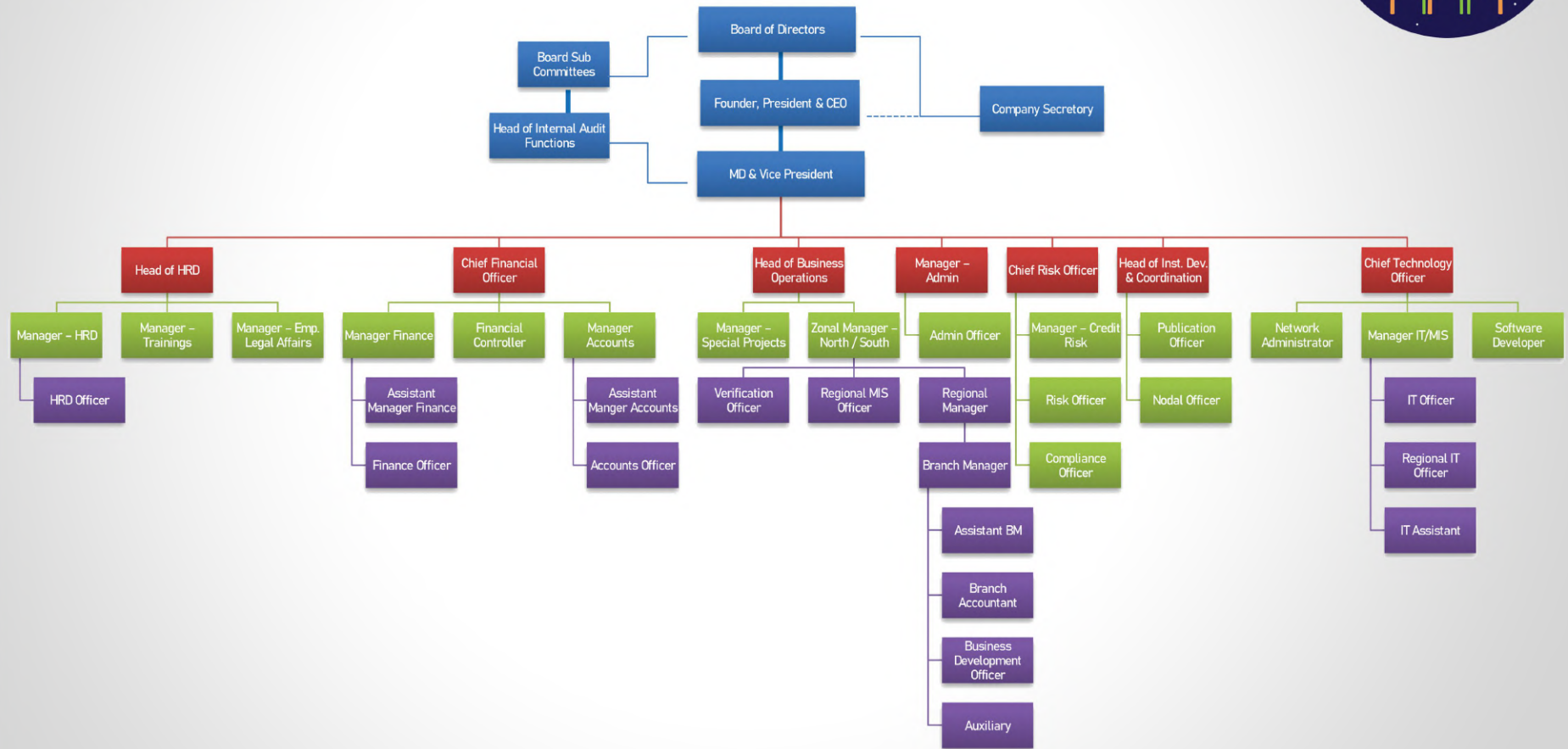


NETWORK



CHAPTER 1

Unified Efforts: Depicting the interconnectedness & synergy of our team





GOVERNANCE EXCELLENCE

Comprising a diverse and dedicated group of professionals, our board is committed to upholding the highest standards of governance, ethics, and accountability. Their strategic vision, extensive industry expertise, and unwavering commitment to our mission have been instrumental in driving our company's growth and success over the past year.

BOARD OF DIRECTORS



Suleman G. Abro

Mr. Abro has accomplishments and experience of over 35 years with a range of stakeholders, including national and international NGOs, civil society organizations, development sector, and corporate sector across the country. Known for his visionary leadership, Mr. Suleman Abro has consistently fostered a culture of collaboration and excellence within SMCL. He possesses a remarkable ability to inspire teams and stakeholders, driving them towards a common purpose. As a passionate advocate for social change, Mr. Abro has been instrumental in spearheading numerous impactful campaigns at SMCL.



Fazal Noor

Mr. Noor works as an independent development consultant. He is a research professional and economist with a broad range of social & economic development experience including housing, agriculture, micro-finance, governance and community participation. He has been serving in the capacity of member board on many reputable organizations. His passion for sustainable development and his ability to foster collaboration among diverse stakeholders make him a valuable asset to any organization dedicated to improving the well-being of communities.



Muhammad Ismail Kumbhar

With over two decades of experience in rural development, Mr. Kumbhar has played a pivotal role in enhancing the livelihoods of rural communities through his deep knowledge of value chain development, land reforms, and livestock management. His proficiency in conducting rigorous assessments, monitoring progress, and evaluating the impact of development projects in the realm of agro-economics has consistently contributed to evidence-based policy recommendations and sustainable growth in rural regions. His dedication to empowering marginalized populations through these initiatives underscores his commitment to fostering inclusive and equitable development.



Faheem Ali Khowaja

Mr. Faheem is a highly respected international Tech Leader with expertise in Digital Transformation and business model Innovation. His proven and numerous successes with worldwide business transformations comes from his belief in enabling and empowering people to execute on the change strategies. He has worked in various markets in Central Asia, Asia Pacific, and Africa (East & West Africa). His ability to anticipate industry trends and adapt to emerging technologies has consistently propelled his teams and companies to the forefront of their respective fields.



WORKING COMMITTEES OF THE BOARD

SMCL places a strong emphasis on effective governance and prudent financial management. To achieve these goals, we have established a comprehensive framework of board committees, each consisting of seasoned professionals with diverse expertise and backgrounds. These committees are not just symbolic structures; they are essential components of our corporate governance strategy. These board committees reflect our dedication to transparency, risk management, and ethical leadership, which are fundamental in our mission to empower communities and foster inclusive financial growth.

HUMAN RESOURCE COMMITTEE

The Human Resource Management committee is responsible to recommend adequate human resource management policies including the selection, evaluation, compensation and retirement benefits to the Board. The HR Committee is also responsible for creating and/or monitoring values-based systems and policies to ensure that the organization is following local, state and federal laws and certain best practices relating to its employees and creating an attractive environment for current and prospective employees. The HR Committee plays a crucial role in fostering a culture of diversity, equity, and inclusion within the organization, promoting a workplace where all employees are treated with fairness and respect.



RISK MANAGEMENT COMMITTEE

The Risk Management Committee plays a pivotal role in safeguarding the company against potential threats and uncertainties. The primary responsibility is to meticulously assess, analyze, and enhance the processes and procedures that are in place to identify, communicate, and ultimately mitigate all significant business risks. To achieve this, the committee collaborates closely with Senior Management and the Board to ensure that appropriate measures are adopted to counter these risks effectively. Moreover, the Risk Management Committee continuously monitors emerging industry trends and regulatory changes to proactively adapt the company's risk mitigation strategies, ensuring the organization remains resilient and agile in an ever-evolving business landscape.



AUDIT COMMITTEE

The Audit committee is responsible for independent oversight on the institution business operations and financial activities with systematic and disciplined approach to evaluate internal controls and governance practices. The committee assist the board of directors in the oversight of institution's compliance with legal & regulatory requirements. The committee also reviews the adequacy of the internal audit function. The Audit committee plays a crucial role in fostering transparency and accountability within the institution, ensuring that stakeholders' interests are protected and that ethical standards are upheld throughout the operations.



SOCIAL PERFORMANCE MANAGEMENT COMMITTEE

The Social Performance Management Committee is responsible to guide the Board and Senior Management on implementation of SPM and to ensure that the management implements best practices where appropriate including using social data in decision making. The primary function of the SPM Committee is to assist the Board in protecting the institution's social mission while ensuring financial sustainability. By embracing an all-inclusive approach that combines oversight, collaboration, and innovation, the committee helps the institution thrive as a socially responsible and financially sustainable entity.



SENIOR MANAGEMENT

Our senior management team at SMCL has played a pivotal role in steering the organization toward sustained growth and impact throughout the past year. Their firm dedication to our mission of financial inclusion, coupled with their deep industry knowledge and innovative thinking, has been instrumental in driving our success. Under their wise leadership, we have successfully transformed to for-profit entity, opening new avenues of diversification and financial sustainability. We have expanded our outreach to underserved communities, launched new financial products tailored to the unique needs of our clients, and fostered strategic partnerships that have amplified our social impact. Additionally, their prudent financial management and risk handling has ensured the stability and resilience of our institution in the face of economic challenges.



Mr. Suleman G. Abro
President & CEO



Mr. Syed Sajjad Ali Shah
Managing Director



Mr. Basheer Ahmed
Head of Business Operations



Ms. Aleena Maria
Chief Financial Officer



Mr. Rameez Iqbal Memon
Chief Risk Officer

KEY EXECUTIVES



Mr. Syed Zulfiqar Ali Muttaqi
Head of Internal Audit



Mr. Naveed Memon
Chief Technology Officer



Mr. Harish Raisinghani
Head of Human Resources Development



Ms. Arsala Anjum
Manager Credit Risk



Mr. Mashooque Ali Qureshi
Manager Special Projects



Ms. Shabana Mallah
Manager Training & Development



Mr. Sunil Kumar
Manager Administration



Mr. Habibullah Khilji
Zonal Manager - North Zone



Mr. Mir Asad Talpur
Zonal Manager - South Zone



Mr. Akhtar Hussain Mallah
Manager Finance



Mr. Wajid Hussain Junejo
Manager Accounts



Ms. Falak Shaikh
Manager HRD & Gender Focal Person

CHAPTER 2

PRODUCT, SERVICES & SECURE FINANCING FRAMEWORK



AGRICULTURE DEVELOPMENT LOAN

This Product is aimed at facilitating small farmers and land owners to help them grow and cultivate high yield seasonal crops including wheat, sugarcane, rice, and cotton. Under agriculture development loan, finance facilities at affordable rates are offered which cover an entire spectrum of agricultural needs with a wide range of products. Our accessible and flexible Agriculture Development Product not only foster economic growth in rural areas but also contribute to food security, sustainable farming practices, and poverty alleviation, ultimately transforming the agricultural landscape for the better.



