



DIRECTORS' REPORT
&
FINANCIAL STATEMENTS
June 30, 2011

Pakistan Poverty Alleviation Fund



Company Information

Board of Directors:

Mr. Hussain Dawood
Chairman

Dr. Nuzhat Ahmad

Mr. Rafiud Deen Ahmad

Mr. Rana Assad Amin

Dr. Naved Hamid

Dr. Rajab Ali Memon

Dr. Aisha Ghaus Pasha

Mr. Asif Qadir

Mr. Zubyr Soomro

Mr. Qazi Azmat Isa
Chief Executive Officer

BOD Committees:

Board Compensation Committee:

Mr. Hussain Dawood
Chairman

Mr. Zubyr Soomro

Dr. Rajab Ali Memon

Dr. Aisha Ghaus Pasha

Audit Committee:

Mr. Rafiud Deen Ahmad
Chairman

Mr. Rana Assad Amin

Dr. Nuzhat Ahmad

Dr. Naved Hamid

Mr. Asif Qadir

Risk Oversight Committee:

Mr. Zubyr Soomro
Chairman

Dr. Aisha Ghaus Pasha

Mr. Asif Qadir

Company Secretary:

Mr. Iltifat Rasul Khan

Auditors:

A. F. Ferguson & Company, Chartered Accountants

Legal Advisors:

Azam Chaudhry Law Associates

Tax Advisors:

A. F. Ferguson & Company, Chartered Accountants

Bankers:

Allied Bank of Pakistan, Askari Commercial Bank Limited, Citibank, Faysal Bank Limited, First Women Bank Limited, Habib Bank Limited, Hong Kong and Shanghai Banking Corporation Limited, National Bank of Pakistan, NDLC-IFIC Bank Limited, Silk Bank Limited, Standard Chartered Bank Limited

Registered Office:

House No. 1, Street No. 20, Sector F-7/2, Islamabad, Pakistan.
UAN: (+92-51) 111-000-102, Ph: 2653304-05, 2653597
Fax: (+92-51) 2652246, Email: info@ppaf.org.pk
Website: www.pfaf.org.pk



Company Information

General Body:

Chairman:

Hussain Dawood Chairman, The Dawood Group.

Members:

Mueen Afzal Former Secretary General, Ministry of Finance, Government of Pakistan
Nuzhat Ahmad Director, Applied Economic Research Center, University of Karachi
Rafiud Deen Ahmad Former Senior Partner, Orr, Dignam & Co.
Rana Assad Amin Additional Secretary, Ministry of Finance, Government of Pakistan.
Rashid Bajwa Chief Executive Officer, National Rural Support Programme.
Nazrat Bashir Additional Secretary, Ministry of Finance, Government of Pakistan.
Javed Burki Former Civil Servant.
Naved Hamid Director, Centre for Research in Economics & Business, Lahore School of Economics.
Ashraf Muhammad Hayat Former Civil Servant.
Akmal Hussain Managing Director, Sayyed Engineers Ltd.
Ahlullah Khan Kakarr Former Civil Servant.
Shoaib Sultan Khan Chairman, National Rural Support Programme.
Rajab Ali Memon Educationist.
Nazar Memon Director, National Rural Support Programme.
Hamayun Murad Managing Director, Orix Leasing Pakistan Ltd.
Kaiser H Naseem Manager, Pakistan Corporate Governance Project, International Finance Corporation.
Aisha Ghaus Pasha Director Institute of Public Policy, Beachonhouse National University.
Asif Qadir President Engro Polymer and Chemicals.
Aijaz Ahmed Qureshi Former General Manager, Sindh Irrigation & Drainage Authority.
Fazlullah Qureshi Former Member, National Electric Power Regulatory Authority.
Muhammad Ismail Qureshi Former Federal Secretary, Government of Pakistan.
Syed Ayub Qutub Executive Director, Pakistan Institute of Environment Development & Research.
Sadiqa Salahuddin Executive Director, Indus Resource Center.
M. Suleman Shaikh Chairperson Sindh Graduates Association.
Zubyr Soomro Director Sanjan Nagar Public Education Trust.
Jahangir Tareen Former Federal Minister, Government of Pakistan.
Fareeha Zafar Director, Society for the Advancement of Education.

PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL HIGHLIGHTS

	2011	2010	2009	2008	2007
Outreach - Numbers (Cumulative)					
Partner Organizations	100	87	77	74	70
Districts	128	127	124	117	111
Loans ('000)	5,000	3,600	3,000	2,300	1,513
Water & Infrastructure Projects	25,500	21,000	18,500	17,000	14,900
Disbursements - Rs. in million					
Microcredit/enterprise development loans	10,952	9,048	6,949	9,075	6,228
Grants	4,786	4,798	6,117	7,622	9,578
Total disbursements	15,738	13,846	13,066	16,697	15,806
Balance Sheet - Rs. in million					
LIABILITIES					
Equity and reserves	7,530	6,114	4,785	3,755	2,817
Long term loans	13,761	12,246	11,031	10,770	10,777
Other liabilities	3,274	5,269	2,693	4,398	5,059
Total liabilities	24,565	23,629	18,509	18,923	18,653
ASSETS					
Fixed assets	62	73	65	63	42
Loans to Partner Organizations (POs)	11,098	10,572	9,141	7,983	5,642
Total investments	9,885	7,422	6,755	7,492	8,762
Other assets	3,520	5,562	2,548	3,385	4,207
Total assets	24,565	23,629	18,509	18,923	18,653
Operational Results - Rs. in million					
INCOME					
Service charges on loans to POs	1,055	934	745	504	326
Income on investments/savings accounts	755	656	723	653	792
Grant from donors	388	309	200	155	135
Income on grant fund	267	170	-	-	-
Other income	18	1	1	3	2
Total income	2,483	2,070	1,669	1,315	1,255
EXPENSES					
General and admin expenses	349	358	274	218	161
Seminar, workshop and trainings	25	47	10	8	8
Consultancy charges	351	176	38	58	37
Project and relief activities	208	9	-	-	-
Loan loss provision	28	76	236	145	51
Financial charges	109	75	81	84	84
Total expenses	1,070	741	639	513	341
Net surplus	1,413	1,329	1,030	802	914
Financial Ratios - Percentage					
Net surplus / total income	57%	64%	62%	61%	73%
Repayment rate	100%	100%	100%	100%	100%
Return on average loan portfolio	10%	9%	9%	7%	7%
General and admin expenses / total disbursements	2.22%	2.59%	2.10%	1.31%	1.02%
General and admin expenses / total income	14%	17%	16%	17%	13%
Debt/equity	65 : 35	67 : 33	70 : 30	74 : 26	78 : 22
Current ratio	7 : 1	4 : 1	6 : 1	4 : 1	3 : 1



PAKISTAN POVERTY ALLEVIATION FUND

DIRECTORS' REPORT

The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the eleventh Annual Report alongwith audited financial statements of the Company for the year ended June 30, 2011.

During the year 2010-11, the Company witnessed positive trends in its operational and financial activities, which helped in addressing the needs of the poor through multi-dimensional programmes and maintaining strong financial base. In areas of PPAF sponsored interventions, the poor have started reaping benefits of community driven development. Over the years, PPAF has emerged as a credible institution and an internationally recognized model for effective delivery mechanism at the grassroot level enjoying support of diverse stakeholders. As an apex institution PPAF is committed to building institutions for the poor and of the poor and dedicating its efforts to ensuring quality, cost effectiveness, sustainability, outcomes and impact and pursues the double bottom line of financial sustainability and social responsibility. The steady advancement made in pursuit of its poverty alleviation objectives is reflective of an ongoing commitment to the poor communities who repose trust and faith in us. With the passage of time the identity of the Company has merged with dreams of the poor and today we share with them the prospects of a better tomorrow.

PPAF has designed and implemented effective strategies in a variety of socio-economic contexts, disaster situations and natural calamities. Pakistan encountered a natural disaster of massive proportions in the form of devastating floods which began in July 2010 and damaged one-fourth of the country's agricultural heartland destroying crops and live stock. PPAF was quick to respond to this tragedy and focused on immediate relief through provision of food, milk, water, medicines, shelter and related items for the affectees. The relief operations were carried out in 22 districts (132 union councils) of flood affected areas of Khyber Pakhtunkhwa, Punjab and Sindh. PPAF had distributed over 5 million kg of food items; supplied 40,000 liters milk; set up 110 medical camps; distributed 6,000 hygiene kits; and sunk 140 hand pumps principally through its

own resources. In addition, fodder was provided for 70,000 animals of which several were vaccinated. PPAF is following up its relief and recovery efforts with rehabilitation and reconstruction activities to allow people in affected areas to rebuild their lives and livelihoods.

PPAF has successfully completed a decade of service to the disadvantaged and marginalized. It has been able to mainstream and empower poor communities through effective social mobilization into community groups for collective action and self help. With unmatched experience, PPAF's approach to alleviating poverty has matured into a unique model of participatory development subsuming carefully synchronized interventions that are contextually responsive to basic community needs. Effectiveness is ensured through capacity building of the poor themselves as well as civil society organizations that serve them. Of equal importance is the adaptability and lesson learning approach adopted by PPAF, which in turn has led to the evolution of the participatory multi-faceted and integrated yet flexible development model. While this model is aimed at addressing poverty of entire communities, the primary focus of all its interventions on women has enabled PPAF to address the weakest link in economic development.

By the end of June 2011, PPAF funding had been disbursed in urban and rural areas of 129 districts of the country (to about 297,000 community organizations / groups) through 99 partner organizations of which 12 were focusing exclusively on women. On cumulative basis, PPAF financed 4,700,000 microcredit loans, of which 2,400,000 were to women. 25,500 infrastructure projects have been completed and 462,200 staff and community members trained. In earthquake affected areas, PPAF provided financing to 122,000 households to construct earthquake resistant homes and also build capacities of over 100,000 individuals in seismic construction and related skills, across the board.

Operational and Financial Overview:

During the year, the Company exhibited impressive performance that was evident from the widened asset base, improved equity, stronger capital base and sustained returns. These results

allowed PPAF to maintain a strong financial position which is key to the sustenance and continuity of operations.

Total disbursements during the year were Rs 15,738 million as compared to Rs. 13,799 million in FY 2010, indicating an increase of 14% [fig. 2]. Disbursements of loan (microcredit and

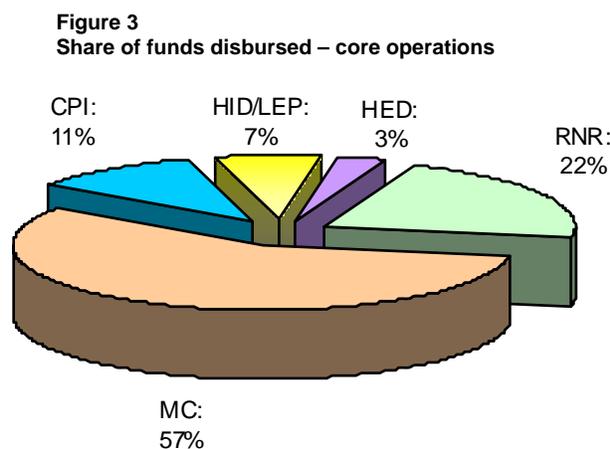
Fig 2 Disbursements

	Rs in million		%
	2011	2010	Variance
Credit and Enterprise Development	10,952	9,048	+ 21
Water and Infrastructure	1,449	1,800	- 20
Capacity Building	550	463	+ 19
Social Mobilization	941	999	- 06
Health and Education	866	1,088	- 20
Livelihood enhancement	409	-	-
Project and relief activities	571	401	+ 27
Total	15,738	13,799	+ 14

enterprise development facilities) were Rs 10,952 million as compared to Rs 9,048 million; water and infrastructure disbursements were Rs 1,449 million as compared to Rs 1,800 million; capacity building disbursements were Rs 550 million against Rs 463 million; social mobilization disbursements were Rs

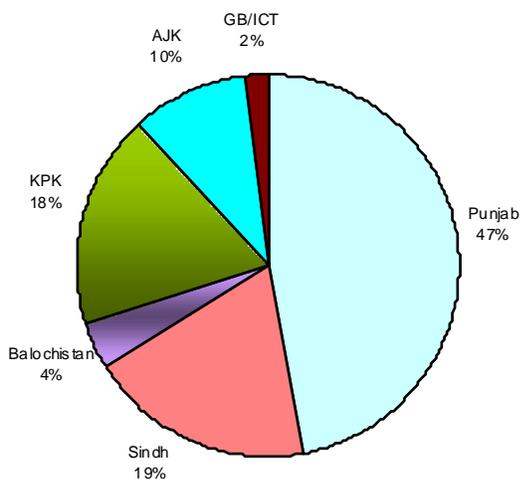
941 million as against Rs 999 million, and education and health disbursements were Rs 866 million as against Rs 1,088 million during the preceding year and Rs 409 million were disbursed for livelihood enhancement and protection for the first time. In addition, Rs 571 million was disbursed for flood and relief activities as against Rs 401 million in the preceding year, for the IDP crises.

By the end of June 2011, the total cumulative disbursements were Rs 91,544 million. Credit and



enterprise development accounted for 57% of total disbursements followed by relief, rehabilitation and reconstruction activities (22%); community physical infrastructure (11%); human and institutional development (including social mobilization)/livelihood enhancement and protection (7%); and health & education (3%) [fig. 3].

Figure 4
Provincial distribution of funds



PPAF interventions are being carried out nationwide with 47% of the resources deployed in Punjab, 19% in Sindh, 18% in Khyber Pakhtunkhwa, 4% in Balochistan; 10% in Azad Jammu and Kashmir; 1% each in Gilgit Baltistan and Islamabad Capital Territory.

