DIRECTORS' REPORT

& Audited Financial Statements

For the year ended June 30, 2018

Pakistan Poverty Alleviation Fund

PAKISTAN POVERTY ALLEVIATION FUND

DIRECTORS' REPORT

The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the Eighteenth Annual Report along with audited financial statements of the Company for the year ended June 30, 2018.

During the year 2017-18 PPAF continued to meet its goals of reducing extreme poverty and boosting shared prosperity by working through its partner organizations and communities. PPAF’s major grants programs have been consistently improving and innovating in their approach and during FY 2017-18 the trend has continued in that direction. The Italian funded (through Government of Pakistan – GoP) Euro 40 million Programme for Poverty Reduction (PPR) being implemented in KPK, Balochistan and FATA following four pronged approach of targeting social mobilization, enhancing and protecting livelihoods, improving community infrastructure and establishing basic services (health and education) has created a sustainable socio-economic environment that is helping communities move up the poverty ladder. Our German Development Bank (KfW) funded (through GoP) livelihood and small scale infrastructure project (Euro 32 million) has created significant impact through its ability to connect extremely remote and marginalized communities with mainstream social and economic life – through provision of water, sanitation, link roads, bridges and livelihood opportunities in targeted areas of KPK. The Hydro and Renewable Energy Project (Euro 10 million) also funded by KfW (through GoP) takes on challenge of energy access in KPK. Access to energy has become key focus of PPAF and we are looking to develop innovative initiatives that can help communities access to energy not just for household requirements but to further spark economic activity and productivity in these areas. The interest free loan scheme financed by GoP is being successfully implemented in selected priority districts across the country where the financial inclusion indicators are the poorest. The scheme is making inroads in terms of loans disbursed and promoting women’s inclusion.

During the year selection process for 1st batch of communities under Tabeer-o-Tameer Fund (TTF) Project was completed. The project aims to sustain viable and active institutions formed through PPAF support at village and union council level. TTF would further enhance capacities of community institutions so as to develop active, inclusive and informed membership; effective and responsive leadership, especially women's leadership and participation; and ensure contribution towards achieving key sustainable development goals. The activities and funding under project for small POs commenced during the year. The project aims at institutional development and capacity building of new/small organizations in Balochistan, KPK and FATA. Financed by PPAF's own resources these twin initiatives signify our long-term commitment to supporting institutional development in the form of organizations of the people and for the people.

Financing Agreements for National Poverty Graduation Programme (NPGP) were signed in November 2017 between Government of Pakistan and International Fund for Agricultural Development. The USD 150 million NPGP has three main activities: asset transfers, interest free loans and social mobilization. With a nation-wide spread the programme will be implemented by

PPAF through POs in 375 union councils within 22 of the poorest districts of Pakistan. NPGP is critical to help PPAF deliver its goal of moving the poorest and the most marginalized households out of extreme poverty. Selection of partners for the project has been completed and program activities would commence in third quarter of the year 2018.

PPAF's unrelenting efforts in support of conflicted areas persisted during the year with implementation of UNHCR project. Baseline data from UNHCR showed that there is a large category of poor and poorest families for whom, some viable solution for sustainable livelihoods is of essence. A poverty graduation approach which targets such households and supports them to move up and out of poverty is considered to be the best intervention for such segments of societies. To address the aforementioned gaps, UNHCR and PPAF entered into partnership to implement poverty graduation project on pilot basis in two districts – one each in Balochistan and KPK.

Creation of Pakistan Microfinance Investment Company Limited (PMICL) is the symbol of the role of PPAF as sector developer working with stakeholders across private, non-profit and government sectors to create structure and institutions that support inclusion and outreach to those that are often left out of mainstream progress. PPAF is the largest shareholder in PMICL alongside Karandaaz and KfW and the focus is on extending and enhancing financial inclusion to 10 million borrowers over the next five years.

PMICL – Associate Company of PPAF

PPAF has invested Rs. 2,883 million in share capital of PMICL consituting 49% shareholding. For the FY 2017-18 (as per the audited financial statements of PMICL for the period ended December 31, 2017 and un-audited financial statements for the half year ended June 30, 2018) PMICL generated cumulative net profit after tax of Rs. 193 million. PPAF has recognized a profit of Rs. 95 million (as its 49% share) during the year. Summary of income statement and assets/labilities of PMIC is as follows:

	Rs. in million	
	June 30, 2018	**June 30, 2017**
Current assets	2,038	3,584
Non-current assets	16,531	4,153
Current liabilities	(271)	(38)
Non-current liabilities	(12,223)	(1,818)
Equity	**6,075**	**5,881**
The carrying amount of PPAF's investment	**2,976**	**2,882**

	July 1, 2017 to June 30, 2018	**August 1, 2016 to June 30, 2017**
Income	1,170	267
Administrative expenses	(282)	(219)
Other operating expenses	(25)	-
Other income	34	24
Finance costs	(521)	(5)
General provision against loan portfolio	(133)	(42)

Profit before taxation	**242**	**25**
Taxation	(49)	(28)
Profit/(loss) for the year/(period)	193	(4)
PPAF's share of profit/(loss)	**95**	**(2)**

The net investment of PPAF in PMICL as of June 30, 2018 is reflected as follows:

	Rs in million
Opening balance of investment*	2,881
Share of profit of PMICL	95
	2,976

* Initial PPAF investment reduced by impact of loss of Rs 1.75 million incurred by PMICL during FY 2016-17.

With creation of Associate Company the lending operations (except for interest free loans) carried out by PPAF are being managed by PMICL. As a result of agreement between PPAF and PMIC the amounts recovered by PPAF from POs under microcredit facility are disbursed to PMICL as subordinated loan. During the year loan portfolio of PPAF with POs reduced by 83% to Rs. 1,783 million at June 30, 2018 (June 30, 2017: Rs 10,708 million). During the year PPAF provided subordinated loan of Rs. 8,430 million to PMIC with total outstanding loan to PMICL standing at Rs. 10,248 million as of June 30, 2018. These loans carry markup rate of six months KIBOR plus 1% and are repayable in 43 installments. The summary of loans provided by PPAF to PMICL is as follows:

Date of disbursement	Amount Rs. In millions	First recovery due on	Last recovery due on
Jun 1, 2017	824	Oct 7, 2018	Oct 7, 2031
Jun 29, 2017	994	Jan 7, 2019	Jan 7, 2031
Aug 8, 2017	1,663	Jan 7, 2019	Jan 7, 2031
Nov 3, 2017	2,869	Jan 7, 2019	Jan 7, 2031
Dec 28, 2017	350	Jan 7, 2019	Jan 7, 2031
Jan 29, 2018	2,131	Jan 7, 2019	Jan 7, 2031
May 3, 2018	1,000	Jan 7, 2019	Jan 7, 2031
Jun 4, 2018	417	Jan 7, 2019	Jan 7, 2031
	10,248		

* Interest payment is on quartlery basis.

During the year PMICL continued to manage microcredit portfolio of PPAF outstanding with POs. Previous Loan Portfolio Agreement with PMIC was terminated with mutual consent of both the parties with effect from December 31, 2017. The agreement required management of microcredit portfolio for a fee (1% of the outstanding principal). Under the terminated agreement PPAF paid an amount of Rs. 128 million to PMICL which included sales tax of 16% over and above 1% management fee. A new portfolio management agreement was signed covering the period January 1 to December 31, 2018 to manage remaining portfolio of PPAF for lumpsum fee of Rs. 1.2 million. PPAF retains all risks, rewards and control over these loans.

Grant Operations:

Figure 1

Components	Rupees in millions 2018	2017	Variance (%age)
Water & Infrastructure	226	879	(74)
Livelihood Enhancement & Protection	73	249	(71)
Health & Education	160	481	(67)
Institutional Development	268	400	(33)
Prime Minister's Interest Free Loan Scheme	279	177	58
Project activities	82	151	(46)
Grand Total	**1,088**	**2,337**	**(53)**

Grant based interventions during the year were affected due to delay in receipt of funds under PPR and interest free loans. Similarly activities under NPGP were delayed due to delay in getting approval from Ministry of Finance for opening of the assignment account for the project. Resultantly disbursement during the year were Rs. 1,088 million as against Rs. 2,337 million in FY 2016-17, a decrease of 53%. Disbursements for water and infrastructure components decreased by 74% to Rs 226 million (FY 2016-17 - Rs 879 million). Disbursements for livelihood component showed a reduction of 71% and were Rs 73 million (FY 2016-17 – Rs. 249 million). Disbursements for health and education component decreased by 67% to Rs. 160 million (FY 2016-17 – Rs. 481 million). Institutional development and social mobilization disbursements were Rs. 268 million (FY 2016-17 – Rs. 400 million), decrease of 33% from last year. During the year 2017-18 PPAF disbursed operational cost of Rs. 279 million under PMIFL scheme (FY 2017-18 – Rs. 177 million), showing an increase of 58%. In addition to core operations, Rs 82 million (FY 2016-17 – Rs 151 million) were spent on projects activities from PPAF's own resources [fig.1].

Operational and Financial Highlights

PPAF, as a non-profit institution, capitalizes on profits to earn sufficient revenue to run its operations smoothly. Total income earned during the year was Rs 2,334 million as against Rs 2,332 million in FY 2016-17. Service charges on loans to POs and PMICL decreased by 22% to Rs 810 million in FY 2017-18 (FY 2016-17: Rs 1,036). The decrease in markup is mainly on account of reduction in portfolio due to repayment of Rs. 1.1 billion long term loans to government of Pakistan. Income on investments/saving accounts increased by 5% to Rs 1,096 (FY 2016-17: Rs 1,041). Grant in support of operational expenses decreased by 5% to Rs 104 million in FY 2017-18 (FY 2016-17 – Rs. 110 million). The cumulative net profit after tax of PMICL for the FY 2017-18 amounted to Rs. 193 million. PPAF has recognized a profit of Rs. 95 million (as its 49% share) during the year (FY 2016-17: loss of Rs. 1.75 million classified as expense for the year 2016-17). Other income of Rs. 80 million (FY 2016-17 – 3 million) includes Rs. 50 million recognized against reversal of general provision for the year 2017-18 due to reduction in portfolio; Rs. 12 million on account of sale of vehicles and Rs. 10 million on realization of deferred liability grant in respect of closed projects. In line with the requirement of International Financial Reporting Standard, Loans (payable by PPAF) were carried at present value computed at market based interest rate. The difference between present

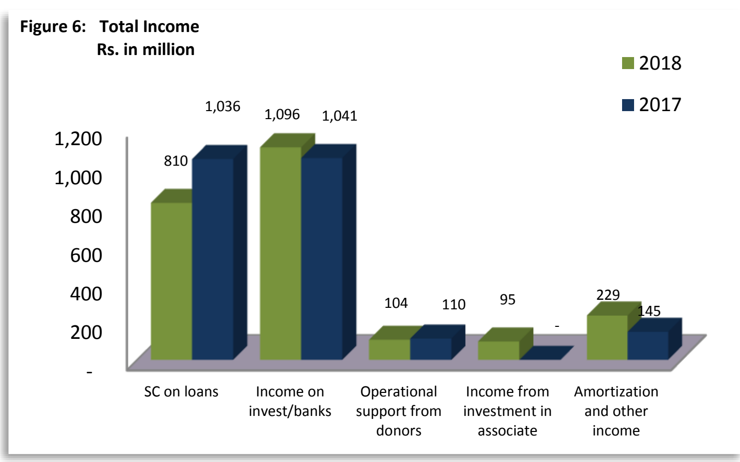


Figure 6: Total Income
Rs. in million

value and loan proceed was recorded as deferred benefit which would be recognized as income over loan period. Amortized income during the year was Rs. 149 million (FY 2016-17: Rs 142 million).

The general and administrative expenses related to the operations of PPAF increased by 21% to Rs 605 million (FY 2016-17 – Rs 505 million). Major increase was in salaries, travel, legal and audit expenses. Salaries expenses increased by 28% to Rs. 417 million (FY 2016-17 – Rs 325 million). The increase in salaries/benefits expense was due to impact of annual increment (to compensate for impact of inflation and reward performance) besides monetization of benefits (vehicles and medical). Travelling expenses increased by 49% to Rs. 63 million (FY 2016-17 Rs. 42 million); legal and audit expenses increased by 45% to Rs 12 million (FY 2016-17 Rs 8.4 million).

During the FY 2017-18 Rs 54 million was incurred on account of fee for PMICL for management of PPAF lending portfolio outstanding with POs. The loan portfolio agreement with PMICL was terminated with mutual consent of both parties (PPAF and PMICL) with effect from December 31, 2017. PPAF and PMICL entered into a revised agreement to manage remaining portfolio for the period from January 1 to December 31, 2018 against a lumpsum fee of Rs. 1.2 million.

Seminar, workshops and training expenses were Rs 9 million for FY 2017-18 (FY 2016-17 - Rs 16 million). This included Rs 5 million (FY 2016-17 - Rs 6 million) spent on trainings and Rs 4 million (FY 2016-17 - Rs 10 million) incurred on seminar and workshops. Technical and other studies increased by 26% to Rs 97 million in FY 2017-18 (FY 2016-17 - Rs 77 million).

Fig 7: Financial results are summarized as follows

	Rs. In million	
	2018	**2017**
Service charges on loans to POs and PMICL	810	1,036
Income on investments and savings accounts	1,096	1,041
Amortization of deferred income - grant fund	104	110
Amortization of deferred benefit	149	142
Share of income of associate	95	-
Other income	80	3
Total income	**2,334**	**2,332**
General and administrative expenses	605	505
Portfolio monitoring fee	55	74
Seminars, workshops and trainings	9	16
Technical and other studies	97	77
Provision against loans / service charges	16	108
Share of loss of associate	-	2
Write-off of income tax refundable	6	-
Financial charges	247	248
Total expenditure	**1,035**	**1,030**
SURPLUS BEFORE PROJECT AND RELIEF ACTIVITIES	**1,299**	**1,302**
Project and relief activities	82	151
Other comprehensive income for the year	10	3
SURPLUS FOR THE YEAR	**1,207**	**1,148**

Based on policy for loan loss an additional provision Rs. 16 million was charged against service charges receivable on loans to POs (FY 2016-17 Rs. 108 million).

The financial charges of Rs 247 million (FY 2016-17 - Rs 248 million) included Rs 97 million as service charges on long term loans and Rs 150 million amortization of deferred benefit of below market interest rate on long term loans and bank charges. PPAF spent Rs 82 million for FY 2017-18 (FY 2016-17 - Rs 151 million) on project activities financed from its own resources. Rs 10 million has been recognized as re-measurement loss on account of actuarial valuation of PPAF staff gratuity during the year.

Total expenditure was Rs 1,035 million at par with FY 2016-17 (FY 2016-17 - Rs 1,030 million). Surplus before project and relief activities and actuarial losses was Rs 1,299 million as against 1,302 million in FY 2016-17. Net surplus for the year increased by 5% to Rs 1,207 million (FY 2016-17 – Rs 1,148 million).

Financing Agreements signed with the GoP required repayment of loan amounts along with service and commitments charges from PPAF on the stipulated rates each year. PPAF remained current in all its repayments to GoP. During the year, Rs. 1,101 million (FY 2016-17 - Rs. 856 million) was repaid on account of principal amount of loan and Rs 99 million (FY 2016-17 - Rs 106 million) as service charges to the GoP.

Total funds and reserves increased by 7% to Rs 17,874 million (includes Rs 1,000 endowment fund) as at June 30, 2018 from Rs 16,667 million as at June 30, 2017. Total assets of the Company reached Rs. 31,942 million on June 30, 2017 against Rs 31,259 million as at June 30, 2017, an increase of 2%. Total loan payable were Rs 12,348 million on June 30, 2018 as against Rs 13,448 million as at June 30, 2017. The debt equity ratio improved to 41:59 (FY 2016-17 - 45:55).

Deferred liability and deferred income constitute advance amounts received from donors in respect of ongoing projects. These funds are used for disbursements to POs under respective financing agreement as well as for operational support for project activities to PPAF. The balances for deferred liability & income at the end of year represent amounts to be disbursed to POs/ to be utilized by PPAF for project specific activities. Total funds under these heads increased by 62% to Rs. 1,629 million for FY 2017-18 (FY 2016-17: Rs. 1,006 million).

PPAF invests its surplus funds and reserves including capital adequacy reserve (Rs. 1,805 million) and grant fund (Rs. 10,358 million) in short term, medium term and long term investments. All the investments are done as per Treasury Management Strategy approved by Board of Directors of PPAF. Total investments as at June 30, 2018 were Rs. 14,489 million (2017: Rs. 13,373 million). These investments carry markup rates ranging from 5% to 11.5% per annum. In addition to these investments, endowment fund received from GoP is invested in government securities as per the terms of Endowment Deed and carry markup rate of 12% per annum (FY 2016-17: 12% per annum).

During the year the cash and bank balances specific to project increased by Rs 851 million as compared to last year mainly on account of receipt of funds under various projects. The project funds were utilized for programme/operational activities as per the respective financing agreements whereas own surplus funds were used as per the Company's policy for short term and long term investments. The Company has non project specific cash and bank balances of Rs 371 million at the end of FY 2017-18 which reduced by Rs. 78 million from last year. Detailed financial projections are prepared and regularly updated to ensure availability of adequate funds for operations at all times while generating optimum returns through placement of surplus liquidity in various available investment avenues. The Company actively monitors its funds to ensure that the investment portfolio of the Company is secured and well diversified. Current cash requirements

are adequately financed through internal cash generation by Company's sound treasury management without recourse to external financing.
By the end of June 2018, PPAF had expanded its partnership with more than 130 POs which deployed resources in both urban and rural areas of 130 districts of the country in over 100,000 villages/rural and urban settlements. Aggregately, PPAF created over 135,000 community institutions and 450,000 credit groups; enumerated a record spread of 8 million microcredit loans, of which 4.8 million (60%) were to women with 80% of the financing extended in rural areas; completed over 34,670 water and infrastructure projects benefiting over 2.3 million households; supported 2,685 schools in which 378,500 children were enrolled; financed 935 community health centers benefiting over 14.5 million people; transferred 111,500 assets to poor and organized over 18,000 training events for 1,136,000 staff and community members nationwide; disbursed over 450,000 interest free loans (66% female). PPAF also responded to the natural calamity by facilitating over 1.8 million individuals through provision of relief items followed by rehabilitation and reconstruction. This included financing to 122,000 households during the previous years for construction of earthquake resistant homes and to build capacities of over 100,000 individuals in seismic construction and related skills.

Auditors:

M/s EY Ford Rhodes, Chartered Accountants have completed the annual audit for the year ended June 30, 2018, and shall retire at the conclusion of 22nd Annual General Meeting. Being eligible, they offered themselves to be re-appointment. The Audit Committee considered and recommended their re-appointment for the financial year ending June 30, 2019. The Board also endorsed the recommendations of the Audit Committee.

Conclusion:
Despite the extraordinary gains made in living standards in the country, a significant portion of the population is still excluded from the benefits of rapid economic growth. Without access to basic social services, they are vulnerable to illness, unemployment, and increasingly devastating natural disasters. The aim of PPAF's social development agenda is to reduce poverty, inequality, and vulnerability among the poor by involving people and their communities, organizations, institutions, societies, and provincial governments. Although PPAF's record level of investment is helping to improve the lives of millions, the need for development in poverty stricken areas continues to escalate. Through the support of Government PPAF will continue to spend on basic facilities such as health, education and small infrastructure besides enhacing and protecting livelihoods of the poor to reduce poverty and respond to rising inequality.

Maintaining the momentum will require PPAF to continue improving its business model to become even more nimble and adaptive in the way it operates. Delivering results in an evolving environment, while upholding PPAF's standards and quality, requires it to be flexible and creative. PPAF is nurturing a culture of greater innovation, empowerment, and accountability.

Acknowledgement:

The recent changes the country has experienced have produced new and complex challenges. PPAF must be relentless in facing them and the Board looks forward to working with you all to do just that. The Board plays an important role in guiding the general operations and strategic direction of the organization.

PPAF's agile programs scale up operational improvements to help teams achieve and sustain better results. This includes reducing paperwork and cutting red-tape, moving to a risk-based model, and responding better to the needs of the communities with innovative products and services. The Board is inspired by the positive response and engagement across the institution in support of these efforts.

The Board would like to place on record its sincere gratitude to all members in general and those who served in various committees of the organization in particular for their support, dedication and help they extended in policy formation and technical matters.

The Board is pleased to report that the performance of all the Directors and General Body members remained par excellence throughout the year and their contributions effectively steered the Company with not only having achieved the targets, but also creating new benchmarks, while maintaining its reputation for good governance.

The Company shall continue contributing towards the development of the communities through sustained supply of premium quality interventions in addition to extension of technical expertise for increased output.

We are deeply indebted to the General Body Members and those who served on the Board and various committees of the Company in particular for the support, dedication and help they had extended in continuation of our journey towards poverty alleviation.

Across the organization, we're working to ensure that we have the knowledge, resources, and tools to be effective and agile in the face of rapid change. We're ready to scale up and strengthen our engagement to help communities overcome their development challenges, create equality of opportunity, and give everyone the chance to meet their aspirations.

We would like to express our thanks to our stakeholders particularly the Government of Pakistan, the World Bank, the KfW – Development Bank (Germany), Italian Government, State Bank of Pakistan, Securities and Exchange Commission of Pakistan and partner organizations, for the trust shown in our interventions. We are also grateful for their support and confidence in our management. Our partners and community institutions deserve profound appreciation for the hard work they put on in making a difference in the lives of the poor.

PPAF's dedicated staff members are doing an outstanding job every single day, often under pressure and in complex and sometimes risky environments. This annual report presents examples of recent ways we have supported communities' progress.

The Board is very proud of the impressive results the staff achieved this year. It is also proud of the management team who ensured PPAF had a stellar performance.

Chief Executive Officer
Islamabad
September 26, 2018

Chairperson

STRATEGY AND APPROACH

PPAF's overarching aim is to alleviate poverty. Its understanding and experience about the dynamics and dimensions of poverty has grown to recognize that ***poverty is not just about low income levels*** but is endemic in households and communities which have ***limited opportunities, few assets, low education and health status, lack of access to basic infrastructure and suffer from lack of social, economic and political participation.*** This refined understanding has enabled PPAF to expand its vision to encompass a Pakistan without hunger and poverty and its mission is to reduce poverty in the country through a multipronged strategy which enables poor rural households to increase their productive potential, reduce their vulnerability through investments in assets, skills and access to services and increase their social, economic and political participation. Recognizing the heterogeneity and diversity of Pakistan, PPAF remains model neutral but is grounded by its values of **inclusion, participation, accountability, transparency and stewardship -** and expects the same from all its partners and community institutions.

The challenge that the country faces is to lift 33%of the people out of poverty and protect another 36%who are vulnerable. In terms of number of households, this translates into assisting 8.7 million households out of poverty and protecting another 9.5 million households from falling below the poverty line. The challenge for PPAF has been to devise a strategy which helps people achieve a sustainable increase in incomes as well as to deal with the other dimensions of poverty that enhances their socio-psychological well-being.