LIVESTOCK DEVELOPMENT LOAN

This product is a specialized financial product offered by SMCL as part of our commitment to promoting rural livelihoods and agricultural sustainability. This loan is designed to support individuals and communities engaged in livestock farming by providing them with accessible and affordable financing options. Our Livestock Development Loan aims to uplift rural communities by increasing productivity of livestock products, improving food security, and generating additional income streams for livestock farmers.

ENTERPRISE DEVELOPMENT LOAN

The EDL is core financial product offered by SMCL, aimed at fostering entrepreneurship and economic growth among micro enterprises and small businesses. This loan is designed to provide essential capital and support for the development and expansion of small businesses. Our Enterprise Development Loan contributes to job creation, economic growth, and community development by supporting the growth and sustainability of local businesses.



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SMALL & MEDIUM ENTERPRISE - SME LOAN

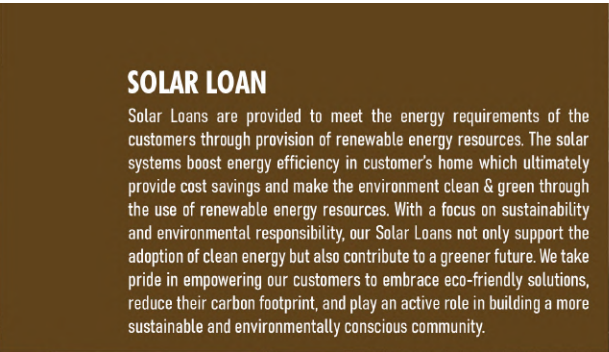
The SME Loan may be taken for the projects or businesses in trading, manufacturing, services or agriculture sectors resulting in livelihood improvement and income generation. With the SME loans facility, existing enterprises may achieve business expansions through financial capital requirements at a reasonable rates. Our SME product is aimed at providing responsible financial services that empower SMEs to thrive and contribute to the economic development of the regions we serve.





PERSONAL LOAN

Personal Loans are offered to salaried persons to provide financial assistance at an affordable rate and meet the personal consumption requirements of the individuals. The Personal Loan is a fast, easy and affordable option flexibly designed to meet the immediate financing needs of the customers. SMCL's Personal Loans strive to make customer's aspirations a reality with hassle-free application process and competitive interest rates.



SOLAR LOAN

Solar Loans are provided to meet the energy requirements of the customers through provision of renewable energy resources. The solar systems boost energy efficiency in customer's home which ultimately provide cost savings and make the environment clean & green through the use of renewable energy resources. With a focus on sustainability and environmental responsibility, our Solar Loans not only support the adoption of clean energy but also contribute to a greener future. We take pride in empowering our customers to embrace eco-friendly solutions, reduce their carbon footprint, and play an active role in building a more sustainable and environmentally conscious community.



EDUCATION FINANCE

Education Finance facility is provided to educational institutions, teachers, and individuals associated with the education sector. Education loans are offered at an affordable rates to promote quality education in rural and semi urban areas and help improve the education standards. Our school improvement loan is tailored to accommodate the diverse needs of our customers, fostering a conducive environment for sustained educational development and empowerment in underserved communities.



AUTO FINANCE LOAN

Auto Finance Loans are provided to fulfill the automobile demand of the customers for income generation activities or personal needs. Auto Finance is a flexible and hassle-free financing facility that enables customers to own their required automobile. SMCL's Auto Loan is aimed at providing support to entrepreneurs who have the potential to work but have limited resources to buy their own auto product and generate the income.



SAFCO's Secure Financing Framework

Our Secure Financing Framework serves as a foundation of our commitment to providing robust and responsible financial solutions to our valued clients. Designed to fortify the financial security of the institution, this framework meticulously integrates business model, risk management, information technology, human resources, environmental and social practices, and sustainable growth strategies. Through this framework, we ensure that our company continues to thrive, fostering economic empowerment and financial resilience within the communities we serve.



RESPONSIBLE BUSINESS MODEL

SAFCO'S objective of providing quality financial services to individuals of lower socioeconomic backgrounds and those who lack access to traditional financial services is ensured by the presence of our responsible business model. Our business model ensures that financial services are provided to encourage entrepreneurs to act on their ideas, boosts small businesses, increase household income, promote economic development, decrease unemployment, and eventually become self-sustained.



VALUED HUMAN RESOURCES

Human resources is one of the key pillars of our secure financing framework as it is considered to be the most valued asset of our company. Their dedication, expertise, and firm commitment to our mission have been instrumental in empowering individuals and communities to achieve financial stability and prosperity. Our team's tireless efforts in providing tailored financial solutions, building lasting relationships with clients, and continually innovating in the ever-evolving financial landscape have not only strengthened our MFIs growth but also transformed countless lives.



SUSTAINABLE FINANCING

Ensuring Sustainable Financing is central to our mission at SAFCO Microfinance Company (Private) Limited. It indicates our commitment to ensuring the long-term success of our operations while simultaneously addressing the persistent environmental, social, and economic challenges facing the communities we serve. In the past year, we have actively pursued innovative funding sources, formed strategic partnerships, and integrated responsible lending practices to strengthen our financial sustainability. By aligning our financial goals with our social impact objectives, we continue to empower individuals and businesses to thrive, fostering lasting positive change in our target communities.



ROBUST RISK MANAGEMENT

SMCL aims to manage the risks inherent in our business activities, ensuring that the company's operations are carried out in a safe and compliant way. Our comprehensive and sophisticated risk management framework comprises of appropriate Risk Management structures, resources, systems, policies, procedures, and controls. Our risk management philosophy moves around implementing a comprehensive risk management strategy to maintain financial sustainability of the institution.



ENHANCEMENT IN TECHNOLOGY

SAFCO recognizes the imperative of advancing digitalization and empowering customers to manage their financial assets independently. We harness our technological innovations to promote greater financial inclusivity, thereby mitigating discrimination and disparities. SAFCO leverages digital technology to produce quantifiable enhancements in both customer satisfaction and business outcomes. Our goal is to proactively embrace and foster the growth of digital financial services, aiming to elevate customer service quality, promote client loyalty, and boost operational efficiency.



ENVIRONMENTAL AND SOCIAL MANAGEMENT FRAMEWORK

SMCL is among the pioneers in the microfinance sector in Pakistan in developing and implementing an Environmental and Social Management Framework focused on ensuring a robust system that safeguards against credit, liability, and reputational risks in line with the International Finance Corporation's (IFC) Performance Standards. The E&S framework is implemented with the objective to reduce environmental impact and continually improving the social & environmental performance as an integral and fundamental part of SMCL strategy and operating methods.

IMPACT-FINANCING APPROACH TO PRODUCT DESIGN AND DELIVERY

SMCL tailors its financial products and services to address specific gaps and promote sustainable livelihoods. We take pride in our commitment to ensuring impact financing through our tailored product design and service delivery. Our approach extends beyond traditional financial offerings, incorporating refined understanding of the diverse needs of underserved communities. By integrating a socially conscious perspective into our product design and delivery, we strive to empower individuals and communities economically. Through careful market research, community engagement, and ongoing evaluation, we tailor our financial solutions to bridge specific gaps and catalyze positive change.



Impact-Financing Approach to Product Design and Delivery

*104 customers served
PKR 48 million
in Housing Finance
in FY 2022-2023*

The housing rehabilitation loan offered by SMCL is a lifeline for customers who have been devastated by the damages of flood during the monsoon season 2022. We understand the immense hardship and loss that heavy torrential rains and flood inflicted on individuals and families. Therefore we designed this specialized product last year to help flood affected customers rebuild their homes and get back to their normal lives. With competitive interest rates and flexible repayment options, our housing rehabilitation loan empowers these resilient individuals to repair and renovate their damaged homes, making them safer and more resilient to future floods. By providing financial support during these challenging times, we aim to restore a sense of security and stability to the lives of our valued customers, allowing them to regain their stability and look towards a brighter, more secure future.

Empowering Women Entrepreneurs

*PKR 2435 million served to
40,134 women entrepreneurs
in FY 2022-2023*

We believe the empowerment of women through microfinance is a powerful catalyst for sustainable economic development. By tailoring financial products and services to the unique needs and challenges faced by women, SMCL fosters entrepreneurship, enhance financial literacy, and drive positive social change. In this regard, our Enterprise Development Loans cater to the unique needs and demands of small and micro entrepreneurs especially women entrepreneurs. We also aim to offer comprehensive financial literacy training programs focused on budgeting, saving, investing, and managing debt and organize workshops on entrepreneurship, leadership, and business management to equip women with the skills needed to succeed. Furthermore, SMCL has engaged itself in leveraging digital platforms to facilitate easy access to financial services, especially for women in the remote areas; such as providing training on using mobile financial services apps and online tools to enhance financial inclusion and reduce the gender gap in digital literacy.



Promoting Green Energy

PKR 11 million served to 114 customers in FY 2022-2023

SMCL has made significant strides in advancing renewable energy solutions and addressing the affordable energy needs of our valued customers. Our solar loan offerings have played a pivotal role in empowering individuals and small businesses to embrace clean and sustainable energy sources. By providing access to financing for solar panels and related equipment, we have not only facilitated the adoption of renewable energy but have also contributed to a reduction in carbon emissions and an improved environmental outlook. As we continue to expand and refine our solar loan programs, we are confident that we are making a meaningful impact on promoting renewable energy and fostering a more sustainable and equitable energy landscape for all.



Climate Resilient Products and Services


Unexpected and severe climate change is affecting both natural and human systems with increasing concern about its implications on poverty, economic growth, livelihood opportunities as well as overall human development and institutional sustainability.