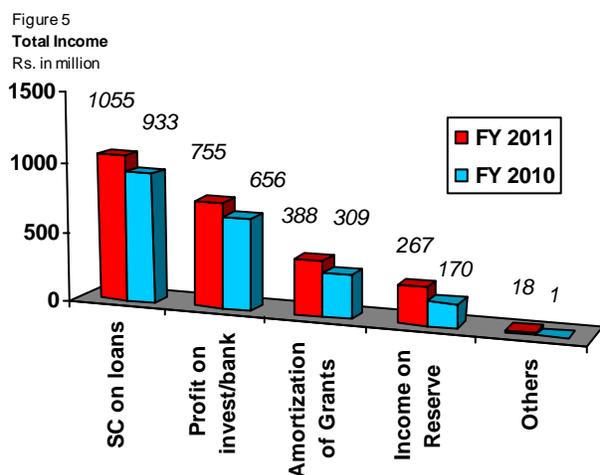
As per the Financing Agreements signed with the Government of Pakistan (GoP), PPAF is required to repay the loan amount alongwith service and commitments charges to GoP at the stipulated rate. PPAF is current in all its repayment obligations to GoP. During the year, the Company paid Rs 109.62 million (FY 2010 : 109.62 million) as loan installment and Rs 111.05 million (FY 2010 : Rs 98.31 million) as service/commitment charges to the GoP.

The Company is primarily meeting its lending obligations through its own reserves built up from repayments received from partner organizations. As of June 30, 2011, out of total disbursement of Rs 52,628 million, an amount of Rs 38,785 million (74%) was disbursed from PPAF own resources.

Total equity and reserves were Rs 7,530 million as at June 30, 2011 as against Rs 6,114 million as at June 30, 2010. Total assets of the Company on June 30, 2011 stood at Rs 24,565 million against Rs 23,629 million as at June 30, 2010. The amount of loans receivable from partner organizations was Rs 11,755 million on June 30, 2011 as against Rs 11,202 million as at June 30, 2010. PPAF continued to maintain 100% recovery rate in respect of its lending operations.

Cognizant of the need to sustain grant based operations in the absence of external financing, the Board of Directors approved the creation of a reserve for grant activities. The principal amount of the reserve is held in investments and interest earned thereon is used for grant based health, education, infrastructure, emergency and any other activity that falls within the overall strategic

purview of PPAF objectives. As at June 30, 2011 the reserve stood at Rs 2,572 million as against Rs 1,763 million as at June 30, 2010.



The Company recorded income of Rs. 2,483 million as compared to Rs. 2,070 million for the year 2010, an increase of 20% over last year. The service charges on loan to partner organizations increased by 13% due to high volume of amount of credit outstanding and introduction of market based rates for large partner organizations. Overall income on investments and saving accounts increased by 24% due to increase in level of investments and reserve. This includes

income of Rs 267 million that was generated on investments specific to grant based activities. During the year, capacity building grant increased by 26% due to the availability of financing from Government of Pakistan and donor agencies for PPAF operational support [fig. 5].

Financial results are summarized as follows:		
	(Rs in million)	
	2011	2010
Service charges (profit) on loans	1,055	934
Income on investments/saving accounts	755	656
Amortization of deferred grant	388	309
Income on grant fund	267	170
Other income	18	1
Total income	2,483	2,070
General and administrative expenses	349	358
Seminar, workshops and trainings	25	47
Consultancy charges	351	176
Project and relief activities	208	9
Loan loss provision	28	76
Financial charges	109	75
Total expenditure	1,070	741
Surplus for the year	1,413	1,329

The general and administrative expenses during the year were Rs 349 million as against Rs 358 million during the preceding year, a decrease of 3%. The ratio of general and administrative expenses to total income was 14% (2010 : 17%). Seminar, workshops and training expenses of Rs 25 million included Rs 3.40 million spent on trainings and Rs 21.36 million incurred on seminar and workshops. Total consultancy charges of Rs 351 million included Rs 285 million in respect of poverty scorecard survey that

has been made mandatory by the donors for subsequent disbursement of funds for operational activities. During the year under review, PPAF spent, from its own resources, an amount of Rs 196 million on relief activities in flood affected areas and Rs 12 million on the school milk

project. The general loan loss provision was made at 5% of the gross outstanding balances of loans to partner organizations. In addition, specific provision for loan losses was also made against loans which were considered doubtful. The financial charges include commitment and service charges on long term loan and bank charges.

Net surplus of Rs 1,416 million improved by 7% as compared to 2010 (Rs 1,329 million). The debt equity ratio improved from 67:33 (year 2010) to 65:35 (year 2011). The Company achieved these through improved operating performance and cost controls.

Sectoral and Programme Overview:

PPAF is the largest provider of financial and technical assistance to the civil society development institutions in the country. The needs of the poor were served by following an integrated approach focusing on social mobilization followed by credit, infrastructure, health, education, livelihood enhancement and skill development. Apart from these core activities, PPAF works with communities suffering from natural calamities and disasters such as earthquakes, droughts, cyclones and floods and also responds to special needs of various groups of poor. In areas of PPAF sponsored interventions, the poor have started reaping benefits of self-reliance and community driven development. PPAF's unique structure and its key position in the grassroots poverty alleviation efforts in Pakistan have enabled it to leverage its innovative capabilities through the vast network of partner organizations. This ability to leverage assures maximum coverage and impact. The Company plays a pivotal role between the donors and communities that enables transparency, efficiency and sustainability. PPAF adopts a participatory development model with a holistic approach using social mobilization, skill development and capital accumulation as guiding principles. The approach is community based and involves formation of groups at the grass roots. It focuses on social organization, creates awareness and builds capacity. Communities organize themselves for establishing new groups and also to consolidate existing ones. The approach is demand driven based on projects identified by the communities. Responsibility for operations and maintenance also falls on these groups.

Social mobilization constitutes the bedrock of all PPAF interventions, conceptually entrenched in a belief that poor marginalized communities, given an appropriate enabling environment, possess an inherent capacity to change their lives. PPAF follows an inclusive development strategy

which seeks to prioritize community needs within an inclusive implementation framework. The contrasting communities are provided essential tools to promote sustainable joint action, through organized forums for planning and deliberation in the shape of community organizations. PPAF has been successful in mainstreaming voiceless communities ensuring their full participation in the decision making processes. Members of community organizations, irrespective of their level of welfare and degree of interaction with the outside world, are systematically capacitated to make informed choices at the local level. PPAF is playing its part in national integration by paving the way for increased contact amongst citizens from diverse ethnic, linguistic and cultural backgrounds. Through exposure visits for community members across regional and provincial boundaries, we hope to change divisive and isolated elite structures restricting the nation's full potential in addressing poverty and empowerment.

As the largest source of microfinance in the country, PPAF has been instrumental in driving the sector in Pakistan with a current market share of over 40%. Its partner organizations account for the bulk of the current retail outreach in the sector. PPAF facilitates delivery of targeted financial services to the poor, while simultaneously seeking to develop the sector nationally through building institutional capacities and introducing innovative solutions for continued growth. Having played a key role by investing in the development of sustainable mechanisms for delivering financial services to the poor, PPAF has accelerated efforts to promote growth in the microfinance sector with declining dependence on subsidized funding. To this end, PPAF has successfully intermediated between microfinance institutions and formal financial institutions, allowing selected partner organizations to leverage their funding with strategic support from PPAF. At the same time, PPAF has continued to expand outreach with a particular focus on areas with low penetration of microfinance and high incidence of poverty. It has been enhancing access of the rural poor to productive assets, skills, services and improved technologies through new products and market access initiatives. It has supported development and testing of microfinance products including village banking, women cooperatives, livestock farming and social safety nets in addition to careful pilot testing approaches aimed at increasing outreach in areas with low levels of access to financial services particularly isolated and un-served regions of Balochistan, Sindh and Kyber Pakhtunkhwa.

Local, need-based, demand driven, small scale infrastructure interventions of PPAF have demonstrated poverty outcomes and have been found to improve the likelihood of better returns to human, capital, financial and natural resources. Infrastructure interventions in critical areas such as irrigation, potable water, electricity, sanitation and roads helped in transforming lives and livelihoods through increasing crop yield, labor productivity and market access, while decreasing the probability of disease, famine and economic shocks. PPAF is focusing on integrated development and dissemination of low cost, appropriate, innovative and emerging technologies such as micro/ mini-hydel, renewable energy, windmills and solar projects. PPAF's infrastructure allocations are purposively designed to reduce geographical bias and target the poorest and marginalized communities. PPAF is also playing a proactive role in deploying effective policies, strategies and systems for prudent water management, better preparedness for drought as well as focused generation and dissemination of knowledge. This is pivotal to PPAF's long term strategy of reducing food, health and income insecurity and enhancing capacity to cope with natural disasters. PPAF has a dedicated water management center that has strategically contributed to finding long term solutions for efficient management of water resources through integrated programs within appropriately defined spatial boundaries.

The objective of building human and institutional capacities as a pre requisite for effective long term poverty alleviation, is a key learning of PPAF over the last decade of work. In addition to enhancing capacities for effective resources and services mobilization, PPAF facilitates communities in developing sustainable frameworks for identifying and implementing development interventions. Simultaneously, it strives to develop efficient mechanisms for service delivery through strengthening supply side response with increased technical and financial support. PPAF places special emphasis on building strategic capacities through institutionalizing relevant approaches, methodologies and development tools for an equitable and inclusive development process at the community level. Staff of PPAF and partner organizations have been provided with valuable opportunities to meaningfully engage and interact with eminent speakers from diverse fields and of varied expertise on a range of relevant issues.

PPAF's social sector initiatives are conceptually grounded in its integrated demand driven grassroot development, where access to better health and education are a necessary condition for

progress. By providing poor families access to quality health and education services, PPAF has helped reduce critical gaps in the development process at the grassroots. It has made contributions in terms of restructuring underperforming public sector schools and health facilities as viable and accountable community services cognizant of user needs and customer satisfaction. PPAF supported interventions prioritize strict quality control, long term sustainability and durable linkages between communities and government. Quality of service delivery is ensured through regular training, provision of modern technologies and rigorous monitoring and feedback.

PPAF livelihood enhancement and protection programme aims at enhancing the productivity of the poorest individuals and communities through focused interventions intended at developing skill sets and assets for greater income generating opportunities and better livelihoods. In pursuit of these objectives, savings and internal lending are encouraged within organized communities, while striving to introduce efficient mechanisms for identifying and supporting innovative micro-enterprises. Under this programme, members of community organizations develop livelihood investment plans with the assistance of and in coordination with PPAF's implementing partners and community organizations. These in turn form the basis of livelihood/income generating loans from community organizations and possibly, commercial banks. PPAF provides grants to support asset transfers to ultra poor and vulnerable households and cover investments under a Community Livelihood Fund. These funds constitute a one-time grant to community organizations meeting standard criteria for on lending to members at markup rates sufficient to sustain the process. This mechanism helps in building sound financial management practices; saving and lending discipline; and enabling the poor to become credit worthy and bankable clients for commercial banks and other financial intermediaries.

PPAF has in place an environmental and social management framework to ensure that all its interventions take place in a socially inclusive and environmental friendly manner. A dedicated group disseminates the framework and builds capacity among partner organizations. Furthermore it ensures compliance with social and environmental safeguards by all partner organizations through regular monitoring and periodic environmental and social audits.

The vision of PPAF is disseminated through multi channels and tools of communication with an aim of engaging national and international stakeholders in private and public sectors, as well as the public at large. PPAF has helped influence public debate and discourse on the efficacy of participatory grassroots development as an effective mean for transforming lives of the poor and marginalized. Print and electronic media, which constitutes an effective means educating and sensitizing public opinion, forms an important component of PPAF's multi-faceted communication strategy.

PPAF is developing linkages with private and corporate sector with the aim to work jointly for establishing social sector partnerships to fighting poverty in the country. By involving the business and corporate sectors, PPAF plans to further increase its country wide activities through bilateral relationships. This enables the poor to access, and benefit from wider private sector markets and opportunities for value addition. Partnerships are at various stages of implementation/completion with the local and multinational corporates.

The 7th Citi-PPAF Microentrepreneurship Awards ceremony was held in Islamabad on February 22, 2011 to acknowledge the extraordinary contributions that individual microentrepreneurs across Pakistan have made to economic sustainability of their families as well as their communities. Supported by Citigroup Foundation, the goal of the awards program is to encourage and support best practices among both microentrepreneurs and microfinance institutions throughout Pakistan and to draw public, media and government attention to the important role that inclusive financial services play in promoting economic development at the local level.

PPAF won international acknowledgement for its work in development of innovative products and services for the poor and marginalized communities across the country. The "Exclusive Group of Champions" award was conferred on PPAF at the 2010 Annual Project Review Workshop for Asia and the Pacific, held in China. The "Women Livestock Cooperative Farming" product being recognized is part of Microfinance Innovation and Outreach Programme, which is financed by the International Fund for Agricultural Development.

Treasury Management:

The Company has placed an effective cash flow management system whereby cash inflows and outflows are projected on a regular basis. Repayments of all long term and short term loans have been duly accounted for. Working capital requirements have been planned to be financed through internal cash generations. Cash that is available is invested in an investment portfolio that is fairly diversified and secure. At present, the Company sees no immediate pressure on its short and long term financing needs. There are sufficient reserves with banks to meet any contingency in liquidity.

Business Risks and Challenges:

The Board of Directors and Management ensure that an appropriate system exists in the Company for the identification and management of the business risks. The Company uses a structured approach in identifying, assessing and minimizing the threats to its business through its risk management system.

An effective Internal Audit function exists in the Company which serves as an effective appraisal of internal controls which are meant to safeguard assets, monitor compliance with best practices of Corporate Governance, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

The Audit Committee of the Board in accordance with its terms of reference also ascertain that the internal control system including financial & operational controls and accounting system are adequate, effective and comply with applicable laws and regulations and professional best practices.

Management is committed to address the various challenges within its ambit of controls with a strong core of trained and experienced professionals, high quality technology and solid finances. Following are the major risks faced by the Company:

Credit risk:

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. The Company's credit risk is primarily attributable to loans to partner organizations; investments; and bank balances. Credit risk on loans is controlled through extensive credit appraisals of partner organizations, assessing their credit-

worthiness, and creating lien on assets of partner organizations. The credit risk on investments and bank balances is limited because the counter parties are banks/financial institutions with high credit ratings; and the Government of Pakistan.

Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Company is not exposed to currency risk as there are no foreign currency assets and liabilities.