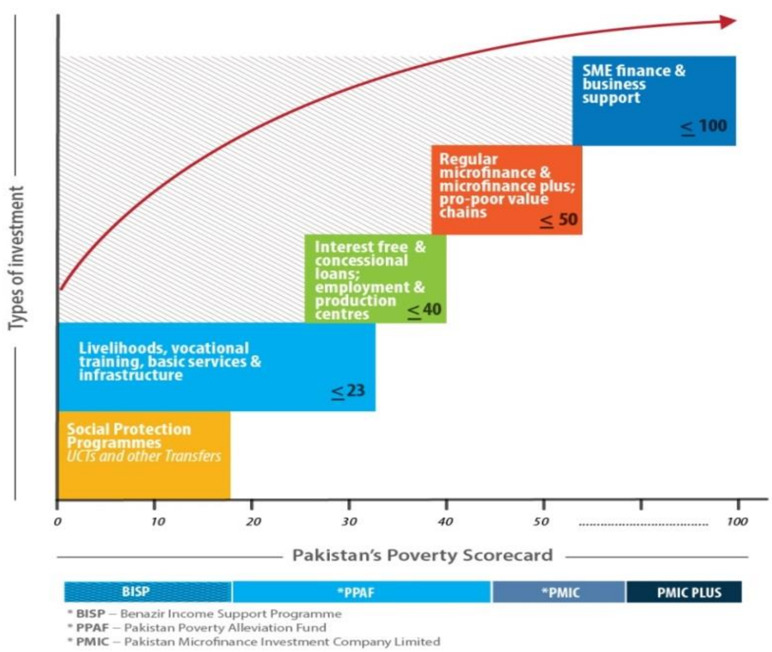
Experience from various poverty reduction programmes have revealed that stand-alone poverty reduction interventions of social protection alone do not provide a holistic solution to the complex nature of extreme poverty. Social protection programmes at their own are an inadequate instrument for building sustainable livelihoods and resilience against fluctuations and shocks. Social protection can be effective in smoothing consumption and protecting existing assets, but complementary interventions are needed to increase incomes and assets, and capacitate individuals and households resources and quality of life.

PPAF's theory of change regarding the pathways out of poverty has evolved based on its experience on the ground and its growing understanding of the dynamics of poverty alleviation in Pakistan. In its earlier phase, PPAF relied heavily on enhancing access to micro-finance as an effective way to help people increase their productive potential. The most instructive lesson from an analysis of our investment over time was that loans were not a powerful enough instrument for those well below the poverty line. PPAF thus gradually expanded its program area to include those sectors which were found to be integrally linked to its task of poverty alleviation. One of these is agriculture which PPAF supports through provision of rural finance and investments in infrastructure particularly rural roads, irrigation schemes, land development and enhancing the skills of farmers. The improvement of social services specifically in areas of access to healthcare and education for poor communities also became part of PPAF's portfolio, in the recognition that for long term solutions to succeed, people require as a minimum, to be educated and in good health.

PPAF's theory of change bases all outcomes on the creation of empowered and participatory community institutions (50% women's participation, 60% participation of the poorest households) that work inclusively to identify how they want their village/area to develop. Alongside strong community institutions is the opportunity to expand livelihood options and improve the overall quality of life of households with a focus on creating economic empowerment among women in the area. One of the most significant and long lasting impacts of PPAF is likely to be its investments in the institutional infrastructure in rural Pakistan. PPAF has been supporting its Partner Organizations in establishing a grassroots network of more than 135,000 Community Organizations (COs) along with another 440,000 plus credit and other groups across the country. Thus PPAF has ready access to a large proportion of the rural poor population through its partnerships. .

In 2009, with the aim to support poorest households to a level where they could access mainstream microfinance, a pilot was launched by PPAF with International Fund for Agricultural Development (IFAD) assistance. This model operated on the premise that the poorest households needed tailored support matched to their circumstances and capacities to help them graduate out of poverty. Depending on each household's situation, it could comprise of cash grants, food aid, subsidized employment, a productive asset or a combination of them to initially meet their basic survival needs to then build sustainable streams of income. At the end of the intervention, statistically significant impacts on all 10 key outcomes, ranging from food security, assets creation, women decision making, to consumption and mental health etc. had been observed and validated. PPAF's livelihoods programme was initiated herewith with a focus on graduating households out of poverty. The objective benchmark used for this purpose was the poverty score-card, a tool that was utilized by Government of Pakistan (GoP) to undertake the first national socio-economic registry that scored all households on a scale between 1 – 100.

Our Strategy - Graduating Households



Over the past five years, the experience of going to scale with its graduation programme has resulted in the identification of a poverty graduation strategy that manifests PPAF's vision into reality. The diagram above provides an overview of the integrated yet contextualized strategy that

PPAF follows in order to graduate households. The next five years will be about delivering this strategy with a core focus on:

Inclusion and mainstreaming of lagging regions and groups:

- Women
- Ultra poor and marginalised groups and households
- Remote and inaccessible geographic regions

Governance and sustainability:

- Enhancing the empowerment agenda at community level
- Creating the right linkages for improved public services (education and health, water and sanitation, nutrition)
- Addressing conflict and strengthening civic engagement at local levels

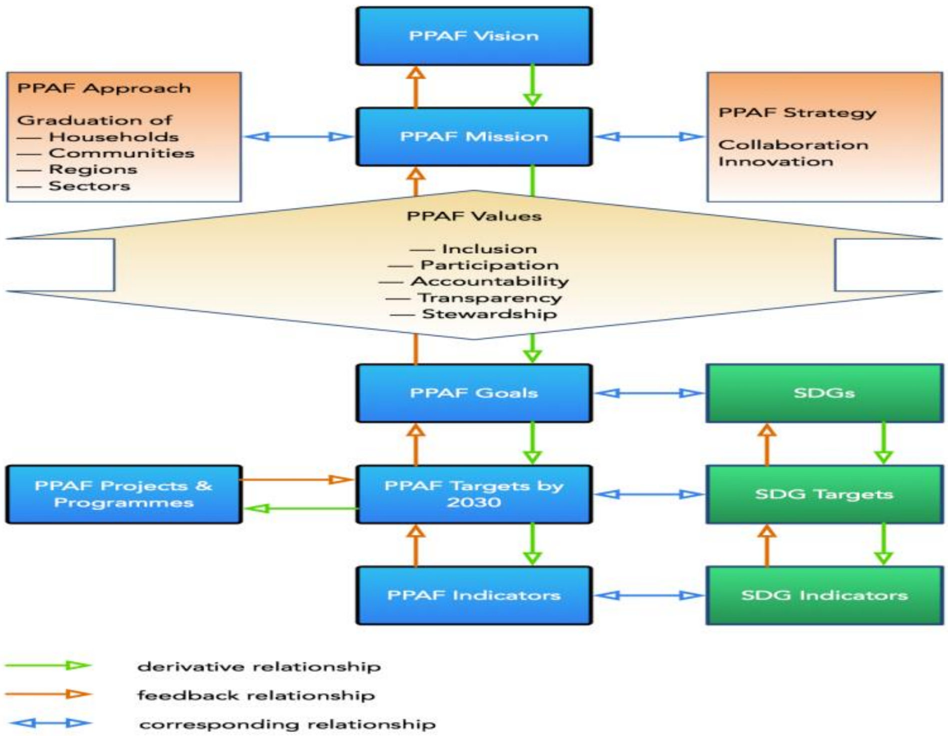
The economy – graduating the poor:

- Poverty graduation extending from enhancing livelihoods of poorest households to supporting SMEs development through a focus on value chains and producer groups
- Financial inclusion through PM Interest Free Loan Scheme and linkages with PMIC

Results Framework – 2018-2030 "Graduating the Poor to Prosperity"
PPAF Results Framework provides a roadmap for PPAF programmes and projects up to 2030 with the main theme being to Graduate households and regions to prosperity (with poverty defined as the set of multi-faceted deprivations – economic, social, political – that prevent people from living a life with dignity). The indicators and targets, except where mentioned otherwise, correspond to the operational areas of PPAF. PPAF's Results Framework is aligned with the Sustainable Development Goals (SDGs) and PPAF expects to contribute towards the Government's achievement of SDGs in its areas of operations.

The Results Framework, as approved by PPAF's Board of Directors, is applicable to entire range of programmes, projects, activities and operations undertaken by PPAF and will be good through 2030. Progress against the Results Framework will be measured every 2 years and finally in 2030 a comprehensive programme evaluation will be conducted to measure its relevance, effectiveness, efficiency, impact and sustainability[1]. However, any adjustments and modification, if necessary, may be introduced in between by the PPAF with the consent of its Board of Directors. This results framework is an attempt to consolidate and focus PPAF's energies for developing and implementing programmes and project that are aligned with its vision, mission and value system. Hence, it will not only guide the programme development but will also keep the programme implementation on track. The new programmes and project PPAF designs will have direct contribution towards the goals and targets set under this results framework.

The results hierarchy of PPAF Results Framework (Figure 1) flows from goals to targets to indicators while the feedback loop flows in the reverse order. The programmes and projects supported and implemented by PPAF contribute towards PPAF targets and then PPAF goals and overall strategy.


PPAF Vision
PPAF Approach
Graduation of
— Households
— Communities
— Regions
— Sectors
PPAF Mission
PPAF Strategy
Collaboration
Innovation
PPAF Values
— Inclusion
— Participation
— Accountability
— Transparency
— Stewardship
PPAF Goals
SDGs
PPAF Projects & Programmes
PPAF Targets by 2030
SDG Targets
PPAF Indicators
SDG Indicators
derivative relationship
feedback relationship
corresponding relationship

PPAF Goals vis-à-vis SDGs	PPAF Targets by 2030 (in PPAF operational areas only)
1. Graduate poor households out of their current poverty band and out of the BISP registry. Corresponding SDG: 1. End poverty in all its forms everywhere.	At least half of ultra-poor households (at baseline) graduate to higher PSC band
	At least 30% decrease (from baseline) in poor households
	75% of female-headed poor households and those with people with disability (PWD) graduate out of poverty
	Communities have access to climate and disaster resilient productive infrastructure to enable their economic activities
2. Establish, strengthen and empower institutions of the poor and for the poor. Corresponding SDG: 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.	At least 75% of the community institutions supported by PPAF score above 80% on the relevant maturity index
3. Improve mother and child health and nutrition. Corresponding SDG: 3. Ensure healthy lives and promote well-being for all at all ages.	All pregnant women have access to antenatal and postnatal care
	All children under 5 years of age are healthy by height
	All children under 2 years of age are protected from infectious diseases
4. Ensure boys and girls have access to quality education up to at least lower-secondary level.[2] Corresponding SDG: 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.	Net primary enrolment rate is increased to 100%
	All of schools have functional PTCs/SMCs
	The learning outcomes for children aged 5-16 improve by at least 20%
	50% of primary and 40% of lower-secondary enrolment is of girls
5. Support gender equality and empower women at all levels. Corresponding SDG: 5. Achieve gender equality and empower all women and girls.	At least 50% of PPAF interventions direct beneficiaries are women
	The economic and productive use and benefits of women focused PPAF interventions are managed by women
	At least 50% of executive body members in VOs/TTOs are women
	At least 50% of women-identified priorities are included in village development plan (VDPs)
	All of PPAF programming has gender disaggregated action plans and budgeting
	At least 50% of PPAF's programme budget is allocated to women focused interventions
6. a) Ensure access to safe drinking water and	Water strategy developed for PPAF incorporating

sanitation. **b) Develop effective water conservation and management systems at local level**	mechanisms for implementation and assessment of 6a and 6b. Entire population has access to safe drinking water
Corresponding SDG: 7. Ensure availability and sustainable management of water and sanitation for all.	At least 80% of population has access to sustainably managed sanitation services Groundwater levels remain static or are increased to sustainable levels in all IAUP areas All Irrigation related schemes show reduced / more effective use and management of water
8. Enhance access to sustainable and affordable energy solutions for off grid communities. Corresponding SDG: 7. Ensure access to affordable, reliable, sustainable and modern energy for all.	At least 50% of off-grid households have access to electricity through renewable energy
	Innovative partnerships for renewable energy solutions are encouraged
9. Enhance sustainable and resilient livelihood opportunities Corresponding SDG: 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	The average family income in PPAF target households is increased by 300% of the baseline
	The beneficiaries of PPAF asset transfer make sustainable use of the assets
	At least 80% of men and 50% of women have access to some form of financial services
10. Create and strengthen partnerships for innovation and change	At least 75% of PPAF supported third-tier organisations (TTOs) demonstrate internalisation of PPAF values Local government institutions are strengthened to deliver services to poor communities
	Enhanced presence of PPAF on policy-making forums
	PPAF invests into and catalyses partnerships for innovation and change
11. Enhance value driven stewardship towards operations	Operational efficiency and programmatic effectiveness increases across PPAF operations

PROGRAMME OVERVIEW

a) Program for Poverty Reduction (PPR)

Project for Poverty Reduction (financed by Government of Pakistan (GoP) through Italian Government funding) has allocation of EUR 40 million of which EUR 2 million is for tied component i.e. funds allocated towards the procurement of goods and services of Italian origin. The objective of PPR is establishment of a social and productive infrastructure system and an effective/sustainable social safety net in project area (Balochistan, KPK and FATA). PPR is being implemented in 38 Union Councils of 14 districts of Balochistan, KP and FATA through 17 POs. As of June 30, 2018 EUR 31.6 million were disbursed (79% of the total financing). Implementation progress under untied component as of June 30, 2018 is as follows:

Indicators with Components	Status as of June 30, 2018
	Number
Social Mobilization and Institution Building	
Formation & strengthening of community organizations	4,223
Formation & strengthening of 2nd tier (village level) community institutions	648
Number of Community members trained	23,251
Number of staff members trained	1,036
Livelihoods, Enhancement and Protection (LEP)	
No. of Livelihood Investment Plans developed	5,041
No. of Common Interest Groups formed	278
Number of Community Resource Persons (CRPs) trained	390
No. of individuals received skills/entrepreneurial training	23,888
No. of ultra and vulnerable poor received productive assets	6,362
Number of Loan center established through Community Livelihood Fund (CLF)	9
Community Physical Infrastructure (CPI)	
No. of Water and Infrastructure projects completed	1,063
No. of beneficiary households	90,401
No. of population beneficiaries	665,847
Basic Health & Education Services	
School facilities constructed or renovated	779
Children benefitting from schools	107,925
Health centers constructed, renovated and/or equipped	114
Beneficiaries/patients treated from health centers	1,185,375

Progress under Tied component as of June 30, 2018 is as follows:

- In the work plans of the tied component, a series of capacity building activities were planned and conducted for PPAF staff and Pakistani Government officials from relevant departments. The aim was to familiarize stakeholders with the Programme's objectives and transfer knowledge and skills relevant to the Programme. These activities involved study visits to Italy and training consultancies involving Italian experts coming to Pakistan. Till June 30, 2018, five study visits were conducted. In these study visits, a total of fifty five (55) participants visited Italy. These included forty eight (48) participants from PPAF and seven (07) from different government departments. These study visits were to receive; overview of the rural development work and learn from leading institutions; business models of entrepreneurial development and gaining knowledge in sectors like eco-tourism, minerals/marbles, olives, livestock (leather) handicrafts and traditional embroideries, renewable energy, hydro generation system, integrated water management and pressurized systems, Learning environment safeguards, with special focus on adaptation measures; and studying modalities of child-friendly and participatory learning techniques for the primary schooling system. Additional study visits in pipeline are specifically designed for staff of POs, community beneficiaries specifically Community Resource Persons (CRPs) and government officials, (specific departments like agriculture and agri-research, education, health and disaster management etc.). The capacity building activities will supplement the overall implementation of Programme activities. These activities will be executed once Programme timeline is extended.

The project completion date is September 12, 2018. PPAF has requested for extension in Tied Component till September 30, 2019 and Untied Component till March 31, 2020

b) Prime Minister's Interest Free Loan

The Government of Pakistan initiated Rs. 3.5 billion Prime Minister's Interest Free Loan (PMIFL) Scheme to support productive microenterprise activities of poor, vulnerable and marginalized households, not yet tapped by the microfinance sector, so that they may engage in productive economic activities that will improve their lives and allow them to positively contribute to the economy. Based on its previous experience, PPAF was mandated by the Government of Pakistan to design, mobilize, implement and monitor the PMIFL Scheme. The POs have established loans centers at UC levels and funds are disbursed to beneficiaries as interest free loans as per predefined eligibility criteria. The community institutions are involved in different activities within this model under the supervision of POs. Eventually, the funds will be transferred to eligible Community Institutions which will continue revolving these funds on sustainable basis. Implementation progress as of June 30, 2018 is as follows:

Partner Organizations (POs)	26	
Coverage	Districts: 45	UCs: 442
No. of Loan Centers/Branches established	291	
Funds Disbursed from PPAF – PO (Rs in million)	3,502.7	
Funds Revolved PO – Borrowers (Rs in million)	10,835.5	
No. of Loans Disbursed to Borrowers	449,673	
	Male	Female
	153,038 (34%)	296,635 (66%)
Average Loan Size (Rs)	24,096	

c) Livelihood Support and Promotion of Small Community Infrastructure Project (LACIP-I)

The project (financed by GoP through funding of KfW – Development Bank of Germany) started in the year 2012 and is being implemented in 57 Union Councils of 8 districts of KPK. The overall project size is EUR 31.5 million. The project involves support to livelihood measures and promotion of small community economic and social infrastructure in KPK. The purpose of the project is to increase access to and sustainable utilization of social and economic infrastructure by the population of the project region; increase employment and income opportunities, especially for the poor; strengthen local civil society and enhanced participation of the population in the decision making at the local level. As of June 30, 2018 EUR 30.56 million were disbursed (97% of the total financing). The closing date of LACIP I is September 30, 2019. Implementation progress as of June 30, 2018 is as follows:

Sr.	Indicators with Components	Status as of June 30, 2018 Number
Component: Institutional Development & Social Mobilization		
1	Community organizations formed/revitalized	4,760
2	Village organizations level formed	398
3	Union Council level organizations formed	38
4	Membership in community institutions (34% female)	95,337
Component: Water and Infrastructure		
5	Water and Infrastructure projects completed	2,012
6	Beneficiary households	167,664
7	Population benefitted (51% female)	1,244,802
Component: Livelihood, Employment and Enterprise Development		
9	No. of ultra/vulnerable poor received productive assets (44% female)	8,759
10	No. of individuals received skills/entrepreneurial training (34% female)	5,315
Component: Education, Health and Nutrition		
11	Total Enrolment	32,033
	- Boys	18,150
	- Girls	13,883
12	Total Patients (A+B)	76,760
	Adults (A)	47476
	- Men	9,955
	- Women	37,521
	Children (B)	29,284

d) Hydropower and Renewable Energy (HRE) Project

The HRE project (financed by GoP through funding of KfW – Development Bank of Germany) started in the year 2013 in KPK. The overall objective of the Project is to contribute to the improvement of the general living conditions and quality of life of the poor in KPK province. The project concerns about the financing of micro/mini hydropower plants, solar lighting systems, integrated water efficient solar irrigation systems and pilot projects in renewable energy in KPK. The overall project size is EUR 10 million. The project is being implemented in 8 union councils of 6 districts of KPK; Swabi, Chitral, Upper Dir, Buner, Lakki Marwat, and Karak. As of June 30, 2018 PPAF had disbursed EUR 6.76 million (68% of total financing). The closing date of HRE is December 31, 2018. Implementation progress as of June 30, 2018 is as follows:

Sr.	Indicators with Components	Status as of June 30, 2018 Number
1	**Micro Hydropower Project (MHP)**	
1.1	No. of Sites Identified	05
1.2	No. of Projects designed and initiated	05
2	**Solar Lighting Systems (SLS)**	
2.1	No. of Projects Identified	68
2.2	No. of Projects designed and initiated	68

e) Livelihood Support and Promotion of Small Community Infrastructure Program LACIP II

PPAF and KfW signed Agreement for the Project 'Livelihood Support and Promotion of Small Community Infrastructure Program' (LACIP II) with project size of EUR 10 million. The objective of the project is to contribute to greater political participation of villagers in decision making in tehsil and village councils by supporting the implementation of decentralization reform in three districts of KPK. LACIP-II is planned to be implemented in three years till December 2020. The geographical outreach of the project covers 12 union councils including 36 village councils of districts Buner, Lakki Marwat and Shangla. These districts have been selected based on a poverty assessment carried out by KfW Consultant in close coordination with the PPAF. The three Programme components include (i) Institutional Development; (ii) Livelihood Enhancement and Protection and (iii) Community Physical Infrastructure.

As of June 30, 2018 PPAF Board of Directors have approved funding for three POs to carry out design phase activities. POs are in process of getting NOCs from provincial authorities in order to carry out activities in the field.

f) National Poverty Graduation Program

On the request of GoP (Ministry of Finance and EAD) the IFAD has appraised PPAF for National Poverty Graduation Programme. The overall goal of the programme is to assist the ultra-poor and very poor in graduating out of poverty on a sustainable basis; simultaneously improving their overall food security, nutritional status and resilience to climate change. The Development Objective is to enable the rural poor and especially women and youth to realize their development potential and attain a higher level of social and economic wellbeing through a proven flexible and responsive menu of assistance following the toolbox approach.

Total programme cost, including price and physical contingencies, is US$ 150 million. The foreign exchange component is estimated at US$ 100 million. IFAD will cover US$ 100 million (agreement for US$ 82.6 million has been signed and the balance amount will be provided by the third year of the project) and GoP through PM Interest Free Loan Scheme will cover the remaining US$ 50 million. Project period is six years. The project will be implemented all over the country in 375 union councils of 21 districts.

PPAF hired a third party for the selection of POs to implement asset transfers and related social mobilization activities. Call for Expression of Interest (EOI) was advertised in national dailies.

Potential Partner Organizations (PPOs) submitted their EOIs. EOIs of PPOs were evaluated as per criteria the PPOs were qualified, and Request for Proposals (RFPs) was shared with them for the submission of maximum 02 proposals (for 02 Districts). A total of 126 detailed proposals were received by the firm. Technical and financial proposal's scores per district were allotted by the firm. PPAF senior management reviewed the scoring and ranked the PPOs based on previous experience with PPAF (past performance); ranking of partners on PPAF's watch list; only PPOs with a technical score of 35 and above were recommended for the field appraisal.
Based on technical and financial scores by the third party firm and ranking by PPAF made the final selection of POs on the basis of field appraisal report submitted by the firm. PPAF's Board of Directors in its meeting on June 26, 2018, approved selection of POs for NPGP. PPAF is awaiting opening of bank account and completion of other necessary formalities after which the project activities will commence.

g) Poverty Graduation Pilot for Afghan Refugees and their Hosting Families in Pishin - Balochistan and Swabi - KPK

Pakistan has been hosting Afghan refugees for the last three decades and around 1.5 million registered Afghan refugees continue to reside in different parts of the country, mostly in settled camps. Apart from registered Afghan refugees, an equal number of refugees are residing as illegals with host families or constantly moving from place to place without proper settlement. Baseline data from UNHCR shows that there is a large category of poor and poorest families for whom, some viable solution for sustainable livelihoods is of essence. A poverty graduation approach which targets such households and supports them to move up and out of poverty is considered to be the best intervention for such segments of societies. To address the aforementioned gaps, UNHCR approached PPAF for partnership to implement poverty graduation project on pilot base in two districts – one each in Balochistan and KPK. After signing of project financing agreement with UNHCR, PPAF advertised seeking Request for Proposals. Through rigorous procurement processes, two organizations namely Youth Organization from Balochistan and Center of Excellence for Rural Development (CERD) from KPK were selected to implement the project in district Pishin and Swabi respectively.

The project has been designed for 18 months from July 2017 till December 2018 which is being implemented in two phases. The inception phase (Rs 9 million) was for six months (July to December 2017). During this phase the project focused on formation of community institutions, village development plans, and identification of 2,000 households for graduation and 2 market assessments (Pishin & Swabi). The Phase-II (Jan 2018 to December 2018) involves financing of Rs 138.45 million (UNHCR share Rs: 123.128 million and PPAF Share Rs: 15.331 million) and aims at gradual maturity of the CIs formed during inception phase, capacitating the entrepreneurial skills of the deserving households prior to providing them productive assets and form/strengthen common interest groups (CIGs) for collective business operations. Finally, poverty level of the households will be assessed again who were given assets or loans at the cost.

h) Projects financed from Own Resources

Dera Bugti Project

PPAF is undertaking multi-sectoral intervention for the development of Dera Bugti from its own resources. Total 4 UCs namely Baiker, Kalchas, Phelawagh and Sham of tehsil Phelawagh where Masuri tribes of Bugti are the origin are part of the relief, assistance, rehabilitation and development programme of PPAF. Implementation progress of Dera Bugti project as of June 30, 2018 is as follows:

Indicators with Components	Status as of June 30, 2018
	Number
Social Mobilization and Institution Building	
Formation & strengthening of community organizations	286
Formation & strengthening of 2nd tier (village level) community institutions	61
Formation & strengthening of 3rd tier (union council) community institutions	4
Number of Community members trained	1,345
Number of staff members trained	29
Livelihoods, Enhancement and Protection (LEP)	
No. of Livelihood Investment Plans developed	717
No. of Common Interest Groups formed	5
Number of Community Resource Persons trained	17
No. of individuals received skills/entrepreneurial training	60
No. of ultra and vulnerable poor received productive assets	717
Community Physical Infrastructure (CPI)	
Water and Infrastructure projects completed	61
Beneficiary households	2,695
Population benefited (47% female)	18,862
Basic Health & Education Services	
School facilities constructed or renovated	1 Boys Hostel Renovated
Health centers constructed, renovated and/or equipped	1 BHU Renovated
Beneficiaries/patients treated from health centers	3,896

Capacity building of small grant project for Balochistan, FATA & KP

PPAF through its own resources initiated project for small organizations. The objective of this Project is to provide technical assistance and support to the small/new partner organizations and enhance their capabilities as social entrepreneurs with specialized technical capacity and provide initial operational support to help setup the basic and mandatory equipment’s, tools and communications for working effectively at grassroots level.