Hence SMCL is committed to fostering climate resilience through a range of innovative products and services. In today's rapidly changing climate landscape, we understand the critical need to empower individuals and businesses to adapt and thrive in the face of environmental challenges. To ensure this we offer tailored financial solutions designed to support sustainable practices, such as green loans for eco-friendly projects, livestock and crop insurance facility to protect the customers against climate-related risks, and financial literacy programs that educate our clients on sustainable business practices.

Keeping in view the climate change impact on agriculture and vulnerability of the microfinance borrowers, SMCL is in process of introducing a climate resilient product that will be bundled with crop insurance facility. Agriculture product combined with crop insurance will assist in the stabilization of crop production and reduce the negative impact of climate change on the lives of the farmers.

Stepping towards Islamic Financing

Stepping towards Islamic microfinance is a strategic move for SMCL seeking to broaden its horizons and cater to a diverse customer base while adhering to Sharia principles. By embracing Islamic finance principles, SMCL aims to introduce a range of Sharia-compliant products and services, starting with Murabaha financing, thereby enabling individuals and small businesses to access ethical financial support. This approach not only aligns with Islamic values of fairness and social justice but also fosters financial inclusion for those who previously may have been excluded due to religious concerns. By introducing Islamic microfinance, the company not only taps into an underserved market but also contributes to the economic empowerment of individuals and communities in accordance with sharia compliant principles. We have already initiated the process of developing Islamic microfinance products for our valued customers, and the new product is expected to launch by the end of this year with support from our Sharia Technical Services and Support Provider.



THE POWER OF DETERMINATION

Ishrat's Journey to Financial Independence and Prosperity

Ishrat, a talented and determined woman, embarked on an entrepreneurial journey while facing the challenges of a long-distance relationship, being a mother to four children, and lacking the necessary funds and support. This is the story of her unwavering spirit, her ability to overcome adversity, and her remarkable success in the beauty and tailoring business.

Ishrat, a skilled beautician and tailor, had a vision to establish her own business, but she faced numerous hurdles. Despite her brilliance and creativity, she lacked the financial means and the crucial support system to turn her ideas into reality. Additionally, as a single mother, she had the responsibility of shouldering all expenses for her four children.

Determined to make a difference, Ishrat discovered SAFCO Microfinance Company (SMCL), a beacon of hope for women entrepreneurs like her. SMC provided her with the much-needed financial assistance to embark on her entrepreneurial ventures. With the first loan, she purchased sewing machines and unstitched clothes, establishing a tailoring business. Later, with the second loan, she acquired essential supplies for her beauty parlor. Inspired by her own journey, Ishrat became not only an employer but also a vocational trainer, providing employment and skill-building opportunities to other women. By empowering them, she extended her impact beyond her immediate business and fostered a sense of community among women striving for independence and self-sustainability.



Through her undeniable talent and resilience, Ishrat reached a point of great satisfaction in her entrepreneurial pursuits. Her remarkable journey garnered respect even from her own brothers, who salute her as an inspirational figure. Ishrat's achievements serve as a testament to the power of perseverance, determination, and the indomitable spirit of a woman with a dream. Throughout her journey, Ishrat learned the invaluable lesson that she could not rely on anyone else but herself. She understood the significance of hard work and self-reliance. Ishrat's unwavering spirit and leadership qualities became the driving force behind her success, as she worked tirelessly to overcome every obstacle that came her way.

Ishrat's journey from struggle to success is a tale of resilience, determination, and the transformative power of entrepreneurship. Through her sheer determination to provide a better life for herself and her children, she overcame immense challenges, sought support from organizations like SMCL, and built her business from the start. Ishrat's story is an inspiration to women entrepreneurs worldwide, reminding them to persevere, dream big, and turn adversity into triumph.



“SMCL's support at crucial phase of my life gave me self-motivation, confidence and morale boost that eventually contributed to the success of my business.”

Ishrat
Beautician

INSPIRING RESILIENCE

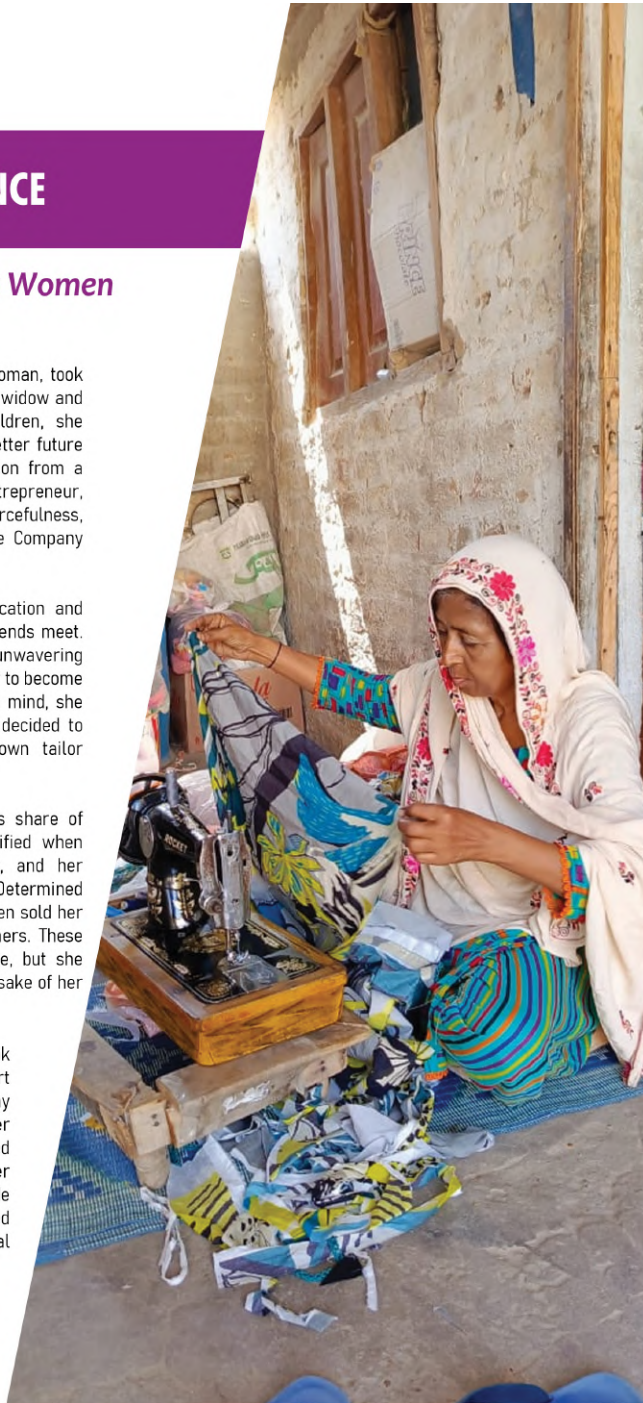
Parveen's Journey as a Women Entrepreneur

Parveen, a resilient and determined woman, took on the challenges of life head-on. As a widow and the sole caretaker of her three children, she embarked on a journey to provide a better future for her family. Parveen's transformation from a struggling tailor to a women entrepreneur, highlighting her perseverance, resourcefulness, and the impact of SAFCO Microfinance Company Women Branch.

Parveen, aged 50, had a limited education and previously worked as a tailor to make ends meet. Despite facing numerous setbacks, her unwavering commitment to her children inspired her to become an entrepreneur. With a clear vision in mind, she ventured into the field of sewing and decided to work from home, establishing her own tailor dresses business.

Parveen's journey was not without its share of challenges. Financial struggles intensified when her son suffered a severe accident, and her daughter faced health complications. Determined to provide the best medical care, Parveen sold her jewelry and borrowed money from others. These circumstances pushed her to the edge, but she resolved to overcome adversity for the sake of her family.

Parveen's entrepreneurial journey took flight when she received crucial support from SAFCO Microfinance Company Women Branch (SMC). Recognizing her determination and potential, SMC granted her a loan to rebuild her life and start her business anew. Parveen's gratitude towards SMC runs deep, as they provided her with a platform and the financial means to turn her dreams into reality.



With unwavering dedication, Parveen harnessed her talent and entrepreneurial spirit. She employed and trained other women, passing on her skill of sewing machine operation showing leadership. As she steadily expanded her business, Parveen identified market demands and analyzed her surroundings to gain a competitive advantage.

Parveen's decision to pursue entrepreneurship encountered resistance within her own family. Despite lacking support, she remained resilient, driven by her determination to secure a brighter future for her children. Parveen's success served as a testament to her steadfastness, ultimately earning her family's respect.



From the humble beginnings of selling only a few dresses per month, Parveen's business flourished. With the loan of only one lakh rupees, her sewing enterprise now produces 60-70 dresses per month, with each piece priced between 800 and 900 rupees. Her daughters, who assist her in business, are also pursuing their education, with one on the brink of graduating with a BSc degree.

Parveen's journey exemplifies determined spirit of a women entrepreneur. Faced with personal tragedies and societal barriers, she defied the odds and built a thriving business. Parveen's story serves as a beacon of hope for aspiring entrepreneurs, highlighting the invaluable support provided by organizations like SMCL and reinforcing the notion that self-belief, determination, and the desire to create a brighter future can overcome even the most challenging circumstances.

“I spent sleepless nights to provide best for my children, they have none but me. I did not give up on them.”

Parveen
Tailor Master

HARNESSING THE POWER OF THE SUN

Muhammad Nawaz Shar's Tube well Triumph with Safco Microfinance

Microfinance has proven to be a catalyst for transformative change in the lives of entrepreneurs seeking to uplift their communities. This success story unravels the journey of Muhammad Nawaz Shar, an enterprising individual engaged in the tube well business. Empowered by a 1,500,000 Solar Loan from Safco Microfinance (SMC), his story exemplifies the positive impact of microfinance on rural development.

Muhammad Nawaz Shar, driven by a vision to enhance agricultural productivity in the district of Sanghar, embarked on the tube well business. Recognizing the importance of water access for local farmers, he aimed to make a significant impact on the agricultural landscape of his community.

In pursuit of his vision, Muhammad Nawaz Shar approached Safco Microfinance's Workshop branch for financial support. Safco Microfinance, understanding the pivotal role tubewells play in agriculture, extended a tailored Solar Loan of 1,500,000 to help him harness the power of the sun for his tube well.

