DIRECTORS' REPORT

& Audited Financial Statements

For the year ended June 30, 2017

Pakistan Poverty Alleviation Fund

DIRECTORS REPORT
FOR THE YEAR ENDED JUNE 30, 2017

INDEX

ANNEXURES

PAKISTAN POVERTY ALLEVIATION FUND
DIRECTORS' REPORT

The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the Seventeenth Annual Report along with audited financial statements of the Company for the year ended June 30, 2017.

As a sector developer, PPAF continued its efforts to improve and consolidate its work for poverty graduation and helping people move into the economic mainstream. Through its ongoing programs such as Livelihood Support and Promotion of Small Community Infrastructure Program (LACIP), Program for Poverty Reduction (PPR), Hydropower and Renewable Energy program (HRE), Prime Minister's Interest Free Loans scheme (PMIFL) and a range of other projects, PPAF spread its cherished values and approaches of building institutions, developing social capital, ensuring equality and inclusion and propelling economic sustainability.

During the year 2016-17, PPAF contributed its efforts in aiding conflict areas by carrying out the interventions through LACIP project. The project continued its focus on creating opportunities and building institutions and pathways out of poverty for the poor and disadvantaged communities across Pakistan through empowering community institutions which acts as the foundation for sustainable poverty alleviation. PPAF continued to grow its alliances and networks and strongly acknowledge its Partner Organizations (POs) for implementing its developmental initiatives.

In order to add value in aiding Pakistan's continuous energy crisis the independent Renewable Energy Unit of PPAF under the HRE Project continued development of indigenous renewable energy resources (small scale hydropower, solar, wind and biomass) to generate electricity locally to off grid communities in KPK. PPAF has completed projects of different types and sizes through grants and microcredit funded by various development partners including development of mini hydroelectric plants, decentralized solar lighting and solar home systems, wind energy projects, solar-wind hybrid systems, solar water pumping projects and biogas plants. During the year PPAF received global recognition for its community managed hydropower plants from the prestigious Energy Institute (EI), UK.

Under the PPR programme, PPAF has taken some new initiatives resulting in some strategic shift from its standard approach. The programme provided new challenges for PPAF to reprogram itself in the light of those learning, best practices and experiences. A fresh approach had been introduced in the selection of POs, preparing for entering an area, socio economic development programme and union council development plans. Additionally, the programme aims to establish social and productive systems of infrastructure and the creation of a sustainable social safety net. The programme also aims to enhance and promote local artisans who play a significant role in preserving heritage, developing and promoting cultural industries. Keeping in view the potential of local artisans, PPAF is promoting handicraft through special platforms to showcase their work.

Resulting in successful experiences working with PPAF, the Government of Pakistan had requested PPAF to design, mobilize, implement and monitor the PMIFL scheme through its POs. PPAF is targeting least developed and the most deserving areas where it has already invested in terms of social mobilization, livelihood projects, training, health, education, water, small infrastructure and rehabilitation projects. The scheme has been successful in making interest free loans available to men, women and youth from vulnerable and marginalized households. The loans are aimed at identifying and strengthening common interest groups, asset establishment, creating employment centers and developing linkages to foster growth.

During the year PPAF achieved something it set out to do 15 years earlier, which was to develop the microfinance sector in Pakistan. Financial inclusion is critical to achieve inclusive growth and it is a prerequisite for sustainable economic growth and development, reducing inequality and mitigating poverty. With the incorporation of Pakistan Microfinance Investment Company (PMIC) the dream of financial inclusion for all came closer than ever. PPAF was an integral part of the development of the microfinance sector and PMIC is going to move the sector to the next level. PMIC will build upon the foundations PPAF laid fifteen years ago by providing responsible financial services to the millions of poor and financially excluded individuals of Pakistan.

PMIC was incorporated on August 10, 2016 as an Investment Finance Company under NBFCs regulations with SECP. It is setup jointly by PPAF, Karandaaz Pakistan (financed by Development Fund for International Development, UK) and KfW (Development Bank of Germany) to catalyze and lead the next phase of growth in the microfinance sector of Pakistan. The purpose of PMIC is to improve financial inclusion, employment and wellbeing of the poor by providing wholesale financing to the microfinance service providers in the country. The institution also has a role in the development and strengthening of the microfinance sector by actively contributing to policy and regulations for microfinance, capacity building of microfinance players as well as to promote innovation and responsible financial practices in the sector.

The shareholding percentage and amount of 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	-	-	1	
Total	**100%**	**5.83**	**7**	

The following agreements were executed between the shareholders of PMIC on April 28, 2016:

i) Shareholders' Agreement;
ii) Shares Subscription Agreement;
iii) Non-Compete Agreement

The Shareholders' Agreement signed between PPAF, KfW and Karandaaz stipulates percentage shareholdings of the three shareholders; purpose of PMIC; matters relating to registration and incorporation of PMIC; terms and timing for equity investment in PMIC; composition, remuneration, replacement, nomination, obligations and powers of Board of Directors; Committees of Board; matters related to Board, Shareholders and Management etc.

The Share Subscirption Agreement stipulates authorised and subscribed capital of PMIC, capital financing obligations of each shareholder with respect to initial and subsequent equity injections in PMIC; and financing for license fee under Non Banking Finance Companies Rules 2003 etc.

Under the Non-Compete Agreement, shareholders agreed that they themselves or their affiliates shall not compete directly or indirectly with PMIC in respect of its microfinance business. They also agreed not to invest, manage, control or participate in the management, operation or control any person seeking to establish microfinance business which is similar to or competitive with that of PMIC. PPAF has ceased to provide new loans to POs, with effect from 21 February, 2017.

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

1. Mr. Qazi Azmat Isa, CEO PPAF
2. Mr. Noor Ahmed, Additional Finance Secretary, Finance Division
3. Dr. Tariq Hassan, (Independent Director)

PPAF is one of the founding sponsors of PMIC. In order to provide impetus and financing for the next generation of wholesale microfinance lending and strengthening of microfinance institutions in Pakistan, PPAF has spin off its entire wholesale microfinance lending operations and programs into PMIC. The financial services group within PPAF which was managing the credit portfolio was transferred to PMIC. For management of loan portfolio a Loan Portfolio Agreement was signed between PPAF and PMIC on November 17, 2016. PPAF has appointed PMIC to provide the PMIC Services which are stipulated in the Loan Agreement. In consideration for payment of the fee PMIC has agreed to perform services which 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 will pay to PMIC at the end of each calendar quarter, as full compensation for PMIC Services rendered, a 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. PPAF will prepare sheet for calculation of the fees and provide the same to PMIC on the basis of which PMIC shall generate an invoice for PPAF for the Fees.

PPAF agreed to provide the amount received from its POs on account of principal repayment of loan as subordinated debt to PMIC. It was agreed that as and when repayments are received from the POs the same will be transferred by PPAF to PMIC as a shareholder loan. The loan period for PMIC matches PPAF's loan repayment period to the Government of Pakistan. For provision of shareholder loan PPAF and PMIC signed Master Loan Framework Agreement on November 17, 2016. The subordinated loan was agreed to be provided on the following terms:
The subordinated loan facility from PPAF to PMIC priced on commercial terms with 6 months KIBOR plus 1%. The rate of six months KIBOR (offer) prevailing on first working day of January and July for first and second half of the year. Provision will be made to revise/reset the loan price on events such as (i) If and when PMIC secures an Investment Grade credit rating from a recognized rating agency in Pakistan. PMIC would be incentivized and rewarded for lowering credit risk to its lender by lowering the cost of debt; (ii) if another shareholder provides a loan to

PMIC of a defined minimum size at a cost lower than or higher than PPAF; (iii) as spreads on bank loans reduce over time, proportional % reduction in Shareholder Loan coupon could take place. Interest will be paid as per payment schedule agreed between PPAF and PMIC.

PPAF signed a Memorandum of Understanding (MOU) with PMIC on September 29, 2016 for provision of accounting and human resource services to PMIC. As per MOU it was agreed that PPAF would provide these services till February 28, 2017. It was also agreed that PPAF would record all expenditure and maintain separate books of accounts for PMIC and deal with tax matters on behalf of PMIC for which the PMIC would reimburse the expenditures to PPAF on actual basis.

Progress Review:

Lending operations of PPAF had diversified over last seventeen years and in August 2016 PPAF spun off its microfinance operations into a separate independent entity i.e. PMIC. As agreed under the Non-Compete agreement with PMIC, PPAF has w.e.f. February 21, 2017 stopped extending Credit Enhacement Facilities (CEF) to POs besides ceasing microcredit disbursements. As per the Master Loan Framework Agreement (between PPAF and PMIC) the amounts recovered from POs are now being disbursed by PPAF to PMIC as Subordinate Loan.

Lending portfolio with POs:
As a result of this strategic shift the loan portfolio of PPAF with POs reduced by 27% to Rs. 10,708 million at June 30, 2017 (June 30, 2016: Rs. 14,716 million). The CEF was also reduced to Rs. 420 million on June 30, 2017 (June 30, 2017 : Rs 2,150 million).
Transfer of Financial Services Group to PMIC envisaged the need for monitoring and management of existing microcredit portfolio of PPAF with POs. Accordingly, Loan Portfolio Agreement was signed with PMIC for management of microciredit portolio on behalf of PPAF for a fee (1% of the outstanding principal.) Mangement of portfolio of Rs. 14,214 million was handed over to PMIC with effect from December 1, 2016. The said portfolio as at June 30, 2017 stood at Rs. 10,170 million. Rs 74 million accrued as management fee to PMIC for the period December 1, 2016 to June 30, 2017. PPAF retains all risks, rewards and contraol over these loans.

Subordinated Debt to PMIC:
During the year PPAF has provided subordinated of Rs. 1,818 million to PMIC as follows:

Date of disbursement	Amount Rs. In millions	First recovery due on	Last recovery due on	No. of installment	Interest rate*
Jun 1, 2017	824	Oct 7, 2018	Oct 7, 2031	43	7.15% pa (Six months KIBOR+1%)
Jun 29, 2017	994	Oct 7, 2018	Oct 7, 2031	43	7.15 pa (Six months KIBOR+1%)

* Interest rate payment will be on quartlery basis commncing from October 2017.

Investment in PMIC:

PPAF has during the year invested Rs. 2,883 million in share capital of PMIC as its 49% shareholding. As per the audited financial statements of PPAF for the period ended December 31, 2016 and un-audited financial statements for the half year ended June 30, 2017, PMIC incurred a loss of Rs 67.5 million and generated profit of Rs. 63.9 million respectively. The cumulative net loss after tax during the FY 2016-17 amounts to Rs. 3.6 million. Accordingly, PPAF has recognized loss of Rs. 1.75 million (as its 49% share) during the year. Summary of income statement of PMIC is as follows:

	Rs in million
Income	266.6
Administrative expenses	(218.4)
Other income	23.8
Fiannce costs – borrowings	(4.8)
Finance cost – bank charges	(0.4)
Loan loss provision	(42.0)
Profit before taxation	24.8
Taxation	(28.4)
Loss for the period	(3.6)
PPAF share of loss (49%)	(1.7)

The amount of loss has been adjusted from PPAF's investment in PMIC. The net investment in PMIC as of June 30, 2017 is reflected as follows:

	Rs in million
Investment during the year	2,883.258
Share of loss of PMIC	1.749
	2,881.509

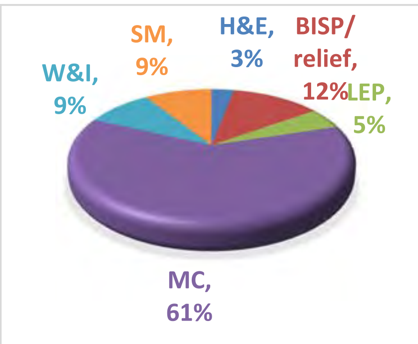
Grant Operations:

Disbursements for grant based interventions during the year were Rs. 2,160 million as against Rs. 4,247 million in FY 2015-16, a decrease of 49%. The overall reduction in grant operations is on account closure of US$ 255 million World Bank financed PPAF-III project in FY 2015-16. Of Rs 4,247 million total disbursements in FY 2015-16 disbursements related to PPAF III were Rs. 3,003 million.