20 small organizations were considered eligible and recommended for technical and financial assistance under the project. Selection of POs is based on the rigorous eligibility criteria of the PPAF. The following criteria has been adopted for selection and assessment of the small organizations

- The organization is found small in size (resources, staff, geographical presence and donor reach included)
- The organization represents the community at district level-board members and employees are mostly local

- The organization has a technical expertise/niche beyond simple community mobilization and maintains a focus on gender related issues/capacity building.

Total amount of Rs. 13.585 Million has been disbursed to small organization capacity building project till June 30, 2018. Orientation of small grant project has been completed. Training firm hiring is in process for conducting the capacity building of small partner organization.

Tabeer-O-Tameer Fund

The core approach of PPAF is to support households to form self-help community institutions, remains the foundation of all PPAF work. This is not a one-off instrument of poverty alleviation, but requires consistent nurturing so as to build empowered communities. To achieve this agenda PPAF Board of Directors approved Tabeer-O-Tameer Fund (TTF) through PPAF's own resources. For the "Mentoring and support for Community Institutions (LSOs/VOs), in High Priority Districts" data set of community institutions available with PPAF has been organized and consolidated. Community Institutions that are located in PPAF's high priority Regions/Districts i.e. appearing as Red and Orange, in PPAF Districts Prioritization Map (based on lowest HDI index, food security and Social mobilization, produced in 2012 by PPAF), are eligible for the first batch of financing under which a total of 100 Third Tier Organizations are taken on board with the technical support from 11 POs.

Chamalang Balochistan Education Program (CBEP)

Chamalang Education Program was initiated by Chamalang Tribal Education Committee supported from the funds generated from Chamalang Coal Mines. The funds were placed at the disposal of Mineral Development Department in a separate account specifically for the welfare of the target beneficiaries. PPAF was approached for support to students who were studying in Kohlu for school fees, books and uniform.

There are two phases of this program. Under first phase PPAF provided support to more than 3000 students of Chamalang Education Program in 2012-14. The students were facilitated in terms of two heads which are tuition fee, provision of text books, uniforms, shoes and stationary. The support was remained intact till Dec 2014. Total Rs.109 million were paid to the schools management for the support in the above mentioned heads by engaging two PO (PIDS and Taraqee Foundation). Major impact of the program was to enroll out of school children from militancy hit areas of Kohlu and Lasbela and enrolling them in reputable school where they are getting quality educational services without paying anything. Under phase II (which has commenced from 01 October, 2017) 932 students including 98 girl's students of 15 (9 schools of kohlu and 6 schools of Loralai) are supported. The total budget for this phase is Rs 35.11 million Rupees. This program is supervised by Pakistan Army with the support of Chamalang Education Committee. As of June 30, 2018 PPAF disbursed Rs. 8.09 Million under the project.

Pakistan Microfinance Investment Company (PMIC)

PMIC, incorporated on August 10, 2016, was setup jointly by PPAF, Karandaaz Pakistan (financed by DFID) and KfW to catalyze and lead the next phase of growth in the microfinance sector of Pakistan. The shareholding percentage and amount of initial investment in PMIC is as follows:

Investor	**Share %age**	**Equity Investments PKR in billions**	**Board Nominations Numbers**	**Remarks**
PPAF	49%	2.85	3	1 Independent Director
KARANDAAZ	38%	2.16	2	1 Independent Director
KfW	13%	0.82	1	
CEO	0%	0	1	
Total	**100%**	**5.83**	**7**	

PMIC is an associated company of PPAF by virtue of one common director (Mr. Qazi Azmat Isa) and PPAF having 49% shareholding in PMIC.

Loan Portfolio Management

For management of loan portfolio already deployed with POs, a Loan Portfolio Agreement was signed between PPAF and PMIC on November 17, 2016. As per the said agreement PPAF has appointed PMIC to perform services which mainly include (i) desk and field monitoring; (ii) follow-up on late payments upon intimation by PPAF; (iii) providing recommendations on restructuring requests by POs. PPAF retains all risks, rewards and control over these loans. As compensation for PMIC Services rendered PPAF pays PMIC fee of one percent (1%) p.a. based on the actual average daily value (calculated on the basis of a 365-day calendar year) of the outstanding principal. As of June 30, 2018 the loan portfolio managed by PMIC stands at Rs.566.23 million. During the financial year 2017-18 PPAF paid Rs 128.3 million as a fee to PMIC

Subordinated Debt to PMIC

PPAF agreed to provide the amount received from its POs on account of principal repayment of loan as subordinated debt to PMIC. For provision of shareholder loan PPAF and PMIC signed Master Loan Framework Agreement on November 17, 2017. During FY 2017-18 PPAF paid Rs 8.43 Billion as subordinated debt to PMIC. As of June 30, 2018 an amount of Rs. 10.246 Billion has been transferred by PPAF to PMIC the details of which are as follows:

Date of disbursement	Amount Rs. In millions	First recovery due on	Last recovery due on
Jun 1, 2017	824	Oct 7, 2018	Oct 7, 2031
Jun 29, 2017	994	Jan 7, 2019	Jan 7, 2031
Aug 8, 2017	1,663	Jan 7, 2019	Jan 7, 2031
Nov 3, 2017	2,869	Jan 7, 2019	Jan 7, 2031
Dec 28, 2017	350	Jan 7, 2019	Jan 7, 2031
Jan 29, 2018	2,131	Jan 7, 2019	Jan 7, 2031
May 3, 2018	1,000	Jan 7, 2019	Jan 7, 2031
Jun 4, 2018	417	Jan 7, 2019	Jan 7, 2031
	10,248		

* Interest payment is on quartlery basis.

Financial Highlights

Summary of financial position of PMICL is as follows:

	Rs in million	
	June 30, 2018	June 30, 2017
Current assets	2,038	3,584
Non-current assets	16,531	4,153
Current liabilities	(271)	(38)
Non-current liabilities	(12,223)	(1,818)
Equity	**6,075**	**5,881**
The carrying amount of PPAF's investment	**2,976**	**2,882**

Summary of income statement of PMICL is as follows:

	Rs in million	
	July 1, 2017 to June 30, 2018	August 1, 2016 to June 30, 2017
Income	1,170	267
Administrative expenses	(282)	(219)
Other operating expenses	(25)	-
Other income	34	24
Finance costs	(521)	(5)
General provision against loan portfolio	(133)	(42)
Profit before taxation	**242**	**25**
Taxation	(49)	(28)
Profit/(loss) for the year/(period)	193	(4)
PPAF's share of profit/(loss)	**95**	**(2)**

PMIC Portfolio -Snapshot (June 30, 2018)

Active Clients PMIC Funded	580,000
% of Women Active Clients	85%
PMIC Borrowers PAR > 30 Days for PMIC Funded portion	0.27%
PMIC Borrowers PAR > 30 Days	0.54%
No. of profitable Borrowers	20/20

Microfinance Plus Initiatives of PMIC:

a. Graduating clients out of poverty – 5,000 client graduated by June 2018.
b. Crop and Livestock insurance for small farmers and herders –2,351 acres and 6,930 animals insured
c. Digitization of microfinance operations of 8 small Micro Finance Institutions (MFIs) – UBL Omni and Telenor Easy Paisa and Jazz Cash engaged
d. Enterprise Development - 870 clients provided larger size loans, 1,740 jobs created. Cash flow based appraisal tool training conducted for credit officers and branch managers of MFIs
e. Renewable Energy –400 loans deployed, facilitated collaboration between 2 MFIs and quality certified RE Vendors
f. KfW Renewable Energy -Interim report on Scaling Up Financing for Solar Home Systems received (Feasibility study)

g. Collaborating with Asian Development Bank for Micro Finance Risk Participation and Guarantee Program.
h. In May 2018, PMIC and Opportunity International (OI) signed an agreement to engage in “Education through Microfinance”, a project to finance and support low cost private schools in Pakistan.
i. SonaWelfare Foundation – MOU of PKR 260 million signed to implement Agriculture Value Chain for 5,000 smallholder rice farmers in districts Nankana Sahib, Sheikhupura and Gujranwala
j. KfW has offered subordinated debt of EUR 15 million.

ASSESSMENTS AND RATINGS

Third Party Assessments:

Ratings and institutional assessments aim to provide objective analysis of an institution and to benchmark that institution on a scale that allows it to be compared with other institutions. An independent third party assessment provides a neutral setting to assess performance of any organization in a selected domain and provide evidence for same. The need for third party assessment is becoming crucial as the third party assessments bring accountability and control over programs.

Assessments and evaluations are integral part of PPAF to improve future policy, programs and projects through feedback and lessons learnt. PPAF place high priority on the third party assessments/studies and on their significance to ensure consistency persists in the operations implemented by PPAF.

Key findings of third party independent assessments on PPAF operations are summarized as follows:

a) Mid Term Evaluation (MTE) of Prime Minister Interest Free Loan by MM Pakistan Pvt. Ltd.:

A midterm evaluation of PPAF Prime Minister Interest Free Loan interventions pertaining to micro credit schemes was conducted by MM Pakistan Pvt. Ltd. The objective of the study was to assess and evaluate PMFIL Program's performance related to its objectives and intended outcomes and to identify best practices, lessons learnt areas of improvement and suggest corrective measures. Using multi-stage stratified systematic random sampling method, 19 districts (out of 44 districts) were selected as part of the sample. From the sampled districts, 4,120 beneficiaries (Male 1,636 & Female 2,484) were selected for household interviews. 27 Focused Group Discussions (14 with women and 13 with women) were conducted with 236 individuals. 22 In-depth Interviews (IDIs) were conducted with the officials of community institutions (CIs) and 22 IDIs were conducted with the officials of POs. While selecting the sample, representation in terms of gender, geography and ethnicity was taken into consideration.

Key Findings Related to Prime Minister Interest Free Loan:

Programme Results	Achievements as Reported in MTE
At least 60% of the targeted borrowers graduated to higher scores on the Poverty Score Card (PSC).	74.6% of the respondents had graduated to higher scores.
At least 60% of target community members/borrowers report a minimum of 25% increase in household incomes and/or assets.	77.8% of the beneficiaries had reported increase in monthly income by 25% or more.
At least 50% of targeted Third Tier Community Institutions of the poor report improved linkages with government line agencies, market and private sector.	64% of the Third-Tier Community Institutions reported that they have established and improved linkage with the concerned institutions.
At least 50% of those targeted are women.	60.3% of the PMIFL beneficiaries interviewed were female.

Environment friendly practices reflected during the development of business development plans, loan appraisal process and utilization of financial services.	Overall 94% of the beneficiaries reported that their business/micro-enterprises were not associated or involved with activities as identified in the negative list of PPAF's Environment & Social Management Framework (ESMF).
At least 90% of the IFL amount are utilized for productive purposes, as set in business development plans, developed during appraisal stage.	94.8% beneficiaries had utilized full loan amounts for their businesses.
At least 95% of average repayment rate maintained from beneficiary households to the Branches/ Loan Centers.	97.4% of the beneficiaries had completed the loan repayment.

b) Mid Term Evaluation of Program for Poverty Reduction (PPR) by APEX Consulting Firm:

The primary purpose of this study was to assess and evaluate Program outcomes and performance and to identify gaps, best practices and lessons learnt related to Program objectives and outputs, key interventions and implementation approach.Sampling of the evaluation was done through multistage sampling technique using multistage stratified systematic random sampling was applied while selecting sample districts, UCs, villages and target households for interviews. Geographical, ethnic and gender representation was taken into account.

APEX Consulting selected 7 districts (out of total 14 districts) from Balochistan and KP. In the second stage, three revenue villages were selected randomly for each intervention from one district. Thus, a total of 84 villages were selected for all intervention from seven districts. 1637 beneficiary households were selected (considering 95% confidence interval and 5% margin of error) for household interviews. Equally distribution of male and female respondents was ensured.

Key Findings Related to Program for Poverty Reduction:

Programme Results	**Achievements as Reported in MTE**
Goal of the Program	
At least 25% of the targeted poor (0-23) households including female headed household (FHHs) in program area graduated out of poverty (>23).	42% of the targeted poor (PSC 0-23) households including female headed household (43%) in program area graduated out of poverty (PSC>23).
Purpose of the Program	
At least 60% of the poor and 50% of the poorest households (0-18) move to a higher score on PSC (including FHHs.)	85% of the extremely poor (0-11), 67% of the chronic poor (12-18), and 54% of the transitory poor (19-23) HHs moved to higher score on PSC (including FHHs).
At least 40% of the target group have their income increased by 20% (including FHHs.)	36% of the target group have their income increased by 20% (including 36% FHHs).
At least 60% of the community institutions are viable and sustainable.	69% of the community institutions are viable and sustainable.

At least 80% of the beneficiaries report satisfaction with the program supported interventions.	Overall 97% of the beneficiaries reported satisfaction with the program supported interventions.
Minimum EIRR of 20% and FIRR of 25% of investment of the program interventions.	FIRR is 50.0% and EIRR is 50.1% of investment of the program interventions[3].
At least 40% of the community institutions including 40% of women community institutions (WCIs) continue to regularly update, implement and monitor their local development plans.	As per analysis of findings of FGDs 100% of the CIs (including 48% WCIs), reported that they continue to update, implement and monitor their local development plans.
At least 75% of infrastructure schemes are in use and well maintained, catering to the target communities, especially poorest households and at least 50% of these schemes are directly benefitting women.	As per analysis of FGDs 100% of CI members reported infrastructure schemes are in use and well maintained catering to the target communities, especially poorest households (56%) and directly benefiting women.
Social Mobilizations & Institution Building	
At least 60% of households in targeted Union Councils (UCs) are members of community institutions with 40% women Membership.	45% of households in targeted Union Councils (UCs) are members of community institutions with 39% women Membership.
At least 60% of targeted poor (0-23) and 60% of poorest (0-18) households are members of community organizations.	81% of targeted poor (PSC 0-23) and 50% of poorest (PSC 0-18) households are members of community organizations.
At least 4,500 community institutions including 4,000 1st tier, 500 2nd tier and 38 3rd tier organizations formed and 60% of these meet regularly and are viable and sustainable.	4,444[4] CIs including 3,825 first tier, 578 second tier, 41 third tier organizations are formed and 70% of these are meeting regularly and also viable and sustainable.
At least 60% of 1st tier organizations including WCIs clustered into village level organizations and at least 40% of these including WCIs are federated at a higher / union council level.	80% (3,060) of 1st tier organizations including 42% (1,274) WCIs clustered into village level organizations and 79% (457) of these including 12% (57 WCIs) are federated at a higher / union council level[5].
At least 50% of inclusive institutions including 50% WCIs show evidence of democratic decision-making in relation to internal organizational management and external decision-making.	As per analysis of findings of FGDs, 100% of the CIs (including 48% with WCIs) reported that they adopt democratic decision making process in relation to internal organizational management and external affairs.

[3] The results are pertaining to CPI component only

[4] As per PO's progress data as of Dec 31, 2018

[5] From PO's progress data as of Dec 31, 2016

25% of the office bearers of the 3rd tiers community institutions are women.	18% of the office bearers of the 3rd tiers community institutions are women.
70% of the priorities identified by WCIs are included in village development plans (VDPs) and UC development plans (UCDPs), and 40% of WCIs are involved in implementing project interventions.	50% of the priorities identified by WCIs are included in village development plans (VDPs). As per analysis of findings of FGDs with WCIs, 64% of the WCIs are involved in implementing project interventions.
70% of conflicts registered with community institutions are mediated through participatory process.	99% of conflicts registered with community institutions are mediated through participatory process.
Livelihood	
At least 60% (40% in Draft) of poorest (0-18), in particular women (50% FHH), elderly and disabled (40% of identified persons with disabilities (PWDs) within population), benefit from diversified income sources.	46% of poorest (PSC 0-18), in particular women (PSC 46% FHH) benefited from diversified income sources.
Communities that have received Community Livelihood Fund (CLF) revolve savings for internal lending and maintain at least 95% repayment rates.	As per analysis of findings of KIIs with COs, 10 out of 24 COs received CLF and they revolved savings for internal lending.
50% beneficiaries (40% women) got self-employed or employed to other sources as result of skills trainings.	86% beneficiaries (57% women) got self-employed or employed to other sources as result of skills trainings.
At least 70% of livelihood beneficiaries (at least 40% women and 30% PWDs) report at least 20% increase in asset base and/or net income over the program period.	34% of livelihood beneficiaries reported at least 20% increase in net income over the program period. 61% beneficiaries who were provided livestock assets reported an increase in their asset base.
Health	
Rehabilitation/support to 76 BHUs.	Rehabilitation/support to 43 BHUs against the target of (for mid-term period) 56 BHUs as of December, 2016.
Essential primary health care services are available and accessible to more than 80% of the targeted communities including 60% women.	Essential primary health care services are available and accessible to 29% of the targeted communities including women.
20 % increase in primary healthcare services utilization by communities' at targeted health Facilities.	As per analysis of findings of KII's data 29% increase in primary healthcare services utilization by communities' at targeted health Facilities.
20% of pregnant women from the target households received ANC & PNC services in target areas.	80% of pregnant women from the target households received ANC & PNC services in target areas.

30% of targeted households reported increase in hygiene related knowledge and practice.	73% of targeted households reported increase in hygiene related knowledge and practices.
40% reduction in the number of children under-5 who are stunted.	Relevant data for stunting at baseline was not available. Evaluation team also consulted MICS KP and Balochistan reports to compare these as baseline benchmarks but MICS reports of both of the said provinces lacked specific data about prevalence of child-stunting[6].
50% reduction of anemia in women of reproductive age.	As per analysis of findings of KIIs with health service staff 40% reduction of anemia in women of reproductive age.
At least 70% of the beneficiaries report satisfaction with the PPAF supported health facilities.	47% of the beneficiaries rated health support as very good, 27% good and 21% satisfactory and 5% remarked as poor.
Education	
Establishment of 200 Enterprise/community schools/learning centers and rehabilitation of 500 government school.	66 Enterprise/community schools/learning centers have been established and 195 government schools rehabilitated[7] against the target of (for mid-term period) 140 Enterprise/community schools/learning centers and rehabilitation of 352 government schools as of December, 2016.
60% of all out of school children are enrolled annually, and are tracked by name to ensure they attend school throughout the life of the project and beyond. At least 50% of children enrolled under PPR project are girls.	As per analysis of findings of KIIs with schools staff, 71% respondent observed that out of school children are enrolled. As per survey data, 53% of children enrolled under PPR are girls.
At least 70% of the beneficiaries report satisfaction with the PPAF supported education facilities.	60% of the beneficiaries rated health support as very good, 30% good and 9% satisfactory and 1% remarked as poor.
CPI	
2,277 disaster resilient, gender sensitive, PWDs friendly infrastructure projects completed.	496 disaster resilient, gender sensitive, PWDs friendly infrastructure projects completed as of December 31, 2016[8] against the target (of mid-term period) 707 disaster resilient, gender sensitive, PWDs friendly infrastructure projects as of December, 2016.
100% of the infrastructure schemes are disaster resilient, gender sensitive and PWDs friendly.	84% of the infrastructure schemes are disaster resilient, gender sensitive and PWDs friendly.

[6] Currently, 67% and 20% are moderate and severely stunted
[7] From PPR Programme Report for the quarter Oct-Dec, 2016
[8] From PO's progress data as of Dec 31, 2016

60% of the targeted poor HH (PSC 0-23) benefitting from infrastructure schemes.	53% of the targeted poor HH (PSC 0-23) benefitting from infrastructure schemes.
Minimum EIRR of 20% and FIRR of 25% of investment in infrastructure.	50% EIRR and 50.1% FIRR of investment in infrastructure.
At least 30% improvement in communities' access to drinking water and proper sanitation due to the infrastructure built.	45% and 2.3% beneficiaries reported improvement in communities' access to drinking water and proper sanitation respectively due to the infrastructure built as per community need.
At least 30% improvement in communities' access to irrigation water due to the infrastructure built.	8% improvement in communities' access to irrigation water due to the infrastructure built[9].
At least 75% (80% in Draft) of infrastructure schemes are in use and well maintained, catering to the target communities, especially poorest (0-18) households and at least 50% of these schemes are directly benefitting women.	100% of infrastructure schemes are in use and well maintained, catering to the target communities, especially poorest (0-18) households (35%) and as per 85% respondents that schemes are directly benefiting women.

[9] Improvement is derived from increase in use of cultivable land due to irrigation support

CORPORATE GOVERNANCE

Good Governance lies at the core of PPAF's values and ethical standards. PPAF firmly believes in the importance of good governance and best practices, and the mechanism for good governance encompasses the highest standards of professionalism, ethical practices, accountability and transparency, in line with the Companies Act 2017 and corporate governance regulations. PPAF acknowledges that long term sustainable success is driven from good governance to protect stakeholders' values. The Board of Directors has developed a robust governance mechanism surpassing the legal requirements and regularly evaluates the processes to ensure sustainable stakeholders' value. Transparency, accountability and adherence to ethical practices lie at the core of PPAF's practices and are implemented through the Code of Conduct, corporate governance regulations and sound internal controls.

PPAF being a Public Company remains steadfast in upholding the highest standards of corporate governance to create value and improve efficiency, whilst maintaining accountability and transparency in all business dealings. Overall management of the Company rests with the Board of Directors which is accountable to the General Body for good corporate governance while the management is responsible for day to day operations, implementation of policies and disclosure requirements as envisaged in its bylaws, Companies Act 2017 and corporate governance regulations.

Compliance with the Best Corporate Practices

Over the last two decades, PPAF has positioned itself to surpass the legal requirements and adhere to SECP's best practices and standards of governance. The management of the Company is committed to good corporate governance and compliance with best practices. PPAF has adopted Principles of Corporate Governance for Non-listed Companies (NLCs) and is complying with following principles of the Corporate Governance for NLCs:

- Existence of an appropriate governance framework for Company contained in its Memorandum and Articles of Association.
- Existence of an effective Board which is collectively responsible for the long-term success of the company. The Board promotes the company's and all its stakeholder's interests. The size and composition of the Board reflects the scale and complexity of the company's activities.
- Regular meetings of the Board are held to help discharge its duties. The Board is supplied with appropriate and timely information.
- Structure of remuneration is sufficient and appropriate to attract, retain, and motivate executives of the quality required to run company successfully.
- The Board is responsible for risk oversight and has maintained a sound system of internal control to safeguard shareholders' investment and the company's assets.
- There is a clear division of responsibilities between the running of the Board and the running of the company's business
- Board structures contain Directors with a sufficient mix of competencies and experiences in order to act objectively in their opinion and judgment.
- The Board has established appropriate Board Committees with terms of reference in order to allow a more effective discharge of its duties.
- The Board presents a balanced and understandable assessment of the company's position.