Armed with the Solar Loan, Muhammad Nawaz Shar invested in solar panels for his tubewell, ensuring a sustainable and reliable power source. This innovative solution not only reduced operational costs but also enhanced the efficiency and accessibility of water for local farmers.

The solar-powered tubewell significantly increased agricultural productivity in the Sanghar district. Local farmers, now benefiting from consistent water access, experienced improved crop yields, leading to enhanced food security and economic prosperity in the community.



Beyond the business impact, the success of Muhammad Nawaz Shar's tubewell venture had positive effects on his household. The stable income generated from the flourishing business allowed him to provide better education for his three school-going children, fostering a brighter future for his family.

Muhammad Nawaz Shar's success rippled through the Sanghar district, contributing to overall community development. The solar-powered tubewell not only empowered local farmers but also became a symbol of sustainable progress in the region.

Muhammad Nawaz Shar's journey, supported by Safco Microfinance's Solar Loan, showcases the transformative potential of microfinance in rural development. Safco Microfinance continues to be a driving force, empowering individuals like Muhammad Nawaz Shar to turn their aspirations into reality and build a prosperous, sustainable future.

“By harnessing the power of the sun for my tubewell, I not only improved agricultural practices but also elevated the standard of living for my family and community.”

Muhammad Nawaz
Farmer



CHAPTER 3

TRANSFORMATION DRIVE

In June, 2022 the Securities and Exchange Commission of Pakistan (SECP) issued microfinance license to SMCL, as a newly established microfinance company. This transformation is an ideology of our CEO Mr. Suleman G. Abro; a first move of its kind by the management and Board of SSF and is a result of the SECP's concerted efforts to encourage the companies engaged in microfinance business under Section 42 of the Companies Act, 2017, operating as "not for profit" structure to transform into "for profit" structure.

LEADER'S TRANSFORMATION DREAM



“Empowering the loan beneficiaries to make them economically self-reliant as **SAFCO** may become self sustainable for stepping towards **Corporate** echo system, then a **Banking System** in future.”

SUSTAINING THE HISTORY OF TRANSFORMATION

1986	1992	2009	2016	2022
SAFWCO	CED UNIT	SSF	NBFC	SMC
<ul style="list-style-type: none"> Establishment of SAFWCO (NGO) 	<ul style="list-style-type: none"> Establishment CED Unit Provide Microcredit 	<ul style="list-style-type: none"> Regd. of SSF as NPO Specialized Microfinance 	<ul style="list-style-type: none"> NBFC License Under SECP 	<ul style="list-style-type: none"> Planning to Register as SMC & NBFC License For Profit Company
<p>SAFWCO - NGO</p> <p>Initiated from one room to support extremely poor people to support and uplift them.</p>	<p>CED Unit</p> <p>Initiative of Microcredit as Credit and Enterprise Development - CED Unit of SAFWCO NGO</p>	<p>SSF (NPO)</p> <p>Registration of SAFCO Support Foundation as a separate company. Transformation from NGO to specialized MF company.</p>	<p>Regd. Under NBFC</p> <p>Acquired NBFC License under Rule 5 of NBFC Rules & Regulations.</p>	<p>SAFCO Microfinance Company (Pvt.) Ltd</p> <p>SSF being a holding company incorporating for profit company as SAFCO Microfinance Company Pvt. Ltd.</p>

TRANSFORMATION OBJECTIVES

Raising the required fund to continue usual business under NPO ambit was not a major issue for SAFCO, the decision was about long term vision of foundation towards banking system. SAFCO has established itself as a significant contributor to aid and development initiatives. It has attracted attention from notable organizations such as the United Nations and other international bodies. Furthermore, SAFCO has been identified as a potential collaborator for the Pakistan Microfinance Investment Company (PMIC). However, despite the high demand for its services, SSF like other NBFCs has faced funding constraints due to its inability to accept deposits and lack of shareholder equity.

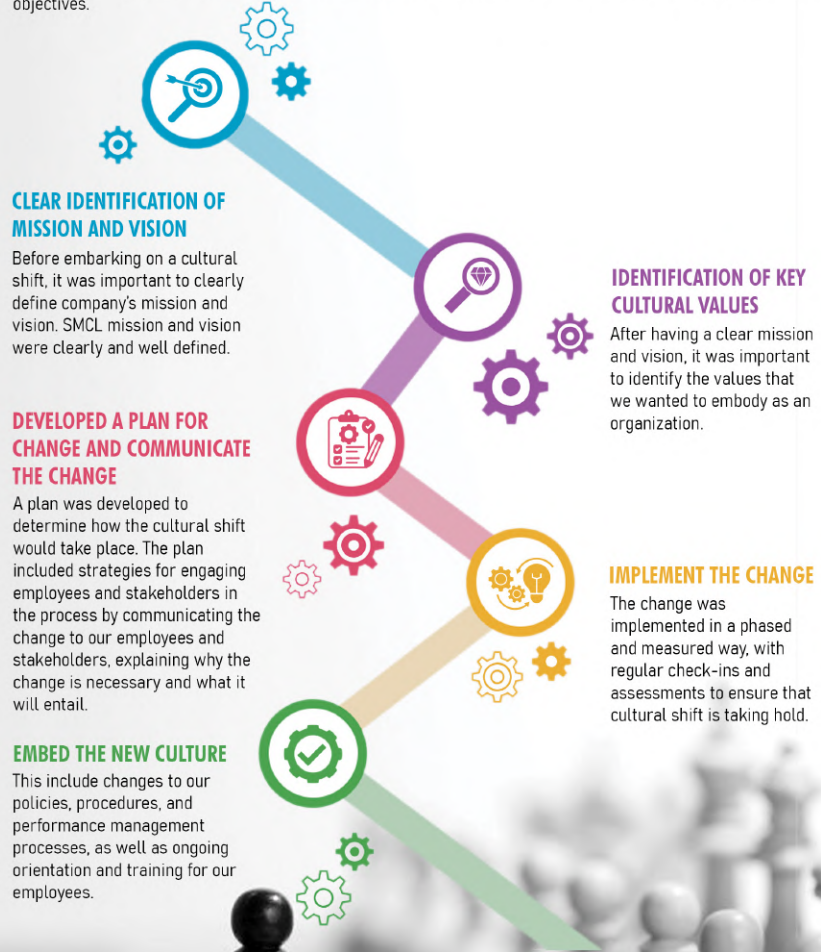
Additionally, in Pakistan, NBMFCs can only receive funding from the Pakistan Microfinance Investment Company (PMIC), a wholesale lender. Local commercial banks offer very limited financing options to NBMFCs due to their non-profit status and voluntary governance structure. As a result, NBMFCs are facing difficulties in securing funding, which was a significant motivating factor for SAFCO to consider transforming into a for-profit NBMFC.

Following are the main objectives of transformation from NPO to for-profit entity.



TRANSFORMATION STRATEGY

SAFCO's transformation drive required a significant shift in organizational mindset and approach. As cultural changes take time and effort, by aligning culture with mission and vision SMCL now anticipates more engaged and motivated employees, improved organizational performance, and effectiveness in achieving of company's objectives.



CHALLENGES

Transforming a not-for-profit company to a for-profit company was a complex process which presented several challenges. Some of the challenges that SAFCO faced during this transformation phase were;

NOC FROM LENDERS

One of the most challenging and time consuming challenge during the transformation phase was seeking the NOC from creditors. The assets and liabilities of SSF could not directly be transferred to a for-profit company. Each creditor, including the SBP, had to be contacted at their internal departmental level (i.e. legal and risk management departments) to fulfill their legal requirements in converting their contractual obligations to the new for-profit company.

MISSION AND CULTURE

Before transformation the SAFCO have a social mission that was core to our culture and operations. Transforming into a for-profit company required a shift in culture and mindset that was challenging for some employees and stakeholders. SAFCO clearly stated its new vision, mission and cultural values, imparting them in the minds of employees and stakeholders by orienting them towards transformation. We ensured that our stakeholders understand the importance and objectives of transformation so that they are aligned with full trust and support with the company's top management.





Mr. Suleman G. Abro
Founder, President & CEO received recognition from
Ms. Aisha Ghos Pasha
Minister of State of Finance and Revenue, Government of Pakistan for the
first company in Pakistan which has been successfully completed its
transformation from NPO to For Profit Company

COURSE OF ACTION

After successfully transforming from not for profit to for profit organization and effectively conducting the business operations in the new model, the next steps involve growth, sustainability, and maximizing the impact. Here is the way forward for SMCL to building on the success we have achieved so far;

We aim to identify new geographic areas and understand communities where we can expand our operations. To achieve this goal we are conducting extensive market research to assess the potential for growth and adapt our services accordingly. We continue to innovate and expand our product and service portfolio. We aim to offer a range of financial products including asset based financing (Murabaha) through our Islamic Window, promotion of green loans and products, and offering crop insurance facility bundled with our agriculture product. Offering Islamic Financing Facility is another milestone and first of a kind initiative from SMCL among the microfinance peer group sector.

SAFCO has always promoted digital enhancement in its business practices and we intend to seek further advancement in digitization, embracing digital transformation through innovation in lending practices, and exploring fintech partnerships. This will enable us to reach a wider audience and serve clients more efficiently. We have engaged ourselves in leveraging digital platforms to facilitate easy access to financial services, especially for women in the remote areas; such as providing training on using online financial apps and online tools to enhance financial inclusion and reduce the gender gap in digital literacy.

We aim to maintain transparent communication with our investors and shareholders. We intend to focus on profitability and return on investment (ROI) to ensure the sustainability of for-profit model. And we intend to continue and enhance our collaboration with government agencies, international organizations, and other stakeholders to advocate for policies that promote financial inclusion of the unbanked and underserved segment of the society.

SETTING BENCHMARK FOR THE SECTOR IN GROWTH AND OPPORTUNITIES

SAFCO's transformation from not-for-profit to for-profit entity represents a significant shift in the industry's landscape. By setting benchmarks for growth and opportunities, SMCL has shown that financial sustainability can be a powerful tool for advancing the mission of financial inclusion and poverty alleviation. While this journey is not without challenges and ethical considerations, it highlights the potential for innovation and impact when social goals are aligned with a sustainable business model. As the microfinance sector continues to evolve, the experiences of SMCL as a first transformed for-profit MFI provide valuable insights for the entire industry. The transformation of SAFCO into for-profit entity has set benchmarks for the microfinance sector in Pakistan in several ways:

FINANCIAL SUSTAINABILITY

Such a transformation demonstrates that financial sustainability and social impact can coexist. A profitable business model can fund social programs and help reach more underserved clients. The integration of financial sustainability and social impact not only benefits the business and underserved clients but also contributes to a more equitable and socially responsible business ecosystem.