Components	Rupees in millions 2017	2016	Variance (%age)
Water & Infrastructure	879	1,512	(42)
Livelihood Enhancement & Protection	249	1,255	(80)
Health & Education	481	713	(33)
Institutional Development	400	359	11
Project activities	151	408	(63)
Grand Total	**2,160**	**4,247**	**(49)**

Disbursements for water and infrastructure components decreased by 42% to Rs 879 million (FY 2015-16 - Rs 1,512 million). Disbursements for livelihood component showed a reduction of 80% and were Rs 249 million (FY 2015-16 – Rs. 1,255 million). Majority of funding for this component was disbursed under PPAF III Project. Disbursements for health and education component decreased by 34% to Rs. 481 million (FY 2015-16 – Rs. 713 million). Institutional development and social mobilization disbursements were Rs. 400 million (FY 2015-16 – Rs. 359 million), increase of 11% from last year. The increase is on account of disbursements under PPR project which accounted for Rs. 220 million during current year as against Rs. 154 million for FY 2015-16. In addition to core operations, Rs 151 million (FY 2015-16 – Rs 408 million) were spent on projects and relief activities [fig.1].

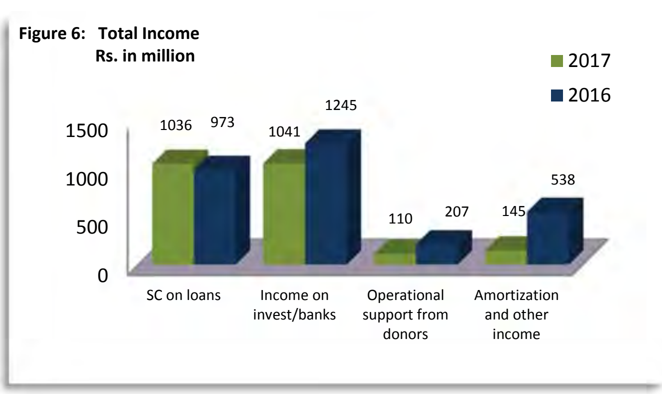
Interest Free Loans:
During the year PPAF disbursed Rs. 177 million (FY 2015-16 – Rs. 1,617 million) on account of operational cost for POs under PMIFL scheme for management of revolving fund of Rs. 3.1 billion. PPAF has completed disbursement of project funds for this scheme which constitute the amount to be utilized for issuance of interest free loans to the beneficiaries. During the FY 2016-17, PPAF has received additional operational cost of Rs. 310 million from Government of Pakistan.



Cumulative disbursements since inception to June 30, 2017, stood at Rs 186 billion out of which credit disbursements were 61% followed by project and relief activities, including Prime Minister Interest Free Loan Scheme and Waseela-e-Haq Program (12%); community physical infrastructure (9%); human and institutional development and social mobilization 9%; livelihood enhancement and protection (13%) and health & education (3%) [fig. 2].

PPAF leveraged its strengths, expertise, and resources to help the partners to make a real impact on development by driving economic growth, promoting inclusiveness, and ensuring sustainability. PPAF's primary role is to support the disadvantaged people as they find ways to improve their income, reduce poverty, and build communities which are resilient and adapt to climate change.
By the end of June 2017, 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 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 38,100 health, education, water and infrastructure projects, transferred 109,000 assets to poor and organized over 18,000 training events for 1,127,000 staff and community members nationwide. 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.

Operational and Financial Highlights



PPAF generated sufficient profits to run its operations smoothly.

Total income earned during the year was Rs 2,332 million as against Rs 2,963 million in FY 2015-16, a reduction of 21%.

Service charges on loans to POs and associate increased by 6% to Rs 1,036 million in FY 2016-17 (FY 2015-16: Rs 973). The increase is on account of higher average outstanding portfolio with POs, Rs. 14,528 million in FY 2016-17 as against Rs. 13,698 million in FY 2015-16. Loans to POs were effectively deployed at 8% per annum. Income on investments/saving accounts had decreased by 16% to Rs 1,041 million (FY 2015-16: Rs 1,245 million). Main contributors to this reduction were (i) deployment of funds in microcredit activities resulting in increased average lending portfolio; and (ii) deployment of microcredit reserve towards equity investment in share capital of PMICL of Rs. 2,883 million on which no return was received during the period.

Grant in support of operational expenses decreased by 47% to Rs 110 million in FY 2016-17 (FY 2015-16 – Rs. 207 million) mainly on account of closure of PPAF-III project.

During the year other income of Rs. 3 million (FY 2015-16 – 415 million) was realized on sale of assets and employee loans. Other income for FY 2015-16 included Rs. 408 million realized against projects which were closed in previous years against which all related project activities were completed.

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 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. 142 million (FY 2015-16: Rs 123 million).

The general and administrative expenses related to the operations of PPAF decreased by 12% to Rs 505 million (FY 2015-16 – Rs 576 million). Major reduction was in salaries expenses which decreased by 10% to Rs. 325 million (FY 2015-16 – Rs 360 million), travelling expenses which reduced by 36% to Rs. 42 million (FY 2015-16 Rs. 66 million); legal and professional charges which reduced by 37% to Rs 6 million (FY 2015-16 Rs 9.5 million); vehicle running and maintenance reduced by 16% to Rs 16.8 million (FY 2015-16 Rs 20 million).

Fig 7: Financial results are summarized as follows

	Rs. In million	
	2017	**2016**
Service charges on loans to Partner Organizations	1,036	973
Income on investments and savings accounts	1,041	1,245
Amortization of deferred income - grant fund	110	207
Amortization of deferred benefit	142	123
Other income	3	415
Total income	**2,332**	**2,963**
General and administrative expenses	505	576
Portfolio monitoring fee	74	-
Seminars, workshops and trainings	16	20
Technical and other studies	77	155
Provision against loans / service charges	108	45
Income tax refund written off	-	12
Share of loss of associate	2	-
Financial charges	248	235
Total expenditure	**1,030**	**1,043**
SURPLUS BEFORE PROJECT AND RELIEF ACTIVITIES	**1,302**	**1,920**
Project and relief activities	151	408
Other comprehensive income for the year	3	-
SURPLUS FOR THE YEAR	**1,148**	**1,512**

During the FY 2016-17, PPAF handed over its loan portfolio deployed with POs to PMIC for monitoring purposes with effect from December 1, 2016. As per the agreement, PMIC is entitled to service fee at 1% of outstanding portfolio which amounted to Rs. 74 million for FY 2016-17 (FY 2015-16: nil)

Seminar, workshops and training expenses of Rs 16 million for FY 2016-17 (FY 2015-16 - Rs 20 million) included Rs 6 million (FY 2015-16 - Rs 10 million) spent on trainings and Rs 10 million (FY 2015-16 - Rs 10 million) incurred on seminar and workshops.

Technical and other studies reduced by 50% to Rs 77 million in FY 2016-17 (FY 2015-16 - Rs 155 million). Reduction is on account of reduced consultancies required under donor financed project.

The following new policy was approved by Board of Directors of PPAF for creating provision for doubtful loans and service charges receivable:
The rate for general provision against loans to POs was approved as 3% (FY 2015-16: 5%). Specific provision against the non-performing loans to be created on the basis of following criteria:

Criteria	Percentage of amount provided for
Overdue for 30 days to 59 days	Nil
Overdue for 60 days to 89 days	25%
Overdue for 90 days to 179 days	50%
Overdue for 180 days or more	100%

Categories and provision percentages for Service Charges receivables is as follows:

Classification of Service Charges Receivable	Provision Service Charges
Overdue for 30 days or more but less than 60 days	Nil
Overdue for 60 days or more but less than 90 days	50%
Overdue for 90 days or more	100%

Based on the above policy an amount of Rs. 108 million was charged as expense for FY 2016-17 (FY 2015-16 Rs 45 million). Rs. 32 million was charged against loans (FY 2015-16 – Rs. 27 million) and Rs 76 million against service charges receivable (FY 2016 – Rs. 18 million)

As per the audited financial statements of PMIC for the period ended December 31, 2016 and un-audited financial statements for the half year ended June 30, 2017, PMIC incurred a loss of Rs. 67.5 million and generated profit of Rs. 63.9 million respectively. The cumulative net loss after tax amounts to Rs. 3.6 million as at June 30, 2017. Accordingly, PPAF has recognized loss of Rs. 1.75 million as its 49% share for FY 2016-17 (FY 2015-16: Nil).

The financial charges of Rs 248 million (FY 2015-16 - Rs 235 million) included Rs 106 million as service charges on long term loans and Rs 142 million amortization of deferred benefit of below market interest rate on long term loans and bank charges.

PPAF spent Rs 151 million for FY 2016-17 (FY 2015-16 - Rs 408 million) on project and relief activities financed from its own resources. This includes Rs. 23 million reimbursed to POs on completion of projects for flood relief in the areas of districts Muzaffargarh and Sher Afzal Banda. Moreover, disbursements were also made for various activities including Institutional development Rs. 9 million, infrastructure schemes Rs. 42 million, health and education interventions Rs. 46 million, endowment funds Rs. 11 million and livelihood enhancement schemes Rs. 20 million respectively.

Rs 3 million has been recognized as re-measurement loss on account of actuarial valuation of PPAF staff gratuity during the year.

Total expenditure reduced by 1% to Rs 1,030 million (FY 2015-16 - Rs 1,043 million). Surplus before project and relief activities and actuarial losses was Rs 1,302 million as against 1,920 million in FY 2015-16. Net surplus for the year decreased by 24% to Rs 1,148 million (FY 2015-16 – Rs 1,512 million).

Financing Agreements signed with the Government of Pakistan (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. 856 million (FY 2015-16 - Rs. 791 million) was repaid on account of principal amount of loan and Rs 106 million (FY 2015-16 - Rs 112 million) as service charges to the GoP.

During the year under review, PPAF has revised the policy for appropriation of its accumulated surplus as follows:

- An amount equal to 15% of loans outstanding with POs and PMIC are kept as capital adequacy reserve to safeguard against any future losses.
- Microcredit reserve is kept at an amount equal to equity investment of PPAF in PMIC i.e. Rs. 2,883 million.
- An amount equivalent to 85% of the balance funds (after accounting for capital adequacy and microcredit reserve) is kept as grant fund. Interest allocated from interest on investments was allowed for deployment in grant based health, education, infrastructure, emergency and any other activities that fell within the overall strategic purview of PPAF objectives. Moreover, any unutilized income on grant fund at the end of the year is also made part of the grant fund for next year.
- Remaining balance are retained as general reserve to cover any future cost for financing land and building for PPAF, working capital requirements and to cater for any future/further losses.