The Board has defined a set of corporate governance best practices and guidelines to help fulfill PPAF corporate responsibility towards its stakeholders. These guidelines ensure that the Board has the necessary authority and processes to review and evaluate Company's operations as and when required. Further, these guidelines allow the Board to make decisions that are independent of the Management. The Board reviews these guidelines regularly to achieve its stated objectives. The Board is committed to foster healthy corporate culture, implant ethical business practices, open communication channels with shareholders and compliance with laws and regulations. As a result good corporate governance principles have been deeply embossed in the structure of the Company.

The Management places high priority on true and fair presentation and circulation of periodic financial and non-financial information to governing bodies, donors and other stakeholders of the Company. The Company produces separate financial statements for different donors' projects, duly audited by its external auditors in addition to preparing financial statements abreast with statutory requirements. All periodic financial statements, annual audited financial statements alongwith Directors' Report as well as half yearly un-audited financial statements alongwith Management Reviews, of the Company were endorsed and circulated to the stakeholders. These statements were also made available on the Company website. Other non-financial information to be circulated to governing bodies and other stakeholders were also delivered in a timely manner.

The Directors confirm compliance that:

- 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.

Board of Directors:

The Board exercises the powers conferred to it by the Companies Act, 2017 and the Memorandum and Articles of Association of the Company, through Board meetings.

Size and composition of the Board

PPAF Board comprises of 9 members, one of whom is the executive director by virtue of being CEO, while the remaining eight members are non-executive independent directors. One out of 9 Board members is a woman who is also the Chairperson of the Board. Except for the CEO, all members of the Board are non-executive Directors and serve in an honorary capacity, without compensation. The prerequisites and configuration of the Board of Directors are defined by the legal and regulatory framework parameters for smooth running of operations and promotion of corporate culture. The Company has on its Board highly experienced competent and committed personnel with vast expertise, integrity and strong sense of responsibility necessary for shielding the interest of all stakeholders.

Chairperson of the Board

Ms. Roshan Khursheed Bharucha, an independent director, is the Chairperson of the Board.

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

The Chairperson and the Chief Executive Officer are assigned segregated and distinct responsibilities by the Board of Directors vested under law and the Articles of Association of the Company, as well as duties assigned by the Board. In particular, the Chairperson coordinates the activities of the Directors and various committees of the Board, and presides over the meetings of the Board and General Body. The Chief Executive Officer is responsible for the operations of the Company and conduct of its business. The Chief Executive Officer recommends policy and strategic 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.

Role and Responsibilities of the Board

The primary role of the Board is that of trusteeship to protect and enhance Company value through strategic direction. As trustees, the Board has fiduciary responsibility to ensure that the Company has clear goals. The Board exercises its duties with care, skill and diligence and exercises independent judgment. It sets strategic goals and seeks accountability for their fulfillment. It also directs and exercises appropriate control to ensure that the Company is managed in a manner that fulfills stakeholders' aspirations and societal expectations. 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 Act, 2017 and other applicable regulations.

The Board participates actively in major decisions of the Company including appointment of the Chief Executive Officer; review and approval of operational policies, strategies; projects of different donors and sponsors; decisions of Board Committee meetings, financial assistance for POs; 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 period under review, four meetings of Board of Directors were held. The Board reviewed/approved financial assistance for POs; quarterly progress; annual targets and budget; results framework; un-audited financial statements alongwith Management Reviews; audited financial statements alongwith Directors' and Auditors' Reports; Project specific audited financial statements; ToRs of credit committee of the management; strategies for (i) education, (ii) disability; (iii) innovation. The Board also approved establishment of Provincial Advisory Committees (PAC) having representation of provincial government; civil society and general body members of PPAF. PAC will have following roles and responsibilities:

- Review the ongoing projects in the province. Provide feedback and guidance to the Company on its programs in the respective province.
- Provide feedback on the provincial strategies.
- Explore joint ventures with provincial governments.

The notice and agenda of the meetings 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. 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. The number of meetings attended by each director during the year is shown below:

Sr. No.	***Name***	***No. of meetings attended***	***No. of meetings Eligible to attend***
1	Ms. Roshan Khursheed Bharucha	4	4
2	Ms. Humaira Ahmad	1	1
3	Syed Ahmed Raza Asif	3	4
4	Mr. Kamal Hyat	2	2
5	Mr. Ahlullah Khan	4	4
6	Dr. Ijaz Nabi	3	4
7	Mr. Ahmad Hanif Orakzai	2	2
8	Mr. Aijaz Ahmad Qureshi	2	4
9	Dr. M. Suleman Shaikh	2	4
10	Mr. Qazi Azmat Isa	4	4

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.

Change of Directors:

The Government of Pakistan replaced Ms. Humaira Ahmad with Mr. Ahmad Hanif Orakzai, Additional Secretary, Economic Affairs Division as Director of the Company. Mr. Kamal Hyat, an independent director, was inducted on a vacant position. The Board placed on record its appreciation for the valuable contributions made by the outgoing Director. The Board extended welcome to new Directors and resolved to work in partnership with them to benefit from their vision and valued experience which would go a long way in the future growth and prosperity of the Company.

Board Committees

Board Audit Committee:

The Audit Committee comprises of three non-executive directors, including the Chairman, having relevant expertise and experience. The Chairman is an independent non-executive Director. The Chief Internal Auditor acts as Secretary of the Committee.

The primary objective of the audit committee is to monitor and provide an effective supervision of the Management’s financial reporting process, to ensure accurate and timely disclosures, with the highest levels of transparency, integrity and quality of financial reporting. The committee oversees the work carried out in the financial reporting process by the Management, the internal auditors and the independent auditors, and notes the processes and safeguards employed by each of them.

The Audit Committee met five times during the year. During the meetings the Committee reviewed the internal control systems and risk management mechanisms in conjunction with the Internal Audit reports presented to the Committee. The Committee also reviewed and approved the Internal Audit plan of the Internal Audit unit. Furthermore the Committee recommended for the approval of the Board the appointment of external auditors; 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 donors requirements.

As per the best practices under the Code of Corporate Governance, the Committee held separate meetings with the Chief Financial Officer and the External Auditors to discuss issues of concern, if any.

Board Compensation Committee:

The Compensation Committee comprises of three 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 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.

Risk Oversight Committee:

The Risk Oversight Committee comprises of three members of the Board including the Chairman who is appointed by the Board from the non-executive Directors. The Company Secretary acts as Secretary of the Committee.

The Committee reviews/asses effectiveness of overall risk management framework at PPAF; adequacy of risk management policies and procedures in identifying, measuring, monitoring and controlling risks; structure/ composition of PPAF's assets and liabilities overall and advise on maturity gaps, interest rate mismatches and exchange rate risk; Treasury Management Strategy (TMS) including composition of Treasury Management Committee and recommend changes, if any; progress and key issues of Pakistan Microfinance Investment Company. The Committee also approves/ratifies the investment decisions made by Treasury Management Committee

Management:

The Company 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. PPAF operations are divided into following four groups:

(i) Grants/Operational Group

All grant based interventions are managed by this group. Separate units exist for each project. A dedicated unit exists for Programme/activity monitoring.

(ii) Institutions, Inclusion and Innovation "III" Group

This group support the cascade of community institutions set up by PPAF. The Group ensures that PPAF's values are embedded into and implemented by its grants operations. "III" is also responsible for taking forward 'Funds' (created from time to time) including three existing ones (i) Capacity Building of Small Organizations of Balochistan, KP and FATA (ii) Lifeline Fund for Community Organization; and (iii) Social Enterprise Challenge Fund.

(iii) Quality Assurance, Research and Design (QARD) Group

The QARD Group comprises of (i) Monitoring; Evaluation & Research; (ii) Communications and Media; (iii) MIS/IT/GIS (iv) Donor Development (v) ISO, Environmental and Social Management and (Vi)Resource Mobilization & Corporate Relations Management Unit to provides support for fundraising from private sector.

(iv) Financial Management and Corporate Affairs (FMCA) Group

The FMCA group comprises of (i) Financial Monitoring & Compliance Unit primarily responsible for POs related activities and monitoring; and (ii) Financial Planning and Reporting Unit which manages core finance functions including reporting, audits, budgeting, record keeping etc. Both these Units (iii) Corporate Affairs section to manage the secretarial affairs related to Board and General Body; (iv) Treasury/Funds Management and (v) Administration.

CEO Reporting Units

HR and Procurement units directly report to CEO. Human resource unit under the supervision of CEO plans, develops, and administers policies and programmes designed to make expeditious use of human resources. Procurement department ensures timely actions, procedures, systems and methods used to purchase and obtain the goods and services required to execute projects. Procurement Department is therefore, very conscious of its responsibility and accountability in the expenditure of public funds. There is also a dedicated Internal audit Unit reporting to Audit Committee of the Board. For administrative purposes it reports to CEO.

HUMAN RESOURCE MANAGEMENT

Human Resource function at PPAF supports and upholds PPAF's objective of fostering a positive and engaging work environment while identifying and addressing the changing needs of our diverse workforce. HR contributes to putting in action PPAF's vision, values, and strategies with a focus on building human capabilities. Besides, HR plays a role in developing an environment that fosters effective working relationships. Main functions of PPAF's HR are:

- Recruitment & Selection
- Learning & Development
- Performance Management & Career Development
- Compensation & Benefit
- Organizational Development & Employee Engagement
- HR Operations

Recognizing that competent human resource is vital for continued success of the Company, PPAF's Human Resource Strategy has been proactively formulated to ensure availability of skilled workforce for all departments enabling achievement of the Company's strategic objectives and mission, which is further supplemented by the Succession Planning Policy. Career growth for employees is clearly mapped keeping in view individual's potential, qualification, period of service, professional attitude and department requirements, amongst other factors. Training and development is provided to employees equipping them with the proactive tools needed for performance of their duties keeping in view the Company's current and future requirements.

The Human Resource strategy is continually evolved by proactively anticipating and evaluating the emerging needs and challenges faced by the Company, while promoting diversity including representation of genders and special persons, in an equitable and unbiased manner. In line with its mission to be the leading apex institute in Pakistan, PPAF employees have always been on the forefront in embracing new business challenges and accepting demanding tasks to maintain and further strengthen industry leadership position. Therefore, the Company highly values the importance of its human resource and fully respects their dignity and rights.

Business workforce development policies are geared towards maintaining a steady flow of talent and promoting continued learning, development and technical training through structured development programs to enhance the employees' technical and functional skills. Additionally, its HR strategy is playing a significant role in embedding high performing culture in the organization hinging on business core values namely merit, teamwork, dedication, integrity, safety and innovation. PPAF's HR activities including employee induction, development, compensation, evaluation and promotion are carried out on the basis of merit, suitability and transparency. Moreover, performance based increments and awards are granted to inculcate competition and motivate the employees to take on further challenges. In addition, the Company continues to promote diversity and equal employment opportunity along with providing a safe workplace free from discrimination, hostility and harassment. Any discrimination against or harassment of an employee based on age, gender, race, religion, creed, marital status, ethnic group, etc., is regarded as violation of the business regulations and results in disciplinary action as per the Company rules. The Company prides itself in having a wide range of expertise in its workforce. As at 30 June 2018, PPAF's manpower strength comprised a total of 188 employees working at Head Office, and field office in Quetta. This strength is also inclusive of minorities, women and disabled employees working in the organization.

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PPAF is focused on career growth and development of its employees by ensuring that effective succession planning exists in the organization. This culture is preserved on account of making persistent efforts to continuously invest in critical positions that shall ensure the vitality of a strong leadership bench for succession planning purposes. Structured training programs and appropriate management courses are also regularly designed to train the successors to share the higher responsibilities.

Grievance Redressal Policy
The objective of this policy is to maintain a congenial work environment by defining a process for resolving employee grievances regarding terms of employment, working conditions or work relationships. All staff members are expected to contribute to developing a work environment, which fosters positive attitude and good working relationships. However, problems or grievances can arise in the course of working with others. This policy provides guidelines to resolve any kind of grievance in a positive way as well as to allow an employee to raise any complaint regarding terms of employment, work conditions or work relationships which affects him/her and where he/she wants assistance in correcting the problem. The purpose of Grievance Policy is to (i) facilitate employees and management to resolve grievances raised by employees; and (ii) create a healthy work environment.

There is a Grievance Redressal Officer (GRO) elected among the staff members nominated from each department/ Unit except HR. GRO reports directly to CEO and assumes following responsibilities:

- To proactively facilitate end to end process that ensures impartiality, transparency, accuracy of data and evidence.
- To act as a Secretary to the Grievance Committee and may be a full member of this Committee.
- To keep the record of all Grievances.
- Arrange Committee meetings.
- Keep the minutes of all the meetings.
- Communicate the decisions on the grievance to the employee.
- Identify actions required on part of concerned units/ executives and communicate to them the relevant decisions.
- Ensure adherence to the Grievance policy and procedures defined in the Employee Grievance Redressal Policy.

There is a vetted pool of trusted professional staff. The members of that Staff Pool are selected on the basis of votes/ election among the nominated Staff Members from each department/ Unit (except HR staff). All professional staff shall be given an opportunity to identify three (3) female and three (3) male staff members in whom the staff has trust and confidence.

The CEO forms the Grievance Committee from

- The Panel for Grievance Committee which shall comprise of one Group Head except the unit from which grievance originated.
- Two members drawn from a vetted pool of trusted professional staff. Keeping in view the nature of grievance, female staff member maybe selected for the Grievance Committee.

- CEO selects the Members of the Grievance Committee from the Grievance Committee Staff Pool on case by case basis.

Whistle Blowing Policy
With a pragmatic approach towards holding highest standards of ethical business practices by all employees, a robust Whistle Blowing Mechanism is in place. Any instances of possibility of occupational fraud, noncompliance with Company policies, Code of Conduct and ethics, health, safety and environmental standards, and regulatory framework can be recorded through the mechanism by the management, employees, Board of Directors and other stakeholders.

Employees are encouraged to report concerns directly to immediate supervisors or, where impractical, to senior level management. The policy encourages stakeholders to raise queries, monitor the progress of resultant inquiries, provide feedback and where required, also voice concerns against any unsatisfactory inquiry or proceeding.

Mitigating protocols against abuse of the mechanism are also in place by defining consequences for the persons making false accusations resulting in unwarranted convictions.

The Policy encompasses possible fraud / corruption, and all stakeholders including contractors, suppliers, business partners and shareholders also come within the ambit of the Whistle Blowing Policy, who are encouraged to participate without fear of reprisal or repercussions, in confidentiality, under defined reporting channels. Due emphasis has also been placed on environmental risk and illegal use of sensitive company data.

The management encourages whistle blowing culture in the organization and has adopted a culture to detect, identify and report any activity which is not in line with the Company policies, any misuse of Company's properties or any breach of law which may affect the reputation of the Company. The Company has adopted the best corporate policies to protect employee(s) who report corporate wrongdoings, illegal conduct, internal fraud and discrimination against retaliation. The Company promotes transparency and accountability through publication of accurate financial information to all the stakeholders, implementation of sound, effective and efficient internal control system and operational procedures.

All employees have signed a code of conduct and the Company takes any deviation very seriously.

TREASURY & FUNDS MANAGEMENT

The Company maintains a dynamic and flexible portfolio of investments for placement of surplus cash in different portfolio of securities. To diversify the portfolio the approved treasury management strategy (TMS) includes the securities issued by the Government of Pakistan (GoP), placements in commercial banks as well as placements in microfinance banks. The TMS revolves around the principles of maintaining liquidity, security of capital & obtaining competitive rate of return.

The placement of funds is arranged with target maturity dates to ensure availability of sufficient liquidity for working capital / investment requirements, besides generation of maximum returns.

A portfolio of long term and short term investments is maintained after thorough financial evaluation of available investment opportunities. The credit risk in short term investments is controlled through diversification in investments among top ranking financial institutions and sovereign guarantee security in the form of Treasury Bills issued by the GoP. For the long term credit risk, the deployed portfolio includes only the sovereign guarantee security in the form of Pakistan Investment Bonds issued by the GoP.

The diversification of portfolio is guided in TMS through defining maximum exposure to a single issuer in the form defining per party exposure limits. Thus, the element of risk and return is well balanced amongst the defined portfolio of securities.

RISK MANAGEMENT

Effective risk management is fundamental to the delivery of PPAF's strategic priorities. PPAF continuously evaluates its risk governance framework in line with the best practices, new regulatory requirements and changes to its business needs and focus.

PPAF has seen significant transformation since its inception, and this has naturally resulted in heightening of risks related to strategic choices, strategy execution along with traditional operational and compliance related risks. The business objectives of PPAF are articulated as a set of specific near-term goals, and long-term strategic goals. These goals cover the dimensions of consistent financial performance, market penetration, operational excellence, cost optimization initiatives, attracting and retaining talent, and the long-term sustainability of the organization. In addition, progress of initiatives to mitigate the impact of natural disasters and government regulations in the country are captured in developing risk management strategies.

PPAF harness the ability to turn risk management into a competitive advantage through a configurable solution that flexes into a unique methodology, while providing a holistic view of risk. PPAF analyses internal, external, and economic risks in detail to develop targeted mitigating strategies. PPAF recognizes that a sound risk culture is a fundamental requirement of an effective risk management framework. The long-held foundations of PPAF's risk culture are the principles of *What We Stand For* – Opportunity, Accountability and Integrity. Staff is made aware that these principles are expected to form the basis of all day-to-day behaviours and actions.

Preparation of financial statements in conformity with the approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The long term success of a company depends on its ability to find, acquire and develop its reserves. These activities are speculative in nature and are characterized by inherent uncertainties and complexities which may have a potential impact on the Company's financial conditions and results of development operations. PPAF regularly monitor such risks using information obtained or developed from external and internal sources and take appropriate actions to mitigate their adverse impact.

Effective risk management strategies and proactive risk mitigation techniques are cornerstone in accomplishing the strategic objectives and protecting business assets, personnel and reputation. The role of Risk Oversight Committee of the Board is to identify key business risks and devise and implement measures to mitigate the potential impact of the risks with the aim to ensure quality decision making. Management at PPAF periodically reviews major financial and operating risks faced by the business.

Risk Management Framework

Since responding to risks is intended to help an organization achieve its objectives, risk management must be integral to all aspects of the organization including strategic planning, decision making, operational planning and resource allocation. It clarifies the accountabilities, the reporting and escalation processes, as well as the communication and consultation mechanisms for internal and external stakeholders.

The Company's Board of Directors has overall responsibility for establishment and oversight of the Company's risk management framework. The Board provides strategic direction and approves the risk appetite. It is supported by the Risk Oversight Committee which monitors, assesses and manages the risk profile for PPAF on an ongoing basis. Various management committees at the senior management level are responsible for oversight and execution whereas day-to-day risk management activities are delegated to different levels through multi-tier management supervision and clearly articulated policies and procedures.

PPAF is undertaking a number of initiatives for further improving its compliance culture and controls, including enhancing the capacity and scope of the Compliance function. The Risk Management Framework (RMF) identifies potential threats and strategy for removing or minimizing the impact of these risks.

Risk Register

A risk register is maintained by PPAF containing the following categories of information:

1. A description of the main risks facing by the PPAF. Categorization of risks is done and key risks affecting PPAF's objective are identified primarily based on risk identified by donors' at the commencement of the projects.
2. The impact shall this event actually occur. The consequences are defined as:
   - 2.1 Insignificant
   - 2.2 Moderate
   - 2.3 Major
   - 2.4 Critical
3. The probability of its occurrence through use of following scale:
   - 3.1 Very Low (may occur only in exceptional circumstances, 20% chance)
   - 3.2 Low (may occur at some time, 20% to 40% chance)
   - 3.3 Medium (likely to occur/reoccur, 40% to 70% chance)
   - 3.4 High (likely to occur/reoccur, 70% to 100% chance)
4. A summary of the planned response when the event occur; and
5. A summary of risk mitigation (the actions that can be taken in advance to reduce the probability and/or impact of the event).

Risk register is periodically reviewed by Risk Oversight Committee of the Board. Major and significant risks with medium/high likelihood are brought to the attention of the Board of Directors.

Risks and Challenges

PPAF has proactively instilled a culture of risk management and placed effective systems for timely identification, assessment and mitigation of various risks it is exposed to in the normal course of business. The risks are classified into regulatory, funding, reputational, financial, operational and hazardous.

1. Financial risk

The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Financial Risk is one of the major concerns of every business across fields and geographies.

PPAF is taking all necessary steps to remain fully compliant with the International Financial Standards to meeting its obligations through well managed investment. Adequate loan loss

provisions are in place at PPAF and POs levels. Financial risk is also accounted for by restricting per party exposure limits. Diversification of portfolio, repayments of problematic POs is ensured by taking post- dated cheques, effective appraisal and monitoring system at PPAF and regular analysis of loan portfolio regarding concentration risk.
Spinoff of credit operations to PMIC has reduced the financial risk due to shift in lending portfolio from high risk POs to low risk PMIC.

2. Concentration of credit risk

Credit risk is the risk of financial loss to a company if a customer or counterparty to a financial Instrument fails to meet their contractual obligations, and arises principally from investments, loans and advances, deposits, trade debts, other receivables, short term investments and bank balances. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other to incur a financial loss. The Company's credit risk is primarily attributable to loans to Partner Organizations, receivable from donors and POs, investments and bank balances. The Company is exposed to credit related losses in the event of non-performance by Partner Organizations of micro-credit loans to the extent of Rs. 1,783 million (2017: Rs. 10,708 million) (including loans to five major POs of Rs. 846 million) (2017: loans to five major POs of Rs. 6,021 million). The Company controls the credit risk through credit appraisals, assessing the credit-worthiness of POs and creating charge on the assets of POs. The Company is also exposed to credit related risk on loans to an associate amounting to Rs. 10,248 million (2017: Rs 1,818 million). The Company controls the credit risk on loans to associates via participating in associate's operations. The credit risk on investments and bank balances is limited because the counter parties are banks and Government of Pakistan. The credit risk on grant receivable is also limited, as the receivable is in respect of amounts disbursed to POs in accordance with the provisions of an agreement with the donor.

3. Liquidity risk

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

4. Market risk

i. Currency risk

Currency risk is the risk that the fair value or future cash flows 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.

ii. Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
Financial assets include balances of Rs. 25,677 million (2017: Rs. 25,923 million) and financial liabilities include balances of Rs. 12,347 million (2017: Rs. 13,448 million) which are subject to interest rate risk. Applicable interest rates for financial assets and financial liabilities have been indicated in respective notes.
If interest rates had been 1% higher / lower with all other variables held constant, surplus for the year would have been Rs. 133 million (2017: Rs. 124 million) higher / lower.

iii. Other price risk

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

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

5. Fair value of financial instruments

Fair values of financial and non-financial assets and liabilities are determined for measurement and/or disclosure on the basis of accounting policies disclosed in the financial statements. As at the reporting date, carrying value of the Company's financial assets and liabilities are reasonable approximation of their fair value.

6. Capital risk management

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

Risk Governance

The roles and responsibilities at various levels of our risk management program are outlined in our risk governance structure.

Board and Committees:

Oversees the risk management process primarily through its committees:

- Risk Oversight Committee reviews the effectiveness of overall risk management framework including risk policies, strategies, risk tolerance and risk appetite limits.
- The Company's audit committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. Audit committee is assisted in its oversight role by internal audit department. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.
- Compensation Committee focuses on risks in its area of oversight, including assessment of compensation programs to ensure they do not escalate corporate risk, in addition to succession planning with a view to ensure availability of talented human resources in each area of critical Company operations.

Policies & Procedures

Policies and procedures have been adopted by the Board and its committees and integrated into the Company's risk governance framework to ensure management of financial, operational and compliance risks. These are based on best practices, promoting a culture of ethics and values with authority delegated to senior management for appropriate implementation.

Performance Management

Continuous monitoring is carried out to evaluate the effectiveness of implemented controls and identify areas of weakness to devise strategic plans for improvement, which has enabled aversion of majority of performance risks.

Internal Audit

Internal Audit function provides independent and objective evaluations while reporting directly to the Audit Committee on the effectiveness of governance, risk management and control processes.

Internal Control Compliance

Each Group/Unit identifies and manages risks pertaining to their respective areas of responsibility in addition to ensuring compliance with established internal controls.