SCALE AND OUTREACH

With access to commercial capital, SMCL shall be able to scale its operations and reach a larger number of clients, thereby advancing financial inclusion on a broader scale.

ENABLE OWNERSHIP, IMPROVED GOVERNANCE & GAIN LEGITIMACY

SMCL has become a shareholding institution in which owners have a vested interests and more clearly defined liabilities and responsibilities. We understand that with the improved and diversified owned governance the company will lead to more improved robust procedures in setting strategic plans, positioning the SMCL in the market, responding to emerging crises and leading the management executives efficiently and effectively.

ATTRACTING PRIVATE INVESTMENT

The transformation to a for-profit entity has attracted private investors, signaling confidence in the sector's growth potential. Today SMCL have successfully on boarded number of stakeholders including diverse investors both national and foreign interested in investing in SMCL and collaborating with us in diverse ventures.

INNOVATION AND PRODUCT

Competition in the for-profit sector has led to increased innovation in microfinance products and services, benefiting clients with more diverse and tailored offerings.

REGULATORY FRAMEWORKS

The successful transformation of SAFCO has prompted regulators to develop frameworks that accommodate both financial sustainability and social impact, fostering a more conducive environment for the sector.





Chairman SECP Mr. Amir Khan received recognition from Ms. Aisha Ghoas Pasha, Minister of State of Finance and Revenue, Government of Pakistan for his exceptional contribution in transformation of SAFCO



CEO PMIC Mr. Yasir Ashfaq received recognition from Mr. Suleman G. Abro - Founder & CEO SMCL for his trust and motivation to SAFCO in the entire transformation process



Executive Director SECP Ms. Khalida Habib received recognition from Mr. Suleman G. Abro - Founder & CEO SMCL for her remarkable support as regulator in SAFCO transformation



CEO PMN Mr. Mohsin Ahmed received recognition from Mr. Syed Sajjad Ali Shah - Managing Director SMCL for his outstanding support as network organization in the phase of transformation of SAFCO

SMCL SENIOR MANAGEMENT PARTICIPATED IN ANNUAL MICROFINANCE CONFERENCE PANEL DISCUSSION:

A spotlight session was organized in regard to the Transformation of SAFCO Support Foundation to SAFCO Microfinance Company (Private) Ltd from NPO to for profit company structure.



Mr. Suleman G. Abro – Founder & CEO discussed his vision and motivation for this initiative and the journey of transformation. He thanked all the stakeholders mainly SECP, SBP, PMN, PMIC, and national/ International partners for continuous support, courage and guidance in the entire transformation process. Ms. Khalida Habib - Executive Director, SECP participated in spotlight discussion and shared the regulator perspective and thought process to support SAFCO in the entire process, Mr. Yasir - CEO, PMIC recognized SAFCO's achievement and engagement of all stakeholders who were involved in setting example of such transformation.



Mr. Syed Sajjad Ali Shah - Managing Director & VP, SMCL participated in the Plenary Session Policy Dialogue. Mr. Shah discussed about the existing policy framework of the regulators and its consequences and provided recommendations to build a sustainable growth environment by developing the policies that encourage the NBMFCs with minimized risks.



CHAPTER 4

FLOOD 2022 - SAFCO RESPONSE IN DISASTER

FLOOD 2022 OVERVIEW

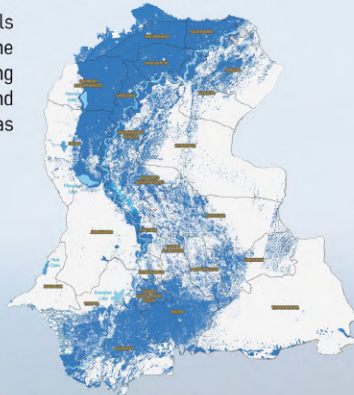
Pakistan has witnessed one of its wettest monsoon season last year since 1961 as continuous torrential rains caused flash flood in eastern and southern Balochistan, Sindh, Southwest Punjab, and Khyber Pakhtunkhwa, however Sindh remained worst affected province due to continuous heavy rains and flash floods. The 2022 monsoon rain and flood adversely affected businesses and livelihoods of communities in Pakistan, especially in Sindh Province.

This season brought one of the heaviest rains in Sindh causing overflows and inundations in 24 of 30 districts. On average Sindh recorded 703 mm of rains during monsoon 2022 which was 426% above normal. Above normal torrential rains caused rural and urban flooding, infrastructure damages including roads, bridges, and houses, canals and river bank breaches, livestock and agriculture loss, and displacement of millions of people.

KEY IMPACT & DAMAGES OF FLOOD

Consecutive and continuous heavy rain spells flooded almost entire populated area of the province. Homes in millions were damaged leaving thousands of families dispersed in camps and other safe places. Large number of livestock was lost in addition to crop loss in millions.

Extent of Flood Waters



POPULATION AFFECTED
 Affected 12.3 Million
 Displaced 7.4 Million

LIVESTOCK LOSS
 Livestock 436,435

CROP DAMAGES
 Crop in Acres 3,777,272

INFRASTRUCTURE DAMAGES
 Houses 2 Million
 Roads 8,463
 Bridges 165

DEATHS AND INJURIES
 Deaths 823
 Injuries 8,422

DISEASE OUTBREAK
 Malaria, Cholera,
 Diarrhea, Dengue
 Other infectious diseases

Sources: Provincial Disaster Management Authority (PDMA)

IMPACT OF FLOODS ON MICROFINANCE SECTOR

Impact on Microfinance Clients

- Health Concerns**
 - Outbreak of waterborne and infectious diseases
 - Weakness and malnutrition
- Livelihood Losses**
 - Crops and Livestock Damages
 - Shops damages and Business Closure
- Cash Flow Impact**
 - Local business closure Enterprises and SMEs affected
 - Decreased income and increased expenses

Impact on Microfinance Institutions

- Credit Portfolio**
 - Credit Risk increases
 - Portfolio sustainability affected (mainly agriculture & livestock portfolio)
 - Dropdown in disbursements
 - Decline in monthly collections
- Business Operations**
 - Connectivity with borrowers
 - Staff Management challenges
- Profitability & Sustainability**
 - Increase in NPLs
 - Liquidity Management challenges
 - Increased operational cost

SAFCO'S RESPONSE TO FLOOD

Developing Crisis Risk Management Framework:

In flood situation 2022, a Crisis Risk Management Framework was developed with the objective to ensure that all risk management systems, controls, and processes are in place and all risks are identified, evaluated, and monitored with effective risk response strategies and risk mitigation actions. Under this framework, the following activities were ensured;



SAFCO'S MEASURES IN RESPONSE TO FLOOD 2022

1

HEALTH AND SAFETY GUIDELINES AND BUSINESS CONTINUITY:

Health and safety guidelines were issued for staff safety with full support from human resources and administration departments. Operational business continuity plans were activated for highly affected offices and areas ensuring business continuity on immediate basis.



2

CONNECTIVITY WITH BORROWERS AND STAFF MONITORING:

Procedures tracking and tracing system was developed for identification of the borrowers which were displaced and migrated during the flood and connectivity with these borrowers was ensured through different communication channels and sources on priority. Non-affected clients and businesses in the operational areas were also identified to enable regular recovery collections follow up accordingly. In addition to this, strong measures were developed and controls were deployed for staff monitoring and reporting of branch activities to avoid any incidents of fraud and non-compliance of company's policies and code of conduct.



3

SMOOTH BUSINESS OPERATIONS AND FOCUSED DISBURSEMENTS:

SAFCO ensured smooth working of its business operations and effective loan disbursements during the floods by ensuring availability of adequate staff and their accessibility to borrowers where possible. Reassessment of the borrower business and residence were performed for approved loan applications and revision in the loan decision based on the assessment outcome. Also, a focused approach to disbursement was developed in which product wise and area wise disbursement target were set.



4

ENHANCED INTERNAL CONTROLS:

The internal control framework of the company was reviewed by the management and new controls were developed at departmental, processes, and each functional end to enhance its control framework in accordance with the disaster situation.



5

DISASTER RESILIENT PORTFOLIO:

SAFCO aims to make its products climate resilient and provide recovery cushion for the clients as it enables the livestock and agriculture products to be bundled with mandatory insurance facility. This will protect the borrowers against livestock and crop damages in case of a disaster situation. Apart from this we also aim to insure the rest of the portfolio to provide maximum protection against climate and environmental risks as well as minimize the credit/portfolio risk in future.



6

DISASTER MANAGEMENT FUND:

SAFCO aims to establish a disaster resilient fund in collaboration with other institutions in the sector to collectively respond to disaster situation with financial assistance. The disaster resilient fund will help meet the needs and requirements of disaster preparedness, response generation, mitigation, relief, and revival of businesses for the affected individuals and communities. We are in communication with multiple organizations for establishing of such fund and a positive response in this regard have been received from number of institutions.



7

PRODUCT DEVELOPMENT:

The post flood situation created diversified demands of the customers and various opportunities for the microfinance sector. Keeping in mind the damages to houses due to floods and customer's needs, SAFCO is now offering Rehabilitation House Loans to its customers on easy and affordable terms to help customers build their houses which were partially or fully damaged during the heavy monsoon rains and floods.



8

GEOGRAPHICAL EXPANSION:

SAFCO plans to increase its geographical outreach by opening of new branches and business expansion by reaching to potential markets. SAFCO's branch network comprises of 62 branches which are operating in 13 districts of Sindh province. In 2023, SAFCO plans to further expand its outreach to urban and rural areas of north and south by opening multiple new branches in Karachi, Khairpur, Sadiqabad, Sukkur, and Rahimyar Khan. This will allow SAFCO to expand its branch network towards south and north of Sindh and starting business operations in Punjab province.