The revised policy for accumulated surplus/reserves and the financial figures for the FY 2016-17 are as follows:

Description	**Old policy**	**New Policy**	
		Criteria	**Rs in millions**
Capital adequacy Reserve	15% of outstanding loans with POs	15% of outstanding loans with POs	1,879
Disaster Reserve	5% of outstanding loan with POs	Nil	-
Microcredit reserve	35% of surplus funds after deduction of capital adequacy and disaster reserve	Equal to equity investment in PMIC of Rs. 2,883 million	2,883
Grant Fund	65% of surplus funds after deduction of capital adequacy	85% of surplus funds after deduction of capital adequacy	9,341

	and disaster reserve	and microcredit reserve	
General reserve	Nil	15% of surplus funds after deduction of capital adequacy and microcredit reserve	1,564
Reserve for grant based activities	Income earned on marked investments. Carried forward to next year	Allocated as a ratio of grant fund to average investments. Added back to grant fund at year end	-
Total Reserves			**15,667**

Total funds and reserves increased by 7% to Rs 16,667 million (includes Rs 1,000 endowment fund) as at June 30, 2017 from Rs 15,519 million as at June 30, 2016. Total assets of the Company reached Rs. 31,259 million on June 30, 2017 against Rs 30,857 million as at June 30, 2016, an increase of 1%. Total loan receivables were Rs 12,526 million on June 30, 2017 as against Rs 14,716 million as at June 30, 2016. The debt equity ratio improved to 43:57 (FY 2015-16 - 46:54).

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 have decreased by 8% to Rs. 924 million for FY 2016-17 (FY 2015-16: Rs. 1,006 million)

PPAF invests its surplus funds and reserves including capital adequacy reserve (Rs. 1,878 million) and grant fund (Rs. 9,341 million) in short term, medium term and long term investments. All the investment are done as per Treasury Management Strategy approved by Board of Directors of PPAF. Total investments as at June 30, 2017 were Rs. 13,373 million (2016: Rs. 13,202 million). These investments carry markup rates ranging from 5% to 11.25% per annum. In addition to these investments, Endowment Fund received from Government of Pakistan is invested in government securities as per the terms of Endowment Deed and carry markup rate of 12% per annum (FY 2015-16: 12% per annum).

During the year the cash and bank balances increased by Rs 258 million as compared to last year. The main increase is on account of increase of project specific funds under the Project for Poverty Reduction (funded by Italian Government) and PMIFL project of the Government of Pakistan. The project funds were utilized for programme/operational activities as per the respective financing agreements whereas own funds were used as per the Company's policy for short term and long term investments. The Company had cash and bank balances of Rs 1,442 million at the end of FY 2016-17 (FY 2015-16: Rs. 1,184 million). 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. However the Company has substantial borrowing capacity and is well positioned to meet its future commitments and development plans.

Auditors:

M/s EY Ford Rhodes, Chartered Accountants have completed the annual audit for the year ended June 30, 2017, and shall retire at the conclusion of 21th 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, 2018. The Board also endorsed the recommendations of the Audit Committee.

Conclusion:

The fact remains that there is still about 38.8% of the population of Pakistan living in absolute poverty across the country. A lack of infrastructure continues to limit economic growth, inhibit poverty reduction, and restrict improvements to quality of life.

The increase in development financing reflects our strong commitment to improving the lives of our people. As PPAF enjoys 20 years of providing development assistance, PPAF will strive even harder to meet the development needs of poor. In succeeding years, we should strengthen work in three broad areas of achievement: providing a combination of finance and knowledge for developing areas, promoting good governance, and expanding programs of regional cooperation.

PPAF profoundly feels the need for further development of the private sector. Gender equality needs strengthening at every level. The challenges of urbanization, aging, and public health must be addressed. Implementing the Sustainable Development Goals and the climate change actions agreed at the 21st Conference of Parties on Climate Change are also priorities for PPAF. Recognizing the immediate and long-term development prerequisites of indigenous people, PPAF is working with partners to develop responses that compliment humanitarian assistance.

The progress we've made in recent decades shows that we can make considerable impact on the lives of poor to end extreme poverty. This is our great challenge, and our great opportunity. With the collective determination of PPAF, our stakeholders, and our partners, we remain optimistic that we can tackle these challenges and create a more prosperous and inclusive world for all.

Acknowledgement:

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.

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.

In the end, on behalf of the Board I would like to thank all our employees for making PPAF what it is today. I have been deeply impressed by the loyalty and determination of our people during the last year, which has brought considerable challenges. This gives me the utmost conviction that we can achieve our goals and deliver on PPAF's immense promise and potential to develop Pakistan.

Islamabad
September 28, 2017

Chairperson

Annexures

1. PPAF STRATEGY AND APPROACH

Continued reduction of extreme poverty will require targeted interventions to help the poorest increase their standard of living. Effective social protection programs are critical to this effort. Livelihood development programs, lump-sum cash transfers, and graduation programs have the potential to help the very poor increase incomes to move out of extreme poverty.

In 2009, with the aim to graduate destitute households to a level where they could access mainstream microfinance, a pilot was launched by PPAF with International Fund for Agricultural Development (IFAD) assistance called the Social Safety Net-Targeting Ultra Poor (SSN-TUP) programme. 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 to ultimately graduate them out of poverty. Total cost of the package averaged US$ 500. 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. These outcomes were validated by the Global research study published in the May 2015 issue of Science using evidence from randomized control trials.

Pakistan is currently spending around US$ 1.2 billion through Benazir Income Support Program (BISP) unconditional cash transfers and there is still no evidence to show whether any of the 5.4 million beneficiary households are moving out of poverty. PPAF in consultation with Government of Pakistan has devised an effective poverty graduation strategy that would lessen the current load of 5.4 million BISP beneficiaries with over US$ 1.2 billion expenditure a year. Under the proposed graduation programme a number of ultra and poor families can be graduated to the next level of wellbeing where they have opportunities to link up with other sources of assistance including interest free loans and microfinance. Experience in previous small-scale pilots have shown that there are a large number of BISP beneficiary households that have some inherent potential which, if properly identified and addressed, can help them get out of poverty.

The graduation strategy aims at enabling the poorest to expand their capacity to lead sustainable livelihoods, thereby increasing earnings, ensuring food security and freeing them from long term dependence on charity. It builds on existing programs in Pakistan that have proven to be successful. These include:

- Unconditional Cash Transfer (UCT) program implemented by BISP;
- Prime Minister's Interest Free Loan (PMIFL) program implemented by Pakistan Poverty Alleviation Fund (PPAF); and
- Livelihood, Employability and Enterprise Development (LEED) program, implemented by PPAF.

The overall goal of the graduation programme is to assist the ultra-poor and very poor beneficiaries particularly of BISP in graduating out of poverty on a sustainable basis. The development objective is to enable the rural poor and especially women to realize their development potential and attain a higher level of social and economic wellbeing through a proven flexible and responsive menu of assistance. PPAF has shaped its Graduation Program in line with goals of PPAF's strategic framework objectives i.e. (i) increase poor rural peoples' productive capacities; (ii) increase poor rural people benefits from market participation; and (iii) strengthen the environmental sustainability and climate resilience of poor rural people economic activities. PPAF's Graduation Program aims at moving people out of extreme poverty and into sustainable livelihoods. Driven by the idea that with the right mix of interventions, offered in the right sequence, the extreme poor could "graduate" from extreme poverty into a sustainable livelihood within a defined time period. PPAF Graduation Approach recognizes that financial services have a role in participants' trajectories beyond graduation. Continuing to save after the end of the program can help participants protect assets and accumulate money for future investments or emergencies. A shared goal across the pilots is that by the end of the program, members have access to a wide range of financial services. The Graduation Approach is not a short-term escape from extreme poverty but instead seeks to equip participants with the tools, livelihoods, and self-confidence to sustain themselves when the program is over.

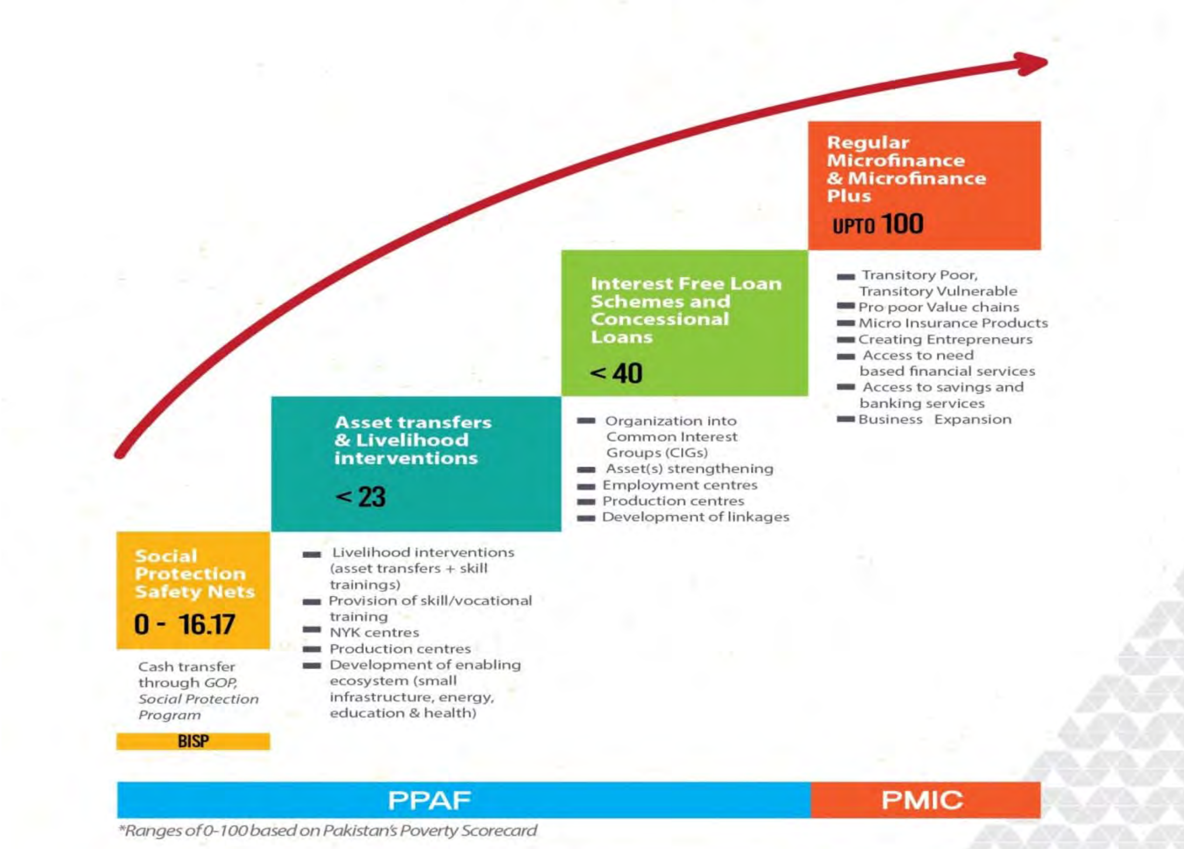
The scale of extreme poverty and its complexity demand a diverse range of responses. The Graduation Approach is one such pragmatic response. It holds significant purpose if implemented at scale to move people out of extreme poverty and into sustainable livelihoods.