KEY ACTIVITIES

- PPAF is collaborating with State Bank of Pakistan for implementing national financial literacy program under the umbrella of national financial inclusion strategy. PPAF is part of implementation committee of SBP for financial literacy.
- PPAF signed MoU with Benazir Income Support Programme (BISP) recently to implement Poverty Graduation Strategy across the country. In collaboration with IFAD and Government of Pakistan, PPAF is implementing a National Poverty Graduation Programme (NPGP) in 372 Union Councils of 21 districts across Pakistan. The agreement will ensure mutual cooperation and collaboration for poverty graduation of programme beneficiaries between PPAF and BISP.
- PPAF and International Trade Centre (ITC) have signed MoU for developing framework for cooperation for poverty reduction in rural areas of Sindh and Balochistan. Under the MoU, PPAF will provide technical input based on its research, experience and expertise of working with the grassroots communities. ITC will provide support in developing Small and Medium Enterprises (SMEs) and creating gender inclusive employment and income opportunities by linking them with the global markets.
- PPAF signed MoU with Azad Jammu and Kashmir Tourism Department for promotion of environment friendly tourism development in Azad Jammu and Kashmir. Both organizations jointly agreed to coordinate efforts for the improvement of tourism activities and services in AJ&K as a pilot project in Neelum Valley.
- Agriculture Research Institute Balochistan and PPAF signed MOU with aimed to directly support livelihoods and improve quality of life of PPAF-supported grassroots communities in Balochistan. Under the five year agreement, ARI will provide technical training to the beneficiary farmers through PPAF implementing partners (POs). It will also provide best quality saplings and other agriculture inputs at reasonable price to the beneficiary farmers and will facilitate their access to their technological innovations for adoption. PPAF will facilitate ARI to engage with its POs and local communities at village level to replicate the best agriculture practices, to support Demonstration Plots and to carry on farm adaptive research and transfer of technology.
- Pakistan Agriculture Coalition and PPAF have signed MoU to realize potential in Sindh and Balochistan of the dates for value chain for higher farmer profitability, exports, and job creation.
- The Education Department of Balochistan (EDB) and PPAF signed MoU to pursue a joint educational program for engaging communities in quality education improvement initiatives; professional development of school teachers; capacity building of school managers; improving physical infrastructure of existing school buildings; and provision of missing facilities to make schools attractive for children to come to schools and remain in schools till the completion of secondary level education.
- PPAF and Balochistan University of Information Technology, Engineering and Management Sciences (BUITEMS) signed an MOU to coordinate efforts for poverty alleviation in the province of Balochistan tjrough innovation and research.
- PPAF’s Solar Energy Mini-Grid Projects funded by KfW wins prestigious Alliance for Rural Electrification (ARE) Award 2018 in Best Off-Grid Project Category. The project comprises of 68 state-of-the-art solar energy mini-grid projects implemented in three districts of KP including Lakki Marwat, Swabi and Karak.
- PPAF has been awarded for ISO 14001:2015 re-certification for ensuring high standards of Environmental Management System (EMS). The new version of ISO 14001:2015 launched in

September 2015 and team updated its EMS policies, manuals, systems and procedure as per the requirement of new system.

- PPAF was awarded the Global Diversity & Inclusion Award 2018 at the Global Diversity & Inclusion Benchmarks Conference (GDIC) held in Karachi. The award is an acknowledgment of PPAF innovative approach to ensure inclusion and diversity at all levels of work.

WAY FORWARD

With the operationalization of NPGP the poverty graduation approach of PPAF will be fully implemented which combines elements of three distinct approaches - social mobilization, livelihoods development, and financial inclusion - and draws on the most relevant aspects of these to deliver results by combining support for immediate needs with longer-term human capital and asset investments to move households out of extreme poverty and into sustainable livelihoods. In this process, the capacity-building of community organizations through strong social mobilization support is a key so as to support individual households to access multiple opportunities (from markets, private sector and government).

A large network of existing partnerships between PPAF and its POs provides country wide scope to flexibly leverage its resources for maximum outreach and impact. Nearly 135,000 community organizations currently exist across the country linked to this network. PPAF also manages the Prime Minister's Interest Free Loan Scheme with an aim to reach one million clients in three years. PMIFL is targeted for individuals between 0 and 40 on the poverty scorecard as they may not be eligible for conventional market based microfinance. PPAF has a close policy level interface with the federal government and BISP which enables it to build key stakeholders' understanding of the graduation approach and its variations. Based on this existing network, PPAF through NPGP can develop a scalable model which other donors and partners can use, thus catalyzing the development of a national poverty graduation model.

NPGP is designed to catalyze change at the grassroots to pull people out of poverty, building largely (but not exclusively) upon BISP beneficiaries and leveraging PMIFL to build a smooth 'seamless service' where the poorest can move from consumption support to asset transfers to interest fee loans to microcredit. PPAF works on multi-dimensional aspects of poverty, addressing economic, social and institutional aspects which are reflected in the NPGP design and in the composition of the Poverty Score Card.

PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL HIGHLIGHTS

	2018	2017	2016	2015	2014
Funds deployment - *Rs. in million*					
Microcredit					
Loans receivable from POs (Gross)	1,783	10,708	14,716	13,913	13,985
Loan to PMIC	10,248	1,818	-	-	-
Equity investment in PMIC	2,883	2,883	-	-	-
Gurantee facility	-	420	2,150	3,600	3,820
PMIFL portfolio	3,100	3,100	-	-	-
	18,014	**18,929**	**16,866**	**17,513**	**17,805**
Grant					
Donor financed	1,006	2,186	5,456	6,934	5,349
Relief & Reconstruction Operations	82	151	408	219	665
	1,088	**2,337**	**5,864**	**7,153**	**6,014**
Total funds deployment	**19,102**	**21,266**	**22,730**	**24,666**	**23,819**
Balance Sheet - *Rs. in million*					
Total assets	31,942	31,259	30,857	32,285	35,914
Endowment Fund	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
Reserves					
Capital adequacy reserve	1,805	1,879	2,207	2,087	2,098
Grant fund	10,358	9,341	7,520	6,706	5,659
Reserve for lending activities	2,883	2,883	3,653	3,236	2,671
General reserve	1,828	1,564			
Income on grant fund	-	-	1,139	978	582
	16,874	**15,667**	**14,519**	**13,007**	**11,010**
Total equity (endowment + reserves)	**17,874**	**16,667**	**15,519**	**14,007**	**12,010**
Loans	12,348	13,448	14,304	15,027	15,454
Operational Results - *Rs. in million*					
Total income	2,334	2,332	2,963	3,250	2,880
General and admin expenses	605	505	576	587	591
Surplus before loan loss prov. and relief work	1,283	1,410	1,965	2,250	1,845
Net Surplus	1,213	1,150	1,511	1,998	1,152
Financial Ratios - *Percentage*					
Surplus brefore provisions & relief/total income	55%	60%	66%	69%	64%
Return on equity (Surplus before provision and relief activities to Equity net of other income)	7%	9%	10%	17%	16%
Return on assets (Surplus before provision and relief activities net of other income to Total Assets)	4%	5%	5%	7%	5%
General and admin expenses/funds deployed	3.17%	2.37%	2.53%	2.38%	2.48%
Debt/equity	41:59	45:55	48:52	52:48	56:44

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PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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TO THE MEMBERS OF PAKISTAN POVERTY ALLEVIATION FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the annexed financial statements of Pakistan Poverty Alleviation Fund (the Company), which comprise the statement of financial position as at 30 June 2018, the statement of income and expenditure, the statement of other comprehensive income, the statement of changes in funds and reserves, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of income and expenditure, statement of other comprehensive income, the statement of changes in funds and reserves and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2018 and of the surplus and other comprehensive income, the changes in funds and reserves and its cash flows for the year then ended.

Basis for Opinion

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

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

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

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

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

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Responsibilities of Management and Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the

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- audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

a) Proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

b) The statement of financial position, the statement of income and expenditure, the statement of other comprehensive income, the statement of changes in funds and reserves and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) Investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

d) No Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Ahsan Shahzad.

EY

Islamabad

Date: 26 September 2018

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Act, 2017)
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE, 2018

	Note	2018	2017
ASSETS		------------ Rupees '000	------------
NON-CURRENT ASSETS			
Property and equipment	6	**34,874**	52,065
Intangible assets	7	**-**	368
Investment in associate	8	**2,976,238**	2,881,509
Long-term investments	9	**2,097,428**	1,783,356
Long-term loans to associate	10	**9,435,721**	1,818,000
Long-term loans to Partner Organizations	11	**55,896**	809,665
Long term loans and advances		**31,074**	-
Long-term deposits and prepayments	12	**32,764**	7,556
		14,663,995	7,352,519
CURRENT ASSETS			
Grant fund receivable	13	**25,176**	60,127
Loans and advances	14	**61,569**	17,228
Short-term prepayments	15	**41,956**	24,511
Profit / service charges receivable	16	**508,475**	503,409
Other receivables	17	**73,328**	18,320
Current maturity of long-term investments	9	**2,131,000**	875,000
Current maturity of loans to Partner Organizations	11	**803,100**	8,923,734
Current maturity of loans to associate	10	**812,279**	-
Short-term investments	18	**10,246,700**	11,698,012
Tax refunds due from the Government	19	**360,806**	345,090
Bank balances-specific to projects	20	**1,842,534**	991,610
Cash and bank balances	21	**371,240**	449,569
		17,278,163	23,906,610
TOTAL ASSETS		**31,942,158**	31,259,129
FUNDS, RESERVES AND LIABILITIES			
FUNDS AND RESERVES			
Endowment fund	22	**1,000,000**	1,000,000
Grant fund		**10,358,191**	9,340,591
Accumulated surplus		**6,515,798**	6,326,367
		17,873,989	16,666,958
NON-CURRENT LIABILITIES			
Long-term financing	23	**9,344,441**	10,474,762
Deferred benefit	23	**1,723,480**	1,872,752
		11,067,921	12,347,514
CURRENT LIABILITIES			
Deferred liabilities - grant fund	24	**1,623,317**	992,452
Deferred income - grant fund	25	**5,490**	13,375
Trade and other liabilities	26	**69,873**	114,313
Service charges payable	28	**21,971**	24,002
Current portion of long-term financing	23	**1,279,597**	1,100,515
		3,000,248	2,244,657
TOTAL FUNDS, RESERVES AND LIABILITIES		**31,942,158**	31,259,129
CONTINGENCIES AND COMMITMENTS	29		

The annexed notes, from 1 to 47, form an integral part of these financial statements.

DIRECTOR | **CHIEF EXECUTIVE OFFICER**

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Act, 2017)
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED 30 JUNE, 2018

	Note	2018	2017
		------------ Rupees '000	------------
INCOME			
Service charges on loans to Partner Organizations and Associate	30	**809,760**	1,036,382
Income on investments and savings accounts	31	**1,096,126**	1,040,698
Amortization of deferred income - grant fund	25	**103,603**	109,714
Amortization of deferred benefit	23.5.1	**149,272**	142,085
Share of profit of an associate	8	**94,729**	-
Other income	32	**80,017**	3,049
		2,333,507	2,331,928
EXPENDITURE			
General and administrative expenses	33	**605,189**	505,200
Loan portfolio monitoring fee	8.2	**54,464**	74,428
Seminars, workshops and trainings	34	**9,332**	16,349
Technical and other studies	35	**96,591**	76,775
Provision against loans / service charges	36	**16,008**	107,615
Income tax refund written-off		**6,240**	-
Share of loss of an associate	8	**-**	1,749
Financial charges	37	**246,613**	248,215
		1,034,437	1,030,331
SURPLUS FOR THE YEAR BEFORE PROJECT AND RELIEF ACTIVITIES		**1,299,070**	1,301,597
Expenditure on project and relief activities	38	**(81,977)**	(151,186)
SURPLUS FOR THE YEAR		**1,217,093**	1,150,411

The annexed notes, from 1 to 47, form an integral part of these financial statements.

DIRECTOR **CHIEF EXECUTIVE OFFICER**

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Act, 2017)
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE, 2018

	Note	2018	2017
		Rupees '000	
SURPLUS FOR THE YEAR		**1,217,093**	1,150,411
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Other comprehensive loss not to be reclassified to income and expenditure account in subsequent periods:			
Re-measurement loss on employees' defined benefit plan	27.1	**(10,062)**	(2,694)
		1,207,031	1,147,717

The annexed notes, from 1 to 47, form an integral part of these financial statements.

DIRECTOR

CHIEF EXECUTIVE OFFICER

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Act, 2017)
STATEMENT OF CHANGES IN FUNDS AND RESERVES
FOR THE YEAR ENDED 30 JUNE, 2018

		FUNDS		RESERVES		
	Note	Endowment fund	Grant fund	Reserve for grant based activities	Accumulated surplus	TOTAL
		Rupees '000				
Balance as at 30 June, 2016		**1,000,000**	**7,519,584**	**1,139,402**	**5,860,255**	**15,519,241**
Total comprehensive income for the year						
Surplus for the year		-	-	-	1,150,411	1,150,411
Other comprehensive income		-	-	-	(2,694)	(2,694)
		-	-	-	1,147,717	1,147,717
Transfer from reserve for grant based activities to grant fund			1,139,402	(1,139,402)		
Transfer from accumulated surplus to reserve for grant based activities	39	-	476,728		(476,728)	-
Transfer from accumulated surplus to grant fund		-	204,877	-	(204,877)	-
Balance as at 30 June, 2017		**1,000,000**	**9,340,591**	**-**	**6,326,367**	**16,666,958**
Total comprehensive income for the year						
Surplus for the year		-	-	-	1,217,093	1,217,093
Other comprehensive income		-	-	-	(10,062)	(10,062)
		-	-	-	1,207,031	1,207,031
Transfer from accumulated surplus to reserve for grant based activities	5.8	-	-	636,209	(636,209)	-
Transfer from reserve for grant based activities to grant fund		-	636,209	(636,209)	-	-
Transfer from accumulated surplus to grant fund	5.8	-	381,391	-	(381,391)	-
Balance as at 30 June, 2018		**1,000,000**	**10,358,191**	**-**	**6,515,798**	**17,873,989**

The annexed notes, from 1 to 47, form an integral part of these financial statements.

DIRECTOR **CHIEF EXECUTIVE OFFICER**

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Act, 2017)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE, 2018

	Note	2018	2017
		------------ Rupees '000 ------------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		1,217,093	1,150,411
Adjustment for non-cash and other items:			
Depreciation		17,179	28,934
Amortization of intangible assets		389	463
Write-off of intangible assets		-	148
Amortization of deferred income - grant fund		(103,603)	(109,714)
Transfer of deferred liabilities - grant fund to other income		(10,000)	-
Unrealized gain on investment in associate		(94,729)	
Amortization of deferred benefit		(149,272)	(142,085)
Provision against loans / service charges recognized		(34,766)	107,615
Income tax refund written-off		6,240	-
Gain on disposal of property and equipment		(12,391)	(2,119)
Fixed assets written-off		1,432	-
Project activities reported by POs	17.1	(6,240)	6,193
Financial charges		246,613	248,215
		(139,148)	137,650
		1,077,945	1,288,061
Working capital changes			
(Increase) / decrease in current assets:			
Loans and advances		(75,415)	3,451
Other receivables		(55,008)	15,155
Profit / service charges receivable		(21,074)	123,085
Increase in current liabilities:			
Trade and other liabilities		(54,502)	27,936
		(205,999)	169,627
		871,946	1,457,688
Disbursements to Partner Organizations:			
Loans		-	(5,276,853)
Grants		(1,006,291)	(2,185,789)
Recoveries of loans from Partner Organizations		8,925,177	9,285,235
Disbursement of loans to an associate		(8,430,000)	(1,818,000)
Income tax paid		(15,716)	(93,882)
Financial charges paid		(99,372)	(107,617)
Prepayments		(43,205)	31,489
Deposits		552	(131)
		(668,855)	(165,548)
Cash generated from operating activities		203,091	1,292,140
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		(1,528,675)	(631,884)
Investment in associate		-	(2,881,509)
Capital expenditure incurred		(21,293)	(11,796)
Proceeds from disposal of fixed assets		32,243	3,640
Cash utilized in from investing activities		(1,517,725)	(3,521,549)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - repaid		(1,100,514)	(856,307)
Deferred liabilities - grant fund receipts		1,682,107	2,772,199
Deferred income - grant fund receipts		95,718	110,011
Cash generated from financing activities		677,311	2,025,903
NET DECREASE IN CASH AND CASH EQUIVALENTS		(637,323)	(203,506)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		4,518,865	4,722,371
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	44	3,881,542	4,518,865

The annexed notes, from 1 to 47, form an integral part of these financial statements.

DIRECTOR

CHIEF EXECUTIVE OFFICER

PAKISTAN POVERTY ALLEVIATION FUND

(A Company incorporated under Section 42 of the Companies Act, 2017)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE, 2018

1 STATUS, BACKGROUND AND NATURE OF OPERATIONS

1.1 Pakistan Poverty Alleviation Fund ("the Company" / "PPAF") was registered in Pakistan on 06 February, 1997 as a public company, limited by guarantee, not having share capital and licensed under Section 42 of the Companies Ordinance, 1984 (now replaced by the Companies Act, 2017, with effect from 30 May, 2017). The registered office of the Company is situated at plot 14, street 12, Mauve Area, G-8/1, Islamabad, Pakistan.

Geographical location and address of business units including mill/plant units

Islamabad	**Purpose**
Plot 14, Street 12, Mauve Area, G-8/1, Islamabad	Head Office

The Company's license under section 42 of the repealed Companies Ordinance, 1984, issued by the Securities and Exchange Commission of Pakistan (SECP), expired in January, 2015. The Company's application for the renewal of the license, to SECP, submitted in January 2015, is awaiting clearance from the Ministry of Interior, Government of Pakistan. The management of the Company is confident that the license will be renewed in due course.

1.2 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 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.

1.3 Pursuant to the establishment of the Pakistan Microfinance Investment Company Limited (PMICL), and in accordance with the terms of the Non-Compete Agreement (refer to note 8.2), the Company has ceased to underwrite new loans to its POs, with effect from 21 February, 2017.

1.4 Summary of significant transactions and events

a) During the year loans amounting to Rs. 8,925,177 thousand have been recovered from POs (refer to note 11.5 for details) and a loan amounting to Rs. 8,430,000 thousand has been disbursed to associate (refer to note 10 for details); and

b) During the year vehicles amounting to Rs. 59,206 thousand have been disposed-off due to change in the employee benefit policy (refer to note 6 for details).

2 STATEMENT OF COMPLIANCE

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

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

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

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

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

The financial statements for current year has for the first time been prepared under the provisions of and directives issued under the Companies Act, 2017, which have resulted in the following changes in the current year financial statements, as compared to prior year financial statements prepared under the provisions of and directives issued under the Companies Ordinance, 1984:

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- Changes in nomenclature of the primary financial statements; and

- Disclosures by fifth schedule of the Companies Act, 2017, resulting in elimination of certain disclosures, already included in IFRSs, and inclusion of significant additional disclosures, refer to notes 1, 1.4, 2, 6.2, 26.2, 41.

3 AMENDMENTS TO APPROVED ACCOUNTING STANDARDS

3.1 Amendments to approved accounting standards that are not yet effective

The following amendments with respect to the approved accounting standards, as applicable in Pakistan, would be effective from the dates mentioned below against the respective standard, amendment and interpretation, and have not been adopted early by the Company:

Standard / IFRIC		Effective date (annual periods beginning on or after)
IFRS 2	Share-based Payments – Classification and Measurement of Share-based Payments Transactions – (Amendments)	January 01, 2018
IFRS 10 & IAS 28	Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendment)	Not yet effective
IFRS 4	Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	January 01, 2018
IFRS 9	Financial Instruments: Classification and Measurement	July 01, 2018
IFRS 15	Revenue from Contracts with Customers	July 01, 2018
IFRS 16	Leases	January 01, 2019
IAS 19 & IFRIC 14	Employee benefits - Remeasurement on a Plan Amendment, Curtailment or Settlement / Availability of a Refund from a Defined Benefit Plan (Amendments)	January 01, 2019
IAS 28	Investment in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (Amendments)	January 01, 2019
IAS 40	Investment Property: Transfers of Investment Property (Amendments)	January 01, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 01, 2018
IFRIC 23	Uncertainty over Income tax treatment	January 01, 2019

The above amendments to the approved accounting standards and the new standards are not expected to have any material impact on the Company's financial statements in the period of their initial application, except for IFRS-15 and IFRS-16, for which management is assessing the financial impact.

In addition to the above new standards and amendments to standard and interpretations, improvements to various accounting standards have also been issued by the IASB in December 2016 and December 2017. Such improvements are generally effective for accounting periods beginning on or after January 01, 2018 and January 01, 2019, respectively. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

Further, the following new standards have been issued by the IASB, which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

Standard	Effective date (annual periods beginning on or after)
IFRS 1 – First-time Adoption of International Financial Reporting Standards	January 01, 2004
IFRS 14 – Regulatory Deferral Accounts	January 01, 2016
IFRS 17 – Insurance Contracts	January 01, 2021

3.2 Changes in accounting policies and disclosures resulting from amendments in standards during the year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year, except as described below:

3.3 Amendments in standards

The Company has adopted the following amendments in accounting standards which became effective for the current year:

IAS 7	Statement of Cash Flows - Disclosure Initiative
IAS 12	Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

The adoption of the above amendments did not have any effect on the Company's financial statements, in the period of their initial application.

In addition to the above amendments, improvements to the following accounting standard (under the annual improvements 2014 - 2016 cycle) has also been adopted:

IFRS 12	Disclosure of Interest in Other Entities: Clarification of the Scope of Disclosure Requirements in IFRS 12

The adoption of the above amendments did not have any effect on the financial statements.

4 BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of historical cost convention, except for the recognition of employees retirement benefits on the basis of an actuarial valuation, and the fair value of the deferred benefit of the below market rate of interest on a long-term financing.

5 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the basis of historical cost convention, except for the recognition of employees retirement benefits on the basis of an actuarial valuation, and the fair value of the deferred benefit of the below market rate of interest on a long-term financing.

5.1 Significant judgments and estimates

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 form 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 recognized 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 the area where assumptions and estimates are significant to the financial statements is the loan loss provision (note 11.3), deferred benefit of below market rate of interest on long-term loans (note 23.5.1) and the staff gratuity scheme (note 27). The Company has changed its basis for recognizing loan losses (refer note 5.7). If the basis has not been changed, the surplus for the year would have been lower by Rs. 424,457 thousand.

5.2 Employee benefits

The Company operates the following staff retirement benefits plans:

(i) The Company operates an approved defined benefit gratuity fund for all eligible employees who complete the qualifying period of service. The fund is administered by its trustees. Annual contributions to the gratuity fund are based on an actuarial valuation using the projected unit credit method. The amount arising out of re-measurements on employees' retirement benefit plans are recognized immediately in other comprehensive income. Past service cost and curtailments are recognized in surplus for the year, in the period in which a change takes place. The latest actuarial valuation of the Gratuity Fund was carried out as at 30 June, 2018, the related details of which are given in note 27 to the financial statements.

(ii) The Company maintains a separate, approved contributory provident fund for all employees for which contributions, at 10% of basic salary, amounting to Rs. 17,007 thousand (2017: Rs. 21,438 thousand) were charged to income for the year.

5.3 Property and equipment

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

Depreciation is charged to income, applying the straight line method to write off the cost of an asset over its estimated useful life, at the rates specified in note 6. Depreciation is charged on additions from the date the asset becomes available for its intended use up to the date on which they are derecognized.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired. A gain or loss on sale or retirement of an asset is included in the current year's surplus / loss.

5.4 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 at the rates specified in note 7. Amortization is charged on additions from the date the asset becomes available for intended use up to the date on which the asset is derecognized.