STANDING TOGETHER WITH FLOOD AFFECTEES



HUMANITARIAN ASSISTANCE TO FLOOD AFFECTED POPULATION

SAFCO remained proactively involved in the CSR activities during the floods, 2022 and post flood situation with the aim of providing substantial support and assistance for advancing the social and environmental well-being of the flood affected communities. SAFCO developed and implemented its contingency plan to ensure timely and effective humanitarian aid to those who need it most during the emergency situation. Being a social responsible financial institute, SAFCO engaged itself since first day of heavy rains and floods in its operational areas for the rescue and relief of communities and especially its clients. Following support and assistance extended by SAFCO itself and with collaboration of stakeholder and organizations working for the relief and rehabilitation in flood affected areas;



- Food and other necessary items were provided as emergency response to flood affected individuals and communities. Mosquitoes Net, Drinking Water, Food supplies, Milk and other supporting items to 400 flood affected families. A total of PK R 2 million of such items were distributed in the month of September, 2022.

- Ration bags worth PKR 1.75 million were distributed among flood affected poor families. 350 poor families were provided with food items in the month of October, 2022 so that they can meet their basic and immediate needs during crisis situation.

- Ration bags & kitchen necessary items for flood affected rural families were distributed in rehabilitation support in the month of November, 2022. A total of PKR 3 million worth of these items were distributed to 300 poor and flood affected families to support them in disaster situation.

- Since the start of monsoon and onset of flood 2022, SAFCO has remained in continuous coordination with national and international organizations to provide financial assistance, support business revival and rehabilitation of the people who were badly affected during the 2022 flood. These include financial aid, loans and donations from national and international organizations, local and federal governments and any other reputable sources.

- PMIC extended support to SAFCO of PKR 12.50 million as grant assistance for Business Revival of 500 flood affected clients in District Sanghar to extend grant assistance of PKR 20,000 to PKR 30,000 to each flood affected client whose businesses were completely lost and they were having good repayment and credit history. The project was successfully completed by SAFCO with maximum compliance in the given timeframe.

**"PMIC AS KEY LENDER: A SUPPORTIVE PARTNER FOR
END USERS OF FINANCIAL SERVICES IN TIMES OF
HARDSHIP"**



Deligations from PMIC Mr. Naved A. Khan – Chairman BoD, Mr. Yasir Ashfaq - CEO, Mr. Saqib Siddique - Head Sector Development, Mr. Asghar Memon - Head Portfolio Management Unit, Ms. Nizwa - Portfolio Manager and Senior Management Team visited the flood affected areas and met with the affected SMCL borrowers and communities to oversee the flood situation and take initiatives to overcome the situation with mutual cooperation of SAFCO

Dear Investors, Partners and Stakeholder,

It is with great pleasure that we present to you the Director's Report for the Annual Report of SAFCO Microfinance Company (Pvt) Limited-SMCL. This report serves as a comprehensive overview of our company's performance, achievements, and strategic initiatives undertaken during the past fiscal year. We are grateful for your continued support and guidance as we navigate the dynamic landscape of the Pakistan's microfinance industry.

ECONOMIC OVERVIEW

During the year, Pakistan grappled with economic challenges stemming from political instability, global economic slowdown, decreased agricultural productivity, resource scarcity, and the impacts of climate change. The country's trade deficit reached historic levels, with the Pak Rupee experiencing significant depreciation against the US Dollar. Foreign exchange reserves saw a sharp decline, dropping by almost 50% in the last year, primarily due to external debt and import bill payments. The State Bank of Pakistan raised the policy rate from 9.75% in January 2022 to a multi-decade high of 22% in June 2023, contributing to record-high inflation levels.

MICROFINANCE SECTOR PERFORMANCE

Microfinance Institutions (MFIs) serve as a lifeline for individuals and small businesses that often lack access to traditional banking services. However, the sector faces number of challenges such as growth limitations, scalability issues, collection management concerns, and the need to meet the increasing demand for business financing. The economic conditions of the past year have heightened internal and external risks, directly impacting

microfinance institutions. The record rise in interest rates has increased the cost of funds for these institutions, and inflation has escalated operational costs. Apart from economic challenges, flood situation in 2022 also impacted the performance of microfinance institutions. The growth of the sector in terms of portfolio and active clients slowed down during the year. MFIs made focused disbursement during flood and post flood months mainly in Sindh while recovery collections also dropped during these months. However, key indicators have shown improving trend in the second half of the year with the improvement in overall post flood situation in the province.

SMCL'S PERFORMANCE OVERVIEW

Despite several external challenges and first of a kind transformation journey, the company ensured steady business growth and financial stability with highest standards of corporate governance, robust risk management and internal controls, management excellence, and quality dedicated workforce. Total assets and total liabilities are maintained without any significant changes while total equity was reported PKR 618.2 million. We achieved a healthy profit margin of 6.39%, driven by cost efficient strategies and increase in product pricing. We not only fulfilled all the requirements of lenders including timely repayments but also significantly enhanced fundraising efforts from both existing and new lenders, including PMIC, Triodos, FMO, Blue Orchard, Triple Jump, Bank Alfalah, and the State Bank of Pakistan. This success is a testament to the organization's strong financial standing and credibility in the market.

Despite challenges posed by devastating floods 2022, SMCL successfully ensured continuity of key business activities, revived customer businesses, and contributed to the rehabilitation of affected communities.

We have expanded our outreach to 13 districts of Sindh with presence of 55 branches in rural, semi urban and urban areas. Portfolio at Risk remained well under control despite economic and environmental challenges during the year as we have ensured maximum connectivity with our borrower's with timely repayments and focused quality disbursements during the year.

We underwent a transformative HR initiative, integrating technology and refining processes for enhanced transparency and efficiency. The Board Committees demonstrated strong performance throughout the fiscal year 2022-2023, meeting strategic objectives, social commitments, and financial targets. They executed their responsibilities efficiently, emphasizing a proactive approach to economic and environmental challenges. A comprehensive review of company policies ensured alignment with contemporary business practices and international standards. In the fiscal year 2022-2023, as SMCL encountered challenges from an uncertain political landscape, macroeconomic conditions, and the transformation process from NPO to a for-profit organization; we adeptly navigated the business environment through a strong risk management framework,

incorporating an internal control system and a proactive risk response strategy. The implementation of mitigation measures and regular monitoring ensured effective management of these challenges.

Looking ahead, the outlook for SMCL remains optimistic. We will continue to adapt to market trends, embrace innovation, and pursue opportunities for sustainable growth. Our focus on delivering value to our shareholders, maintaining financial prudence, and upholding our commitment to social responsibility will remain steadfast. I would like to express my gratitude to the Board of Directors, management team, and all our employees for their unwavering commitment and hard work. Our success is a collective achievement, and I am confident that with our shared vision, we will navigate the future with resilience and success. I also extend my sincere appreciation to our stakeholders for their continued support and trust in SMCL.

Board of Directors



GOVERNANCE PERFORMANCE

STATEMENT OF CORPORATE GOVERNANCE

The Company has adopted good corporate governance practices and the Directors are pleased to state that:

1. The financial statements prepared by the management of the company present a true and fair view of the state of its affairs, operational results, cash flows, and changes in equity.
2. Proper books of accounts of the company have been maintained.
3. Appropriate accounting policies have been consistently applied in the preparation of financial statements.
4. The company has followed all accounting standards as applicable to the NBFCs in Pakistan.
5. The system of internal control is sound in design and as a continuous process, efforts are made to effectively implement the internal control systems.
6. There are no doubts about the company's ability to continue as a growing enterprise.
7. The board has constituted the following four committees which have defined terms of reference:
 - Board Audit Committee
 - Board Human Resource Committee
 - Board Risk Management Committee
 - Board Social Performance Management Committee

MEETINGS OF THE BOARD

The board meets on a quarterly basis, and the meeting dates are schedule well in advance to enable the directors to plan ahead. When required, the board may also meet other than quarterly basis to consider and approve urgent matters. Details of the meetings held during the year are provided in the table below:

NAME OF THE DIRECTOR	DESIGNATION	MEETING ATTENDED	ATTENDANCE %
Mr. Ismail Kumbhar	Nominee Director	4	100
Mr. Fazal Noor	Independent Director	4	100
Mr. Faheem Khawaja	Independent Director	3	75
Mr. Suleman G. Abro	Nominee Director & CEO	4	100

PERFORMANCE REVIEW

Over the past year, the board has demonstrated exceptional commitment and leadership, navigating through challenging economic conditions and external uncertainties. Their strategic decisions and prudent risk management have allowed us to maintain a robust portfolio quality while expanding our outreach to underserved communities. The board's dedication to financial inclusion and social impact has driven our mission forward, enabling us to empower countless individuals and small businesses across the province.

The Board Performance Evaluation outcomes indicate a strong performance by the Board, its Committees, and Directors throughout the fiscal year 2022-2023. Nearly all strategic objectives, social commitments, and financial targets were successfully met. The Board exhibited effective and efficient execution of its responsibilities and at the same time emphasized on adopting proactive approach to economic and environmental challenges.

The board conducted a thorough review of company policies and procedures, confirming their alignment with contemporary business practices and both national and international standards. They placed strong emphasis on the significance of employee contentment, tenure, and professional growth, while also prioritizing gender diversity within the workplace. Furthermore, the board meticulously assessed and sanctioned the annual staff training plan, assuring the provision of top-tier, comprehensive training programs designed to augment the skills and proficiency of the workforce.

The board reviewed and approved SMCL's Internal Audit Plan and ensured its maximum compliance. They ensured successful compliance and fulfilment of SECP regulatory requirements in areas of corporate governance, liquidity management, risk management, and credit underwriting.

The board ensured implementation of Crisis Risk Management Framework and ensured business continuity in disaster situation. They emphasized on maintaining quality in disbursement, meeting collection targets, and managing PAR within acceptable limits. The board ensured 100% compliance of AML/CFT and ESMS. The board also emphasized on product development and portfolio diversification. It ensured successful development of the SMCL Islamic Financing Product and emphasized disbursement in Murabaha Financing by the end of 2023.

The board ensured that social performance goals are achieved throughout the year with compliance on social performance KPIs. It critically reviewed and discussed key performing indicators and social goals of the company in terms of serving to female clients, youth, minorities, and promoting renewable energy and education.