Interest / mark-up rate risk:

The interest/mark-up rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest/mark-up rates. The Company is not exposed to this risk as all its interest bearing financial assets and liabilities are at fixed interest/mark-up rates.

Liquidity risk:

Prudent liquidity risk management implies maintaining sufficient cash to ensure availability of adequate amount of funding to meet commitments. The Company maintains flexibility in funding and follows an effective cash management and planning policy to ensure availability of adequate funds to meet its financial commitments in time. Moreover, the Company's financial position is satisfactory and does not have liquidity problems.

Fair value of financial instruments:

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investments and loans receivable/payable which are stated at cost or amortized cost.

Best Corporate Practices:

The Management places paramount importance on adherence to international and local principles of good governance that has always been viewed as the fundamental principle in

enhancing the timeliness, accuracy, comprehensiveness and transparency of financial and non financial information.

The Management gives high priority on true and fair presentations and timely issuance of periodic financial and non-financial information to regulatory authorities, donors and other stakeholders of the Company. In addition to preparing financial statements in line with statutory requirements, the Company also prepares separate financial statements for different donors' projects which are duly audited by its external auditors.

The annual audited financial statements alongwith Directors' Report as well as quarterly and half yearly and nine monthly un-audited financial statements alongwith Management Reviews are published and circulated to stakeholders. These statements are also made available on the Company website.

Corporate Governance:

The Company is committed to high standards of corporate governance to ensure business integrity and upholding the confidence of all its stakeholders. In order to comply with best practices, PPAF has endorsed the code of corporate governance of listing regulations. We have made corporate governance a system of structuring, operating and controlling the Company with a view to achieve long term strategic goals to satisfy all our stakeholders. The Management is continuing to comply with the provisions of best practices set out in the Code of Corporate Governance, which is reflected in the following specific statements:

- The financial statements prepared by the Management, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored with ongoing efforts to improve it further.
- The Company's ability to continue as a going concern is well established.

- There has been no material departure from the best practices of corporate governance.
- Key operating and financial data of the last six (6) years in summarized form is annexed.

Board of Directors:

Composition of the Board

The legal and regulatory framework defines parameters regarding qualification and composition of the Board of Directors for smooth running of operations and promotion of good corporate culture. In view of these requirements, the Company has on its Board highly competent and committed personnel with vast experience, expertise, integrity and strong sense of responsibility required for safeguarding the interest of different stakeholders.

The present Board comprises of eleven Members including the Chairman and the Chief Executive Officer of the Company. The Chief Executive Officer is the only Executive Member on the Board while all other Members, including the Chairman, represent the non-executive directorship of the Company. Of the eleven Board Members, three were nominated by the Government; seven elected by the General Body; and the Chief Executive Officer appointed by the Board.

Role and Responsibilities of the Board

The Board is fully aware of the immense responsibilities bestowed on them for smooth running of the Company and safeguarding its assets. The Board stands firmly committed in its objective to add value through effective participation and contribution towards achievement of the Company's objectives. The Board further recognizes its responsibilities for protection and efficient utilization of Company resources for business objectives and compliance with laws and regulations at all levels. A formal schedule of responsibilities has been specifically ordained for the Board by virtue of provisions of the Articles of Association of the Company, the Companies Ordinance 1984, the Code of Corporate Governance and other applicable regulations.

The Board has devised formal policies related to operational policies and procedures, procurement of goods and services; loan loss provisioning; loans and advances; investment of funds; delegation of financial powers; human resource management including performance evaluation of Management etc.

The Board participates actively in major decisions of the Company including appointment of the Chief Executive Office; review and approval of operational policies and procedures; projects of different donors and sponsors; minutes of Board Committee meetings, financial assistance for partner organizations; quarterly progress; annual work plans, targets and budgets; un-audited financial statements alongwith Management Reviews; audited financial statements alongwith Directors' and Auditors' Reports.

Meetings of the Board

The Board is required to meet at least every quarter to monitor the Company's performance aimed at effective and timely accountability of its management.

During the year the Board held five meetings, agendas of which were circulated in a timely manner beforehand. Decisions made by the Board during the meetings were clearly stated in the minutes of the meetings maintained by the Company Secretary, which were duly circulated to all the Directors for endorsement and were approved in the following Board meetings. The Directors of the Company did not have any personal interest in decisions taken by the Board in these meetings.

All meetings of the Board had the minimum quorum attendance as stipulated in the Articles of Association. The Chief Financial Officer/Company Secretary attended the meetings of the Board in the capacity of non director without voting entitlements as required by the Code of Corporate Governance.

Appointment of Directors:

As per the Articles of Association of the Company, all Members of the Board, except Government nominees, are appointed for a term of three years, on completion of which they are eligible for re-election through a formal election process. However, no such Member of the Board of Directors shall serve for more than two consecutive terms of three years each except for Government nominees. Consent to act as Director is obtained from each Director prior to election. The Members do not share any relationship other than that of fellow colleagues on the Board. Election of the Directors was held on December 7, 2009 and seven Directors were elected unopposed, for a term of three years.

Change of Directors:

After successfully managing the affairs of the Company for over twelve years, Mr. Kamal Hyat relinquished the charge of Chief Executive Officer. The Board appointed Mr. Qazi Azmat Isa as the new Chief Executive Officer of the Company, who assumed his responsibilities with effect from January 3, 2011.

The Board placed on record its profound appreciation for professional acumen and meritorious services rendered by Mr. Kamal Hyat. He was a capable and dynamic person who worked for the progress of the Company with dedication. Under his leadership, PPAF exhibited immense growth and demonstrated its viability as a unique and innovative model of public private partnership. The Company accumulated an enviable track record of outreach and performance, with presence across the country. PPAF exhibited impressive operational as well as financial results over the years that allowed it to maintain a very strong financial base, which is vital for its sustainability. PPAF quality of work and grass root penetration is now being applauded internationally, especially the World Bank our premier financier.

The Board welcomed Mr. Qazi Azmat Isa as the new CEO of the Company. Mr. Isa has diversified experience of working in leadership positions in local and multinational organizations. We are confident that his experience, professionalism and leadership will further add value and esteem to the organization.

The Board placed on record its appreciation for the valuable contributions made by the outgoing Directors, Mr. Shahid Ahmad and Mr. Ahmad Farooq, nominees of Government of Pakistan, who represented the Economic Affairs Division.

Board Committees:

The Board endorsed the code of corporate governance of listing regulations by constituting Audit and Board Compensation committees in January 2007.

Board Audit Committee:

This Committee comprises five members including its Chairman who are appointed by the Board from the independent non-executive Directors. The Head of the Internal Audit Unit acts as Secretary of the Committee.

The terms of reference of the Board Audit Committee have been drawn up by the Board in conformity with the code of corporate governance and the Board proceeds in accordance with the recommendations of the Committee on matters forming part of Committee responsibilities. The Committee assists the Board in overseeing Company's financial control, with particular emphasis on integrity of internal controls and financial reporting; qualification and independence of Company's external auditors; and performance of the Company's internal and external auditors.

During the year, three meetings of the Committee were held. The Committee reviewed system of internal controls, internal audit reports, risk management and audit process besides recommending for Board's approval, annual work plan of internal audit; appointment of external auditors; annual work plans and budgets for different donors' projects; annual budget of the Company; un-audited condensed interim financial statements alongwith Management Review; audited financial statements alongwith Auditors' and Directors' Reports of the company; and project specific audited financial statements as per donor requirements.

The Committee held separate meetings with the Chief Financial Officer, Head of the Internal Audit and the External Auditors to discuss issues of concern. Minutes of meetings were drawn up expeditiously and circulated for the information and consideration of the Board in the immediately succeeding Board meetings.

Board Compensation Committee:

The Committee comprises five members of the Board including the Chairman who is appointed by the Board from the non-executive Directors. The Head of Human Resource Unit acts as Secretary of the Committee.

The terms of reference of the Human Resource Committee have been approved by the Board. The Committee assists the Board in overseeing the Company's human resource policies and framework, with particular emphasis on ensuring fair and transparent compensation policy; and continuous development and skill enhancement of employees.

The Committee meets as often as may be deemed necessary or appropriate in its judgment and at such times and places as the Committee shall determine. The Chief Executive Officer and other management employees are invited to attend meetings for discussion and suggestions. Minutes of meetings are drawn up expeditiously and circulated for the information and consideration of the Board in the immediately succeeding Board meetings.

Risk Oversight Committee:

In order to assist the Board to review the effectiveness of risk management framework, the Board recently constituted a Risk Oversight Committee.

The Committee comprises three members including its Chairman who is appointed by the Board from the non-executive Directors. The head of Credit & Enterprise Development Unit acts as Secretary of the Committee.

The Committee assists the Board to review the effectiveness of overall risk management framework; assess and advise on adequacy of risk management policies; procedures in identifying, measuring, monitoring and controlling risks and to advise thereof, with particular emphasis on ensuring risk management framework which includes risk policies, strategies, risk tolerance and risk appetite limits.

Role and Responsibilities of the Chairman and the Chief Executive Officer:

The roles of the Chairman and the Chief Executive Officer are segregated and they have distinct responsibilities. The Chairman has responsibilities and powers vested in him by law and the Articles of Association of the Company, as well as duties assigned to him by the Board. In particular, the Chairman coordinates the activities of the Directors and various committees of the Board, and presides over the meetings of the Board and General Body.

The Company's Management is supervised by the Chief Executive Officer who is responsible for the operations of the Company and conduct of its business, in accordance with the powers vested in him by law, the Articles of Association of the Company and authorities delegated to him through a General Power of Attorney and Board resolutions from time to time. The Chief

Executive Officer recommends policy and strategic direction and annual business plans for Board approval and is responsible for exercising the overall control, discretion, administration and supervision for sound and efficient management and conduct of the business of the Company. The Board sets financial, non-financial goals and objectives for the Company in line with the short, medium and long term plans of PPAF and has delegated appropriate authority to the Management to implement strategic objectives of the Company.

Management:

The Company Management comprises heads of various functions who operate under the powers and limits delegated by the Chief Executive Officer and the Board for ensuring seamless operations and achieving objectives under strategies adopted by the Board.

The Management ensures execution of business operations including adherence to cardinal principles, appraising and monitoring of partner organizations, recommending financing for partner organizations, preparation of annual budgets/work plans and monitoring progress thereof. Management is also responsible for implementation of internal control including segregation of duties, financial and accounting controls for accuracy and completeness of accounting records, authorization, recording and accurate processing of transactions, compliance with statutory and other regulations and timely preparation of reliable financial and non-financial information for circulation to the stakeholders.

Future Outlook:

As with any successful organization, PPAF recognizes the need to review its strategy periodically so as to remain relevant, meet the needs of its stakeholders and respond to emerging opportunities. In this context, a strategic envisioning exercise was commissioned in March 2011 with a view to develop a consensus based strategy for the next five years. As a part of this exercise, extensive consultations were held with different stakeholders including Government of Pakistan, multilaterals, bilaterals, communities, intermediaries as well as all the professional staff of the Company. The whole process was lead by an external facilitator of international repute. The strategy was considered and duly approved by the Board of Directors in its meeting held on

April 30, 2011. The strategic drivers governing the future operations of the Company are as follows:

- Build institutions of the poor.
- Address spatial dimension of poverty.
- Increased focus on the poorest districts.
- Institutional restructuring and operational coherence.
- Emphasis on quality of social mobilization.
- Proactive pursuit of outcomes, impact and grievance redressal.
- Improving service delivery, quality assurance and compliance.

The strategic thrust would be on building institutions for poverty alleviation. The pivotal role of the company would be on mobilization and capacity building of institutions of the poor (community organizations) and for the poor (partner organizations) that work with community institutions in least developed areas, laying the foundation for future expansion of poverty reduction activities. Many of these will go on to take microfinance loans or productive and social infrastructure funding from the PPAF, through the existing partner organization network, while others will federate into local institutions of the poor. Based on needs of the target group, interventions will be made as integrated as possible, responding to identified priorities and the participatory spirit of the program. The interventions will be based on needs assessment as a continuous and participatory process. PPAF emphasizes multi-sector programming that generates deep and tangible impacts at the community level. These programmes are designed to be inclusive, paying special attention to the identification, mobilization and inclusion of women, persons with special needs, youth and the poorest.

Recognizing needs of stakeholders and with the aim of supporting technological innovations for the microfinance sector, PPAF and Pakistan Microfinance Network have joined hands to launch an online platform which will allow microcredit lenders and other stakeholders to assess competitive situation in their specific markets. The mapping tool will enable stakeholders to identify geographical locations of all branches of microfinance providers in Pakistan. This online platform will also allow microfinance providers to input their data such as branch location and population density, thus enabling stakeholders to identify markets.

Auditors:

The present auditors of the Company, Messer's A. F. Ferguson and Company, Chartered Accountants, have completed their assignment for the financial year ended June 30, 2011 and shall retire at the conclusion of 15th Annual General Meeting. Being eligible, they offered themselves for re-appointment. The Audit Committee considered and recommended their re-appointment for the financial year ending June 30, 2012 and the Board also endorsed the recommendations of the Audit Committee.

Conclusion:

PPAF has remained committed to its overarching objective of alleviating poverty through concerted and sustainable efforts at the grassroots. PPAF has expanded its outreach to almost every district of the country. This outreach is exemplified by a diverse range of products and services anchored in social mobilization, institutional development and individual empowerment. The emphasis remains on delivering customized solutions tailored to address specific constraints of households and communities and at the same time, be culturally sensitive and contextually relevant. PPAF's track record as a robust institution for transferring development resources to the poor through cost effective and efficient delivery mechanisms has secured trust and confidence of all stakeholders, including the Government of Pakistan, international bilateral and multilateral donor agencies, private and corporate sector institutions, grass root partner organizations and above all the men, women and children in participating communities. We are fully committed to realizing their potential and affording them opportunities to becoming stronger. Accomplishment is not an end-result for us; it is an everlasting quest, one that will continue to have us reach for new horizons and surpass new milestones.

Acknowledgement:

I would like to express my sincere appreciation to the Board members whose valuable guidance has always enlightened us in our decision making. Their willful determination, focused

involvement and ongoing commitment helped in bringing PPAF to the level and position it deserves. I look forward to working in partnership with them to benefit from their vision and valued experience which I am confident will go a long way in the future growth and prosperity of the Company.