5.5 Investment in associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Company's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The income and expenditure account reflects the Company's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Company's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the statement of changes in funds and reserves. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company's share of profit or loss of an associate is shown on the face of the income and expenditure account and represents profit or loss after tax of an associate. When necessary, adjustments are made to bring the accounting policies in line with those of the Company, except for the effect of non-application of IAS 39 "Financial Instruments: Recognition and Measurement", IAS 40 "Investment Property" and IFRS 7 "Financial Instruments: Disclosures" by an associate holding a Non-Banking Finance Company (NBFC) License, as these standards have been deferred by SECP for NBFCs.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as 'Share of profit of an associate' in the income and expenditure account.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in income and expenditure account.

5.6 Investments

These are held-to-maturity investments with fixed or determinable payments and fixed maturities and the Company has the positive intent and ability to hold the investment till maturity. Investments are carried at amortized cost using the Effective Interest Rate method.

In order to safeguard against a major default and to provide sufficient capital adequacy an amount equivalent to 15% of the total loans receivable from Partner Organizations and PMICL (refer to notes 10 and 11) is held in investments. Further, (i) subsequent to the Company's investments in PMICL (refer to note 8), Rs. 2,883 million i.e. the amount equivalent to the Company's equity investment in PMICL, is deemed to be employed for micro-credit development, and (ii) of the remaining surplus funds, 85% are classified as the grant fund.

The income allocable to the grant fund is used for grant based health, education, infrastructure, emergency and other activities that fall within the overall strategic framework of the Company's objectives. The remaining 15% (2017: 15%) is accounted for as a general reserve, which is to be used to meet the day to day working capital requirements, purchase of land and construction of a head office premises and other requirements of the Company.

As at 30 June, 2018, investments amounting to Rs. 1,804,625 thousand and Rs. 10,358,190 thousand (2017: 1,878,901 thousand and 9,340,591 thousand), respectively, are held for capital adequacy and the grant fund.

5.7 Loans to Partner Organizations and associate

These are stated at amortized cost net of provisions for loan losses.

In light of cessation of underwriting of new loans, in accordance with the terms of the Non-Compete Agreement (refer to note 8.2), the Company in the prior year changed its method of estimating loan losses.

A general provision is made, at each reporting date, for loan losses at the rate of 3% of the outstanding balances of loans to POs, not specifically provided for.

3

The Company recognizes specific provisions for loan losses by classifying its loan amounts, outstanding for 30 days or more, into the following four categories:

(i) Other Assets Especially Mentioned:

Loan instalments overdue for 30 days to 59 days are classified as "Other Assets Especially Mentioned". No specific loan loss provision is made in respect of these loan instalments.

(ii) Sub-standard:

Loan instalments overdue for 60 days to 89 days are classified as "Sub-standard". A specific loan loss provision is made at the rate of 25% of outstanding overdue loan instalments.

(iii) Doubtful:

Loan instalments overdue for 90 days to 179 days are classified as "Doubtful". A specific loan loss provision is made at the rate of 50% of outstanding overdue loan instalments.

(iv) Loss:

Loan instalments overdue for 180 or more days are classified as "Loss". A specific loan loss provision is made at the rate of 100% of outstanding overdue loan instalments.

Service charges on loan instalments, overdue for 60 days or more are recognized on receipt basis. Further, the Company also classifies its service charges outstanding for 60 days or more, into the following three categories:

(i) Sub-standard:

Service charges overdue for 30 days to 59 days are classified as "Sub-standard". No specific provision is made in respect of these overdue charges.

(ii) Doubtful:

Service charges overdue for 60 days to 89 days are classified as "Doubtful". A specific provision is made at the rate of 50% of these overdue charges.

(iii) Loss:

Service charges overdue for 90 or more days are classified as "Loss". A specific provision is made at the rate of 100% of these overdue charges.

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

5.8 Grant fund

The grant fund represents 85% of the surplus funds of the Company, in excess of investments, as detailed in note 5.6.

5.9 Long-term financing

Long term loans, whose disbursement commenced before 30 June, 2009, are measured at amortized cost. In accordance with IAS-20, long-term loans at a below market rate of interest whose disbursement commenced on or after 01 July, 2009 are carried at present value and the difference between the present value and loan receipts is treated as a Government grant and recorded as a deferred liability. The benefit is recognized as income using the Effective Interest Rate method over the period of the loan . A corresponding charge at the market rate of interest on the carrying value of the loan is recognized as an interest expense.

3

5.10 Receipts - loans and grants

The Government of Pakistan has executed various agreements with multiple donors for the execution of poverty alleviation projects. Amounts are received from the Government of Pakistan, on account of these donors' projects and the Prime Minister's Interest Free Loan Scheme, on the basis of Financial Monitoring Reports, advance requests and statements of expenses, raised by the Company on a periodic basis, under the relevant categories, as specified in the Financing Schedules under the respective Financing Agreements.

5.11 Deferred liabilities - grant fund

Receipts related to grants specific to Partner Organizations (POs) are presented as deferred liabilities, and the related disbursements to POs, during the year, are set off there against.

5.12 Income Recognition

Service charges on loans and profit / mark-up on investments and bank accounts are recognized using the Effective Interest Rate method.

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

5.13 Provisions

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

5.14 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment at each reporting date, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount for which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Reversals of the impairment loss are restricted to the extent, that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss or reversal of impairment loss is recognized in income for the year.

5.15 Borrowing costs

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

5.16 Taxation

Pursuant to the promulgation of the Finance Act, 2017, from tax year 2018 onward, the Company's income has been exempted from income tax, under part 1 of the Second Schedule to the Income Tax Ordinance, 2001.

5.17 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument, and de-recognized when the Company loses control of the contractual rights that comprise the financial assets, in case of financial liabilities, these are derecognized when the obligation specified in the contract is discharged, cancelled or expires. 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.

5.18 Financial assets

5.18.1 Classification

The Company classifies its financial assets in four categories:
i. Held-to-maturity
ii. Loans and receivables
iii. At fair value through profit or loss
iv. Available-for-sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

i. Held-to-maturity

A financial asset is classified in this category if acquired by the Company with the intention and ability to hold them up to maturity.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. The Company's loans and receivables comprise loans to POs, loans to associate, advances to employees, deposits and other receivables, profit / service charges receivable and cash and bank balances.

An allowance for uncollectible amount is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the counter-party, a probability that the counter-party will enter bankruptcy or financial re-organization, and default or delinquency impairments (more than the credit period specified in agreements), are considered indicators that the amount is uncollectible. When the amount is uncollectible, it is written off against the allowance.

iii. At fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

iv. Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

3

5.18.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the Income and Expenditure account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred, and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortized cost using the Effective Interest Rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the Income and Expenditure account in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of Other Income when the Company's right to receive payment is established.

5.18.3 Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably estimated.

5.19 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. These financial statements are presented in Pakistani Rupees, which is the Company's functional currency.

ii. Transaction 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 reporting 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, social mobilization, disability, livelihood enhancement and protection and capacity building grant which are included in their respective balances.

5.20 Related party transactions

All transactions with related parties arising in the normal course of business are conducted at arm's length at normal commercial rates, on the same terms and conditions as third party transactions, using valuation modes, as admissible, except in rare circumstances where, subject to the approval of Board of Directors, it is in the interest of the Company to do so.

5.21 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.

5.22 Cash and cash equivalents

Cash and cash equivalents are carried at cost in the balance sheet in case of local currency balances and at closing exchange rate, in case of foreign currency balances. For the purpose of the cash flow statement, cash and cash equivalents comprise cash and bank balances and short-term investments that are highly liquid and readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

5.23 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

i. In the principal market for the asset or liability; or
ii. In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

i. Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

ii. Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

iii. Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's Chief Financial Officer determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement. External valuers may be involved for valuation of significant assets and significant liabilities. For the purpose of fair value disclosures, the Company determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

The Company does not measure any of its assets or liabilities at fair value, except plan assets for gratuity, under the gratuity scheme.

6 PROPERTY AND EQUIPMENT

	COST					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at 01 July	Additions	Disposals/ Written-off*	As at 30 June	Rate	As at 01 July	Charge for the year	On disposals	As at 30 June	As at 30 June
2018	Rupees '000				%	Rupees '000				Rupees '000
Furniture and fixtures	19,665	2,845	(401) *	22,109	20	15,259	2,439	-	17,698	4,411
Vehicles	103,617	-	(59,206)	44,411	20	71,712	6,517	(39,354)	38,875	5,536
Office equipment	42,023	3,604	(1,031) *	44,596	20	34,380	2,809	-	37,189	7,406
Computer equipment	75,706	14,823	-	90,529	25	67,595	5,413	-	73,008	17,521
	241,011	21,272	(60,638)	201,645		188,946	17,179	(39,354)	166,771	34,874

	COST					ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at 01 July	Additions	Disposals	As at 30 June	Rate	As at 01 July	Charge for the year	On disposals	As at 30 June	As at 30 June
2017	Rupees '000				%	Rupees '000				Rupees '000
Furniture and fixtures	19,435	230	-	19,665	20	13,515	1,744	-	15,259	4,406
Vehicles	113,383	5,686	(15,452)	103,617	20	69,431	16,212	(13,931)	71,712	31,905
Office equipment	40,976	1,047	-	42,023	20	30,651	3,729	-	34,380	7,643
Computer equipment	71,010	4,833	(137)	75,706	25	60,483	7,249	(137)	67,595	8,111
	244,804	11,796	(15,589)	241,011		174,080	28,934	(14,068)	188,946	52,065

6.1 Depreciation for the year is charged to General and Administrative expenses (refer to note 33).

6.2 Disposals of Property and Equipment

	Cost	Accumulated depreciation	Net book value	Sale price	(Gain)/Loss on disposals	Mode of disposals	Particulars of buyer
	Rupees '000						
Vehicles	24,834	8,299	16,535	16,535	-	BOD approval	Employees
Assets with net book value below Rs. 500,000 each							
Vehicles - given to employees	20,688	17,371	3,317	3,348	(31)	BOD approval	Employees
Vehicles - Sold through auction	13,684	13,684	-	12,360	(12,360)	Auction	Various bidders
Total - 30 June, 2018	**59,206**	**39,354**	**19,852**	**32,243**	**(12,391)**		
Total - 30 June, 2017	15,589	14,068	1,521	3,640	(2,119)		

6.2.1 During the year, as per the Company's revised employee vehicle benefit policy, all company maintained vehicles for employees were sold to them at their book value.

7 INTANGIBLE ASSETS

	COST					ACCUMULATED AMORTIZATION				WRITTEN DOWN VALUE
	As at 01 July	Additions	Write-off	As at 30 June	Rate	As at 01 July	Charge for the year	On write-off	As at 30 June	As at 30 June
2018					%	------ Rupees '000 ------				Rupees '000
Satellite imageries	19,078	-	-	19,078	25	19,078	-	-	19,078	-
Computer software	19,136	21	-	19,157	25	18,768	389	-	19,157	-
	38,214	21	-	38,235		37,846	389	-	38,235	-

	COST					ACCUMULATED AMORTIZATION				WRITTEN DOWN VALUE
	As at 01 July	Additions	Disposals	As at 30 June	Rate	As at 01 July	Charge for the year	On disposals	As at 30 June	As at 30 June
2017	------ Rupees '000 ------				%	------ Rupees '000 ------				Rupees '000
Satellite imageries	19,078	-	-	19,078	25	19,078	-	-	19,078	-
Computer software	19,411	-	(275)	19,136	25	18,432	463	(127)	18,768	368
	38,489	-	(275)	38,214		37,510	463	(127)	37,846	368

7.1 Amortization for the year is charged to General and Administrative expenses. (refer to note 33).

8 INVESTMENT IN ASSOCIATE	Note	2018	2017
		------------ Rupees '000 ------------	
Opening balance		**2,881,509**	-
Investment during the year	8.1	**-**	2,883,258
Share of profit / (loss) of an associate	8.2	**94,729**	(1,749)
		2,976,238	2,881,509

8.1 The Company has a 49% interest in Pakistan Microfinance Investment Company Limited (PMICL), an unlisted public company registered with SECP on 10 August, 2016, and licensed to act as an Investment Finance Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. The registered office of PMICL is situated at 21st Floor, Ufone Tower, 55 C, Main Jinnah Avenue, Blue Area, Islamabad, Pakistan.

The Company's interest in PMICL is accounted for using the equity method in the financial statements, as the Company has significant influence over PMICL's operational and financial policies but does not have control over PMICL. Control is achieved when the Company is exposed, or has right to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

8.2 PMICL and the Company have entered into memorandum of understanding, whereby with effect from 01 December, 2016, PMICL is performing the following services in respect of the Company's loans to POs:

(i) follow-up on late payments upon intimation by the Company, and
(ii) providing recommendations on restructuring requests of POs.

PMICL was entitled to a Loan Portfolio Monitoring fee of 1% per annum, of the actual average daily value of the outstanding principal amounts, as full compensation, however, during the year PMICL and the Company entered in a memorandum of understanding, with effect from 1 January 2018 and now the Company will pay an amount of Rs 1.2 million for the year, as full compensation. The Company retains all risks and rewards and control over these loans. Accordingly, the Company continues to maintain its existing loan portfolio and the related general and specific provisions for these loans in its financial statements.

The Company has also provided subordinated loans to PMICL, utilizing the loans provided to the Company by the Government of Pakistan, in accordance with terms mutually agreed between the Company and PMICL (refer to note 10).

8.3 The following table illustrates the summarized financial information of the Company's investment in PMICL, based upon the audited financial statements of PMICL for the period ended 31 March, 2018, and un-audited interim financial information for the three month period ended 30 June, 2018:

	2018	2017
	------------ Rupees '000 ------------	
Current assets	**2,038,006**	3,583,738
Non-current assets	**16,531,116**	4,153,441
Current liabilities	**(271,205)**	(38,527)
Non-current liabilities	**(12,223,000)**	(1,818,000)
Equity	**6,074,917**	5,880,652
The carrying amount of the Company's investment	**2,976,238**	2,881,509

	30 June, 2018	01 August, 2016 to 30 June, 2017
	------------ Rupees '000 ------------	
Income	**1,170,340**	266,565
Administrative expenses	**(282,246)**	(218,473)
Other operating expenses	**(25,184)**	-
Other income	**34,498**	23,764
Finance costs - borrowings	**(521,349)**	(4,876)
Finance costs - bank charges	**(3)**	(45)
General provision against loan portfolio	**(133,380)**	(42,100)
Profit before taxation	**242,676**	24,835
Taxation	**(49,351)**	(28,404)
Profit/(Loss) for the year/ (period)	**193,325**	(3,569)
The Company's share of profit/(loss)	**94,729**	(1,749)

9	LONG-TERM INVESTMENTS	Note	2018	2017
			------------ Rupees '000 ------------	
	Held-to-Maturity			
	Specific to Endowment Fund			
	Pakistan Investment Bonds (PIBs)	9.1	**1,000,000**	1,000,000
	Less: Unamortized discount on purchase of PIBs		**(26,228)**	(34,499)
			973,772	965,501
	Specific to others			
	Pakistan Investment Bonds	9.2	**3,242,300**	1,675,000
	Add: Unamortized premium on purchase of PIBs		**12,356**	17,855
			3,254,656	1,692,855
			4,228,428	2,658,356
	Less: Long-term investments maturing within next twelve months shown as a current asset		**(2,131,000)**	(875,000)
			2,097,428	1,783,356

9.1 Represents investments in PIBs as follows:

Principal Rupees '000	Issue date	Purchase Date	Maturity date	Coupon rate (per annum)	Payment terms (Coupon)
200,000	22 July, 2010	30 Dec, 2010	22 July, 2020	12%	Semi annually
200,000	22 July, 2010	19 May, 2011	22 July, 2020	12%	Semi annually
194,500	18 August, 2011	09 August, 2012	18 August, 2021	12%	Semi annually
5,500	18 August, 2011	31 May, 2013	18 August, 2021	12%	Semi annually
400,000	29 April, 2014	29 April, 2014	19 July, 2022	12%	Semi annually
1,000,000					

9.2 Represents investments in PIBs as follows:

Principal Rupees '000	Issue date	Purchase Date	Maturity date	Coupon rate (per annum)	Payment terms (Coupon)
238,000	21 April, 2016	20 March, 2018	21 April, 2019	6.70%	Semi annually
303,000	21 April, 2016	26 March, 2018	21 April, 2019	6.70%	Semi annually
400,000	17 July, 2014	22 Dec, 2014	17 July, 2019	11.50%	Semi annually
400,000	17 July, 2014	22 Dec, 2014	17 July, 2019	11.50%	Semi annually
870,000	21 April, 2016	05 March, 2018	21 April, 2019	6.72%	Semi annually
720,000	21 April, 2016	07 March, 2018	21 April, 2019	6.75%	Semi annually
311,300	29 Dec,2016	27 April, 2018	29 Dec,2019	7.08%	Semi annually
3,242,300					

10	LONG-TERM LOANS TO ASSOCIATE	Note	2018	2017
			---------- Rupees '000 ----------	
	PMICL - unsecured	10.1 & 10.2	**10,248,000**	1,818,000
	Less: Amount receivable within next twelve months shown as a current asset		**(812,279)**	-
			9,435,721	1,818,000

10.1 The Company and PMICL signed a Master Subordinated Loan Framework Agreement, on 17 November, 2016, for the provision of subordinated loans to PMICL, up to a total amount of Rs. 12,347,520 thousand, utilizing funds available to the Company for lending activities, under the Financing Agreements with the Government of Pakistan (GoP). The subordinated loans will be disbursed under separate subordinate loan agreements as and when the related repayments are received by the Company, against the Company's loans to its POs, within fifteen days after the end of each calendar quarter. These loans will be unsecured and fully subordinated to all other indebtedness of PMICL, carrying service charges at the rate of six months KIBOR plus 100 basis points, unless otherwise agreed by both parties, pursuant to the occurrence of specified conditions. The due dates of these loans will not be later than 31 December, 2031, i.e. the final repayment date of the Company's long-term loans from GoP.

10.2 After obtaining appropriate approvals from SECP, pursuant to a special resolution passed by the Company's members in accordance with the requirements of section 208 of the Companies Ordinance, 1984 (now replaced by the Companies Act, 2017), the Company till date has disbursed six separate loans in the current and prior year. The pertinent information regarding these loans is as follows:

Date of disbursement	Amount Rupees '000	First instalment due	Last instalment due	No. of instalments*
01 June, 2017	824,000	07 October, 2018	07 October, 2031	43
29 June, 2017	994,000	07 January, 2019	07 January, 2031	43
08 August, 2017	1,663,000	07 January, 2019	07 January, 2031	43
03 November, 2017	2,869,000	07 January, 2019	07 January, 2031	43
28 December, 2017	350,000	07 January, 2019	07 January, 2031	43
29 January, 2018	2,131,000	07 January, 2019	07 January, 2031	43
03 May, 2018	1,000,000	07 January, 2019	07 January, 2031	43
04 June, 2018	417,000	07 January, 2019	07 January, 2031	43
	10,248,000			

* The first 33 unequal instalments will be payable at quarterly intervals, with the remaining unequal instalments payable at semi-annual intervals.

The effective interest rate was 7.15 to 7.21% (2017: 7.15%) per annum.

11	LONG-TERM LOANS TO PARTNER ORGANIZATIONS	Note	2018	2017
			---------- Rupees '000 ----------	
	Secured			
	Considered good		**886,137**	10,021,920
	Considered doubtful		**896,690**	686,084
		11.1	**1,782,827**	10,708,004
	Less: Provision for doubtful loans	11.3	**(923,831)**	(974,605)
			858,996	9,733,399
	Less: Amount receivable within next twelve months shown as a current asset		**(803,100)**	(8,923,734)
			55,896	809,665

11.1 Breakup of loans to Partner Organizations

	2018	2017
Association for Gender Awareness and Human Empowerment Pakistan	**30,000**	89,833
Al Mehran Rural Development and Welfare Organization Foundation	**91,471**	155,895
ASA Pakistan Limited	**43,750**	499,859
Asasah	**197,096**	197,096
Badbaan Enterprise Development Forum	**-**	16,555
Bedari	**18,647**	19,647
BRAC Pakistan	**65,678**	316,846
Buksh Foundation	**49,925**	49,925
Bunyad Literacy Community Council	**2,150**	9,750
Community Support Concern - CEIP	**-**	266,903
Development Action for Mobilization and Emancipation Support Programme	**116,881**	946,786
Farmers Friend Organization Microfinance Company	**71,021**	331,107
Ghazi Brotha Taraqiatee Idara	**-**	48,560
Jinnah Welfare Society Pakistan	**54,000**	409,400
Kashf Foundation	**-**	1,931,000
Khilji Cooperative Society	**12,620**	12,620
Khushali Bank	**-**	320,000
Mashal Development Organization	**505**	505
Mehran Education Society	**21,748**	21,748
Micro Options (Formerly Dia Welfare Organization)	**11,000**	50,206
Mojaz Foundation Support Programme	**45,100**	367,583
Narowal Rural Development Programme	**58,455**	63,455
National Rural Support Programme	**-**	1,820,224
Orangi Charitable Trust	**120,043**	122,043
Organization for Participatory Development Support Program	**74,733**	74,733
Poverty Eradication Network	**1,827**	1,827
Punjab Rural Support Programme	**-**	305,179
Rural Community Development Program	**91,404**	433,640
SAATH Microfinance Foundation Pakistan	**61,354**	75,354
Save The Poor	**4,872**	4,872
Sayya Microfinance Company	**4,000**	40,388
Shadab Rural Development Organization	**68,000**	71,000
Shah Sachal Sami Welfare Association	**43,811**	100,555
Foundation	**-**	329,905
Soon Valley Development Programme	**-**	110,869
Thardeep Microfinance Foundation	**154,417**	823,417
Waasil Foundation (Formerly Centre for Women Cooperative Development)	**257,839**	257,839
Women Social Organization	**3,830**	4,230
Young Pioneers Society	**6,650**	6,650
	1,782,827	10,708,004

11.2 The Company has disbursed loans to POs for utilization in micro-credit operations, under various Financing Agreements, with applicable service charges based upon a range of benchmarks including KIBOR. These loans are repayable on a quarterly basis within two years, under the respective Financing Agreements signed between the Company and the POs.

Rates for service charges are determined on the basis of classification of POs into "for-profit" and "not-for-profit" and further sub-categories according to geographical areas. All financing facilities are charged service charges at the standard rates based on KIBOR, with a floor of 8% per annum, for facilities to "not-for-profit" POs and "for-profit" POs utilizing facilities in remote geographical areas; the floor is 9% per annum for all other facilities to "for-profit" POs.

During the year no new loans were disbursed, the Company has ceased to underwrite new loans with effect from 21 February, 2017.

	Note	2018 Specific	2018 General	2018 Total	2017 Total
		Rupees '000			Rupees '000
11.3 Movement in provision for doubtful loans					
Opening balance		674,153	300,452	974,605	943,102
Provision recognized / (reversed) during the year - Net	36	222,537	(273,311)	(50,774)	31,503
		896,690	27,141	923,831	974,605

11.4 Particulars of non-performing loans

	2018 Loan amount Rupees '000	2018 Provision required %	Provision amount Rupees '000
Other Assets Especially Mentioned	-	0%	-
Sub-standard	-	25%	-
Doubtful	-	50%	-
Loss	896,690	100%	896,690
	896,690		896,690

	Note	2018	2017
		Rupees '000	
11.5 Movement in loans to Partner Organizations			
Opening balance		10,708,004	14,716,386
Add: Disbursements		-	5,276,853
		10,708,004	19,993,239
Less: Recoveries		(8,925,177)	(9,285,235)
		1,782,827	10,708,004
Less: Provision for doubtful loans	11.3	(923,831)	(974,605)
		858,996	9,733,399
12 LONG-TERM DEPOSITS AND PREPAYMENTS			
Deposits		7,004	7,556
Prepaid rent		64,796	22,400
Less: Current portion of prepaid rent shown under current assets	15	(39,036)	(22,400)
		25,760	-
		32,764	7,556
13 GRANT FUND RECEIVABLE			
Considered good, unsecured		25,176	60,127

13.1 The current year balance represents the amounts disbursed to POs, from the Company's own financial resources, in respect of the "National Poverty Graduation Programme" (refer to note 24.9).