The initial phase of the program focuses on social protection and safety nets for the ultra-poor through skills/vocational trainings, regular coaching and asset transfers. This is supplemented by development of an enabling ecosystem through provision of small scale infrastructure schemes, energy, health and education.

After the asset transfer the beneficiaries who demonstrate entrepreneurial skills and have business plan are provided interest free loans to help them expand their business. Key areas of scale and innovation include facilitation of rural and value chain finance, assistance to women and youth in establishing businesses/finding remunerative employment at home and abroad, creation of linkages with the private sector as well as the government, promoting entrepreneurial activities and capacity building. Funding requirement of interest free loans is met through allocation already proposed in the budget under Prime Minister's Interest Free Loans. Households are also organized into common interest groups, asset(s) strengthening, development of linkages and business expansion.

The entrepreneurial households are provided micro credit and related services which include pro-poor value chains, micro insurance products and access to need based financial services, savings and banking services. The cash transfers are provided under BISP's social protection program. PPAF provides financing for asset transfer, related trainings and interest free loans whereas PPAF's associate company PMIC provides microfinance and related service.

Poverty Graduation – Our Strategy



Inclusion and mainstreaming of lagging regions:

Certain groups— whether migrants, indigenous people, or other minorities — confront barriers that prevent them from fully participating in their nation's political, economic, and social life. Left unaddressed, exclusion of disadvantaged groups can also be costly. And the costs—whether social, political, or economic—are likely to be substantial. Acknowledging this, PPAF has committed to "leaving no one behind" in an effort to help promote inclusive growth and achieve the Sustainable Development Goals (SDGs). Social inclusion is an integral part of—and vital to—achieving PPAF's goals of ending extreme poverty and boosting shared prosperity.

Including those who are most likely to be left behind is a complex global challenge, which affects developed and developing countries alike. But it can be planned and achieved. PPAF's work on inclusion aims to broaden and deepen the participation of underprivileged people and their access to public infrastructure and other facilities such as community centers, recreational facilities, public libraries, resource centers, public schools, clinics, water supplies and sanitations. The allocation of resources, whether financial or personnel with the relevant knowledge and skills, to the different stages of the policy cycle is important for the success of mainstreaming social inclusion.

PPAF is playing a leading role in undertaking measures that ensure equity, inclusion and women's representation within the poor communities. PPAF is committed to bringing empowerment and improving representation of women, poor, youth, minorities, migrants, highly vulnerable individuals, people with special needs, and other marginalized community through a transformative framework.

PPAF committed itself to tackling poverty and social exclusion and to put in place the structures and mechanisms to achieve this objective on the basis of the following four features:

- **Policy development**: The mainstreaming of poverty and social exclusion into all public policy-making is central to achieving social inclusion
- **Stakeholder involvement and participation**: The challenge in public policy-making is how to engage those experiencing poverty or their representatives in the process. PPAF sought to explore the existing structures of governance which could be utilised and developed as part of the process of mainstreaming social inclusion.
- **Evaluation framework** for measuring the impact of mainstreaming social inclusion on the policy process, including the development of criteria and indicators that might be used.
- **Cross-departmental working arrangements**: Influencing the policy-making process is the structure of the public services and the interaction across the wide range of policy areas.

Poor people have traditionally lived on the margins of society and had limited connections with other people, markets, and government. Incorporating poor people into formal networks removes these limits and unleashes new possibilities for poverty reduction. Poor people are more capable of navigating their own way out of poverty when they have greater access to markets and information and can assert their identity. Additionally, governments, charities and international donors are better able to target the poor and determine their needs, raising the scope of what anti-poverty programs can hope to achieve. PPAF emphasizes on active participation of women in Community Organizations formed as part of any social mobilization process. Having representation of youth and minorities is also another dimension of PPAF's outreach strategy to communities.

Governance:

Involvement and participation are considered a key development in governance and, in particular, in combating poverty and social exclusion and the mainstreaming of social inclusion into the public policy process. Consultation with the relevant national and local representative organisations which gives them the opportunity to participate in the development of policies through inclusion process is important in capturing the views of excluded people and in ensuring that policies meet their needs.

In order to ensure that this process is effective, both the structures for involvement and the necessary resources need to be in place. For mainstreaming to be effective it would necessitate a shift in how policy is made. This change would be required simultaneously at three public policy levels:

- Political – Mainstreaming should imply the inclusion of poverty elimination and social inclusion in political vision and goals which will then be translated into measures, programmes and policies, backed up with political commitment.
- Institutional – Mainstreaming should produce more focused policy-making and delivery of services for people experiencing poverty.
- Service delivery – The focus should be on finding solutions and services that can prevent, ameliorate and reduce poverty and social exclusion.

Given its mandate to empower poor people to help themselves out of poverty through self-organizing and institutional transformation, PPAF has adopted a strategy that:

1. Helps build the capacity of a wide range of organizations of poor rural people.
2. Facilitates the development and transformation of the institutional landscape (i.e. rules, norms and policies) to empower poor people, especially women, and to enable secure access to productive resources;
3. Promotes forums for dialogue among communities, grass-roots organizations, governments, civil society and donors, to ensure comprehensiveness and full complementarities in the coverage of pro-poor institutional transformation needs.
4. Creating the right linkages for improved public services (education and health, water and sanitation, nutrition).
5. Conflict prevention and management and civic engagement at local levels.

Strategic Delivery Framework

In a rapidly changing world the ability to deliver on an organisations' strategic ambition is key to creating competitive advantage. PPAF recognizes that great ideas and plans without a way of clearly aligning actions to deliver these plan leads to frustration and a waste of scarce resource. The ability to turn strategy into action is therefore a defining capability to success for PPAF.

PPAF's Strategic Delivery Framework offers:

- A structured framework required to successfully realise transformational change
- Enables organisation to define strategic ambition and put in place the steps to turn ambition into reality
- Creates a roadmap that allows the organisation to improve strategic effectiveness and hence competitive advantage

PPAF through its Program Framework have developed a pragmatic yet comprehensive approach to building a strategic delivery capability in organisation that allows absolute clarity on the "what" and "how" of delivering transformational change.

PPAF, since its incorporation in 1997, has played a leading role in economic and development progression by providing quality income generating products and allied services to improve people's lives in the country. Since commencement of operations in the year 2000 till August 2016 PPAF managed its functions and delivered services to the vulnerable across multiple sectors through two platforms (i) financial services focusing on microcredit and Interest Free loan and (ii) grants focusing on infrastructure, health, education, livelihood and institutional development.

With a view to provide a wide range of financial services, including wholesale funding to promote financial inclusion in Pakistan to alleviate poverty and contribute to broad based development PPAF span off its microcredit operations and set up a new company Pakistan Microfinance Investment Company (PMIC) on August 10, 2017.

PPAF is now carrying on grant and interest free loan interventions while the microcredit is being managed by PMIC in which PPAF is the largest shareholder having 49% share, Karandaaz Pakistan and KfW are the other shareholders having 38% and 13% shareholding respectively.

PPAF programme framework is developed to illustrate the linkages between programme inputs, outputs and outcomes. The framework is structured to reflect the individual shelter characteristics. PPAF operations are divided into following four groups:

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.

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. Corporate Relations Management Unit is part of the group and provides support for fundraising from private sector.

Quality Assurance, Research and Design (QARD) Group
The QARD Group comprises of (i) Monitoring and Evaluation; (ii) Research and Design; (iii) Communication and Media; (iv) MIS/IT (v) Donor Development and (vi) ISO, Environmental and Social Management.

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.

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 Unit ensures timely actions, procedures, systems and methods used to purchase and obtain the goods and services required to execute projects. Procurement Unit 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.

2. PROGRAMME OVERVIEW

a) Program for Poverty Reduction:

The objective of the project (financed by GoP through Italian Government funding)is establishment of a social and productive infrastructure system and an effective/sustainable social safety net in project area (Balochistan, KPK and FATA). As of June 30, 2017 EUR 27.06 million were disbursed (68% of the total financing). Implementation progress as of June 30, 2017 is as follows:

Indicators with Components	Status as of June 30, 2017
	No.
Social Mobilization and Institution Building	
Formation & strengthening of community organizations	3,825
Formation & strengthening of 2nd tier community institutions	578
Formation & strengthening of 3rd tier community institutions	41
Number of Community members trainings	19,313
Number of staff members trainings	1,007
Livelihoods, Enhancement and Protection (LEP)	
No. of Livelihood Investment Plans (LIPs) developed	5,049
No. of Common Interest Groups (CIGs) formed	179
Number of Community Resource Persons (CRPs) developed	233
No. of individuals received skills/entrepreneurial training	11,712
No. of ultra and vulnerable poor received productive assets	5,049
Number of Loan center established through Community Livelihood Fund (CLF)	5
Community Physical Infrastructure (CPI)	
No. of Water and Infrastructure projects completed	774
No. of beneficiary households *(completed projects)*	69,238
No. of population beneficiaries (47% female) *completed projects*	516,999
Basic Health & Education Services	
Total No. of school facilities constructed or renovated	728
Total no. of children benefitting from schools	88,084
Total no. of health centers constructed, renovated and/or equipped	88
Total no. of beneficiaries/patients treated from health centers	779,054

b) Prime Minister's Interest Free Loan:

The Government of Pakistan announced 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, 2017 is as follows:

Partner Organizations (POs)	26	
Coverage	Districts: 44	UCs: 436
Loan Applications	Total Received	Total Approved
	353,578	334,164
No. of Loan Centers/Branches established	233	
Funds Disbursed (Rs in million)	PPAF – PO	PO – Borrowers
	3,274.7	7,314.8
No. of Loans Disbursed to Borrowers	318,763	
	Male	Female
	117,419 (37%)	201,344 (63%)
Average Loan Size (Rs)	22,948	

c) Livelihood Support and Promotion of Small Community Infrastructure Project:

The project (financed by GoP through funding of KfW – Development Bank of Germany) started in the year 2012 and is being implemented in 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, 2017 EUR 30.48 million were disbursed (77% of the total financing). Implementation progress as of June 30, 2017 is as follows:

Sr.	Indicators with Components	Status as of 30-Jun-17
Component: Institutional Development & Social Mobilization		
1	No. of community organizations formed/revitalized	4,750
2	No. of village organizations formed	398
3	No. of local support organizations formed	38
4	Membership in community institutions (35% female)	95,019
Component: Water and Infrastructure		
5	No. of Water and Infrastructure projects completed	1,991
6	No. of beneficiary households	161,340
7	No. of population beneficiaries (51% female)	1,199,555
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)	5,229
Component: Education, Health and Nutrition		
11	Total Enrolment	32,033
	- Boys	18,150
	- Girls	13,883
12	Total Patients (A+B)	94,411
	Adults (A)	58,381
	- Men	12,009
	- Women	46,372
	Children (B)	36,030
	- Boys	20,898
	- Girls	15,132

d) Hydropower and Renewable Energy (HRE) Project:

The 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 10 districts of KPK; Swabi, Chitral, Lower Dir, Upper Dir, Swat, Buner, Bannu, Lakki Marwat, Karak, and Hangu.