The Board remains indebted to the Members of the General Body for their invaluable counsel and guidance. We look forward to their continuous support to ensure future growth of the Company. The Board would also like to commend the partner organizations and their communities for their support and ownership of the programme, which contributed to our collective success.

The Company has come a long way from its beginning as a single donor project to a multi-donor leading institution for poverty alleviation with its presence in all the provinces of the Country. The success we achieved would not have been possible without unwavering support of all our stakeholders. The Government of Pakistan ranks foremost for its exemplary facilitation and support, equally important was the role of the donor agencies, particularly the World Bank for its result based monitoring missions. We would like to thank the Government of Pakistan and our donor agencies – World Bank, International Fund for Agricultural Development; U.S. Department of Agriculture; KfW Development Bank (Germany); Committee Encouraging Corporate Philanthropy (USA); and U.S. Agency for International Development, for their support, understanding and co-operation. Considering the achievements made by the Company together, we remain confident of the Company's growth and success in the years ahead.

We are deeply indebted to management team for their extraordinary performance and dedication without which we would not have succeeded in winning the hearts and minds of all our stakeholders. We thank them for proving that given good governance and a level playing field our people can perform wonders and establish institutions that compare with the best in the world. Talented and motivated people are our most precious resource. They form the fundamental platform of our strategic drivers and are essential to our success.

Challenges along the way are inevitable; we would overcome them with the integrity and professionalism that are at the very heart of our institution, as we make our way through unfamiliar surroundings. Leveraging on its strengths, PPAF will continue to capitalize on different opportunities and meet the needs of the poor with willful enthusiasm and go beyond targeted milestones.

Karachi
August 04, 2011



Hussain Dawood
Chairman

PAKISTAN POVERTY ALLEVIATION FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2011



AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Poverty Alleviation Fund (the Company) as at June 30, 2011 and the related income and expenditure account, cash flow statement and statement of changes in fund and reserves together with the notes forming part thereof for the year then ended, 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 our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, cash flow statement and statement of changes in fund and reserves together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the Company's affairs as at June 30, 2011 and of the surplus, its cash flows and changes in fund and reserves for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

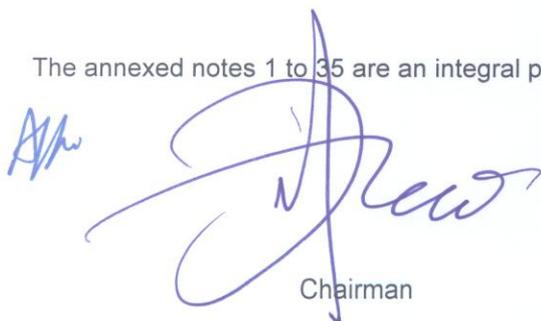

Chartered Accountants
Islamabad
Date: August 4, 2011

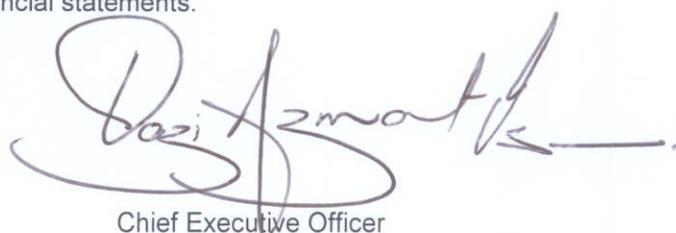
Engagement partner: Sohail M Khan

PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET AS AT JUNE 30, 2011

	Note	2011	2010
		(Rupees in '000)	
FIXED ASSETS - TANGIBLE	5	58,824	64,972
INTANGIBLE ASSETS	6	3,493	7,724
LONG TERM INVESTMENTS	7	800,000	600,000
TERM INVESTMENTS-SPECIFIC TO GRANT FUND	8	350,896	-
LONG TERM LOANS TO PARTNER ORGANIZATIONS	9	1,466,675	764,158
CURRENT ASSETS			
Current maturity of long term investments	7	200,000	400,000
Current maturity of term investments-specific to grant fund	8	2,221,252	1,763,431
Current maturity of loans to Partner Organizations	9	9,630,919	9,807,923
Short term investments-specific to projects	10	1,445,000	600,000
Short term investments-other	11	4,867,535	4,058,342
Advances, deposits, prepayments and other receivables	12	72,259	89,390
Profit/service charges receivable	13	682,095	410,937
Bank balances-specific to projects	14	2,734,888	5,013,642
Cash and bank balances	15	31,332	48,720
		21,885,280	22,192,385
		<u>24,565,168</u>	<u>23,629,239</u>
FUND AND RESERVES			
Endowment fund	16	1,000,000	1,000,000
Grant fund	4.7	2,572,148	1,763,431
Reserve for grant based activities	4.7	222,180	161,052
Accumulated surplus		3,736,073	3,189,978
		<u>7,530,401</u>	<u>6,114,461</u>
LONG TERM LOANS	17	13,760,923	12,246,272
CURRENT LIABILITIES			
Deferred liabilities - grant fund	18	2,826,743	5,040,206
Deferred income - grant fund	19	31,427	59,700
Current portion of long term loans	17	282,795	109,617
Service and commitment charges payable	20	37,194	39,211
Accrued and other liabilities	21	95,685	19,772
		3,273,844	5,268,506
CONTINGENCIES AND COMMITMENTS	23		
		<u>24,565,168</u>	<u>23,629,239</u>

The annexed notes 1 to 35 are an integral part of these financial statements.


Chairman


Chief Executive Officer

**PAKISTAN POVERTY ALLEVIATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Note</u>	<u>2011</u>	<u>2010</u>
		(Rupees in '000)	
INCOME			
Service charges on loans to Partner Organizations	24	1,055,042	933,371
Income on investments and saving accounts	25	1,022,302	826,616
Amortization of deferred income - grant fund	19	389,582	309,216
Other income	26	18,360	829
		<u>2,485,286</u>	<u>2,070,032</u>
EXPENDITURE			
General and administrative expenses	27	349,046	358,378
Seminars, workshops and trainings	28	24,759	46,992
Consultancy charges	29	350,940	175,958
Project and relief activities	30	207,908	9,251
Loan loss provision	9	27,660	75,322
Financial charges	31	109,033	75,026
		<u>1,069,346</u>	<u>740,927</u>
SURPLUS FOR THE YEAR		<u><u>1,415,940</u></u>	<u><u>1,329,105</u></u>

The annexed notes 1 to 35 are an integral part of these financial statements.


Chairman


Chief Executive Officer

**PAKISTAN POVERTY ALLEVIATION FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011**

Note	2011	2010
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year	1,415,940	1,329,105
Adjustment for non cash items:		
Depreciation	26,439	25,502
Amortization of intangible assets	4,680	5,727
Amortization of deferred income	(389,582)	(309,216)
Loan loss provision	27,660	75,322
Gain on sale of fixed assets	(3,523)	(340)
Financial charges	109,033	75,026
	<u>(225,293)</u>	<u>(127,979)</u>
	1,190,647	1,201,126
Working capital changes		
(Increase) / decrease in current assets:		
Advances, deposits, prepayments and other receivables	17,131	1,898
Profit/service charges receivables	(271,158)	40,926
Increase / (decrease) in current liabilities:		
Accrued and other liabilities	75,913	11,129
	<u>(178,114)</u>	<u>53,953</u>
Cash generated from operations	1,012,533	1,255,079
Disbursements to partner organizations:		
Loan	(10,952,195)	(9,048,466)
Grants	(4,579,529)	(4,798,394)
Recoveries of loans from partner organizations	10,399,022	7,542,028
Financial charges paid	(111,050)	(98,312)
	<u>(5,243,752)</u>	<u>(6,403,144)</u>
Cash flows from operating activities	(4,231,219)	(5,148,065)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments - net purchases	(2,462,910)	(667,131)
Capital expenditure incurred	(20,973)	(40,098)
Proceeds from disposal of fixed assets	3,757	1,062
Cash flows from investing activities	(2,480,126)	(706,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term loans - received	1,836,364	1,325,023
Long term loans - repaid	(109,617)	(109,617)
Deferred liabilities - grant fund receipts	2,327,147	7,387,377
Deferred income - grant fund receipts	361,309	308,000
Cash flows from financing activities	<u>4,415,203</u>	<u>8,910,783</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,296,142)	3,056,551
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	5,062,362	2,005,811
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14&15 <u><u>2,766,220</u></u>	<u><u>5,062,362</u></u>

The annexed notes 1 to 35 are an integral part of these financial statements.

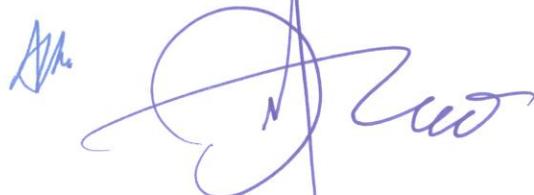

Chairman

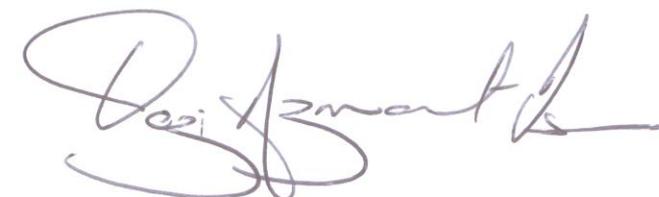

Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF CHANGES IN FUND AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2011

		(Rupees in '000)				
	Note	Endowment Fund	Grant fund	Reserve for grant based activities	Accumulated Surplus	Total
Balance as at June 30, 2009		1,000,000	-	-	3,785,356	4,785,356
Surplus for the year					1,329,105	1,329,105
Transfer from accumulated surplus to grant fund	4.7		1,763,431		(1,763,431)	-
Transfer from accumulated surplus to reserve for grant based activities	32			161,052	(161,052)	-
Balance as at June 30, 2010		<u>1,000,000</u>	<u>1,763,431</u>	<u>161,052</u>	<u>3,189,978</u>	<u>6,114,461</u>
Surplus for the year					1,415,940	1,415,940
Transfer from accumulated surplus to grant fund	4.7		808,717		(808,717)	-
Transfer from accumulated surplus to reserve for grant based activities	32			61,128	(61,128)	-
Balance as at June 30, 2011		<u><u>1,000,000</u></u>	<u><u>2,572,148</u></u>	<u><u>222,180</u></u>	<u><u>3,736,073</u></u>	<u><u>7,530,401</u></u>

The annexed notes 1 to 35 are an integral part of these financial statements.


Chairman


Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. STATUS, BACKGROUND AND NATURE OF OPERATIONS

Pakistan Poverty Alleviation Fund (the Company/PPAF) was registered in Pakistan on February 6, 1997 as a public company with liability limited by guarantee, licensed under section 42 of the Companies Ordinance, 1984. The registered office of the company is situated in Islamabad, Pakistan.

The primary object of the Company is to help the poor, the landless and the asset-less in order to enable them to gain access to the resources for their productive self employment and to encourage them to undertake activities of income generation, poverty alleviation and for enhancing their quality of life. In order to achieve its objectives, the Company is mandated to work through Partner organizations (POs), i.e., Non Government organizations (NGOs), Community Based organizations (CBOs), Rural Support Programmes (RSPs) and other private sector organizations.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards, as applicable in Pakistan. Approved accounting standards comprise of Accounting and Financial Reporting Standard for Medium-Sized Entities (MSEs) issued by the Institute of Chartered Accountants of Pakistan and provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

3. BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of historical cost convention except for the revaluation of certain financial instruments held in foreign currency at the exchange rate prevailing on the balance sheet date and employees benefit obligation as per actuarial valuation.

The preparation of financial statements in conformity with the approved accounting standards require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods.

The area involving a higher degree of judgment or complexity or area where assumptions and estimates are significant to the financial statements is loan loss provision (note 9) and staff gratuity scheme (note 22).



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Employee benefits

The Company operates defined benefit gratuity fund for all eligible employees who complete the qualifying period of service. The fund is administered by trustees. Annual contribution to the gratuity fund is based on Actuarial valuation using projected unit credit method. All contributions are charged to income and expenditure account for the year. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognized over the average remaining service life of the employees. The Actuarial valuation of the scheme was carried out as at June 30, 2011, related details of which are given in note 22 to the financial statements.

4.2 Taxation

The Company has been granted exemption from income tax under sub-clause (3) of clause (58) of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

4.3 Provisions

Provisions are recognized when the Company has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of obligation.

4.4 Deferred liabilities - grant fund

Grants specific to Partner Organisations (POs) are stated as deferred liabilities net of related disbursements to POs.

4.5 Fixed assets - tangible

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is charged to income applying straight line method whereby the cost of an asset is written off over its estimated useful life at the rates specified in note 5.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced are retired.

Gain or loss on sale or retirement of fixed assets is included in current year's statement of income and expenditure.

4.6 Intangible assets

Costs that are directly associated with identifiable software products controlled by the Company and have probable economic benefit beyond one year are recognized as intangible assets.

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight line basis over their estimated useful lives.

4.7 Investments

These are held to maturity investments with fixed or determinable payments and fixed maturity and the Company has positive intent and ability to hold the investment till maturity and are carried at amortized cost using the effective yield method.

In order to safeguard against major default and provide sufficient capital adequacy, with effect from July 01, 2009, an amount of 20% of total loan receivable from Partner Organizations are held in investments. 35% of the surplus funds of the Company, in excess of above investments, are employed for lending activities (microcredit and enterprise development facility) and the balance 65% are held in investments as grant fund, the income of which will be used for grant based health, education, infrastructure, emergency and any other activity that falls within the overall strategic framework of Company's objectives.

4.8 Loans to Partner Organisations

These are stated net of provision for loan losses.

General provision for loan losses at the rate of 5% (2010: 5%) of the gross outstanding balances of loans to POs is made at the year end.

Specific provision for loan losses is made against loans which are considered doubtful of recovery, as required.

Loan losses (write offs) are charged against the provision for loan losses when management believes that the loan is unlikely to be collected.

4.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost in case of local currency and at closing exchange rate in case of foreign currency. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks on current and saving accounts.