BOARD MEETINGS



The board critically reviewed the performance analysis in the meeting, also considered the Sub Committee analysis and recommendations briefed by the committees to Board and devised the institutional futuristic approach in accordance with the strategic business plan and appreciated the satisfactory performance of the institution.

STRATEGIC BOARD DEVELOPMENT



The Board of Directors attended the Directors Training Program-DTP organized by Pakistan Microfinance Network (PMN) in collaboration with Pakistan Institute of Corporate Governance (PICG) held at Pakistan Institute of Management (PIM), Lahore. The program provided deep insight into corporate governance global best practices and enhanced the Board's understanding of the specific challenges and opportunities within the microfinance sector. The DTP offered a comprehensive curriculum covering key aspects of corporate governance, including ethical considerations, risk management, financial accountability, and strategic decision-making.



"EMPOWERING RURAL RESILIENCE: SMCL AND PMIC PIONEER LOW-COST HOUSING SOLUTIONS FOR SUSTAINABLE LIVING IN THE FACE OF CLIMATE CHANGE"

With the envision to explore and develop the financial and viable solutions for the rural communities and villages in low-cost housing for their self-sustainability and sustainable disaster resilient living in the climate change era, the delegation comprised of Mr. Muhammad Ismail Kumbhar - Board Member SMCL, Mr. Suleman G. Abro - Founder & CEO SMCL, Mr. Naved A. Khan - Chairman of the Board of Directors at PMIC, Mr. Yasir Ashfaq - CEO PMIC and Mr. Saqib Siddiqui - General Manager of Sector Development at PMIC participated in the demonstration at a model village developed by the Heritage Foundation





FINANCIAL REVIEW

Safco Microfinance Company (Private) Limited continues to be committed to providing quality products and services to low income unbanked and underserved segments of the society and enhancing its product base through innovation which is an integral part of companies strategic objective to positively enhance the quality of life of our customers.

SMCL has played vital role in keeping the strong bond with clients in pre and post flood situation in order to enhance the recovery and disbursement hence the cliental ratio is on upper side. During the year SMCL fulfilled all the requirements of lenders and enhance fund raising from existing and new lenders i.e PMIC, Triodos, FMO, Blue orchard Triple Jump, Bank Alfalah and State bank.

HIGHLIGHTS

- A total of PKR 4,298 million of disbursement made in the FY 2022-2023.
- Total Equity was recorded at 618.2 million.
- Total Assets remained 5,385.8 million while total liabilities are recorded at 4,764.4 million.
- SMCL achieved financial income of 961 million while operating expense were recorded at 415.3 million.



DISCLOSURE:

The primary factor contributing to the disparity between internal income statement and audited income statement is an unrealized foreign currency (FCY) loss, which was not reflected in our accounts due to the expiration of one of our hedges on June 30, 2023, currently in the renewal phase. This has led to a difference in net income. The auditors, in accordance with IAS-21, treated the FCY working as an impact of the change in foreign exchange rates. Consequently, an FCY exchange loss of PKR 121 million was recognized, impacting the net loss of the company. However, it's essential to note that the operating profit of the company before the FCY impact remains positive, standing at a profit of PKR 13 million in the first year.

This discrepancy underscores the dynamic nature of our financials and the effects of external factors such as hedging activities. We are actively addressing this by renewing our hedges and ensuring a comprehensive approach to managing foreign exchange risks. This disclosure provides transparency and a reasonable context for stakeholders, demonstrating our commitment to financial integrity and responsible risk management.



*Individually we are one drop,
but together we're an ocean...!*



SMCL Signs Financing Agreement with Pakistan Mortgage Refinance Company (PMRC) envision to mutual collaboration for increasing the accessibility of affordable housing finance.



SMCL signed a project agreement for the "Business Revival Initiative" facility initiative with PMIC that has been initiated to support the affected PMIC partner institutions with highest portfolio concentration in the flood hit districts.

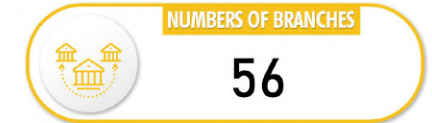
BUSINESS REVIEW

Despite a challenging macroeconomic environment and natural disaster situation (Pakistan Floods 2022), SMCL efficiently and effectively continued its business operating activities with sustainability and growth. Despite these challenges, SMCL maintained its commitment to sustainable growth by expanding its outreach, reaching underserved communities, and providing financial inclusion to those who need it most. Our determination to promote economic stability in the regions we operate remains steadfast.

Heavy monsoon rains and floods in 2022 also impacted SMCL's business operations as almost all the SMCL's operating areas were declared calamity hit by the government. Loan portfolio was affected with decline in regular collections and decrease in disbursements during the flood months. However with timely response and activation of Crisis Risk Framework, SMCL ensured smooth and consistent key business activities along with revival of customer's businesses, and rehabilitation of affected communities.

HIGHLIGHTS

- We have extended our outreach to 13 districts of Sindh with presence of 56 branches.
- SAFCO responsibly served PKR 29.2 billion to 845,166 customers.
- OLP is recorded at 3,917 million with 117,124 active customers.
- Average loan size reached to 69,298 with increase in loan ticket size and disbursement in housing finance and SME.
- PAR is maintained well below 5% mark.





NEW EXPANSIONS THIS YEAR

*We are growing
to serve community better....!*



**Inauguration of
Bhan Saeedabad
Branch
District Jamshoro**



**Inauguration of
Mirpur Sakro
Branch
District Thatta**



**Inauguration of
Sujawal
Branch
District Sujawal**

Show Casing the Business Model: German Ambassador visit to SMCL



The German Ambassador to Pakistan His Excellency Alfred Grannas along with his delegation includes First Secretary, Political Section Ms. Julia Verena Klein and German Consul Deputy Head of Mission Mr. Andreas Wagner visited SAFCO Secretariat, Hyderabad.





WELCOMING INTERNATIONAL INVESTORS & PARTNERS:

*Coming together is a beginning,
staying together is progress and
working together is success...!*



The Delegation from Blue Orchard Investments Pte. Ltd. led by Ms. Gulnaz Bedelbaeva, Ms. Chloe Fu and Mr. Waqas Munir visited to SAFCO Microfinance Company (Pvt) Limited for the due diligence to enter into financing partnership.



The Delegation from FMO comprising of Investment Officer, Portfolio Analyst, Risk Associate are visited to SAFCO Microfinance Company (Pvt) Limited for the due diligence to enter into senior debt financing partnership.

Partnering with Meezan Bank Ltd. for stepping towards Islamic Finance: Strategic Dialogue with Meezan Shariah Compliance Team



SMCL received the delegation from Meezan Bank Limited led by Mufti Muhammad Naveed Aslam – Resident Shariah Board Member, Mr. Shayan Ahmed Baig – Deputy Head of Shariah Compliance Department, Mr. Kamran Akram Bakshi – EVP & Head Agriculture Finance, Mr. Muhammad Asad, Relationship Manager. The regional team visited SAFCO Head Office and discussed mutual potential business partnership for launch of SAFCO Islamic Finance Product it's design and the Business plan of Islamic Finance and implementation strategy of SAFCO.



SAFCO MICROFINANCE COMPANY PRIVATE LIMITED ORGANIZED TWO DAYS' INTERACTIVE WORKSHOP TO REVIEW THE YEAR 2022 AND DEVELOP STRATEGIC BUSINESS PLAN FOR 2023.



Mr. Suleman G. Abro, the Founder & CEO, initiated the session by discussing the board and management's vision for business growth and development. He provided guidance to the core management team on crafting an advanced strategy aimed at fostering the company's growth, progress, and success, while also contributing to societal prosperity.

Mr. Syed Sajjad Ali Shah – Managing Director & VP moderated the overall two days activity with support of Head of Business Operations Mr. Basheer Ahmed, and all key executives and Regional Managers, the team conducted a comprehensive review of existing processes and strategies, devised and formulated the strategic plan and framework for 2023 which was submitted to and approved by the board.





RISK MANAGEMENT

SAFCO's Risk Management Framework is comprehensive and sophisticated enough to capture and manage all risks that the organization is exposed to and it has the flexibility to adapt to any change (be it Internal/external influences) that impact on the company's business and apply mitigation measures and actions appropriately with proactive approach. The purpose of Risk Framework is to support SMCL in making risk-informed decisions and to provide the basis for evaluating and monitoring the risk profile of company on an ongoing basis. The Framework provides a shared understanding of and promotes a consistent approach to risk management within SMCL in line with the company's goals and objectives.

SAFCO's broad Risk Management Framework comprises of appropriate Risk Management controls, resources, systems, policies, plans and strategies. Our risk management philosophy is to promote a comprehensive risk management strategy that ensures the sustainability of the institution. SMCL ensures clear segregation of duties between operational and risk management functions and works on the three line of defense model.

KEY SYSTEMS AND CONTROLS

Robust Risk Management Framework



Environmental & Social Management System Framework

Enhanced Internal Control Framework



Fully Functional Grievance Redressal Mechanism

AML/CFT Compliance Program



Disaster Risk Management Framework

RISK REVIEW

The year 2022-2023 post several challenges in terms of internal and external environment to conduct smooth business activities. Some of these challenges include uncertain political situations, macroeconomic conditions, and transformation challenges of converting from NPO to for-profit organization. With its robust risk management framework including internal control framework in place and proactive risk response strategy, SMCL effectively and efficiently managed these risks by implementing the mitigation measures and monitoring on regular basis.

This year operational risk of the company increased mainly due to flood impact on the portfolio and customer's businesses. Focused disbursements were done in essential businesses in first quarter of FY 2022-2023 due to flood impact which decreases the sales for the company. Monthly collections remained low during the flood months as livelihood of the customer's was badly affected. However, SMCL activated its crisis risk management framework and developed risk response strategy to deal with the situation. Measures were taken to identify displaced borrowers, ensure connectivity with clients and develop branch wise and product wise focused approach to recovery collections. The key operating indicators show positive trend in the second half of the FY with significant improvement in disbursement and collections.

Credit Risk of the company increased mainly due to flood impact on the portfolio and client's businesses and partially due to inflation impact on client's repayment capacity. PAR reached to its highest and recorded 13% in September, 2022. However, with timely mitigation measures and strong implementation of controls SMCL managed to reduce its PAR to 4.9% ending June, 2023.