	Note	2018	2017
14 LOANS AND ADVANCES		Rupees '000	
Loans - considered good, secured			
Employees	14.1	76,693	15,346
Less: Long-term portion of loans and advances		(31,074)	-
		45,619	15,346
Advances - considered good, unsecured			
Employees		3,267	1,708
Suppliers		12,683	174
		15,950	1,882
		61,569	17,228

14.1 This represents the advance salary loans and car loans given to the employees of the Company, carrying annual mark-up of Nil (2017: 3%) and Nil (2017: 8%), respectively. The principal amounts are repayable in a maximum of 60 equal monthly instalments.

		Note	2018	2017
			---------- Rupees '000 ----------	
15	**SHORT-TERM PREPAYMENTS**			
	Prepayments		2,920	2,111
	Current portion of long-term prepaid rent	12	39,036	22,400
			41,956	24,511
16	**PROFIT / SERVICE CHARGES RECEIVABLE**			
	Service charges on Investments			
	Specific to Endowment Fund		51,600	51,600
	Specific to projects		-	12,575
	Specific to others and savings accounts		271,261	242,265
			322,861	306,440
	Service charges receivable on loans to associate		172,094	4,876
	Service charges receivable on loans to POs		169,066	331,631
	Less: Provision for doubtful service charges	16.1	(155,546)	(139,538)
			13,520	192,093
			508,475	503,409

16.1 Movement in provision for doubtful service charges:

	Note	2018	2017
Opening balance		139,538	63,426
Add: Provision for the year	36	16,008	76,112
		155,546	139,538

17 OTHER RECEIVABLES

	Note	2018	2017
Considered good, unsecured			
Employees' provident fund		10,484	9,690
Consultants / service providers		-	7,595
Withholding tax	17.1	61,727	
Others		1,117	1,035
		73,328	18,320

17.1 During the year, as per notice of demand [Letter no. 734418-1] dated 19 September, 2017, received by the Company, an order was passed under section 161/205 for the tax year 2014, whereby an amount of Rs. 61,727 thousand was determined to be payable by the Company. On 4 October, 2017, the Company filed an appeal with the Commissioner Inland Revenue – Appeals II against the notice of demand received and for grant of stay. The application for stay being dismissed, an amount of Rs. 61,727 thousand was deducted by the Federal Board of Revenue (FBR) on 27 October, 2017 directly from the bank account of the Company. Although, the matter has been remanded back for fresh proceedings based on arguments and facts presented by the Company in the hearings taken place during the year, the final decision, however, is pending till date.

		Note	2018	2017
18	**SHORT-TERM INVESTMENTS**			
			---------- Rupees '000 ----------	
	Held-to-Maturity			
	Specific to projects		-	420,000
	Specific to others	18.1	10,246,700	11,278,012
			10,246,700	11,698,012
18.1	Specific to others			
	Term Deposit Receipts (TDRs)	18.1.1	9,078,932	9,077,080
	Government Treasury Bills	18.1.2	1,167,768	-
			10,246,700	9,077,080

18.1.1 These funds are invested in Term Deposit Receipts (TDRs) maturing within one month to one year from the date of investment, at per annum mark-up rates ranging from 6.1% to 9% (2017: 5.80% to 8.80%).

18.1.2 These funds are invested in Government Treasury Bills maturing within three months from the date of investment, at a mark-up of 6.74% (2017:5.97%) per annum.

19	TAX REFUNDS DUE FROM THE GOVERNMENT	Note	2018	2017
			Rupees '000	
	Income tax refunds	19.1	**367,046**	345,090
	Income tax refund written-off		**(6,240)**	-
			360,806	345,090

19.1 This represents tax refunds relating to tax years 2003 to 2018. Management is confident that the tax department will allow the refunds, after necessary verification of supporting documents, as it considers the Company's record to be easily verifiable.

20	BANK BALANCES-SPECIFIC TO PROJECTS	2018	2017
		Rupees '000	
	In current accounts		
	Specific to KfW - Livelihood and Community Infrastructure	**102,106**	102,106
	Specific to KfW - Livelihood and Community Infrastructure Phase II	**129,260**	-
	Specific to KfW - Renewable Energy	**81**	3,624
	Specific to Italian Project - Poverty Reduction Through Rural	**-**	
	Development Activities in Baluchistan, KPK and FATA	**1,373,299**	338,109
	Specific to UNHCR - Afghan Refugees	**6,677**	-
	Specific to Prime Minister's Interest Free Loan Scheme (PMIFL)	**231,111**	547,771
		1,842,534	991,610

20.1 Under the financing agreements signed with various donors, the Company is allowed to draw funds from these special accounts for carrying out eligible activities. Such funds may not be invested to earn profit, and are accordingly kept in current accounts.

21	CASH AND BANK BALANCES	Note	2018	2017
			Rupees '000	
	Cash in hand		**59**	102
	Cash at banks in:			
	- Current accounts		**605**	1,834
	- Deposit accounts	21.1	**370,576**	447,633
			371,181	449,467
			371,240	449,569

21.1 These balances carry a per annum mark-up ranging between 3.7% to 6% (2017: 3.5% to 6.7%).

		2018	2017
		Rupees '000	
22	ENDOWMENT FUND	**1,000,000**	1,000,000

This represents the amounts paid by GoP for the Endowment Fund under the Subsidiary Financing Agreements (SFAs) for IDA I and IDA II projects, directly credited in the statement of changes in funds and reserves. Under the SFA, the fund is to be invested in government schemes / bonds, and the income generated therefrom shall be utilized for revenue and capital expenditure of the Company.

23	LONG-TERM FINANCING	Note	2018	2017
			Rupees '000	
	Unsecured - from a related party:			
	Government of Pakistan - PPAF - I (IDA financing)	23.1	**877,097**	1,096,387
	Government of Pakistan - PPAF - II (IDA financing)	23.2	**6,087,162**	6,624,234
	Government of Pakistan - (IFAD financing - MIOP)	23.3	**802,767**	879,221
	Government of Pakistan - (IFAD financing - PRISM)	23.4	**1,649,370**	1,786,816
	Government of Pakistan - PPAF - III (IDA financing)	23.5	**2,931,122**	3,061,371
			12,347,518	13,448,029
	Less: Amounts payable within the next twelve months shown as a current liability		**(1,279,597)**	(1,100,515)
			11,067,921	12,347,514
	Less: Deferred benefit of below market rate of interest on long-term financing - Government of Pakistan - PPAF - III (IDA financing)	23.5.1	**(1,723,480)**	(1,872,752)
			9,344,441	10,474,762

		2018	2017
		Rupees '000	
23.1	Government of Pakistan - PPAF - I (IDA financing)		
	Opening balance	**1,096,387**	1,315,674
	Amount repaid	**(219,287)**	(219,287)
		877,100	1,096,387

A Development Credit Agreement (DCA) was signed between International Development Association (IDA) and the Government of Pakistan (GoP) on 07 July, 1999. IDA made available to the GoP, a sum of Special Drawing Rights (XDR) of XDR. 66.5 million over a period of five years, to be utilized by GoP, through the Company.

Under a Subsidiary Financing Agreement (SFA) dated 18 August, 1999, executed between the GoP and the Company, 50% of the amount was disbursed as a loan to the Company and the balance as a grant, on a non-reimbursable basis. The principal amount of the loan is repayable over a period of twenty three years, including a grace period of eight years, in thirty semi-annual instalments, payable on each 15 May and 15 November, commencing from 15 November, 2007 and ending on 15 May, 2022. Each instalment, up to and including the instalment payable on 15 May, 2013, was equal to 2.083% of such principal amount, and each instalment thereafter shall be equal to 4.167% of such principal amount. These loans carry a service charge of 0.75 % per annum, on the principal amount of loan withdrawn and outstanding from time to time, and a 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 15 May and 15 November each year.

		2018	2017
		---------- Rupees '000 ----------	
23.2	Government of Pakistan- PPAF - II (IDA financing)		
	Opening balance	**6,624,234**	6,982,227
	Amount repaid	**(537,075)**	(357,993)
		6,087,159	6,624,234

A second DCA was signed between IDA and the GoP on 20 January, 2004, in respect of PPAF II. Under the agreement IDA shall make available to GoP a sum of XDR of 168.1 million, over a period of four years, to be utilized by the GoP, through the Company.

Under an SFA dated 24 March, 2004, executed between the GoP and the Company, the GoP agreed to provide 56% of the amount as a loan to the Company and the balance as a grant, on a non-reimbursable basis. The principal amount of the loan is repayable over a period of twenty three years, including the grace period of eight years , in thirty semi-annual instalments, payable on each 01 February and 01 August, commencing from 01 February, 2012 and ending on 01 August, 2026. Each instalment, up to and including the instalment payable on 01 August, 2017, shall be equal to 2.083% of such principal amount, and each instalment thereafter, shall be equal to 4.167% of such principal amount. These loans carry a service charge of 0.75% per annum on the principal amount of the loan withdrawn and outstanding from time to time, and a commitment charge at the rate set by IDA, on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on 01 February and 01 August each year.

		2018	2017
		---------- Rupees '000 ----------	
23.3	Government of Pakistan - (IFAD financing - MIOP)		
	Opening balance	**879,221**	955,675
	Amount repaid	**(76,454)**	(76,454)
		802,767	879,221

A programme loan agreement was signed between the International Fund for Agriculture Development (IFAD) and the GoP on January 18, 2006, in respect of the Micro-finance Innovation and Outreach Programme (MIOP). Under the agreement IFAD shall make available to GoP a sum of XDR 18.30 million over a period of five years to be utilized by GoP through the Company.

Under a Subsidiary Loan and Grant agreement (SLGA) dated 18 April, 2006, executed between the GoP and the Company, the GoP agreed to provide 50% of the amount as a loan to the Company, and the balance as a grant on a non-reimbursable basis on account of capacity building. The principal amount of the loan is repayable over a period of twenty three years, including a grace period of eight years, in thirty semi-annual instalments, commencing on 01 June, 2014 and ending on 01 December, 2028. These loans carry a service charge of 0.75% per annum on the principal amount of the loan withdrawn and outstanding from time to time, payable on 01 June and 01 December, each year.

		2018	2017
		---------- Rupees '000 ----------	
23.4	Government of Pakistan - (IFAD financing - PRISM)		
	Opening balance	**1,786,816**	1,924,264
	Amount repaid	**(137,448)**	(137,448)
		1,649,368	1,786,816

A programme loan agreement was signed between the International Fund for Agriculture Development (IFAD) and the GoP on 22 November, 2007 in respect of the Programme for Increasing Sustainable Microfinance (PRISM). Under the agreement IFAD shall make available to GoP a sum of XDR. 22.85 million over a period of five years, to be utilized by the GoP, through the Company.

Under an SFA dated 12 January, 2008, executed between the GoP and the Company, the GoP agreed to provide 65% of the amount as a loan to the Company and the balance as grant, on a non-reimbursable basis, on account of capacity building. The principal amount of the loan is repayable over a period of twenty three years, including a grace period of eight years, in thirty equal semi-annual instalments, commencing on 01 December, 2015 and ending on 01 June, 2030. These loans carry a service charge of 0.75% per annum on the principal amount of the loan withdrawn and outstanding from time to time, payable on 01 June and 01 December, each year.

		Note	2018	2017
			---------- Rupees '000 ----------	
23.5	Government of Pakistan- PPAF - III (IDA financing)			
	Opening balance		3,061,371	3,126,496
	Amount received		-	-
	Amount repaid		(130,250)	(65,125)
			2,931,121	3,061,371
	Less: Deferred benefit of below market rate of interest on long-term financing	23.5.1	(1,723,480)	(1,872,752)
			1,207,641	1,188,619

A financing agreement was signed between IDA and the GoP on 09 June, 2009 in respect of PPAF III. Under the agreement, IDA shall make available to GoP a sum of XDR. 167.2 million over a period of 5 years to be utilized by GoP through the Company.

Under a Subsidiary Loan Agreement (SLA) dated 15 June, 2009 executed between the GoP and the Company, the GoP agreed to provide 13% of the amount as a loan to the Company, and the balance as a grant on a non-reimbursable basis. The principal amount of the loan is repayable over a period of twenty three years, including the grace period of eight years, in thirty semi-annual instalments, payable on each 15 June and 15 December commencing from 15 June, 2017 and ending on 15 December, 2031. Each instalment, up to and including the instalment payable on 15 December, 2022, shall be equal to 2.083% of such principal amount, and each instalment thereafter shall be equal to 4.167% of such principal amount. These loans carry a service charge of 0.75% per annum on the principal amount of the loan withdrawn and outstanding from time to time, and a commitment charge at the rate set by IDA, on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on 15 June and 15 December each year.

23.5.1 The loan is carried at its present value computed at a market based interest rate i.e. 15% per annum. The difference between the present value and the loan proceeds, is recognized as a deferred benefit. The deferred benefit is recognized as income using the Effective Interest method over the period of the loan. The movement in the deferred benefit during the year is as follows:

	Note	2018	2017
		---------- Rupees '000 ----------	
Deferred benefit			
Opening balance		1,872,752	2,014,837
Additions during the year		-	-
Amortization during the year		(149,272)	(142,085)
		1,723,480	1,872,752

24 DEFERRED LIABILITIES - GRANT FUND

	Note	2018	2017
Government of Pakistan - KfW Renewable Energy (RE)	24.3	2,405	-
Government of Pakistan - KfW Livelihood Support and Protection of Small Community Infrastructure (LACIP I)	24.4	111,889	104,956
Government of Pakistan - KfW Livelihood Support and Protection of Small Community Infrastructure (LACIP II)	24.5	126,470	-
Poverty Reduction through Rural Development Activities in Baluchistan, Khyber Pakhtunkhwa, Federally Administered Tribal Areas - (Italian Project)	24.6	1,146,988	331,199
Government of Pakistan - Prime Minister's Interest Free Loan (PMIFL) Scheme	24.7	228,210	544,971
United Nations High Commissioner for Refugees (UNHCR)	24.8	7,262	
Others	24.10	93	11,326
		1,623,317	992,452

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

24.2 Movement during the year:

	Note	KfW LACIP II	KfW RE	KfW LACIP I	Italian Project	PMIFL	UNHCR-AR	NPGP	Others	2018	2017
Opening balance		-	(60,127)	104,956	331,199	544,971	-	-	11,326	932,325	339,722
Receipts during the year		130,648	200,953	-	1,367,171	-	77,688	-	2,250	1,778,710	2,882,210
Transfers to deferred income - grant fund	25	-	(11,733)	-	(48,036)	(9,711)	(1,062)	(25,176)	-	(95,718)	(110,011)
Project activities reported by POs		-	-	-	-	-	-	-	-	-	6,193
Funds returned to Donor		-	-	-	-	-	(885)	-	-	(885)	
Transfers to other Income	32	-	-	-	-	-	-	-	(10,000)	(10,000)	-
		130,648	129,093	104,956	1,650,334	535,260	75,741	(25,176)	3,576	2,604,432	3,118,114
Less: (Recovery) / Disbursements for											
Water and infrastructure		547	-	(976)	227,266	-	-	-	-	226,837	879,070
Social sector development		-	-	-	160,075	-	-	-	-	160,075	481,049
Capacity/Institutional building		3,029	(2,325)	182	34,544	27,391	-	-	2,626	65,447	303,698
Social mobilization		-	-	-	8,946	-	68,479	-	857	78,282	27,316
Livelihood enhancement and protection		602	-	-	72,515	-	-	-	-	73,117	249,374
Micro credit access		-	129,013	(6,139)	-	279,659	-	-	-	402,533	245,282
	24.8	4,178	126,688	(6,933)	503,346	307,050	68,479	-	3,483	1,006,291	2,185,789
		126,470	2,405	111,889	1,146,988	228,210	7,262	(25,176)	93	1,598,141	932,325
Represented by:											
Deferred liabilities - grant fund		126,470	2,405	111,889	1,146,988	228,210	7,262	-	93	1,623,317	992,452
Grant fund receivable		-	-	-	-	-	-	(25,176)	-	(25,176)	(60,127)
Receivable from POs		-	-	-	-	-	-	-	-	-	-
		126,470	2,405	111,889	1,146,988	228,210	7,262	(25,176)	93	1,598,141	932,325

24.3 During the year, the Company received Rs. 409,289 thousand from foreign donors, namely German Development Bank (KfW) and United Nations High Commissioner for Refugees (UNHCR). Further, the Company also received Rs.1,367,171 thousand, under agreements between the Government of Pakistan and foreign donors, namely the Government of Italy. The remaining amount was also received locally by the Company from Mari Petroleum Company Limited.

24.3 Grants from Government of Pakistan - KfW - Renewable Energy

On 22 June, 2012 the Company and the German Financial Cooperation - KfW signed a financing and project agreement, under which KfW has agreed to make available an amount of EUR 10 million to the Company as a grant on a non-reimbursable basis for the development of mini/micro hydro power plants, solar lighting systems, integrated water efficient solar irrigation systems and pilot projects in renewable energy in Khyber Pakhtunkhwa (North West Frontier Province-NWFP). The agreement was to expire on 31 December, 2017, however, the project duration has now been extended to 30 September, 2018.

24.4 Grants from Government of Pakistan - KfW - Livelihood Support and Promotion of Small Community Infrastructure (LACIP I)

On 12 June, 2010 the Company and German Financial Cooperation - KfW signed a loan financing and project agreement, under which KfW has agreed to make available an amount of EUR 31,562,661 to PPAF, as a grant on a non-reimbursable basis, for the support of livelihood measures and the promotion of small community economic and social infrastructure, in Khyber Pakhtunkhwa (North West Frontier Province-NWFP). PPAF has entered into separate financing agreements with twenty three (23) POs for the implementation of the project. The agreement was to previously expire on 31 December, 2015, however, with mutual consent between both parties, many revisions were made to the project period-end. As of the reporting date, however, the Company is in negotiation with the donor to agree the final plan and date for the completion of the project. As part of this plan the Company will also carry-out relevant welfare activities up to Rs. 48 million, in cooperation with its POs.

24.5 Grants from Government of Pakistan - KfW - Livelihood Support and Promotion of Small Community Infrastructure Programme (LACIP-II)

On 18 August, 2017, the Company and German Financial Cooperation - KfW signed financing and project agreements under which KfW has agreed to make available an amount of EUR 10,000,000 to PPAF, as a grant on a non-reimbursable basis, for the support of (i) public physical infrastructure (CPI) schemes inclusive of disaster management and climate adaptation aspects (ii) livelihood development on group-based approach inclusive of skills and enterprise development training and related asset transfer and (iii) beneficiaries will be mobilized and organized in a variety of groups in three districts, Lakki Marwat, Shangla and Buner, of Khyber Pakhtunkhwa. PPAF has entered into financing agreements with three (03) POs for the implementation of the project. The agreement will be expire on 30 December, 2021.

24.6 Poverty Reduction Through Rural Development Activities in Baluchistan, Khyber Pakhtunkhwa, and Federally Administered Tribal Areas (Italian Project)

On 14 January, 2011, the Government of Italy and the Government of Pakistan signed a program agreement for the Italian Project. A financing agreement was signed between GoP and Artigiancassa S.p.A. (on behalf of Government of Italy) on 21 March, 2011, under which the Government of Italy has agreed to make available an amount of EUR 40 million to PPAF on a non-reimbursable basis. A Subsidiary Financing Agreement was signed between the GoP and PPAF on 02 December, 2011. The project focuses on poverty reduction through rural development in Baluchistan, Khyber-Pakhtunkhwa, Federally Administered Tribal Areas and neighboring areas. Under the Agreement, the World Bank would act as a Supervision Body, PPAF as Project Executing Agency, and interventions will be operated through POs. The financing part of the agreement was to expire on 30 September, 2016, however, the project duration was extended to 30 September, 2018.

24.7 Government of Pakistan - Prime Minister's Interest Free Loan (PMIFL) Scheme

On 14 May, 2014, the Government of Pakistan entered into a Memorandum of Understanding (MoU) with PPAF to provide a non-repayable grant of Rs.3,500 million, of which Rs. 3,159 million was for the provision of interest free loans to the poor and marginalized communities and those lacking access to financial services, through POs, in the form of a revolving fund; Rs. 316 million was for operating costs of POs, and Rs. 25 million for the establishment of Loan Centres by POs. The objective of the scheme is to reach marginalized men, women and youth not tapped by the micro-finance sector, support female participation by disbursing 50% of the loans, encourage behavioral change of beneficiaries and strengthen community-based institutions. The loans (revolving funds) amount is transferred to POs under respective agreements for on-lending of funds under the PMIFL Scheme to eligible beneficiaries. The funding to POs is secured through letters of hypothecation on receivables of POs created out of financing, obtained from the Company. Upon expiry of the terms of the agreement with the Company, the receiving fund loans will continue to be administered by the POs.

3

24.8 United Nations High Commissioner for Refugees (UNHCR)

On 23 March, 2018, UNHCR and PPAF signed a financing and project agreement for implementation of a graduation programme, under continuation of "Poverty Graduation for Afghan Refugee and Hosting Families in Pishin (Baluchistan) and Swabi (KPK)" (the Project). The Project implementation period is 01 January, 2018 to 31 December, 2018 whereas the previous phase was completed in December 2017. PPAF will implement the Project, which will target 2000 households including male and female young adults living in district Pishin in Baluchistan and district Swabi in Khyber Pakhtunkhwa. The Project focuses on Afghan refugees acquiring transferable skills so that refugee families are able to support themselves in a dignified manner for the duration of their stay in Pakistan and after their voluntary repatriation to Afghanistan. The same skills training will be provided to their Pakistani hosting families to enable them to participate in the formal labour market to achieve a steady income, support their families empowering the targeted poor with increased incomes, improved productive capacity and access to services to achieve sustainable livelihood. This would include stronger approaches to building institutions of the poor and to livelihood enhancement that would enable poor households and communities to be more successful at attracting financial and other service providers.

24.9 National Poverty Graduation Programme

On November 14, 2017 the Government of Pakistan(GoP) and International Fund for Agricultural Development (IFAD) signed project and financing agreements for "National Poverty Graduation Programme "(the Project), under which IFAD and GoP agreed to make available an amount of USD 100 million and USD 50 million, respectively, to PPAF, as a grant on a non-reimbursable basis over a period of six years. On January 10, 2018 GoP and PPAF signed a subsidiary financing agreement for the implementation of the Project. The Project aims to assist the ultra-poor and very poor in graduating out of poverty on a sustainable basis while simultaneously improving their overall food security, nutritional status and resilience to climate change. The development objective of the Project is to enable the rural poor and especially women and youth to realize their development potential and attain a higher level of social and economic wellbeing through a proven, flexible and responsive menu of assistance. The Project consists of two key components; Poverty Graduation and Social Mobilization & Project Management.

24.10 Other funds

24.10.1 Mari Petroleum Company Limited

Mari Petroleum Company Limited (MPCL) signed a Memorandum of Understanding (MoU) with the Company on 05 May, 2016 to embark on interventions including education, infrastructure, renewable energy and social sector service.