As of June 30, 2017 PPAF had disbursed EUR 6.76 million (68% of total financing). Implementation progress as of June 30, 2017 is as follows:

Sr.	Indicators with Components	Status as of June 30, 2016
1	**Micro Hydropower Project (MHP)**	
1.1	No. of Sites Identified	05
1.2	No. of Projects Designed	05
1.3	No. of Projects Initiated	05
2	**Solar Lighting Systems (SLS)**	
2.1	No. of Projects Identified	96
2.2	No. of Projects Designed	96
2.3	No. of Projects Initiated	96

3. PAKISTAN MICROFINANCE INVESTMENT COMPANY – ASSOCIATE COMPANY OF PPAF

Pakistan Microfinance Investment Company (PMIC) was incorporated on August 10, 2016 as an Investment Finance Company under NBFCs regulations with SECP. It is 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 purpose of PMIC is to improve financial inclusion, employment and wellbeing of the poor by providing wholesale financing to the microfinance service providers in the country. The institution also has a role in the development and strengthening of the microfinance sector by actively contributing to policy and regulations for microfinance, capacity building of microfinance players as well as to promote innovation and responsible financial practices in the sector.

To achieve its objectives, PMIC intends to attract funding from development agencies, financiers, commercial banks and capital markets to meet the liquidity needs of the sector which requires USD 3 billion to reach a target of 10 million active clients by the year 2020.

In connection with PMIC, the following agreements were signed between the shareholders (PPAF, Karandaaz, KfW) on April 28, 2016:

i) Shareholders' Agreement;
ii) Shares Subscription Agreement;
iii) Non-Compete Agreement

The Shareholders' Agreement signed between PPAF, KfW and Karandaaz stipulates percentage shareholdings of the three shareholders; purpose of PMIC; matters relating to registration and incorporation of PMIC; terms and timing for equity investment in PMIC; composition, remuneration, replacement, nomination, obligations and powers of Board of Directors Committees of Board; matters related to Board, Shareholders and Manangement etc.

The Share Subscirption Agreement stipulates authorised and subscribed capital of PMIC, capital financing obligations of each shareholder with respect to initial and subsequent equity injections in PMIC; and financing for license fee under Non Banking Finance Companies Rules 2003 etc.

Under the Non-Compete Agreement, shareholders agreed that they themselves or their affiliates shall not compete directly or indirectly with PMIC in respect of its microfinance business. They also agreed not to invest, manage, control or participate in the management, operation or control any person seeking to establish microfinance business which is similar to or competitive with that of PMIC. PPAF has ceased to provide new loans to POs, with effect from 21 February, 2017.

The CEO-PPAF was authorized by the Board to negotiate and execute Shareholders' Agreement and other transaction agreements related to PMIC. The above agreements were ratified by the Board of Directors of PPAF in its meeting held on May 19, 2016.

PPAF AND PMIC

The shareholding percentage and amount of 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. PPAF nominees on PMIC Board are:

1. Mr. Qazi Azmat Isa, CEO PPAF
2. Mr. Noor Ahmed, Additional Finance Secretary (EF) Finance Division
3. Dr. Tariq Hassan, (Independent Director)

PPAF is one of the founding sponsors of PMIC. In order to provide impetus and financing for the next generation of wholesale microfinance lending and strengthening of microfinance institutions in Pakistan, PPAF spin off its entire wholesale microfinance lending operations and programs into PMIC. The financial services group within PPAF which was managing the credit portfolio was transferred to PMIC. For management of loan portfolio a Loan Portfolio Agreement was signed between PPAF and PMIC on November 17, 2016.

PPAF has appointed PMIC to perform services which include (i) desk and field monitoring; (ii) follow-up on late payments upon intimation by PPAF; (iii) providing recommendations on restructuring requests by POs. PMIC has agreed to perform the PMIC Services in consideration for payment of the fee. PPAF will pay to PMIC at the end of each calendar quarter, as full compensation for PMIC Services rendered, a 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. PPAF will calculation sheet to PMIC on the basis of which PMIC shall generate an invoice for fee.

The distribution of activities between PPAF and PMIC was agreed as follows:

No.	Activity	Current Procedure	Responsibilities of the Parties under this Agreement
1	Appraisal of POs	FSG	Activities will be discontinued as PPAF shall not enter into any new contracts with POs after financial close (i.e., Subscription of the Committed Equity Amount under the Subscription Agreement dated April 28, 2016); PPAF shall disburse all funds committed under current Partner Organization Financing Agreements. After issuance of the 'notice of effectiveness' referred to above, PMIC will enter into fresh contracts with its partner institutions
2	Financing Agreements	FSG / F&A / Legal	
3	Disbursements to POs	FSG / F&A	

			(which may include the Partner Organizations) based on its own criteria.
4	Recovery from POs*	F&A but follow-ups on late payments by FSG	Continue to be carried out by PPAF but follow-ups on late payments by PMIC upon intimation from PPAF
5	Desk Monitoring*	FSG / F&A	PMIC
6	Field Monitoring*	FSG	PMIC
7	Rescheduling of Loans	FSG / F&A	• After a request receipt from PO, PPAF will approach PMIC to review/analyze the case for re-scheduling. • PMIC will review the case and make its recommendations. • PPAF will consider PMIC recommendations and make a decision. • Final decision of PPAF will be intimated to PMIC.
8	Legal Proceedings	F&A	PPAF will continue to perform this function

FSG: Financial Services Group of PPAF
F&A: Finance and Accounts section/group of PPAF

Recovery from POs

i	Prepare and send quarterly recovery schedule to PMIC, fourteen working days prior to a calendar quarter end, for due payments. PMIC shall communicate the quarterly recovery schedules to POs, however PMIC will not be responsible for any discrepancy in calculations of mark-up or principal amounts in the schedules received from PPAF.	PPAF
ii	Receipts of amounts as per schedules from POs and reconcile the recoveries with amounts due in PPAF bank accounts	PPAF
iii	Monthly information to PMIC of amounts recovered from POs, by the 7th Business Day of every month. PPAF shall intimate PMIC regarding late payments (if any) for follow-up.	PPAF
iv	Follow up with POs for overdue portfolio (if any) through meetings and written communication	PMIC
v	Reconciliation of differences with POs (if any)	PPAF

Desk Monitoring

i	PMIC shall procure quarterly management accounts from POs within 30 days after a quarter end and intimate PPAF of not receiving of any management accounts within seven days after the due date	PMIC
ii	Analysis on the management accounts within 30 days after receipt of the management accounts	PMIC
iii	Submission of quarterly management accounts and analysis to PPAF	PMIC
iv	Submission of annual financial statements and analysis of POs to PPAF within four months after the financial year ends.	PMIC

Field Monitoring

i	POs shall be visited once every six months. Based on the Risk Profile of the POs determined periodically, the frequency of the field visit may be increased.	PMIC
ii	Submit the monitoring visit report to PPAF, as per the PMIC field monitoring report format, within 30 days of the visit conducted.	PMIC
iii	PPAF will continue to monitor the performance of POs through Internal Audit, Monitoring and Evaluation Unit, Finance Unit and PPAF External Auditors.	PPAF

Mangement of PPAF microcredit portfolio of Rs. 14,214 million was handed over to PMIC with effect from December 1, 2016. The said portfolio as at June 30, 2017 stood at Rs. 10,170 million. Rs 74 million accrued as management fee to PMIC for the period December 1, 2016 to June 30, 2017. PPAF retains all risks, rewards and contraol over these loans.

PPAF agreed to provide the amount received from its POs on account of principal repayment of loan as subordinated debt to PMIC. It was agreed that as and when repayments are received from the POs the same will be transferred by PPAF to PMIC as a shareholder loan. The loan period for PMIC matches PPAF's loan repayment period to the Government. For provision of shareholder loan PPAF and PMIC signed Master Loan Framework Agreement on November 17, 2017. The subordinated loan was agreed to be provided on the terms:
The subordinated loan facility from PPAF to PMIC priced on commercial terms with 6 months KIBOR plus 1%. The rate of six months KIBOR (offer) prevailing on first working day of January and July for first and second half of the year. Provision will be made to revise/reset the loan price on events such as (i) If and when PMIC secures an Investment Grade credit rating from a recognized rating agency in Pakistan. PMIC would be incentivized and rewarded for lowering credit risk to its lender by lowering the cost of debt; (ii) if another shareholder provides a loan to PMIC of a defined minimum size at a cost lower than or higher than PPAF; (iii) as spreads on bank loans reduce over time, proportional % reduction in Shareholder Loan coupon could take place. Interest will be paid as per payment schedule agreed between PPAF and PMIC.

The above terms were approved by Board of Directors as well as General Body through special resolution. In terms of section 208 of the Companies Ordinance 1984 approval of SECP was also obtained for shareholder loan.
As of June 30, 2017 PPAF transferred Rs 1,818 million as subordinated loan to PMIC.

On the request of PMIC, PPAF provided the following services to PMIC for a period of six months commencing from September 1, 2016 and ending on February 28, 2017 or any other date mutually agreed between the parties.
Human Resource Services
During the initial phase of its operations, PMIC would require PPAF's support in provision of Human Resource services. These services will include

i. Drafting of offer letters and contracts preparation for transfer of PPAF team to PMIC.
ii. Payroll services.
iii. HR operations related support for medical services, leaves, personnel files, etc.

Accounting Services
During the initial period of PMIC, PPAF would pay all establishment and operational expenses. Once the bank accounts of PMIC are operational the expenses would be paid through those accounts. However, up until PMIC has a functional finance department and starts preparing its books of accounts, PPAF would record all expenditure and maintain separate books of accounts and deal with tax matters on behalf of PMIC.

Office Space
Until the time that PMICL's office building is fully operationalized, PMICL staff will utilize PPAF's office space for its operations.

General Administration Services

i. Facilitate establishment and operationalization of new office,
ii. IT Services
iii. Utilities
iv. Arrangements for PMIC staff travel
v. Arrangements for meetings with both internal and external stakeholders etc.
vi. Use of PPAF assets i.e. Vehicles, Laptops, Furniture, Equipment etc.

Compensation
PMIC agreed to compensate PPAF for the aforementioned services rendered.

As per the audited financial statements of PPAF for the period ended December 31, 2016 and un-audited financial statements for the half year ended June 30, 2017, PMIC incurred a loss of Rs 67.5 million and generated profit of Rs. 63.9 million respectively. The cumulative net loss after tax during the FY 2016-17 amounts to Rs. 3.6 million. Accordingly, PPAF has recognized loss of Rs. 1.75 million (as its 49% share) during the year. Summary of income statement of PMIC is as follows:

	Rs in million
Income	266.6
Administrative expenses	(218.4)
Other income	23.8
Fiannce costs – borrowings	(4.8)
Finance cost – bank charges	(0.4)
Loan loss provision	(42.0)
Profit before taxation	24.8
Taxation	(28.4)
Loss for the period	(3.6)
PPAF share of loss (49%)	(1.7)

The amount of loss has been adjusted from PPAF's investment in PMIC. The net investment in PMIC as of June 30, 2017 is reflected as follows:

	Rs in million
Investment during the year	2,883.258
Share of loss of PMIC	1.749
	2,881.509

Pre-incorporation expenses

PPAF, DFID-UK and KfW had jointly agreed that all pre-incorporation expenses will be borne by parties in proportion to their shareholding in the new entity as defined in the Shareholders' Agreement to be entered into subsequently.