4.10 Revenue recognition

Income is recognized on accrual basis. Service charges on loans and profit/markup on investments and bank accounts are recognized using the effective yield method.

Grants related to income are recognized as deferred income and amortized over the periods necessary to match them with the related costs for which these are intended to compensate, on a systematic basis.



4.11 Receipts - micro-credit loans and grants

Receipts from Government of Pakistan (GOP) on account of International Development Association (IDA) and International Fund for Agricultural Development (IFAD) projects are recorded on the basis of Financial Monitoring Reports, raised on quarterly basis, under relevant categories of micro-credit loan fund, community physical infrastructure (CPI) grant fund, social sector development grant fund, emergency relief, housing reconstruction and community building, revitalization of communities/ rehabilitation of CPI schemes and capacity building grant fund as specified in the Financing Schedules of the respective Financing Agreements.

Receipts from Government of Pakistan (GOP) on account of United States Department of Agriculture (USDA) projects are recorded on the basis of requests by the Company, on annual basis, under relevant category of CPI grant fund and capacity building grant fund as specified in the agreed plan of action.

Receipts from Government of Pakistan (GOP) on account of micro credit and enterprise development facility (EDF) are recorded as loans. Grants specific to POs and PPAF are recognized as deferred liability and deferred income respectively.

Grants from USAID/Pakistan on account of EDF and capacity building are recorded on the basis of advance request raised on monthly basis. Receipts of EDF and grants specific to POs are recorded as deferred liability and grants specific to PPAF are recognized as deferred income.

Grants from Committee Encouraging Corporate Philanthropy (CECP) on account of reconstruction and refurbishment of education and health facilities affected by earthquake are recorded on the basis of advance request raised on quarterly basis. Receipts of grants specific to POs are recognized as deferred liability, whereas, grants specific to PPAF are recognized as deferred income.

4.12 Borrowing costs

All borrowing costs are recognized as expense in the year in which these are incurred.

4.13 Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistan Rupees, which is the Company's functional currency.

ii) Transactions and balances

Transactions in foreign currencies are translated in Pak Rupees at the monthly average rate of exchange. Monetary assets and liabilities expressed in foreign currencies are translated into Pak Rupees at the official rate prevailing on the balance sheet date. Gains and losses on foreign currency transactions are included in income currently, except exchange differences related to disbursements against Special Drawing Rights (SDR) for micro credit loan, community physical infrastructure grant, social sector development, emergency relief, housing reconstruction and community building, revitalization of communities/ rehabilitation of CPI schemes, social mobilization, disability and capacity building grant which are included in their respective balances.



4.14 Financial instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given and received. These are subsequently measured at fair value, amortized cost or cost, as the case may be.

4.15 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set off the recognized amounts and the Company intends to settle on a net basis or realize the asset and settle the liability simultaneously.



5. FIXED ASSETS - tangible

	Cost			Annual rate of depreciation	Depreciation			Book value as at June 30, 2011	Book value as at June 30, 2010
	As at July 01, 2010	Additions/ (Deletions)	As at June 30, 2011		As at July 01, 2010	Charge for the year / (On deletions)	As at June 30, 2011		
	(Rupees in '000)				(Rupees in '000)				
Furniture and fixtures	13,223	1,712	14,935	20	8,504	1,747	10,251	4,684	4,718
Vehicles	60,555	12,607 (6,579)	66,583	20	38,309	10,034 (6,533)	41,810	24,773	22,246
Office equipment	41,603	1,454 (819)	42,238	20	20,109	6,486 (631)	25,964	16,274	21,493
Computer equipment	51,000	4,751 (2,462)	53,289	25	34,486	8,172 (2,462)	40,196	13,093	16,515
2011	166,381	20,524 (9,860)	177,045		101,408	26,439 (9,626)	118,221	58,824	64,972
2010	132,281	36,816 (2,716)	166,381		77,901	25,502 (1,995)	101,408	64,972	

6. INTANGIBLE ASSETS

	Cost			Annual rate of amortisation	Amortisation			Book value as at June 30, 2011	Book value as at June 30, 2010
	As at July 01, 2010	Additions	As at June 30, 2011		As at July 01, 2010	Charge for the year	As at June 30, 2011		
	(Rupees in '000)				(Rupees in '000)				
Satellite imageries	18,547	-	18,547	25	11,631	4,353	15,984	2,563	6,916
Other softwares	4,577	449	5,026	25	3,769	327	4,096	930	808
2011	23,124	449	23,573		15,400	4,680	20,080	3,493	7,724
2010	19,841	3,283	23,124		9,673	5,727	15,400	7,724	

	Note	2011	2010
(Rupees in '000)			
7. LONG TERM INVESTMENTS - held to maturity			
Pakistan Investment Bonds (PIBs)	7.1	1,000,000	1,000,000
Less: PIBs maturing within next twelve months shown as current asset		(200,000)	(400,000)
		<u>800,000</u>	<u>600,000</u>

7.1 Represents investments in PIBs as follows:

Principal (Rupees)	Issue Date	Maturity Date	Coupon rate % per annum	Payment terms
200 million	22-08-2001	22-08-2011	13.00	Semi annually
400 million	29-04-2004	28-04-2014	8.00	Semi annually
200 million	22-07-2010	22-07-2020	12.00	Semi annually
200 million	22-07-2010	22-07-2020	12.00	Semi annually

	2011	2010
(Rupees in '000)		
8. TERM INVESTMENTS - specific to grant fund		
Term Deposit Receipts (TDR)	2,572,148	1,763,431
Less: TDRs maturing within next twelve months shown as current asset	2,221,252	1,763,431
	<u>350,896</u>	<u>-</u>

8.1 These investments include term deposit receipts of various commercial and investment banks at annual markup rates ranging from 12.15% to 13.75% (2010:11.10% p.a. to 12.04% p.a).

	2011	2010
(Rupees in '000)		
9. LOANS TO PARTNER ORGANIZATIONS - secured, considered good		
AGAHE	8,117	-
Al Mehran Rural Development and Welfare Organization	62,783	25,259
ASA Pakistan Ltd.	85,000	-
Asasah	222,338	359,775
Badbaan Enterprise Development Forum	2,292	600
Baidarie	22,042	5,412
Balochistan Rural Development & Research Society	1,860	1,208
BRAC Pakistan	966,387	715,202
Buksh Foundation	5,417	2,800
Bunyard Literacy Community Council	14,500	13,250
Centre for Women Cooperative Development	219,420	254,361
Chenab Development Foundation	3,000	-
Community Support Concern	270,298	244,453
Development Action for Mobilization and Emancipation	596,842	609,474
Dia Welfare Organization	4,638	-
Farmers Friend Organization	61,716	20,667
Indus Resource Centre	1,282	6,457
Jinnah Welfare Society	295,916	218,718
Karwan Community Development Organization	12,353	5,575
Kashf Foundation	1,846,500	2,351,650
Khajji Cooperative Society	16,000	9,500
Khwendo Kor Women and Children Development Programme	1,052	646
Kiran Welfare Organization	1,500	2,350
Marvi Rural Development Organization	34,605	18,596
Mashal Development Organization	3,471	350
Mojaz Foundation	26,920	12,710
Balances continued - carried forward	4,786,249	4,879,013

	Note	2011	2010
		(Rupees in '000)	
Balances continued - brought forward		4,786,249	4,879,013
Narowal Rural Development Programme		35,137	26,061
National Rural Support Programme		4,397,851	4,293,387
Network Leasing Corporation Limited		15,125	59,125
Orangi Charitable Trust		261,500	273,393
Organization for Participatory Development		47,264	75,122
Orix Leasing Pakistan Limited		216,542	158,650
Poverty Eradication Network		2,777	2,787
Punjab Rural Support Programme		363,942	339,871
Rural Community Development Society		297,819	221,387
SAATH Development Society		24,300	3,675
Sarhad Rural Support Programme		5,000	15,333
Save The Poor		28,916	22,667
Sayya Foundation		3,980	-
Sindh Agricultural & Forestry Workers Coordinating Organization		261,400	206,663
Sindh Rural Support Organization		452,473	188,030
Sindh Rural Support Programme		200	200
Soon Valley Development Programme		24,300	10,060
Support with Working Solution		6,550	8,437
Thardeep Rural Development Programme		492,845	398,155
Villagers Development Organization		4,950	1,408
Women Social Organization		18,993	10,516
Young Pioneers Society		7,250	8,250
	9.1	11,755,363	11,202,190
Less: Loan loss provision	9.2	(657,769)	(630,109)
		11,097,594	10,572,081
Less: Amount receivable within next twelve months shown as current asset		(9,630,919)	(9,807,923)
		<u>1,466,675</u>	<u>764,158</u>

- 9.1 The Company disbursed Micro-credit loans and Enterprise Development Facility (EDF) to POs under respective Financing Agreements at a service charge of six percent per annum (6% p.a.) and eight percent per annum (8% p.a.). The later rate is effective on all the financing agreements executed after March 31, 2006. These loans are secured through letter of hypothecation on receivables of POs created out of financing obtained from the Company. Further, the Company maintains a first charge on all assets / capital items created out of financing provided for capacity building and under the exclusive lien of the Company until full repayment of the principal, service charges and other outstanding amounts payable to the Company. These loans are repayable on quarterly basis within two to three years under the respective financing agreements signed between the Company and the POs.

With effect from January 01, 2008, the Partner Organizations, in respect of all lending facilities (credit), defined as large (POs which are approved annual credit disbursements by PPAF of Rs 500 million and above or POs having PPAF credit outstanding of Rs 500 million and above, at any given point in time) will be charged annual markup rate (service charge) equal to 10% or KIBOR (Karachi Interbank Offered Rate) prevailing on first working day of January (applicable on Financing Agreements executed between January 01, to June 30) and first working day of July (applicable on Financing Agreements executed between July 01, to December 31) each year, the KIBOR of one year will be applicable. The proposed markup rate (service charge) will be applicable to all lending facilities with large POs signed on or after January 01, 2008, however, after May 06, 2009 all lending facilities (credit) will be charged annual markup rate (service charge) upto 2% below the relevant KIBOR prevailing on last working day prior to the execution of Financing Agreements. The KIBOR will correspond with agreement period i.e. for one year Financing Agreement, KIBOR of one year will be applicable.

	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
9.2 Movement of loan loss provision		
Opening balance	630,109	554,787
Provision during the year	27,660	75,322
	<u>657,769</u>	<u>630,109</u>
9.3 Movement of loans to Partner Organizations		
Opening balance	11,202,190	9,695,752
Disbursements during the period	10,952,195	9,048,466
	<u>22,154,385</u>	<u>18,744,218</u>
Recoveries during the period	(10,399,022)	(7,542,028)
	11,755,363	11,202,190
Less: Loan loss provision	(657,769)	(630,109)
	<u>11,097,594</u>	<u>10,572,081</u>

10. SHORT TERM INVESTMENTS - specific to projects

10.1 These represent investments in term deposit receipts in respect of Programme for Increasing Sustainable Microfinance (PRISM) activities, maturing within one year from the date of investment at annual markup rates ranging from 10.50% p.a. to 11.50% p.a (2010: 10.50% p.a. to 11.50% p.a). As agreed in the Subsidiary Financing Agreement, these funds are placed with commercial banks as cash collaterals for providing a partial guarantee to the Banks to facilitate lending to following Microfinance Institutions:

Microfinance institutions	Investment amount	Running finance facility amount
Kashf Foundation	500 million	750 million
National Rural Support Programme	500 million	850 million
Orangi Charitable Trust	150 million	150 million
BRAC Pakistan	150 million	175 million
Sindh Agricultural & Forestry Workers Coordinating Organization	50 million	60 million
Asasah	50 million	55 million
Jinnah Welfare Society	20 million	22 million
Rural Community Development Society	25 million	28 million

11. SHORT TERM INVESTMENTS - other

11.1 These funds are invested in term deposit receipts of various commercial banks, maturing within one year from the date of investment, at annual mark up rates ranging from 10.80% p.a to 16.25% p.a (June 2010: 11.10% p.a.to 12.40% p.a.).

11.2 These include investments of Rs 2,351,072 thousand (equivalent to 20% of the loan receivable from Partner Organizations) to safeguard against any major default on loan receivable and provide capital adequacy and Rs 2,516,463 thousand as funds available for lending activities.

	Note	2011	2010
		(Rupees in '000)	
12. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Loans and advances - considered good			
Employees	12.1	6,816	3,391
Suppliers		1,045	3,166
		<u>7,861</u>	<u>6,557</u>
Deposits		2,065	2,200
Prepayments		10,275	28,999
Income tax refundable		49,384	49,384
Other receivables - considered good		2,674	2,250
		<u>72,259</u>	<u>89,390</u>
12.1 This include advance salary loans and car loans given to the employees of the Company, carrying annual mark up of 3% p.a. (2010: 3% p.a.) and 8% p.a (2010: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly installments.			
		<u>2011</u>	<u>2010</u>
		(Rupees in '000)	
13. PROFIT / SERVICE CHARGES RECEIVABLE			
Profit receivable on			
Pakistan Investment Bonds (PIBs)		35,622	16,738
Term deposit receipts / saving accounts		220,867	74,750
Short term investments specific to grant based activities		109,447	67,956
Project bank accounts / investments		56,403	25,229
		<u>422,339</u>	<u>184,673</u>
Service charge receivable on loans to POs		259,756	226,264
		<u>682,095</u>	<u>410,937</u>
14. BANK BALANCES - SPECIFIC TO PROJECTS			
Cash at banks - current accounts			
Specific to IDA II		-	2,154,795
Specific to IDA III		2,472,254	2,280,293
Specific to IFAD-MIOP		121,304	61,592
Specific to IFAD-PRISM		-	232,280
Specific to CECP grant		30,267	74,329
Specific to Shell Pakistan		8,001	-
		<u>2,631,826</u>	<u>4,803,289</u>
Cash at banks - deposit accounts			
Specific to USDA grant		103,040	210,331
Specific to CECP		22	22
		<u>103,062</u>	<u>210,353</u>
		<u>2,734,888</u>	<u>5,013,642</u>
15. CASH AND BANK BALANCES			
Cash in hand			
in head office		14	3
in field coordination offices		30	85
		<u>44</u>	<u>88</u>
Cash at banks - current accounts		9,476	26,693
Cash at banks - deposit accounts		21,812	21,939
		<u>31,288</u>	<u>48,632</u>
		<u>31,332</u>	<u>48,720</u>

The balances in deposit accounts carry average mark up of 5 % p.a. (2010: 6.50% p.a.). These include foreign currency balances aggregating to US\$ 3,878 (2010: US\$ 3,878).