24.11 Breakup of (Recovery) / Disbursements to POs

	KfW LACIP II	KfW RE	KfW LACIP I	Italian Project	PMIFL	UNHCR-AR	Others	2018	2017
	Rupees '000								
Awami Development Organization	-	-	-	-	8,500	-	-	8,500	2,000
Association of Gender Awareness and Human Empowerment Pakistan	-	-	-	-	7,000	-	-	7,000	2,000
Asia Humanitarian Organization	-	-	(268)	-	-	-	-	(268)	-
Akhuwat	-	-	-	-	44,600	-	-	44,600	41,850
Aga Khan Rural Support Programme	-	59,945	-	36,245	-	-	-	96,190	131,099
Al-Mehran Rural Development and Welfare Organization Foundation	-	-	-	-	6,000	-	-	6,000	3,000
AZAT Foundation	-	-	-	16,569	-	-	-	16,569	56,430
Bunyad Literacy Community Council	-	-	-	-	2,700	-	-	2,700	800
BRAC Pakistan	-	-	-	25,035	-	-	-	25,035	76,923
Baluchistan Rural Development and Research Society	-	-	-	-	-	-	-	-	21,689
Baluchistan Rural Support Programme	-	-	-	142,151	12,926	-	-	155,077	139,910
Center of Excellence for Rural Development	-	-	-	-	-	34,008	-	34,008	60,157
Change in Education	-	-	(17)	-	-	-	-	(17)	9,307
Community Mobilization and Development Organization	-	19,646	-	-	-	-	-	19,646	(2)
Community Support Concern - CEIP	-	-	-	-	-	-	-	-	2,400
Community Support Foundation	-	-	-	-	-	-	-	-	54,286
Community Uplift Programme	-	-	(976)	-	-	-	-	(976)	-
Environment Protection Society	-	-	-	14,249	5,600	-	-	19,849	167,022
Farmers Development Organization	-	-	-	-	11,512	-	-	11,512	3,000
Farmers Friend Organization Microfinance Company	-	-	-	-	2,000	-	-	2,000	2,000
Ghazi Brotha Taraqiatee Idara	-	-	-	-	7,094	-	-	7,094	55,826
Hazara Development and Advocacy Foundation	-	-	-	-	-	-	-	-	3,520
Helping Hand for Relief and Development	-	-	-		-	-	-	-	21,240
Health and Nutrition Development Society	-	-	-		6,000	-	-	6,000	1,000
Human Development Foundation	-	-	-	21,758	-	-	-	21,758	-
Kashf Foundation	-	-	-	-	3,000	-	-	3,000	3,000
Khwendo Kor Women and Children Development Programme	-	-	-	13,548	-	-	-	13,548	42,087

24.11 Breakup of (Recovery) / Disbursements to Pos (continued)

	KfW LACIP II	KfW RE	KfW LACIP I	Italian Project	PMIFL	UNHCR-AR	Others	2018	2017
	Rupees '000								
Lasoona Society for Human and Natural Resource Development	-	-	-	14,812	-	-	-	14,812	87,489
Mountain and Glacier Protection Organization	-	-	-	-	-	-	-	-	250
Mountain Institute of Educational Development	-	-	-	-	-	-	-	-	1,178
Mojaz Foundation Support Programme	-	-	-	-	11,100	-	-	11,100	2,000
National Integrated Development Association	-	-	-	-	-	-	-	-	43,212
National Rural Support Programme	-	11,800	(5,871)	177,905	-	-	-	183,834	560,887
Orangi Charitable Trust	-	-	-	-	8,000	-	-	8,000	
NRSP Micro-finance Bank Limited	-	-	-	-	-	-	-	-	1,220
Participatory Integrated Development Society	-	-	-	-		-	-	-	62,250
Punjab Rural Support Programme	-	-	-	-	4,000	-	-	4,000	4,000
Rural Community Development Program	-	-	-	-	16,700	-	-	16,700	5,000
Social Action Bureau for Assistance in Welfare and Organization Network	4,178	3,618	-	-	-	-	-	7,796	60,114
Sindh Agricultural & Forestry Workers Co-ordinating Organization	-	-	-	-	14,400	-	-	14,400	8,000
Sarhad Rural Support Programme	-	31,655	-	-	-	-	-	31,655	290,414
Save The Poor	-	-	-	-	-	-	-	-	-
Sayya Microfinance Company	-	-	-	-	4,496	-	-	4,496	2,000
SEHER	-	-	-	7,589	-	-	-	7,589	6,106
Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment	-	-	-	-	65,443	-	-	65,443	(61)
Sindh Rural Support Organization	-	-	-	-	12,000	-	-	12,000	15,000
Sustainable Use Special Group-Central Asia	-	-	-	-	-	-	-	-	(242)
Taraqee Foundation	-	-	-	10,445	-	-	-	10,445	49,996
Thardeep Microfinance Foundation	-	-	-	-	13,400	-	-	13,400	6,400
Water Environment & Sanitation Society	-	-	-	-	-	-	2,626	2,626	11,687
Youth Organization	-	-	-	15,678	-	34,471	-	50,149	19,669
CSC Empowerment & Inclusion Programme	-	-	-	-	13,188	-	-	13,188	-
Direct expenses on project activities	-	24	199	7,362	27,391	-	857	35,833	48,676
	4,178	126,688	(6,933)	503,346	307,050	68,479	3,483	1,006,291	2,185,789

26.1 This represents amounts payable to PMICL, an associate of the Company, in respect of loan portfolio monitoring services provided during the year (refer to note 8.2).

26.2 The Company maintains a separate, approved contributory provident fund for all employees. All the investments out of provident fund have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and rules formulated thereof.

27 DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY FUND

27.1 The movement in liability is as follows:

	2018	2017
	---------- Rupees '000 ----------	
Opening net liability	**4,686**	12,633
Expense recognized during the year	**16,952**	14,286
Contributions made directly to the Fund	**(13,317)**	(24,927)
Benefit payments on behalf of the Fund	**(3,268)**	-
Re-measurement loss recognized in other comprehensive income	**10,062**	2,694
	15,115	4,686

27.2 The details of actuarial valuation carried out as at 30 June, 2018 and 2017 are as follows:

27.2.1 Reconciliation of payable to defined benefit plan

	Note	2018	2017
		---------- Rupees '000 ----------	
Present value of the defined benefit obligation	27.2.2	**130,239**	102,069
Fair value of the plan assets	27.2.4	**(115,124)**	(97,383)
		15,115	4,686

27.2.2 Change in the present value of defined benefit obligation

	2018	2017
Opening balance	**102,069**	102,160
Current service cost	**17,112**	13,483
Past service cost	**-**	333
Interest cost on defined benefit obligation	**8,032**	6,662
Benefits paid	**(3,268)**	(20,539)
Actuarial gain recognized	**6,294**	(30)
	130,239	102,069

27.2.3 Charge recognized in the Statement of Income and Expenditure

	2018	2017
Current service cost	**17,112**	13,483
Past service cost	**-**	333
Interest cost on defined benefit obligation	**8,032**	6,662
Interest income on plan assets	**(8,192)**	(6,192)
	(160)	470
	16,952	14,286

Charge recognized in the Statement of Other Comprehensive Income

	2018	2017
Actuarial (gain) / loss recognized	**6,294**	(30)
Return on plan assets, excluding the amount included in interest income	**3,768**	2,724
	10,062	2,694

27.2.4 Change in fair value of plan assets

	2018	2017
	---------- Rupees '000 ----------	
Opening balance	**97,383**	89,527
Interest income	**8,192**	6,192
Contributions made directly to Fund	**13,317**	24,927
Payments made on behalf of the Fund	**3,268**	-
Benefits paid	**(3,268)**	(20,539)
Return on plan assets, excluding the amount included in interest income	**(3,768)**	(2,724)
	115,124	97,383

27.2.5 Major categories of plan assets as a percentage of total plan assets are as follows:

	2018		2017	
	Rupees '000	%	Rupees '000	%
Term Deposit Receipts	**114,086**	**99**	97,018	100
Cash and cash equivalents	**1,038**	**1**	365	0
	115,124	**100**	97,383	100

Term Deposit Receipts are kept with a scheduled bank and having a maturity of one year. Further, bank balances represent savings accounts maintained with scheduled banks.

Funds were invested in the limits specified by regulations governing investment of approved retirement funds in Pakistan. These funds have no investment in the Company's own securities.

27.2.6 The Projected Unit Credit Method using the following significant assumptions was used for the valuation of the scheme:

	2018	2017
Valuation discount rate (per annum)	**9.00%**	8.00%
Salary increase rate (per annum)	**8.00%**	7.00%
Salary increase rate - 1 year (per annum)	**6.50%**	5.75%

Mortality was assumed as per adjusted State Life Insurance Corporation (SLIC) 2001-2005 mortality table with one year age set back at valuations on both dates i.e. 30 June, 2017 and 2018.

The gratuity plan is a defined benefits final salary plan. The trustees of the Fund are responsible for plan administration and investment. The Company appoints the trustees. All trustees are the employees of the Company.

The plan exposes the Company to various actuarial risks such as investment risk, salary risk, longevity risk and withdrawal risk.

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to assumptions set out above. The following table summarizes how the defined benefit obligation, at the end of the reporting period, would have increased or decreased, as a result of a change in the respective assumptions by one

	Defined benefit obligation	
	1% Increase	1% decrease
	---------- Rupees '000 ----------	
Discount rate (1%)	(10,562)	12,293
Salary increase rate (1%)	12,964	(11,309)

The impact of changes in financial assumptions has been determined by revaluation of the obligations on different rates.

The Company contributes to the Fund on the advice of the Fund's actuary.

The weighted average number of years of the defined benefit obligation is given below:

Plan duration	Years
30 June, 2018	**8.77**
30 June, 2017	**8.17**

		2018	2017
		---------- Rupees '000 ----------	
27.2.7	**Projected payments as at 30 June**		
	Contributions for next financial year	**18,633**	14,318
	Benefit payments:		
	Year 1	**28,639**	19,432
	Year 2	**6,666**	6,716
	Year 3	**9,599**	4,850
	Year 4	**4,490**	10,932
	Year 5	**4,460**	3,280

28 SERVICE CHARGES PAYABLE

These represent service charges payable to GOP at the rate of 0.75% per annum (2017: 0.75% per annum) on the principal amount of long term-financing outstanding withdrawn from time to time.

		Note	2018	2017
29	**CONTINGENCIES AND COMMITMENTS**		---------- Rupees '000 ----------	
29.1	**Contingencies**			
29.1.1	Guarantees to banks against lending to Microfinance institutions		-	420,000
29.2	**Commitments**			
29.2.1	Aggregate commitments under Financing Agreements with Partner Organizations for Grants:			
	Community physical infrastructure		**441,251**	579,404
	Capacity building		**107,593**	305,760
	Social sector development		**445,713**	239,161
	Social mobilization		**97,800**	94,187
	Livelihood enhancement and protection		**245,886**	139,260
			1,338,243	1,357,772
	Loans under the Master Subordinate Loan Agreement with an associate of the Company		**904,787**	10,529,520
			2,243,030	**11,887,292**

29.2.2 PMICL

a) The Company has granted separate put options to other shareholders of PMICL, for sale of their shares in PMICL, individually, to the Company, between 2024 to 2026, at the higher of the aggregate net book value of the shares held by these shareholders and the total capital invested by them, on the option exercise date. As the management estimates that the fair value of these shares will be equal to or more than the amount of the consideration required to be paid, no liability for these options has been recognized in these financial statements. As at 30 June, 2018, the aggregate net book value of shares held by these shareholders is Rs. 3,098,208 thousand (at Rs. 1.032 per share) and the capital invested by them is Rs. 3,000,964 thousand.

b) Without the consent of all other shareholders of PMICL, holding at least 10% of PMICL's shares, the Company cannot sell or pledge, for a period of five years commencing from the date of incorporation of PMICL, its shares in PMICL. The Company has also granted other shareholders of PMICL, the right of first offer and tag-along rights, in case it receives a bona fide binding offer for the sale of shares held by it.

30 SERVICE CHARGES ON LOANS TO PARTNER ORGANIZATIONS AND ASSOCIATE	2018	2017
	---------- Rupees '000 ----------	
Service charges on loans to Partner Organizations	**350,940**	1,031,506
Service charges on loans to associate	**458,820**	4,876
	809,760	1,036,382

These represent service charges on loans to POs and an associate, under respective Financing Agreements at the rates disclosed in note 10.1 and 11.2.

31 INCOME ON INVESTMENTS AND SAVINGS ACCOUNTS	Note	2018	2017
		---------- Rupees '000 ----------	
Profit on investments			
Specific to Endowment Fund		**128,060**	126,680
Specific to projects		**3,565**	30,074
Specific to Grant Fund	31.1	**718,186**	627,914
Specific to others and savings accounts		**246,315**	256,030
		1,096,126	1,040,698

31.1 Income on investments is allocated to the grant fund, in the ratio of the balance of grant fund to the average investments during a period. This income will be used for grant based interventions, approved by the Board of Directors of the Company.

32 OTHER INCOME		2018	2017
		---------- Rupees '000 ----------	
Income from financial assets			
Mark-up on loans to employees		**260**	394
Income from non-financial assets			
Gain on disposal of property equipment		**12,391**	2,119
Reversal of provision - Net	11.3	**50,774**	-
Reversal of deferred liability-grant fund	32.1	**10,000**	-
Miscellaneous	32.2	**6,592**	536
		80,017	3,049

32.1 This comprise of reversal of unutilized grant received from Fauji Fertilizer company Limited and Engro Foundation amounting to Rs 6,000 thousand and Rs 4,000 thousand, respectively and taken to statement of profit and loss account.

32.2 This includes a reversal of an expense amounting to Rs 5,755 thousand relating to project and relief activities, which erroneously charged in previous years.

33 GENERAL AND ADMINISTRATIVE EXPENSES	Note	2018	2017
		---------- Rupees '000 ----------	
Salaries, wages and other benefits	33.1	**417,026**	325,356
Rent, rates and taxes		**36,135**	33,902
Repairs and maintenance		**8,753**	8,895
Traveling, lodging and conveyance		**62,525**	41,890
Communication		**6,408**	6,021
Printing and stationery		**3,090**	6,034
Insurance		**9,088**	13,022
Vehicles running and maintenance		**13,002**	16,831
Utilities		**6,598**	4,876
Legal and professional charges		**10,056**	6,015
Auditors' remuneration	33.2	**2,212**	2,420
Advertisement		**3,331**	1,795
Media projection		**394**	736
Newspapers, books and periodicals		**376**	408
Depreciation	6.1	**17,179**	28,934
Amortization	7.1	**389**	463
Security services		**3,038**	2,453
Others		**5,589**	5,149
	33.3	**605,189**	505,200

33.1 This includes Rs. 33,959 (2017: Rs. 33,440) thousand in respect of employees' retirement benefits.

33.2 Auditor's remuneration	2018	2017
	---------- Rupees '000 ----------	
EY Ford Rhodes		
Statutory audit	**1,100**	1,100
Projects' audit	**1,112**	1,320
	2,212	2,420

33.3 General and administration expenses include Rs. 59,235 (2017: Rs. 69,002) thousand incurred on different programme activities, as disclosed in note 25.

34 SEMINARS, WORKSHOPS AND TRAININGS	Note	2018	2017
		---------- Rupees '000 ----------	
Training		**4,938**	6,009
Seminars and workshops		**4,394**	10,340
	34.1	**9,332**	16,349

34.1 Seminars, workshops and training expenses include Rs. 2,508 (2017: Rs. 5,826) thousand incurred on different programme activities as disclosed in note 25.

		Note	2018	2017
			---------- Rupees '000 ----------	
35	**TECHNICAL AND OTHER STUDIES**	35.1	**96,591**	76,775

35.1 Technical and other studies include Rs. 27,614 (2017: Rs. 34,886) thousand incurred on different programme activities as disclosed in note 25.

		Note	2018	2017
36	**PROVISION AGAINST LOANS / SERVICE CHARGES**		---------- Rupees '000 ----------	
	Provision made against loans to POs	11.3	**-**	31,503
	Provision against service charges receivable	16.1	**16,008**	76,112
			16,008	107,615
37	**FINANCIAL CHARGES**			
	On long-term financing		**97,102**	104,345
	Imputed interest on long-term loan at below market interest rate		**149,272**	142,085
	Bank charges		**239**	1,785
			246,613	248,215
38	**EXPENDITURE ON PROJECT AND RELIEF ACTIVITIES**			
	The Government of Pakistan - IDA-III Project		**-**	6,193
	Flood relief		**-**	22,420
	Project and other activities	38.1	**81,977**	122,573
			81,977	151,186

38.1 This includes amounts disbursed to POs in respect of Institutional Development - Social Mobilization, infrastructure schemes, health and education interventions and livelihood enhancement schemes amounting to Rs. 37,112 thousand, 24,630 thousand, 8,445 thousand and 5,240 thousand, respectively.

		Note	2018	2017
39	**MOVEMENT IN GRANT FUND / RESERVE FOR GRANT BASED ACTIVITIES**		---------- Rupees '000 ----------	
	Income allocated to grant fund / reserve for grant based activities	31	**718,186**	627,914
	Less: Expenditure on project and relief activities	38	**(81,977)**	(151,186)
			636,209	476,728
40	**REMUNERATION OF CHIEF EXECUTIVE OFFICER**			
	Managerial remuneration		**24,359**	21,043
	House rent allowance		**5,100**	5,100
	Contribution to staff Provident Fund		**2,066**	1,913
			31,525	28,056
	Number of persons		**1**	1

40.1 In addition to the above, the Chief Executive Officer is provided with medical insurance and gratuity as per policy.

40.2 No remuneration was paid to the directors, during the year except reimbursement of actual expenses for attending the meetings of Board of Directors at actual.

41 TRANSACTIONS WITH RELATED PARTIES

The Company has related parties which comprise of the Government of Pakistan, an associate, Employees Gratuity Fund, Employees Provident Fund, directors and key management personnel. Amounts due from / (to) related parties are disclosed in the relevant notes to the financial statements. The carrying value of investment in associate is disclosed in note 8 to the financial statements. The Company in the normal course of business pays for electricity, gas and telephone (utility bills) to entities controlled by the Government of Pakistan, which are not material, and hence not disclosed in these financial statements. Unless otherwise stated, the transactions with related parties are carried out at arms length basis. The transactions with related parties not disclosed elsewhere are:

Relationship	Nature of transaction	2018 Rupees '000	2017 Rupees '000
PMICL Associate	-Expenses incurred on behalf of PMICL	-	74,231
Provident fund	-Payments in lieu of contributions made to the provident fund	46,318	28,515

41.1 Details of remuneration of key management personnel is disclosed in note 40.

41.2 Following are the pertinent details of a related party with whom the Company had transactions during the year or have agreements/ arrangements in place:

Serial Number	Name of the related party	Basis of association	Aggregate percentage
1	PMICL	Investment in Equity	49%

42 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

42.1 Financial assets and liabilities

	2018			2017		
	Held to maturity investments	Loans and receivables	Total	Held to maturity investments	Loans and receivables	Total
	Rupees '000					
Financial Assets:						
Maturity up to one year:						
Current maturity of long-term investments	2,131,000	-	2,131,000	875,000	-	875,000
Current maturity of loans to Partner Organizations	-	803,100	803,100	-	8,923,734	8,923,734
Current maturity of long-term loan to associate		812,279	812,279	-	-	-
Short-term investments	10,246,700	-	10,246,700	11,698,012	-	11,698,012
Loans to employees	-	76,693	76,693	-	15,346	15,346
Other receivables	-	73,328	73,328	-	18,320	18,320
Profit / service charges receivable	-	508,475	508,475	-	503,409	503,409
Bank balances - specific to projects	-	1,842,534	1,842,534	-	991,610	991,610
Cash and bank balances	-	371,240	371,240	-	449,569	449,569
Maturity after one year:						
Long-term deposits	-	7,004	7,004	-	7,556	7,556
Long-term investments	2,097,428	-	2,097,428	1,783,356	-	1,783,356
Long-term loans to associate	-	9,435,721	9,435,721	-	1,818,000	1,818,000
Long-term loans to Partner Organizations	-	55,896	55,896	-	809,665	809,665
	14,475,128	13,986,270	28,461,398	14,356,368	13,537,209	27,893,577

	2018	2017
	Rupees '000	
Financial Liabilities:		
Maturities up to one year:		
Deferred liabilities - grant fund	1,623,317	992,452
Current portion of long-term financing	1,279,597	1,100,515
Service charges payable	21,971	24,002
Trade and other payables	56,183	95,185
Maturity after one year but before five years:		
Long-term financing	6,154,819	5,118,330
Maturity after five years:		
Long-term financing	4,913,102	7,229,184
	14,048,989	14,559,668
Off balance sheet items:		
Commitments	2,243,030	11,887,292

43 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of the 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	2018	2017
			---------- Rupees '000 ----------	
Investments				
Counterparties with external credit rating				
	PACRA	A1+	**6,548,369**	6,921,407
	JCR-VIS	A-1+	**-**	1,199,000
	PACRA	A1	**1,540,630**	1,180,000
	JCR-VIS	A-1	**989,933**	793,600
Securities issued / supported by Government of Pakistan			**5,410,068**	4,279,005
			14,489,000	14,373,012
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	**2,036,639**	1,433,554
	JCR-VIS	A-1+	**175,669**	3,576
	PACRA	A1	**967**	1,676
	JCR-VIS	A-1	**428**	2,249
	JCR-VIS	A-2	**12**	11
Balance with National Saving Centre			**-**	11
			2,213,715	1,441,077
Loans to Partner Organizations and associate				
Counterparties with external credit rating:				
	JCR-VIS	A-1	**-**	310,400
	JCR-VIS	A-3	**43,750**	2,357,933
Counterparties without external credit rating:				
- Counterparties with no default in the past				
Loans to Partner Organizations			**815,246**	7065066
Loans to associate			**10,248,000**	1,818,000
			11,106,996	11,551,399
Profit / service charges receivable				
Counterparties with external credit rating				
	PACRA	A1+	**104,827**	93,238
	JCR-VIS	A-1+	**1,294**	19,099
	PACRA	A1	**72,612**	35,734
	JCR-VIS	A-1	**21,930**	30,320
	JCR-VIS	A-3	**12,438**	18,786
Securities issued / supported by:				
Government of Pakistan			**122,198**	138,355
Counterparties without external credit rating:				
- Counterparties with no defaults in the past			**217,264**	167,877
			552,563	503,409

43 Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rates risk and price risk). The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

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 to incur a financial loss. The Company's credit risk is primarily attributable to loans to Partner Organizations, receivable from donors and POs, investments and bank balances. The Company is exposed to credit related losses in the event of non-performance by Partner Organizations of micro-credit loans to the extent of Rs. 1,782,827 thousand (2017: Rs. 10,708,004 thousand) (including loans to five major POs of Rs. 846,278 thousand) (2017: loans to five major POs of Rs. 6,021,286 thousand). The Company controls the credit risk through credit appraisals, assessing the credit-worthiness of POs and creating charge on the assets of POs. The Company is also exposed to credit related risk on loans to an associate amounting to Rs. 10,248,000 thousand (2017: Rs. 1,818,000 thousand). The Company controls the credit risk on loans to associates via participating in associate's operations. The credit risk on investments and bank balances is limited because the counter parties are banks and Government of Pakistan. The credit risk on grant receivable is also limited, as the receivable is in respect of amounts disbursed to POs in accordance with the provisions of an agreement with the donor.

b) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company manages liquidity risk by maintaining sufficient cash and investments. The Company's financial position is satisfactory and the Company does not have any liquidity problems. The contractual maturities of the financial liabilities are disclosed in note 42.1.

c) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows 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.

(ii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets include balances of Rs. 25,677,464 (2017: Rs. 25,923,113) thousand and financial liabilities include balances of Rs. 12,347,515 (2017: Rs. 13,448,029) thousand which are subject to interest rate risk. Applicable interest rates for financial assets and financial liabilities have been indicated in respective notes.

If interest rates had been 1% higher / lower with all other variables held constant, surplus for the year would have been Rs. 133,299 (2017: Rs. 124,751) thousand higher / lower.

(iii) Other price risk

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

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

d) Determination of fair values

Fair values of financial and non-financial assets and liabilities are determined for measurement and/or disclosure on the basis of accounting policies disclosed in the financial statements. As at the reporting date, carrying value of the Company's financial assets and liabilities are reasonable approximation of their fair value . Accordingly, no fair value information has been disclosed in these financial statements.

43 Off-setting financial assets and liabilities

The Company does not off-set any of its financial assets and liabilities.

43.3 Capital risk management

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

44 CASH AND CASH EQUIVALENTS

	Note	2018	2017
		--------- Rupees '000	----------
Short-term investments	18	**1,667,768**	3,077,686
Bank balances-specific to projects	20	**1,842,534**	991,610
Cash and bank balances	21	**371,240**	449,569
		3,881,542	4,518,865

45 NUMBER OF EMPLOYEES

	2018	2017
Number of employees	**186**	170
Average number of employees during the year	**180**	182

46 GENERAL

Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

47 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Company on ________________.

DIRECTOR **CHIEF EXECUTIVE OFFICER**