These pre-incorporation expenses were agreed collectively and incurred before the process of incorporation/registration of PMIC. These mainly included fees and expenses paid to professionals for:

1. Facilitation/moderation
2. Internal process review
3. Financial modeling
4. Legal advice

Collaboration between PPAF & PMIC

PPAF and PMIC identified some possible areas of collaboration. The key areas identified included:

1. Graduation of clients to Microfinance
2. Renewable Energy
3. Micro Insurance
4. Value Chains
5. Relationship and Knowledge Management.

Graduation of clients to Microfinance:

- PMIC and PPAF agreed that PMIC would promote access to microfinance and financial services to clients that are graduating from the PPAF supported LEED, PMIFL and other grant based programs that have established their businesses and are now seeking a larger and market based financing opportunities.
- PMIC and PPAF will work together to develop institutions that can provide microfinance services to areas and individuals that are presently only being offered PMIFL or livelihood grants.

Renewable Energy:

- Another possible area of collaboration is renewable energy where PPAF and PMIC could interact to provide solar, bio-gas and other energy solutions to households and communities. This could be made possible with the interaction between PPAF's RE unit and microfinance product development initiatives using microfinance as source of financing to clients.
- PPAF's expertise in mobilization, prequalifying vendors and providing the much needed training to community resource persons, clients and technicians in communities will be leveraged with PMIC extending credit lines to MFIs to deliver financial services to clients to buy high quality equipment to meet their energy requirements.
- PMIC will also use resources to train credit officers to access energy requirements of the households and design financial packages accordingly. Mechanisms will be devised to deliver mini grids to communities to maximize installed capacity and efficient use of resources.

Micro-insurance:

- As PPAF has made significant investments in the agriculture sector, Micro-insurance was identified as another area where PPAF's communities being supported with grant based interventions could benefit from the micro-insurance.

- However, with the large number of beneficiaries involved with agriculture in PPAF supported communities falling within the eligible poverty score card threshold but are not availing financial services could also benefit from micro-insurance. PPAF could provide support for the development of indices for crops and livestock in different regions, provide grants for tagging of animals and make partial payments of insurance premiums by building these costs into the financial support offered to individuals. This would secure the assets of the individuals providing them financial security and opportunity to expand their enterprises.
- PMIC also plans to develop insurance product providing health coverage to its clients. The product would be developed with the support of insurance companies, medical service providers, MFIs and clients. PPAF could also support extension of the insurance and related services to its communities by supporting product development and subsidizing premiums.

Value chains

- PPAF in the past had included beneficiaries in the value chains it had developed for microfinance clients in the areas of livestock management, crops, enterprises, poultry and handicrafts. The clients had benefitted from capacity building trainings, knowledge management, linkages and collective bargaining opportunities offered by these initiatives to microfinance clients to increase their household incomes.
- With PMIC planning to invest in various business verticals like livestock, chilies, fisheries, dates, olives and catering to various backwards and forward elements of the entire value chain and providing specialized microfinance products to cater to the financial needs of the various actors, PPAF communities and beneficiaries will also be added in the larger groups to avail advantages accruing for microfinance clients.
- PPAF will invest in their trainings, support investments in linkages and initial support for their businesses while PMIC through its Partners can offer microfinance when their business needs for capital grow.

Relationship and Knowledge Management:

- PMIC will support PPAF to carry out a study gauging social and economic benefits to clients over an extended borrowing period and document how PPAF through microfinance has helped individuals grow out of poverty. The study would cover the microfinance initiatives over the last ten years (2006-2016).
- PPAF and PMIC also agreed to collaborate for a Research Conferences where studies on Microfinance and its link to poverty reduction would be discussed.
- PPAF and PMIC teams will also interact to draw a set of indicators and a matrix to measure PMIC's performance on social and economic indicators which would be used by PPAF to report to its stakeholders
- Collaboration on CITI PPAF awards, organizing conferences, events pertaining to microfinance.

4. ASSESSMENTS AND RATINGS

Third Party Assessments:

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.

The Project Completion Report (PCR) for the Pakistan Poverty Alleviation Fund III project has been prepared jointly by PPAF and The World Bank along with a team of technical specialists who were given the responsibility of examining PPAF's implementation of the project and its achievements, outcomes, best practices and lessons learnt. Key findings on PPAF III operations are summarized as follows:

a) PPAF III Project – Return on PPAF investments under different components

Returns on Institutional Building: Community Institutions have successfully realized the main objective of establishing linkages with local governments, markets and other development programs, especially at the Community Organization (CO) and Local Support Organization (LSO) levels. As a result, CO members have benefited from additional incomes through market linkages and from investments in their communities through resources leveraged from government and donors. Overall monetary benefits are estimated at about USD 100 million and the total investment in the component was USD 33.7 million, which translates into a Benefit Cost Ratio of 2.99. Such investments have led to an Internal Rate of Return of 58% and a Net Present Value of USD 30.85 million. The high efficiency of the implementation modality is demonstrated by the fact that overall resources channeled through COs for the implementation of livelihood, community infrastructure and social sector programs are five times higher than costs of establishing a community organization and sustaining it under PPAF III for six years (USD 2,500 channeled through CO on average vs. a cost of USD 515 per CO)[1].

Returns on Livelihoods activities: The cost benefit analysis of the Livelihoods Employment and Enterprise Development (LEED) component focuses on the benefits accruing to poor and ultra-poor households as a result of receiving productive assets and technical training. Incremental incomes per month range between USD 43 and USD 107 for productive asset recipients and average USD 70 monthly for technical and vocational trainees[2]. Aggregated increases in incomes add up to about USD 455 million, against USD 85 million for component implementation costs, which leads to an Internal Rate of Return of 138% and a Net Present Value of USD 180 million.

Returns on Microfinance activities: The PPAF-III micro-credit component has effectively reached 588,000 clients of which 379,884 were first-time users of formal credit. Based on the number of loans extended by sector and the average incremental benefits experienced by

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[1] Result of the Economic and Financial analysis carried out for the Project Completion Report.
[2] User Beneficiary Assessment Survey, Apex Consulting 2014 and data collected from the field.

borrowers[3], an aggregated incremental income from productive investments in agriculture, livestock and various enterprises can be roughly estimated and PKR 2.2 billion. The analysis shows that for every 1 PKR borrowed, additional 0.20 PKR were generated.

Returns on Community Infrastructure Projects: Financial and Economic Rates of Returns for irrigation schemes in all four provinces are the higher than Economic Internal Rate of Returns (EIRRs) for other infrastructure types. Irrigation Financial Internal Rate of Return (FIRRs) range between a 39% and 50% and EIRRs between 36%-52%, with highest values estimated for Punjab and lowest for Baluchistan. Drainage and sanitation schemes had the lowest EIRRs, between 19% and 34%. Rates of Return for drinking water supply systems and roads and bridges are well above the opportunity cost of capital.

Returns on health and education interventions: The "value for money" analysis of health and education interventions is based on the following parameters: (i) savings in transportation costs and the opportunity costs of lost working days due to illnesses, for beneficiaries of health facilities, and (ii) wage premiums as a result of higher education for both male and female students who graduate at different levels, plus monetarized health benefits for a poor households in which women are educated up to the middle and high school level. The analysis shows a 73% EIRR and a Benefit Costs Ratio of 1.30 for community-based health facilities and a 22% EIRR and 1.31 Benefit Costs ratio for community-managed schools.

PPAF III – Achievements against Program Development Objectives.

Program Development Objectives	Achievements (as per draft Implementation Completion And Results Report - ICRR)
1. At least 60% of community institutions are viable and sustainable	67% of community institutions were found to be viable and sustainable
2. At least 60% of community members report a minimum of 20% increase in household	61% of community members reported an increase in average household income of 22% and a 29% increase in average personal income.
3. At least 33 % of targeted community groups/institutions report improved access to municipal/local services.	76% community institutions reported to have improved access to municipal/local services as linkages were developed at the UC level.
4. At least 60% of targeted poor and 60% of poorest households are members of community organizations.	It was found that 86% of the households earned less than PKR10,000 per month (one third of the amount required to be above the poverty line for a household of 7 members) and 68% of the members were either in the lower bands of poverty or transitory vulnerable. Out of about 1.3 million total membership of 1st Tier organizational membership, 827,000 are women representing 64% of total beneficiaries.

[3] Gallup (2013). PPAF Micro Credit Financing: Assessment of Outcomes.

Program Development Objectives	Achievements (as per draft Implementation Completion And Results Report - ICRR)
5. At least 55% of Community Institutions are performing satisfactorily in terms of effectiveness, transparency and accountability.	57% of community institutions were performing satisfactorily based on their ability to keep savings in verifiable accounts (bank account status); frequency of financial audits and maintenance of record of meeting proceedings.
6. At least 70% of those who have received skills training and or community livelihood fund (CLF); and/or assets – are using them productively.	A total of 397,000 beneficiaries received skills/entrepreneurial training and about 96,000 ultra-poor and vulnerable poor received productive assets. 97% of skills training recipients reported using their training productively while 94% of the productive assets recipients were using them productively.
7. At least 50% of the new livelihoods platforms formed have developed productive linkages with markets, input/service provider, service/product buyer, or technology provider – measured in terms of at least one transaction/ contract.	7 Nokari ya Karobar (NyKs) (96%) have signed 10 MoUs with local councils; 80 Digital Hubs (95%) were trained and linked to "Enclude", a WB funded project, for digital market research; and 40 Production Centres (97%) participated in Pakistan Arts and Craft Mela in Islamabad (sales of more than Rs.1,000,000) and linked to Mohenjoz, an online platform
8. At least 60% of the targeted households where LEED programming/investment has taken place have developed livelihoods investment plans and mobilized resources for enhanced income and quality of life	89% of targeted households that have developed livelihood investment plans to mobilize resources for enhanced income and quality of life
9. At least 50% of the livelihoods grant recipients are women	Out of 96,000 recipients of productive assets, about 44,000 were women, representing 46% of total number of recipients.
10. At least 25% of all micro-credit loans received by women in PPAF-III targeted districts	A total of about 588,000 active borrowers had accessed microcredit, out of which about 423,000 were women, representing 72% of borrowers that received loans
11. Institutional review of PPAF microfinance portfolio, management and governance structure completed and agreed by mid-term of PPAF-III and made operational by end of project	PPAF, Karandaaz (DFID) and KfW agreed to jointly create PMIC and invest in the newly-formed Investment Finance Company (Non-Banking Financial Institution) under SECP regulations – PPAF: 49%, Karandaaz: 38%, KfW: 13%. The necessary amendments to PPAF's operations were approved by SECP, PPAF Board of Directors and government in June 2016. PMIC incorporated as an International Finance Cooperation (IFC) in August, 2016; license to operate as an NBFC issued in August, 2016; PMIC commenced business – 1 September 2016