16. ENDOWMENT FUND	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
PPAF - I	500,000	500,000
PPAF - II	500,000	500,000
	<u>1,000,000</u>	<u>1,000,000</u>

16.1 This represents the amounts paid by GOP for endowment fund under the Subsidiary Financing Agreements (SFAs) as detailed in Note 17.1 and 17.2. Under the SFA, the fund is to be invested in the government schemes / bonds and income generated therefrom shall be utilized for revenue and capital expenditure of the Company.

17. LONG TERM LOANS - Unsecured	<u>Note</u>	<u>2011</u>	<u>2010</u>
		(Rupees in '000)	
Government of Pakistan - PPAF - I (IDA financing)	17.1	2,202,789	2,343,784
Government of Pakistan- PPAF - II (IDA financing)	17.2	8,313,889	8,321,429
Government of Pakistan - (IFAD financing-MIOP)	17.3	1,137,540	813,980
Government of Pakistan - (IFAD financing-PRISM)	17.4	1,279,000	609,175
Government of Pakistan- PPAF - III (IDA financing)	17.5	1,110,500	267,521
		<u>14,043,718</u>	<u>12,355,889</u>
Less: Amount payable within next twelve months shown as current liability		(282,795)	(109,617)
		<u>13,760,923</u>	<u>12,246,272</u>
17.1 Government of Pakistan - PPAF - I (IDA financing)			
Opening balance		2,343,784	2,453,401
Amount repaid		(109,617)	(109,617)
Amount transferred to deferred liability		(31,378)	-
		<u>2,202,789</u>	<u>2,343,784</u>

A Development Credit Agreement (DCA) was signed between International Development Association (IDA) and the Government of Pakistan (GOP) on July 7, 1999. IDA made available to GOP a sum of Special Drawing Rights (SDR) of 66.5 million over a period of five years to be utilized by GOP through the Company.

Under Subsidiary Financing Agreement (SFA) dated August 18, 1999 executed between GOP and the Company, 50% of the amount was disbursed as loan to the Company and the balance as grant on non reimbursable basis. The principal loan amount of the project is repayable in Pak Rupees over a period of twenty three years, including a grace period of eight years, in thirty semi-annual installments payable on each May 15, and November 15 commencing from November 15, 2007 and ending on May 15, 2022. Each installment upto and including the installment payable on May 15, 2013 shall be equal to two point zero eight three percent (2.083%) of such principal amounts and each installment thereafter shall be equal to four point one six seven percent (4.167%) of such principal amount.

Under the SFA the company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time and the commitment charge at the rate set by the IDA on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on May 15 and November 15 each year.

17.2 Government of Pakistan- PPAF - II (IDA financing)	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
Opening balance	8,321,429	8,321,429
Amount transferred to deferred liability	(7,540)	-
	<u>8,313,889</u>	<u>8,321,429</u>

Second DCA was signed between IDA and the GOP on January 20, 2004, in respect of PPAF II. As per agreement IDA shall make available to GOP a sum of Special Drawing Rights (SDR) of 168.1 million over a period of four years to be utilized by GOP through the Company.

Under SFA dated March 24, 2004 executed between GOP and the Company, the GOP agreed to provide 56% of the amount as loan to the Company and the balance as grant on non reimbursable basis. The principal loan amount of the project is repayable in Pak Rupees over a period of twenty three years, including a grace period of eight years, in thirty semi-annual installments, payable on each Feb 01, and August 01 commencing from February 01, 2012 and ending on August 01, 2026. Each installment upto and including the installment payable on August 01, 2017 shall be equal to two point zero eight three percent (2.083%) of such principal amounts and each installment thereafter shall be equal to four point one six seven percent (4.167%) of such principal amount.

Under the SFA the company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time and the commitment charge at the rate set by the IDA on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on February 01 and August 01 each year.

		<u>2011</u>	<u>2010</u>
		(Rupees in '000)	
17.3	Government of Pakistan - (IFAD financing MIOP)		
	Opening balance	813,980	281,911
	Amount received	323,560	532,069
		<u>1,137,540</u>	<u>813,980</u>

Programme Loan Agreement was signed between International Fund for Agricultural Development (IFAD) and GOP on January 18, 2006, in respect of Microfinance Innovation and Outreach Programme (MIOP). As per agreement IFAD shall make available to GOP a sum of SDR of 18.30 million over a period of five years to be utilized by GOP through the Company.

Under Subsidiary Loan and Grant Agreement (SLGA) dated April 18, 2006 executed between GOP and the Company, the GOP agreed to provide 50% of the amount as loan to the Company and the balance as grant on non reimbursable basis on account of capacity building. The principal loan amount of the project is repayable in Pak Rupees over a period of twenty three years, including a grace period of eight years, in thirty equal semi-annual installments commencing from June 01, 2014 and ending on December 01, 2028.

Under the SLGA, the Company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time. The service charge is payable on June 01 and December 01 each year.

		<u>2011</u>	<u>2010</u>
		(Rupees in '000)	
17.4	Government of Pakistan - (IFAD financing PRISM)		
	Opening balance	609,175	83,742
	Amount received	669,825	525,433
		<u>1,279,000</u>	<u>609,175</u>

Programme Loan Agreement was signed between International Fund for Agricultural Development (IFAD) and GOP on November 22, 2007, in respect of Programme for Increasing Sustainable Microfinance (PRISM). As per agreement IFAD shall make available to GOP a sum of SDR of 22.85 million over a period of five years to be utilized by GOP through the Company.

Under Subsidiary Financing Agreement (SFA) dated January 12, 2008 executed between GOP and the Company, the GOP agreed to provide 65% of the amount as loan to the Company and the balance as grant on non reimbursable basis on account of capacity building. The principal loan amount of the project is repayable in Pak Rupees over a period of twenty three years, including a grace period of eight years, in thirty equal semi-annual installments commencing from December 01, 2015 and ending on June 01, 2030.

Under the SFA, the Company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time. The service charge is payable on June 01 and December 01 each year.

		<u>2011</u>	<u>2010</u>
		(Rupees in '000)	
17.5	Government of Pakistan- PPAF - III (IDA financing)		
	Opening balance	267,521	-
	Amount received	842,979	267,521
		<u>1,110,500</u>	<u>267,521</u>

The Financing Agreement was signed between IDA and the GOP on June 9, 2009, in respect of PPAF III. As per agreement IDA shall make available to GOP a sum of Special Drawing Rights (SDR) of 167.2 million over a period of five years to be utilized by GOP through the Company.

Under Subsidiary Loan Agreement (SLA) dated June 15, 2009 executed between GOP and the Company, the GOP agreed to provide 13% of the amount as loan to the Company and the balance as grant on non reimbursable basis. The principal loan amount of the project is repayable in Pak Rupees over a period of twenty three years, including a grace period of eight years, in thirty semi-annual installments, payable on each June 15, and December 15 commencing from June 15, 2017 and ending on December 15, 2031. Each installment upto and including the installment payable on December 15, 2022 shall be equal to two point zero eight three percent (2.083%) of such principal amounts and each installment thereafter shall be equal to four point one six seven percent (4.167%) of such principal amount.

Under the SLA the company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time and the commitment charge at the rate set by the IDA on the principal amount of loan not withdrawn from time to time as of June 30 of each year, but not to exceed the rate of 0.50% per annum. The service and commitment charges are payable on June 15 and December 15 each year.

		<u>Note</u>	<u>2011</u>	<u>2010</u>
		(Rupees in '000)		
18.	DEFERRED LIABILITIES - GRANT FUND			
	Government of Pakistan - IDA I&II	18.1	-	2,085,857
	Government of Pakistan - IDA III	18.2	2,388,314	2,278,886
	US Agency for International Development/Pakistan	18.3	115,984	115,984
	Government of Pakistan - USDA	18.4	100,144	206,227
	Government of Pakistan - IFAD (MIOP)	18.5	125,631	61,294
	Government of Pakistan - IFAD (PRISM)	18.6	(301)	217,127
	USAID - Flood Relief	18.7	-	-
	Benazir Income Support Program	18.8	56,868	-
	Committee Encouraging Corporate Philanthropy (CECP)	18.9	30,768	74,831
	Shell Pakistan Ltd.- Model Village	18.10	6,446	-
	Engro Foundation - Flood Relief	18.11	2,889	-
	Grant for Flood relief from corporations and individuals	18.12	-	-
			<u>2,826,743</u>	<u>5,040,206</u>

Deferred liabilities grant fund represents amounts payable to POs on non-reimbursable basis under respective financing agreements.

18.1	Grants from Government of Pakistan - IDA I & II	Note	2011	2010
			(Rupees in '000)	
	Opening balance		2,085,857	1,539,410
	Amount received		128,530	4,037,511
	Amount transferred from long term loans		38,918	-
	Amount transferred to deferred income		(178,817)	-
			<u>2,074,488</u>	<u>5,576,921</u>
	Less: Disbursements for			
	Community physical infrastructure		-	1,400
	Social sector development		-	18,097
	Capacity building - POs		-	143,985
	Social mobilization project		2,074,488	3,137,118
	Disability project	18.1.1	-	190,464
			<u>2,074,488</u>	<u>3,491,064</u>
			<u>-</u>	<u>2,085,857</u>
	Disbursements to POs			
	Aga Khan Rural Support Programme		-	37
	AKPBS-Water and Sanitation Extension Programme		84,089	112,007
	AL Mehran Rural Development and Welfare Organization		-	2,594
	Awaz Foundation Pakistan - Centre for Development Services		6,688	23,697
	AZAT Foundation		28,766	7,375
	Baanhn Beli		10,000	17,198
	Badin Rural Development Society		45,970	68,785
	Balochistan Environmental and Educational Journey		5,211	68,547
	Balochistan Rural Development & Research Society		27,496	88,954
	Balochistan Rural Support Programme		164,085	174,016
	Bunyd Literacy Community Council		-	2,431
	Centre for Women Cooperative Development		-	527
	Community Development Concern		-	2,316
	Community Mobilisation and Development Organization		45,269	113,729
	Community Support Concern		-	4,626
	Community Uplift Programme		22,999	76,612
	Development Action for Mobilization and Emancipation		-	1,810
	Direct expenses by PPAF on seminars, workshops and trainings		4,163	-
	Disability devices to POs		-	77,643
	Family Planning Association of Pakistan		11,907	57,009
	Farmers Development Organization		50,835	63,247
	Farmers Friend Organization		-	8
	Health and Nutrition Development Society		22,041	109,720
	Indus Earth Trust		37,490	(432)
	Indus Resource Centre		32,436	47,480
	Islamic Relief		-	(56,002)
	Karwan Community Development Organization		-	817
	Khwendo Kor Women and Children Development Programme		18,361	41,961
	Kiran Welfare Organization		-	2,248
	Marvi Rural Development Organization		-	12
	Mountain Institute of Educational Development		30,624	22,181
	National Rural Support Programme		557,215	286,415
	Disbursements continued - carried forward		<u>1,205,645</u>	<u>1,417,568</u>

AMC

	2011	2010
	(Rupees in '000)	
Disbursements continued - brought forward	1,205,645	1,417,568
Organization for Participatory Development	-	144
Participatory Integrated Development Society	26,848	130,966
Punjab Rural Support Programme	68,019	150,185
Salik Development Foundation	33,760	62,607
Sarhad Rural Support Programme	62,124	543,085
Save The Poor	-	2,273
Seminars, workshops and media projection	-	89,979
Sindh Agricultural & Forestry Workers Coordinating Organization	244,764	259,666
Sindh Rural Support Organization	81,968	158,518
Sindh Rural Support Programme	22,739	30,796
Society for Conservation and Protection of Environment	39,076	23,365
SOS Children's Village	-	969
South Asia Partnership Pakistan	8,231	96,909
Strengthening Participatory Organization	77,195	99,366
Sungi Development Foundation	-	4,216
Support with Working Solution	38,757	90,562
Taraqee Foundation	33,009	125,604
Thardeep Rural Development Programme	132,353	203,836
Women Welfare Organization Poonch	-	450
	<u>2,074,488</u>	<u>3,491,064</u>

18.1.1 Disbursements for social mobilization project include

Social Mobilization	575,960	965,169
Community Physical Infrastructure	945,782	1,257,186
Social Sector Development	552,746	914,763
	<u>2,074,488</u>	<u>3,137,118</u>

On December 07, 2007 GOP signed a financing agreement with IDA under which IDA agreed to extend an amount equivalent to 49 million SDRs as additional financing for the Second Poverty Alleviation Fund project to support participatory development through social mobilization.

The project includes mobilization of about one million rural poor house holds into more than fifty thousand multi functional and sustainable community organizations in rural areas of poorest districts in Pakistan, mobilization of existing community organizations to form federations at union council level and to form local support organizations and provision of training to approximately two hundred and fifty thousand people on management of community organizations and federations to achieve long term sustainability. The GOP & IDA through amendment in the Financing Agreement included the components of Small Scale Infrastructure Projects (SSIP) and Social Sector Development Projects (SSDP-Health & Education) under this project.

On January 04, 2008 GOP signed subsidiary financing agreement with PPAF under which GOP agreed to extend an amount equivalent to 49 million Special Drawing Rights to PPAF as grant on non reimbursable basis.