Liquidity Management remained a challenge during this year as the economic situation of the country remained less conducive for the investment. Record rise in interest rates, inflation and depreciation of the currency created less favorable environment for the lenders as well as the borrowers. SMCL management ensured smooth repayments to investors and ensured financial sustainability stands under the minimum threshold. The management remained in constant coordination with local and international investors, and expect to finalize the agreement with multiple lenders by the end of this year. Also Financial Sustainability of the institution has improved with the injection of equity in the for-profit model.

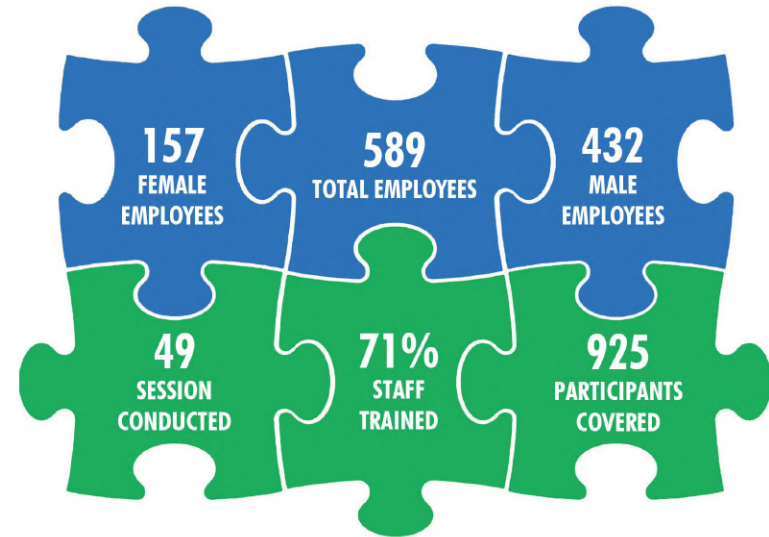
SMCL's strategic risk stands at low to medium. SMCL has a proper governance system, policies and procedures approved by board of directors, and board committees to oversight the management and all the organizational activities, and strategic plan developed for the next five years. All the board committees are performing their roles and responsibilities and board and committee meetings are timely held.





HUMAN RESOURCE MANAGEMENT

During the fiscal year 2022-2023, our commitment to fostering a positive atmosphere within our organization persisted as we embarked on a journey to enhance our people-centric processes. Our primary objective was to enhance the quality of services provided to our employees while maintaining a competitive edge. This transformation involved a comprehensive overhaul of our HR processes, combining technology integration with process refinement to promote transparency and efficiency. Throughout the year, our strategic priorities revolved around key areas such as leadership development, capability building, utilization of online learning platforms, and employees' relations management for building high performance teams to achieve company's goals while diversity and commitment to compliance continued to remain at the heart of our agenda.



ROBUST EMPLOYEE GRIEVANCE REDRESSAL SYSTEM

Furthermore, in our ongoing efforts to create an inclusive and supportive work environment, we ensured maximum functionality of employees' grievance redressal mechanism which highlights our commitment to ensuring that every employee's concerns and feedback are heard and addressed promptly and fairly. Our robust grievance redressal system provides a confidential and accessible channel for employees to voice their grievances, seek resolutions, and provide valuable input for continuous improvement. We believe that by actively listening to our employees and taking their feedback seriously, we can enhance job satisfaction, boost morale, and strengthen our overall organizational resilience.



OUR BEST PRACTICES IN HR

- SMCL aims to provide safety and job security to all its employees
- SMCL aims to bring in employees who add value to the organization
- SMCL believes that teamwork is crucial in achieving goals
- SMCL believes in fair and performance based incentives, employee recognition, and appreciation
- SMCL aims to provide well designed and well directed trainings to all its employees



PROFESSIONAL DEVELOPMENT GROWTH

*Excellence is an art
won by training and
habituation...!*



SMCL organized a staff capacity Building session on Housing Finance at Head Office for the group of Regional Managers and Branch Managers.

Mr. Suleman G. Abro – Founder, President & CEO conducted the staff capacity building trainings for the Business Development Officers on “Know Your Area Operations”.



Manager Accounts Mr. Wajid Hussain Junejo conducted the session for Newly joined Branch Accountants and Admin Officers on Basic Accounting, Financial Management and Internal Control Systems.

The training and Development Department organized Orientation Training workshop for the Newly joined Business Development Officers to build up the capacity of newly joined staff in SAFCO.



CELEBRATION OF WOMAN'S DAY



SAFCO ALWAYS RECOGNIZE EFFORTS AND CONTRIBUTION OF WOMEN ON EQUAL BASIS.

◆ YOUSUF ADIL

Yousuf Adil
Chartered Accountants

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KCHSU, Shahrāh-e-Faisal
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Pakistan

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INDEPENDENT AUDITOR'S REPORT

To the members of SAFCO Microfinance Company (Private) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **SAFCO Microfinance Company (Private) Limited** (the Company), which comprise the statement of financial position as at June 30, 2023, 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 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 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 June 30, 2023 and of the loss 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 director's 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 information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of 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.

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◆ YOUSUF ADIL

Yousuf Adil
Chartered Accountants

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.

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 cash flows statement 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;

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Deloitte Touche Tohmatsu Limited

- c) investments made, expenditure incurred and guarantees extended during the period 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 Shafqat Ali.

Yousuf Adil
Chartered Accountants

Place: Karachi
Date: November 14, 2023
UDIN: AR202310186b9gENkwHv

SAFCO MICROFINANCE COMPANY (PRIVATE) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2023

Note	2023	2022
	(Rupees)	
ASSETS		
Non current assets		
4	36,697,736	-
5	95,551,508	-
6	1	-
7	1,833,000	-
8	59,527,819	-
9	592,685,277	-
10	262,700,000	-
	<u>1,048,995,341</u>	-
Current assets		
8	12,272,947	-
9	3,128,212,571	-
10	199,750,000	-
	192,410,011	-
	7,842,825	-
11	116,499,112	-
12	9,772,185	-
13	164,487,586	-
14	515,546,803	49,999,435
	<u>4,336,794,022</u>	<u>49,999,435</u>
	<u>5,385,789,363</u>	<u>49,999,435</u>
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Share capital and reserves		
15	750,000,000	50,000,000
	(131,773,255)	(3,674,816)
	<u>618,226,745</u>	<u>46,325,184</u>
Non-current liabilities		
16	429,961	-
17	90,875,587	-
18	2,730,671,139	-
	<u>2,821,976,687</u>	-
Current liabilities		
16	84,168	-
17	12,994,851	-
18	1,599,010,250	-
19	100,000,000	-
20	192,914,312	-
21	24,081,102	-
	249,074	-
	5,588,512	-
22	10,663,662	3,609,251
	<u>1,945,585,931</u>	<u>3,674,251</u>
	<u>5,385,789,363</u>	<u>49,999,435</u>
TOTAL EQUITY AND LIABILITIES		
23		

The annexed notes from 1 to 40 form an integral part of these financial statements.

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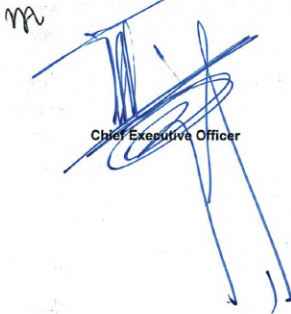
[Signature]
Chief Executive Officer

[Signature]
Director

SAFCO MICROFINANCE COMPANY (PRIVATE) LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2023

Note	2023 (Rupees)	From January 27, 2022 to June 30, 2022	
Financial income earned	24	961,009,086	-
Financial charges expense	25	(626,500,463)	-
Net financial income		334,508,623	-
Provision against loan losses for the year	9.3.1	(74,564,013)	-
Net financial income after loan losses provision		259,944,610	-
EXPENDITURE			
Operational expenses	26	(365,158,269)	-
Administrative expenses	27	(50,128,966)	(3,674,816)
Financial charges on lease liabilities	17	(12,595,796)	-
Bank charges		(11,074,527)	-
Other income	28	190,820,069	-
Operating profit / (loss)		11,807,721	(3,674,816)
Unwinding of loan term loans to employees		(18,943,920)	-
Unrealized foreign exchange losses - net	29	(121,626,673)	-
Grant income	30	913,507	-
Loss before taxation		(127,849,365)	(3,674,816)
Taxation	31	(249,074)	-
Loss for the year		(128,098,439)	(3,674,816)
Other comprehensive income for the year		-	-
Total comprehensive income for the year		(128,098,439)	(3,674,816)

The annexed notes from 1 to 40 form an integral part of these financial statements.


Chief Executive Officer


Director

SAFCO MICROFINANCE COMPANY (PRIVATE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2023

	Issued, subscribed and paid up capital	Revenue reserve Accumulated loss	Capital reserve Surplus on revaluation of intangibles	Total
	(Rupees)			
Transaction with owners				
Issue of share capital	50,000,000	-	-	50,000,000
Total comprehensive income for the period ended June 30, 2022				
Loss for the period	-	(3,674,816)	-	(3,674,816)
Other comprehensive income	-	-	-	-
	-	(3,674,816)	-	(3,674,816)
Balance as at June 30, 2022	50,000,000	(3,674,816)	-	46,325,184
Transaction with owners				
Issue of share capital other than cash	700,000,000	-	-	700,000,000
Transfer of revaluation surplus on intangibles	-	-	80,000,000	80,000,000
Reversal of revaluation surplus on intangibles	-	-	(80,000,000)	(80,000,000)
Total comprehensive income for the year end June 30, 2023				
Loss for the year	-	(128,098,439)	-	(128,098,439)
Other comprehensive income	-	-	-	-
	-	(128,098,439)	-	(128,098,439)
Balance as at June 30, 2023	750,000,000	(131,773,255)	-	618,226,745

The annexed notes from 1 to 40 form an integral part of these financial statements.


Chief Executive Officer


Director

We express our sincere gratitude to our clients for entrusting SAFCO with their aspirations, our dedicated team for their hard work and passion, and our investors and partners for their invaluable collaboration. Thank you for taking the time to engage in the meaningful review of our

Annual Report 2023

(FY 2022 - 2023)

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