Program Development Objectives	Achievements (as per draft Implementation Completion And Results Report - ICRR)
12. At least 50% of COs are benefiting from improved infrastructure and 30% have accessed other sources of funding for infrastructure/loca1 services	A total of 6,225 water and infrastructure sub-projects were initiated and 6,196 completed benefiting about 484,000 households. 42% of COs reported improved infrastructure and 24% have accessed other sources of funding for other services.
13. Minimum ERR of 20% and FRR of 25% of investment in Water and infrastructure	The economic and financial rate of return on water and infrastructure sub-projects was found to be 36.1% and 33.8% respectively.
14. At least 60% of the beneficiaries report satisfaction with the PPAF supported health and education facilities	PPAF supported 896 schools that enrolled over 127,000 and trained about 3,700 teachers and related staff. 504 health facilities were supported and about 1,600 health workers were trained. The total number of patients that accessed health services over the course of the project totalled 12.6 million individuals. Based on the User Beneficiary Survey (2014), 93% of the respondents reported satisfaction with PPAF supported education facilities while 79% of the Households (HHs) reported an improvement in the quality of their lives as a direct result of PPAF supported health interventions
15. Net enrolment growth rate of 7.5% per annum maintained over the project period	An enrolment growth rate of more than 7.5% per annum was maintained over the project period. Further, total enrolment in schools supported by the project was 63% for Government schools and 28% for community schools:
16. At least 40% of beneficiaries of infrastructure, health and education interventions are women	Of the combined 16,000,000 individuals that accessed both infrastructure and health and education services, 880,000 were women, representing 55% of the beneficiaries of infrastructure, health and education

International Conference on Research and Learning

The 2nd International Conference on Research and Learning was hosted by PPAF from 25th April to 26th April, 2017 at Islamabad. The conference was a reaffirmation of PPAF's commitment to eradicating poverty through research and learning, the 'ilm' that is at the centre of PPAF's motto. PPAF has continually invested its energy and resources in in-depth research of the highest quality in order to improve its own efforts and by sharing its own experiences, enable the development sector to reflect, grow and be effective.

The primary objective of conducting this conference was to share the results of all the on-going and completed research studies at PPAF with a wider audience in order to enrich existing literature on development work within the country. The event was attended by members of PPAF and its POs, academia, government and guests from corporations, embassies, institutes and international development organizations. The 2nd International Conference on Research and Learning built on the concrete groundwork laid by the 1st International Conference, which was held in April 2014. The major objective of the first iteration of this conference was to evaluate the approaches and components being employed for Community Driven Development (CDD) and to appropriately intervene with course correction. The theme of 2nd International Conference was "From Knowledge to Action". The conference was divided into 4 sessions, each highlighting an essential component of inclusive growth:

- The geography and typography of poverty: This session focused on the types of poverty that existed in Pakistan and the regional disparities that could be found within the country. Implications of these disparities in poverty were presented and discussed.
- Results from PPAF-III's impact evaluations: The platform was used to provide the results from the research done on the impact of PPAF-III on the treatment communities.
- Poverty graduation: The session focused on the efficacy of the type of programmes in bringing out the extreme and chronic poor out of abject poverty. In addition new approaches towards poverty graduation were discussed that would bear long term implications on the poor.
- A research focus on women and girls: This session emphasized the need for data disaggregation around the needs of women and girls, and the impacts on poverty alleviation and quality of life indices that these can hold for households and communities.

The presenters and the participants of the Conference agreed on following two categories of outcomes that need to be incorporated into future endeavours.

Design Recommendations

- Inclusion mandate: All practitioners and researchers agreed at the conference that making institutions inclusive for all groups within society has been hard. Inclusion has not developed organically within the communities in Pakistan. PPAF-III has been successful in not only making decision making bodies inclusive but also encouraging an attitude change in the non-poor and privileged sections of society with regards to gender and income redistribution. This approach need to be persisted with in future programmes.
- Research foci: While research conducted by PPAF and its POs has been enlightening, the reality of poverty in Pakistan and its inelastic nature has compelled researchers and practitioners to find out the missing links in the reasons and drivers behind extreme poverty. There have been two key areas that have been identified by the presenters at the conference (i) In-depth qualitative studies: There is a lack of understanding of local realities when implementing development programmes in Pakistan, that either lead to inefficiency or inefficacy at its worst. Qualitative research must be done to map out these local realities; and (ii) Migration has consistently emerged as a major influencing factor by POs and researchers in the field but the migration statistics in Pakistan have not been collected in any of the major surveys.
- Indigenous models of poverty alleviation: The primary reason behind the failure of poverty alleviation programmes is the gulf between the reality on the ground and the theoretical knowledge that forms the ideological core of development programmes in Pakistan. Development models cannot be applied without any adjustment for local realities. The need of the hour is to open windows of communication between communities and practitioners & researchers and incorporate this knowledge when rolling out the interventions in any given area.

Policy level Recommendations

- The 'hinterlands': There was much talk at the conference about the dire conditions of poverty in the rural hinterlands of Pakistan, sparsely populated areas with high incidences of poverty that have not received much attention either from the government or the development sector. The policymakers must focus on these areas where poverty is at its starkest to engineer true national level change in the country.

- Access to services: Public service delivery was deficient in all poverty stricken areas of Pakistan, particularly in the areas of health and education which were consistently high drivers of poverty in all provinces of Pakistan. The difference between the delivery of services between the poor and non-poor is alarmingly high and efforts need to be made to redress this imbalance in Pakistani society.
- Effective decentralization: The devolution of power has helped change the centre-periphery relationship that has existed between the affluent and poor areas of Pakistan. Extreme poverty can only be eradicated if the decision making process is devolved and the poor gain agency in the wider political economy.
- Institutional development: Decentralization is only effective if there is a stable and clear social infrastructure present at the village level to take up the duties that had been previously assigned at the higher level. Third Tier Organizations (TTOs) and COs should be present and linkages with government and political bodies should be established so that villages can make their own decisions to the best of their knowledge and capability.
- Urban and rural poverty: It has become increasingly evident that poverty in urban and rural areas is different in nature and need to be tackled in different nuanced ways. These areas have different communal structures and institutions and approach poverty in varied ways. To employ the same strategy for both areas is redundant and ineffective.
- Resilient infrastructure: Pakistan has been afflicted with natural hazards regularly in the recent past but no capacity has been built within poor households to absorb the calamitous effects of foreseeable hazards. Infrastructure, both physical and social, should be developed in such a way that they can escape the vicious cycle of ensuring short run stability and remaining in transient poverty for life.

Third Party Audit

Auditor General Pakistan (AGP) audited the financial statements of the following projects for the year ended June 30, 2016

- WB Funded PPAF-III Project
- KfW Funded LACIP Project
- KfW Funded RE Project
- Italian Funded PPR Project

Following opinion was given in respect of the above projects:

- The financial statements present fairly, in all material respects. The cash receipts and payments by the project for the year ended 30th June, 2016 in accordance with Cash Basis IPSAS Financial Reporting under the Cash Basis of Accounting Standard.
- The expenditures have been incurred in accordance with the requirements of legal agreements.

5. CORPORATE GOVERNANCE

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, the Code of Business Ethics, and sound internal controls.

Corporate Governance

PPAF's corporate governance is a reflection of its value system encompassing its culture, policies, and relationships with its stakeholders. Integrity and transparency are key to PPAF's corporate governance practices to ensure that PPAF gain and retain the trust of its stakeholders at all times.

Compliance with the Best Corporate Practices

The management of the Company is committed to good corporate governance and compliance with best practices. On the recommendation of Management, the Board of Directors has adopted Principles of Corporate Governance for Non-listed Companies (NLCs). PPAF is complying with following principles of the Corporate Governance for NLCs:

- Existence of an appropriate governance framework for the company contained in its constitutive document.
- 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 and nonexecutives 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 dialogue between the Board and the stakeholders based on the mutual understanding of objectives. The Board ensures that a satisfactory dialogue with shareholders takes place.
- 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.

Guidelines have been issued in the areas of Directors' trainings and appraisals. In addition mechanism has also been agreed to have gender balance and due representation of provinces in the composition of General Body.

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.

To demonstrate PPAF's commitment towards adherence to the highest levels of moral and ethical values, the Company follows best business practices in addition to stipulated legal requirements. The Company takes all reasonable actions for compliance, with all applicable laws, rules and regulations of state or local jurisdiction in which it conducts business. Every director and employee, no matter what position he or she holds, is responsible for ensuring compliance with applicable laws.

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 with the Corporate and Financial Reporting Framework of the Securities and Exchange Commission of Pakistan's Code of Corporate Governance for the following:

- 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
We believe that our Board needs to have an appropriate mix of executive and independent directors to maintain its independence, and separate its functions of governance and management. As on June 30, 2017, PPAF Board comprised of 8 members, one of whom was executive director by virtue of being CEO, while the remaining seven members were non-executive independent directors. One out of 8 Board members is women. The Board periodically evaluates the need for change in its composition and size. The Chairperson of the Board is an independent non-executive director. 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 Khurshed Bharucha, an independent director, is the Chairperson of the Board with effect from February 02, 2017.

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 shareholder value through strategic direction to the Company. As trustees, the Board has fiduciary responsibility to ensure that the Company has clear goals aligned to shareholder value and its growth. 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 and procedures; projects of different donors and sponsors; minutes 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; un-audited financial statements alongwith Management Reviews; audited financial statements alongwith Directors' and Auditors' Reports; Project specific audit reports; minutes of Board Committee meetings; amendments in Memorandum of Association of PPAF.

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	3	4
2	Ms. Humaira Ahmad	1	1
3	Syed Ahmed Raza Asif	4	4
4	Mr. Omar Hamid Khan	2	3
5	Dr. Ijaz Nabi	2	4
6	Mr. Aijaz Ahmad Qureshi	3	4
7	Dr. M. Suleman Shaikh	4	4
8	Mr. Ahlullah Khan	4	4
9	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 Mr. Omar Hamid Khan with Ms. Humaira Ahmad, Additional Secretary, Economic Affairs Division as Director of the Company. The Board placed on record its appreciation for the valuable contributions made by the outgoing Director. The Board extended welcome to new Director and resolved to work in partnership with her to benefit from her 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 four 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 two 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 Committee assists the Board to review the effectiveness of overall risk management framework including risk policies, strategies, risk tolerance and risk appetite limits.
The Committee reviews and recommends for Board's approval: pricing policy for the microfinance loan portfolio; per party exposure limits; new clauses of financing agreements for for-profit institutions etc.

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.

6. WHISTLE BLOWING POLICY

In order to ensure accountability and integrity in course of conduct, the Company has devised a transparent and effective whistle blowing mechanism for alerting against deviations from policies, controls, applicable regulations, or violation of the code of professional ethics / conduct. The Whistle Blowing Policy is applicable to all employees, management and the Board. The policy extends to every individual associated with the Company, who can participate effectively and in confidentiality, without fear of reprisal or repercussions.

The policy has been designed to encourage all stakeholders to raise questions and concerns, monitor the progress of resultant inquiries, provide feedback and where required, also voice concerns against any unsatisfactory inquiry or proceeding.