18.2 Grants from Government of Pakistan - IDA III	Note	2011	2010
		(Rupees in '000)	
Opening balance		2,278,886	-
Amount received		1,661,265	2,734,572
Less: Disbursements			
Social mobilization		240,253	34,748
Institutional building		128,823	74,909
Livelihood enhancement and protection		414,941	4,892
Micro credit access		52,165	-
Health and education		313,571	155,682
Water and infrastructure		402,084	185,455
		<u>1,551,837</u>	<u>455,686</u>
		<u>2,388,314</u>	<u>2,278,886</u>
Disbursements to POs			
Aga Khan Education Support Programme		4,160	-
Aga Khan Health Support Programme		4,245	-
Aga Khan Rural Support Programme		12,957	61,120
AKPBS-Water and Sanitation Extension Programme		21,886	30,387
ASA Pakistan Ltd.		3,180	-
Awami Development Organization		10,191	-
Awaz Foundation Pakistan - Centre for Development Services		6,200	-
Baanhn Beli		3,512	-
Badin Rural Development Society		333	-
Baidarie		7,359	913
Balochistan Environmental and Educational Journey		4,286	-
Balochistan Rural Development & Research Society		1,566	-
Balochistan Rural Development Society		8,397	-
Balochistan Rural Support Programme		23,383	-
BRAC - Pakistan		10,299	5,847
Bunad Literacy Community Council		1,774	1,579
Community Mobilisation and Development Organization		4,464	-
Community Support Concern		1,278	430
Community Uplift Programme		29,014	-
DEVCON An Association for Rural Development		3,283	-
Development in Literacy		7,749	1,770
Direct expenses by PPAF on seminars, workshops and trainings		5,580	384
Environment Protection Society		45,361	5,073
Family Planning Association of Pakistan		29,917	24,354
Farmers Development Organization		39,964	2,719
Farmers Friend Organization		3,364	125
Hazara Development and Advocacy Foundation		8,013	42,257
Health and Nutrition Development Society		10,404	2,898
Himalayan Wildlife Foundation		3,601	-
Human Development Foundation		5,603	-
Human Resource Development Society		21,603	3,881
Indus Earth Trust		6,689	-
Indus Resource Centre		32,275	22,325
Karwan Community Development Organization		4,777	3,678
Kashf Foundation		20,284	-
Khwendo Kor Women and Children Development Programme		-	826
Disbursements continued - carried forward		406,951	210,566

<u>Note</u>	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
Disbursements continued - brought forward	406,951	210,566
Marafie Foundation	5,538	-
Marvi Rural Development Organization	54,552	13,139
Mashal Development Organization	2,512	3,556
Mountain and Glacier Protection Organization	4,498	-
Mountain Institute of Educational Development	43,964	17,689
Narowal Rural Development Programme	17,793	9,690
National Rural Support Programme	351,641	51,416
Participatory Integrated Development Society	31,118	-
Punjab Rural Support Programme	21,223	-
Rural Community Development Society	32,853	37,859
Rural Development Project	15,332	-
Salik Development Foundation	89,599	22,101
Sarhad Rural Support Programme	42,213	1,465
Save The Poor	-	839
Sindh Agricultural & Forestry Workers Coordinating Organization	88,806	-
Sindh Rural Support Organization	23,005	22,568
Society for Conservation and Protection of Environment	956	-
Society for Human Empowerment and Rural Development	6,556	1,317
Soon Valley Development Programme	26,381	5,883
SOS Children's Village	38,555	18,964
South Asia Partnership Pakistan	30,506	-
Support With Working Solutions	115,736	37,413
Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment	18,817	-
Taraqee Foundation	22,387	-
Thardeep Rural Development Programme	57,619	-
Women Social Organisation	2,726	1,131
Young Pioneers Society	-	90
	<u>1,551,837</u>	<u>455,686</u>

18.3 Grants from USAID/Pakistan

- 18.3.1 The closing balance of the USAID grant represents amounts for disbursement to POs for EDF and service charges earned on outstanding loan. These funds cannot be used by PPAF for its operational and capital expenses till the expiry of the term of the agreement.
- 18.3.2 PPAF signed a cooperative agreement with the U.S. Agency for International Development Mission to Pakistan (USAID/Pakistan). The period of this agreement was of four years, starting from the date of award i.e. September 30, 2003 through September 30, 2007. The total programme size was US\$ 7,098,621 of which USAID/Pakistan contribution was US\$ 6,320,000 and PPAF share was agreed to be US\$ 778,621. The funds committed under this agreement were disbursed as loans to POs under EDF and as capacity building grant for PPAF and for POs. EDF was given to the POs in order to enable them to give loans of larger amounts (from Rs 30,000 to Rs 100,000) to their borrowers who have successfully completed two loan cycles. According to the agreement, PPAF created a revolving fund from the repayments and service charges earned on EDF loans and bank account.

18.4 Grants from Government of Pakistan - USDA	2011	2010
	(Rupees in '000)	
Opening balance	206,227	552,703
Amount transferred	(17,957)	(41,648)
Profit on project bank account	11,106	51,171
	<u>199,376</u>	<u>562,226</u>
Less: Disbursements to POs		
Aga Khan Rural Support Programme	42,085	90,595
AKPBS-Water and Sanitation Extension Programme	-	6,468
Badin Rural Development Society	-	7,500
Balochistan Environmental and Educational Journey	-	7,601
Balochistan Rural Support Programme	-	25,267
Community Mobilisation and Development Organization	7,342	19,999
Direct expenses by PPAF on seminar	-	51
Ghazi Brotha Taraqiati Idara	-	13,790
Health and Nutrition Development Society	-	2,717
Human Resource Development Society	428	-
Indus Earth Trust	13,728	22,695
National Rural Support Programme	-	14,012
Participatory Integrated Development Society	-	17,265
Rural Community Development Society	11,406	-
Sarhad Rural Support Programme	-	11,892
Sindh Agricultural & Forestry Workers Coordinating Organization	-	1,815
Sindh Rural Support Program	-	1,679
Social Action Bureau for Assistance in Welfare and Organizational Networking	11,834	3,896
Society for Conservation and Protection of Environment	-	2,148
Soon Valley Development Programme	-	22,313
South Asia Partnership Pakistan	10,221	892
Strengthening Participatory Organization	-	3,275
Taraqee Foundation	2,188	37,343
Thardeep Rural Development Programme	-	41,672
Village Friends Organization	-	1,114
	<u>99,232</u>	<u>355,999</u>
	<u>100,144</u>	<u>206,227</u>

- 18.4.1 On August 30, 2002, the Government of United States of America and GOP signed an agreement under which U.S. Department of Agriculture (USDA) through its Commodity Credit Corporation has agreed to provide 37,800 metric tons of soybean oil to GOP. The GOP has authorized Trading Corporation of Pakistan to receive and monetize the commodity. The plan of operation of this Agreement is to use the sale proceeds to finance PPAF on non reimbursable basis. The total programme size is Rs 1,518 million, out of which Rs 400 million have been received during the year 2004-05, Rs 240 million during the year 2005-06 and Rs 878 million during 2006-07. PPAF will use these funds to implement long-term poverty reduction programmes, including: small-scale infrastructure programmes; sustainable agriculture development programmes; and establishment of a National Drought Mitigation Center (NDMC) in cooperation with the NDMC at Nebraska USA, as part of the long-term plan to mitigate the drought. Funding in respect of NDMC is recognised as deferred income in note 20.

18.5 Grants from Government of Pakistan - IFAD (MIOP)	Note	2011	2010
		(Rupees in '000)	
Opening balance		61,294	(14,986)
Amount received		555,588	313,227
		616,882	298,241
Less: Disbursements to POs			
AGAHEE		4,304	1,880
AKPBS-Water and Sanitation Extension Programme		-	2,129
AL Mehran Rural Development and Welfare Organization		13,348	6,051
Asasah		2,000	-
Badbaan Enterprise Development Forum		3,840	583
Badin Rural Development Society		18,000	2,813
Baidarie		4,309	-
Balochistan Rural Development & Research Society		1,100	3,231
BRAC - Pakistan		26,834	72,620
Buksh Foundation		3,995	2,147
Bunyad Literacy Community Council		1,090	200
Centre for Women Cooperative Development		15,491	31,051
Chenab Dev Foundation		2,248	-
Community Support Concern		18,815	9,134
Development Action for Mobilization and Emancipation		2,875	-
Dia Welfare Organization		3,006	-
Direct expenses by PPAF on seminars, workshops and trainings		6,560	1,018
Farmers Friend Organization		10,231	4,278
Indus Earth Trust		3,284	(157)
Jinnah Welfare Society		24,554	6,531
Karwan Community Development Organization		2,449	1,130
Kashf Foundation		16,558	-
Khajji Cooperative Society		4,870	2,113
Khwendo Kor Women and Children Development Programme		990	-
Marvi Rural Development Organization		2,038	794
Mashal Development Organization		1,686	496
Mojaz Foundation		10,075	3,876
Narowal Rural Development Programme		2,160	-
National Rural Support Programme		55,284	827
Orangi Charitable Trust		76,125	40,111
Organization for Participatory Development		840	-
Orix Leasing Pakistan Limited		5,259	-
Pakistan Microfinance Network		3,748	-
Punjab Rural Support Programme		476	-
Rural Community Development Society		39,595	7,240
Rural Development Project		609	-
Saath Development Society		8,399	2,957
Sarhad Rural Support Programme		7,050	5,918
Save The Poor		900	806
Sayya Foundation		3,228	-
Sindh Agricultural & Forestry Workers Coordinating Organization		12,594	24,216
Sindh Rural Support Organization		38,324	-
Soon Valley Development Programme		2,053	-
Support with Working Solution		1,803	-
Thardeep Rural Development Programme		24,217	-
Villagers Development Organization		3,687	2,854
Women Social Organisation		350	100
		491,251	236,947
		125,631	61,294

	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
18.6 Grants from Government of Pakistan - IFAD (PRISM)		
Opening balance	217,127	45,444
Amount received	<u>(215,826)</u>	<u>173,933</u>
	1,301	219,377
Less: Disbursements to PO		
Kashf Foundation	-	2,250
Sindh Agricultural & Forestry Workers Coordinating Organization	600	-
Pakistan Microfinance Network	701	-
Direct expenses by PPAF on seminars, workshops and trainings	301	-
	<u>1,602</u>	<u>2,250</u>
	<u>(301)</u>	<u>217,127</u>
18.7 USAID - Flood Relief		
Amount received	<u>228,281</u>	-
	228,281	-
Less: Disbursements to PO		
National Rural Support Programme	<u>228,281</u>	-
	<u>-</u>	<u>-</u>

18.7.1 PPAF and USAID Pakistan executed Cooperative Agreement on August 12, 2010 to provide support for the program entitled Relief to Flood Affected Communities of Punjab and Sindh. The overall project involved grant funding of US\$ 2,699,520.

	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
18.8 Benazir Income Support Program		
Amount received	<u>127,130</u>	-
	127,130	-
Less: Disbursements to POs		
Balochistan Rural Support Programme	4,333	-
Community Mobilisation and Development Organization	9,814	-
Direct expenses by PPAF on seminars, workshops and trainings	39,940	-
Farmers Development Organization	8,283	-
Sindh Agricultural & Forestry Workers Coordinating Organization	5,284	-
Sindh Rural Support Organization	2,608	-
	<u>70,262</u>	<u>-</u>
	<u>56,868</u>	<u>-</u>

18.8.1 Benazir Income Support Program (BISP) signed an agreement with PPAF on September 29, 2010. Under the agreement PPAF shall provide enterprise development training to 18,000 participants and skill training to 13,500 participants of BISP's Waseel-e-Haq program. The project has a total cost of Rs. 884,400,814 and is initially for a period of two years. The specific objective of the enterprise and skill development training is to enhance the capacity of BISP's Waseel-e-Haq beneficiaries or their nominees so that they can properly utilize the amount received by them for setting up business.

On June 7, 2011 under Amendment 1 to the contract, PPAF will receive a lump sum amount of Rs. 49,133 against each participant trained, as against previous terms involving reimbursement of expenses for training from BISP.

	<u>2011</u>	<u>2010</u>
18.9 Grants from Committee Encouraging Corporate Philanthropy	(Rupees in '000)	
Opening balance	74,831	109,617
Amount transferred to deferred income	-	(3,736)
	<u>74,831</u>	<u>105,881</u>
Less: Disbursements to POs		
Community Uplift Programme	5,224	19,243
Mountain and Glacier Protection Organization	16,801	1,913
National Rural Support Programme	22,038	9,894
	<u>44,063</u>	<u>31,050</u>
	<u>30,768</u>	<u>74,831</u>

18.9.1 On August 15, 2006 the PPAF and Committee Encouraging Corporate Philanthropy (CECP) signed a programme agreement under which CECP has agreed to make available an amount of US Dollars 12 million to the Company as grant on non reimbursable basis for design, reconstruction and refurbishment of regional health centers, clinics, primary schools and secondary schools affected by the earthquake.

	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
18.10 Shell Pakistan Ltd - Model Village		
Amount received	8,000	-
	<u>8,000</u>	<u>-</u>
Less: Disbursements to PO		
Health and Nutrition Development Society	1,554	-
	<u>6,446</u>	<u>-</u>

18.10.1 PPAF and Shell Pakistan Ltd. signed a memorandum of understanding on April 21, 2010 under which both counterparties have agreed to complement each other's activities and jointly fund infrastructure, education, health and social sector services in the village "Goth Noor Muhammad" to convert it to a model village. The project is planned to be completed in a period of three years.

	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
18.11 Engro Foundation - Flood Relief		
Amount received	16,417	-
	<u>16,417</u>	<u>-</u>
Less: Disbursements to POs		
Health and Nutrition Development Society	2,528	-
Sindh Rural Support Organization	11,000	-
	<u>13,528</u>	<u>-</u>
	<u>2,889</u>	<u>-</u>

18.11.1 Engro Foundation signed a memorandum of understanding with PPAF on August 14, 2010 for provision of relief and rehabilitation services to flood affectees of Punjab and Sindh. Such services include food, shelter, drinking water, clothing etc.

	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
18.12 Grant for Flood relief from corporations and individuals		
Amount received	3,428	-
	<u>3,428</u>	<u>-</u>
Less: Disbursements to POs		
Direct expenses by PPAF on seminars, workshops and trainings	1,746	-
Rural Community Development Society	832	-
Support With Working Solutions	850	-
	<u>3,428</u>	<u>-</u>
	<u>-</u>	<u>-</u>

19. DEFERRED INCOME - GRANT FUND

	As at July 01, 2010	Amount Received	Utilization against expenditure recognized as income	As at June 30, 2011
(Rupees in '000)				
Government of Pakistan (GoP)				
Capacity Building - IDA	13,081	(4,724)	4,406	3,951
Capacity Building - IDA III	-	144,093	144,093	-
Capacity Building - IDA (RNR)	12,811	(9,267)	2,176	1,368
Capacity Building - IDA (Social mobilization)	8,005	203,601	204,007	7,599
Capacity Building - IDA (Disability)	4,764	-	1,527	3,237
Capacity Building - IFAD (MIOP)	347	4,489	3,801	1,035
Capacity Building - IFAD (PRISM)	5,978	14,154	20,132	-
Capacity Building - USDA	6,551	7,164	7,641	6,074
	51,537	359,510	387,783	23,264
Capacity building - USAID/Pakistan	8,162	-	-	8,162
Capacity building - CECF	1	-	-	1
Flood Relief - USAID	-	1,799	1,799	-
	59,700	361,309	389,582	31,427
	60,916	308,000	309,216	59,700
		Note	2011	2010
			(Rupees in '000)	

20. SERVICE AND COMMITMENT CHARGES PAYABLE

Service charges payable	20.1	36,710	36,300
Commitment charges payable	20.2	484	2,911
		<u>37,194</u>	<u>39,211</u>

20.1 These represent service charges payable to GOP at the rate of 0.75% per annum (2010: 0.75% per annum) on the principal amount of long term loan outstanding withdrawn from time to time.

20.2 These represent commitment charges payable to GOP at the rate to be set by the Association as of June 30 of each year, but not to exceed 0.50 % per annum (2010: 0.50 per annum) on the principal amount of long term loan not withdrawn from time to time.

		2011	2010
(Rupees in '000)			
21. ACCRUED AND OTHER LIABILITIES			
Consultancy fee payable		43,439	-
Unamortised discount on purchase of Pakistan Investment Bonds	21.1	42,929	-
Accrued expenses		5,961	19,615
Other liabilities		3,356	157
		<u>95,685</u>	<u>19,772</u>

21.1 Amortisation of discount for the year amounts to Rs 638,250.

22. DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY SCHEME

22.1 Reconciliation of payable to/(receivable from) Defined Benefit Plan

Present value of defined benefit obligation		28,597	37,697
Fair value of plan assets		(23,212)	(28,049)
Net actuarial gains / (losses) not recognised		<u>(5,385)</u>	<u>(9,648)</u>
		<u>-</u>	<u>-</u>

	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
22.2 Movement in net liability/(asset) recognised		
Opening net (asset)/liability	-	-
Expense for the year	8,901	(11,737)
Contribution for the year	(8,901)	11,737
Closing net asset/liability	<u>-</u>	<u>-</u>
22.3 Charge for the Defined Benefit Plan		
Current service cost	4,862	9,720
Interest cost	4,321	3,857
Expected return on plan assets	(1,121)	(2,472)
Actuarial (gain)/losses recognised	839	632
	<u>8,901</u>	<u>11,737</u>
22.4 The Projected Unit Credit Method using the following significant assumptions was used for the valuation of the scheme:		
	<u>2011</u>	<u>2010</u>
Valuation discount rate	14% per annum	14% per annum
Salary increase rate	14% per annum	14% per annum
Expected return on plan assets	14% per annum	14% per annum
23. CONTINGENCIES AND COMMITMENTS	<u>2011</u>	<u>2010</u>
	(Rupees in '000)	
Contingencies		
Guarantees to the banks against lending to Microfinance institutions as given in note 10	<u>1,445,000</u>	<u>600,000</u>
Commitments		
Aggregate commitments under Financing Agreements with Partner Organisations for;		
Loans	4,426,701	9,701,857
Grants		
Community physical infrastructure	1,157,356	762,207
Capacity building	289,462	552,144
Social sector development	1,511,875	901,761
Social mobilization	211,392	515,807
Livelihood enhancement and protection	293,411	667,457
	<u>3,463,496</u>	<u>3,399,376</u>
	<u>7,890,197</u>	<u>13,101,233</u>

24. SERVICE CHARGES ON LOANS TO PARTNER ORGANISATIONS

These represent service charges on loans to POs under respective Financing Agreements at rates given in note 9.1.

25. INCOME ON INVESTMENTS AND SAVING ACCOUNTS	2011	2010
	(Rupees in '000)	
Profit on long term investments (Pakistan Investment Bonds)	103,942	104,600
Profit on term deposit receipts/saving accounts	918,360	722,016
	<u>1,022,302</u>	<u>826,616</u>

25.1 Profit/markup rates are disclosed in the respective notes to these financial statements.

26. OTHER INCOME	2011	2010
	(Rupees in '000)	
Income from training	5,033	460
Gain on sale of fixed assets	3,523	340
Markup on loans to employees	64	27
Others	9,740	2
	<u>18,360</u>	<u>829</u>

27. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries, wages and other benefits	27.1	196,090	188,126
Rent		29,162	27,545
Repairs and maintenance		7,054	7,063
Traveling, lodging and conveyance		40,413	58,256
Communication		4,676	3,336
Printing and stationery		3,720	6,336
Insurance		2,328	1,995
Vehicles running and maintenance		13,890	13,540
Utilities		3,982	3,272
Legal and professional charges		3,405	2,988
Auditor's remuneration	27.3	3,805	3,407
Advertisement		1,317	2,877
Media projection		1,452	2,626
Newspapers, books and periodicals		482	485
Depreciation		26,439	25,502
Amortization		4,680	5,727
Security services		2,165	1,997
Others		3,986	3,300
	27.4	<u>349,046</u>	<u>358,378</u>

27.1 The aggregate amounts charged in respect of remuneration of Chief Executive Officer were as follows:

Managerial remuneration	12,175	10,974
Other allowances	60	120
	<u>12,235</u>	<u>11,094</u>

In addition, the Chief Executive Officer is provided medical insurance, car, accommodation/house rent allowance. Gratuity is payable to the Chief Executive Officer in accordance with the terms of employment. Leave encashment of Rs 2,040 thousand (2010: Rs NIL) was paid to the Chief Executive Officer on separation during the year, in accordance with the Company's policy.

27.2 No remuneration was paid to the directors during the year except reimbursement of expenditure for attending meetings etc. at actual.

	2011	2010
27.3 Auditor's remuneration	(Rupees in '000)	
Statutory and projects' audit	1,265	1,150
Audit of POs	2,195	1,996
Tax services	345	261
	<u>3,805</u>	<u>3,407</u>

27.4 General and administration expenses include Rs 110,265 thousand (2010: Rs 155,838 thousand) incurred on different programme activities as disclosed in note 19.

	2011	2010
28. SEMINARS, WORKSHOPS AND TRAININGS	(Rupees in '000)	
Training	3,401	14,667
Seminar and workshops	21,358	16,485
PPAF ten years events	-	15,840
	<u>24,759</u>	<u>46,992</u>

Seminars, workshops and training expenses include Rs 2,734 thousand (2010: Rs 12,069 thousand) incurred on different programme activities as disclosed in note 19.

	2011	2010
29. CONSULTANCY CHARGES	(Rupees in '000)	
Poverty score card	285,038	118,451
Reconstruction & rehabilitation	-	9,647
General	65,902	47,860
	<u>350,940</u>	<u>175,958</u>

Consultancy charges include Rs 276,583 thousand (2010: Rs 141,308 thousand) incurred on different programme activities as disclosed in note 19.

	2011	2010
30. PROJECT AND RELIEF ACTIVITIES	(Rupees in '000)	
Flood relief	193,951	-
National Rural Support Program - School Milk Project	12,158	7,251
Relief for Internally Displaced Persons - USAID grant	1,799	2,000
	<u>207,908</u>	<u>9,251</u>

31. FINANCIAL CHARGES		
On long term loans	107,675	73,968
Bank charges	1,358	1,058
	<u>109,033</u>	<u>75,026</u>

32. TRANSFER FROM ACCUMULATED SURPLUS TO RESERVE FOR GRANT BASED ACTIVITIES		
Income earned during the period on grant fund investments	267,237	170,303
Less: Expenditure on project and relief activities		
Flood relief	193,951	-
National Rural Support Program - School Milk Project	12,158	7,251
Relief for Internally Displaced Persons	-	2,000
	<u>206,109</u>	<u>9,251</u>
	<u>61,128</u>	<u>161,052</u>

33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

33.1 Financial assets and liabilities

	June 30, 2011			June 30, 2010		
	Interest Bearing	Non-interest Bearing	Total	Interest Bearing	Non-interest Bearing	Total
(Rupees in '000)						
Financial Assets:						
Maturity upto one year						
Current maturity of long term investments	200,000		200,000	400,000		400,000
Current maturity of term investments-specific to projects	1,445,000		1,445,000	600,000		600,000
Short term investments-specific to grant fund	2,221,252		2,221,252	1,763,431		1,763,431
Short term investments-others	4,867,535		4,867,535	4,058,342		4,058,342
Current maturity of loans to Partner Organisations	9,630,919		9,630,919	9,807,923		9,807,923
Advances, deposits and other receivables	6,816	4,739	11,555	3,390	4,450	7,840
Profit/service charges receivable		682,095	682,095		410,937	410,937
Bank balances - specific to projects	103,062	2,631,826	2,734,888	210,353	4,803,289	5,013,642
Cash and bank balances	21,812	9,520	31,332	21,939	26,781	48,720
Maturity after one year						
Long term investments	800,000		800,000	600,000		600,000
Term investments-specific to grant fund	350,896		350,896			-
Long term loans to Partner Organisations	1,466,675		1,466,675	764,158		764,158
	<u>21,113,967</u>	<u>3,328,180</u>	<u>24,442,147</u>	<u>18,229,536</u>	<u>5,245,457</u>	<u>23,474,993</u>
Financial Liabilities:						
Maturity upto one year						
Deferred liabilities - grant fund		2,826,743	2,826,743		5,040,206	5,040,206
Current portion of long term loans	282,795		282,795	109,617		109,617
Service and commitment charges payable		37,194	37,194		39,211	39,211
Accrued and other liabilities		95,685	95,685		19,772	19,772
Maturity after one year but before five years						
Long term loans	2,152,906		2,152,906	1,952,556		1,952,556
Maturity after five years						
Long term loans	11,608,017		11,608,017	10,293,716		10,293,716
	<u>14,043,718</u>	<u>2,959,622</u>	<u>17,003,340</u>	<u>12,355,889</u>	<u>5,099,188</u>	<u>17,455,077</u>
Off balance sheet items:						
Commitments	-	7,890,197	7,890,197	-	13,101,233	13,101,233

33.2 Credit quality of financial assets

The credit quality of Company's financial assets has been assessed below by reference to external credit ratings of counterparties. The counterparties for which external credit ratings were not available have been assessed by reference to their historical information for any defaults in meeting obligations.

	Name of Credit rating Agency	Short term rating	2011 Balance Rs in '000	2010 Balance Rs in '000
Investments				
Counterparties with external credit rating				
	JCR-VIS	AAA	350,896	-
	PACRA	A1+	2,227,555	2,876,869
	JCR-VIS	A-1+	3,249,083	1,475,464
	Moody's	P-1	826,491	869,137
	PACRA	A1	18,493	-
	PACRA	A2	250,000	250,000
	JCR-VIS	A-2	1,077,866	-
	JCR-VIS	A-3	-	950,303
Securities issued/supported by Government of Pakistan				
		-	1,884,299	1,000,000
			<u>9,884,683</u>	<u>7,421,773</u>
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	37,312	20,720
	JCR-VIS	A-1+	2,696,917	4,959,684
	Moody's	P-1	181	80,646
	PACRA	A1	-	44
	Standard & Poors	A-1	30,724	-
	PACRA	A2	-	10
	JCR-VIS	A-2	1,031	1,158
			-	-
Balance with National Saving Centre				
		-	11	11
			<u>2,766,176</u>	<u>5,062,273</u>
Loans to Partner Organizations				
Counterparties without external credit rating				
		*	<u>11,097,594</u>	<u>10,572,081</u>
Profit/service charges receivable				
Counterparties with external credit rating				
	PACRA	A 1+	156,583	60,833
	JCR-VIS	A-1+	132,514	29,400
	Moody's	P-1	63,411	36,708
	PACRA	A2	24,890	24,812
	JCR-VIS	A-2	40,176	-
	JCR-VIS	A-3	43,431	16,182
Counterparties without external credit rating				
		*	<u>221,090</u>	<u>243,002</u>
			<u>682,095</u>	<u>410,937</u>

* Counterparties with no defaults in the past.

33.3 Risk management policies

a) Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to loans to partner organisations, investments and bank balances. The Company is exposed to credit related losses in the event of non-performance by Partner Organisations of micro-credit loans to the extent of Rs 12.02 billion (2010: Rs 11.42 billion) (including loans to two major POs of Rs 6.24 billion, 2010: Rs 6.65 billion). The Company controls the credit risk through credit appraisals, assessing the credit-worthiness of POs and creating charge on the assets of POs. The credit risk on investments and bank balances is limited because the counter parties are banks and Government of Pakistan.

b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers. The Company is not exposed to currency risk as there are no foreign currency assets and liabilities except for financial assets of US\$ 3,878 (2010: US\$ 3,878).

c) Interest rate risk

The interest bearing financial assets and liabilities are at fixed interest rates.

d) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company's financial position is satisfactory and the Company does not have any liquidity problems.

e) Fair value of financial instruments

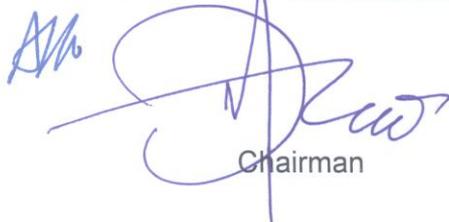
The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investments and loans receivable/ payable which are stated at cost or amortised cost.

34. NUMBER OF EMPLOYEES

The Company had 195 employees as at June 30, 2011 (June 30, 2010: 204).

35. DATE OF AUTHORISATION

These financial statements have been authorised for issue by the Board of Directors of the Company on 04 AUG 2011.


Chairman


Chief Executive Officer