The Policy covers unethical conduct, offence, breach of law or failure to comply with legal obligations and possible fraud/corruption. Due emphasis has also been placed on health, safety and environmental risks. Inappropriate or malicious reporting leading to wrongful convictions have been specifically forbidden, with clear definition of consequences for the persons making wrongful accusations.

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.

The management understands that through the use of a good Whistle Blowing Plan, they can discover and develop a powerful ally in building trust with its employees and manage fair and transparent operations. The Company therefore provides a mechanism whereby any employee who meets the above referred conditions can report any case based on merit without any fear of retaliation and reprisal.

7. CONFLICT OF INTEREST

In addition to the compliance of regulatory requirements, a formal code of conduct is in place for avoidance of known or perceived conflicts of interest among Board members and employees.

PPAF policy aims to identify and apply appropriate safeguards in situations which may create such a conflict with the support of PPAF employees and directors and to ensure that all actions taken by PPAF officials in their official capacities are in the best interests of PPAF.

The Board of Directors and employees have the responsibility to administer the affairs of PPAF honestly and prudently, and of exercising their best care, skill, and judgment for the sole benefit of PPAF. Those persons shall exercise the utmost good faith in all transactions involved in their duties, and they shall not use their positions with PPAF or knowledge gained therefrom for their personal benefit. The interests of the Organization must be the first priority in all decisions and actions. This above fiduciary responsibility also requires these persons to disclose and safeguard PPAF against any situation which creates a conflict of interest.

8. GRIEVANCE/REDRESSAL POLICY

PPAF aims to facilitate employees and management to resolve grievances raised by employees and creates a healthy work environment. The objective of the 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. The 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 s/he wants assistance in correcting the problem. Purpose of Grievance Policy is to (a) facilitate employees and management to resolve grievances rose by employees; and (b) create a healthy work environment. This policy is applicable to all regular employees of PPAF.

Salient features of Grievance policy are:

1. All Grievance issues are handled in a fair and just manner and where applicable within the stipulated PPAF Policy and legal boundaries of the applicable laws of Pakistan.
2. PPAF has an open door policy where complainants are encouraged to talk over their Grievance with Immediate Supervisor or Unit Head or Grievance Redressal Officer (GRO), whoever employee deems appropriate.
3. All Grievance cases are considered on merit, with relevant circumstances being carefully investigated before any action is taken.
4. All investigations, proceedings, witness statements and records of Grievance appeals and actions are kept confidential.
5. Complainants and Defendants are to be informed of the date set for the hearing of the appeal in a timely manner.
6. Defendant is given the opportunity during enquiry and at the hearing of the appeal to challenge any allegations and evidence before a decision is made.
7. All Complainants and Defendants have the right to appeal against any decision taken.
8. All grievances must be addressed within stipulated time.

Selection of GRO and grievance committee is through election. All the staff members are given the opportunity to elect one GRO and six staff members for the Grievance Committee from a pool of senior and middle management.

9. HUMAN RESOURCE MANAGEMENT

PPAF is investing in its people. PPAF is continuously investing in hiring, retaining and developing people who are leading the successful delivery of PPAF's objectives and driving the corporate strategy. PPAF is rated amongst the top preferred employers in the country. PPAF have an unequivocal belief that its organizational culture coupled with the commitment and professionalism of its people, is pivotal to driving excellence and delivering results. PPAF foster an environment that is conducive to generating the best possible results by following a resilient leadership development model. PPAF celebrate achievements together and rely on teamwork when it comes to formulating future strategies.

PPAF is in the perennial pursuit of attracting, developing and retaining the best talent in the country whilst cultivating a corporate environment conducive to driving performance, as PPAF has an unequivocal belief that its organizational culture coupled with the commitment and professionalism of its people is pivotal to driving excellence and delivering results.

PPAF treat performance as an explicit output and foster an environment that is conducive to generating the best possible results. This can only be accomplished by following a resilient leadership development model that focuses on balancing priorities between its people and commercial interests. PPAF excellence spreads across its people and processes and with the same spirit, its talent acquisition processes and systems is comprised of leading practices where employees go through cultural match tests coupled with shared value screenings. All this can be broken down to a simple philosophy, attract and hire the best talent, develop and grow them organically in the organization and provide them with the best technology possible so they can be at their best.

Since the last decade, PPAF has been on the forefront of advocating equal opportunities including alleviation of gender discrimination in the Country, a principle that is instilled in its human capital strategy.

Human Resource Management Policy & Succession Planning

The Company has a demonstrated track record of employing talented human resources across all its functions, which ensures availability of competent personnel for each department, in terms of an individual's potential, qualification, period of service and professional attitude amongst other factors.

PPAF form and retain a motivated workforce fully equipped to steer the Company towards achieving its vision and mission through its consistent focus on grooming by way of training and development in addition to providing them with market commensurate compensation packages. This is in line with Company's progressive and forward looking Succession Planning Policy, which transforms existing talent into a competent workforce capable of occupying future strategic positions. The Policy is constantly updated in line with the Company's requirements and career growth objectives.

The Human Resource strategy is continually redeveloped and redefined by proactively anticipating, evaluating and evolving itself to meet 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.

10. 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.

11. RISK MANAGEMENT

PPAF understands the relationship between risk and value which ensures sustainable funds management. 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.

Business Risks and Challenges

Operating in a business environment involves developing objectives, making decisions and undertaking transactions and hence inevitably bears some form of risk. PPAF has effective systems in place for the timely identification, assessment and mitigation of various risks it is exposed to in the normal course of business as detailed in the following sections.

The strategic, commercial, operational and financial risks can emanate from uncertainty in financial markets, system breakdowns, project delays, fluctuations in product markets including competitive position, legal liabilities, credit risk, accidents, natural causes and disasters, or other events of uncertain or unpredictable nature. These key sources of uncertainty in estimation carry a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Risks are broadly categorized between financial and nonfinancial risks. Key operational and non-operational risks including strategic risks are outlined below:

1. Strategic Risks

Strategic risks include risks created by the Company's strategic objectives and business strategy decisions that could affect its long term positioning and performance. They are monitored at the highest level with active oversight by the Board of Directors.

Strategic risk management is the response to uncertainties and opportunities faced by a company. It involves a clear understanding of corporate strategy, the risks in adopting it and the risks in executing it. These risks may be triggered from inside or outside the organization. PPAF management clearly understands its role in identifying the strategic risks. The project appraisal documents, business plans and strategies identify the key risks along with mitigation strategies.

2. Operational Risks

These are risks that can affect the Company's ability to execute its plans and objectives including operational and administrative procedures, such as workforce turnover, supply chain disruption, IT system shutdowns or control failures. By adopting an integrated approach, PPAF ensures that all operational risk management initiatives are aligned with the corporate strategy.

3. 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.

4. 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. 10,708,004 thousand (2016: Rs. 14,716,386 thousand) (including loans to five major POs of Rs. 6,021,286 thousand) (2016: loans to five major POs of Rs. 8,334,507 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. 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.

5. 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.

6. 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. 25,923,113 (2016: Rs. 28,263,170) thousand and financial liabilities include balances of Rs. 13,448,029 (2016: Rs. 14,304,338) 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. 124,751 (2016: Rs. 139,588) 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.

7. 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.

8. 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.
- Audit Committee monitors the Company’s risk management process quarterly, or more frequently if required, focusing primarily on financial and regulatory compliance risks.
- 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.

12. KEY ACTIVITIES

- The Pakistan Microfinance Investment Company (PMIC), a private-sector firm which aims to use public funding to invest commercially in people and businesses on lower incomes, was launched on October 27, 2016 by Finance Minister Senator Muhammad Ishaq Dar. The launch ceremony was held at the Prime Minister Office. PMIC, a specialized, for-profit wholesale investment finance company, was established to fund the expansion of microfinance in Pakistan. It is the first publically funded, privately managed, commercial development finance institution dedicated to accelerate the development of microfinance in Pakistan.

- PPAF organized an event to mark the "Journey of 250,000 Households to Self-Reliance" at the Prime Minister Office on December 22, 2106. The event commemorated a significant milestone of the Prime Minister Interest Free Loan Scheme (PMIFL) as PPAF reached quarter of a million borrowers. Finance Minister Senator Ishaq Dar was the chief guest at the occasion. PPAF is implementing the Prime Minister's Interest Free Loan (PMIFL) Scheme in 431 Union Councils of 44 Districts across Pakistan. As of June 30, 2017 Rs. 3,274.7 million have been disbursed to our 26 Partner Organizations (POs) who have disbursed an amount of Rs.6.636 billion to 294,140 borrowers (62% women) as per eligibility criteria against the allocated amount of Rs. 3,100 million for on-lending funds. The recovery rate is reported as 99%. The loans are provide for productive purposes and are disbursed to those HHs which fall in the range of 0-40 on the Poverty Score Card.

- PPAF won Energy Institute (EI) award 2016 for community managed hydropower project. The EI award is the annual competition run by Energy Institute (UK) a professional body for the energy industry developing and sharing knowledge, skills and good practice towards a safe, secure and sustainable energy system. The purpose of the ward is to celebrate outstanding achievements in the energy sector by both individuals and organizations. For EI awards there were over 140 entries from across 23 counties.

- PPAF celebrated International Women's Day by conferring Amtul Raqeeb Award to recipients. The award serves as a tool of encouragement to hardworking and dedicated women of Pakistan. This year, the award was given to seven members who have contributed to the socio-economic development of PPAF supported communities. Mr. Stefano Pontecorvo, the Ambassador of Italy in Pakistan was the chief guest at the occasion. He was overwhelmed by the examples that these women are setting.

- PPAF organized 11th Citi-PPAF Microentrepreneurship Awards ceremony to celebrate achievements of outstanding microentrepreneurs across Pakistan. The Citi–PPAF Micro-entrepreneurship Awards Programme is collaboration through which entrepreneurial skills, leadership and best practices of individual micro-entrepreneurs are being recognized and rewarded. The CMA program is a signature initiative of Citi Foundation aimed at raising awareness about importance of microfinance in supporting financial inclusion and economic empowerment of the low-income individuals. Over the past 11 years, PPAF has recognised more than 400 micro-entrepreneurs who have transformed their own lives and whose impact on their surrounding communities is remarkable, as they continue to contribute economically, create employment and most importantly, serve as inspiration to those around them.

- PPAF and FAO signed Memorandum of understanding on Balochistan Initiative. The partnership involves agriculture and livestock intervention particularly in Qila Saifullah and Kech districts.

- PPAF signed MoU with Mari Petroleum Company Ltd. for the implementation of Education, Infrastructure, Renewable Energy, and Social Sector Services in districts Quetta and Harnai. The project was funded by Mari petroleum Co. Ltd under its corporate social responsibility and was executed through partner organization of PPAF. Under the first phase of a pilot project was undertaken for rehabilitation of three government schools i.e. Govt. Girls and Boys School Astangi Margat, Quetta, Govt. Girls High School, Harnai and Government Primary School Ziarat Kach Khost. The project was mainly focused to ensure the missing basic facilities. Total 1275 students have been direct beneficiaries of this project out of which 1084 are girls.

13. MOVING FORWARD

As we look ahead there is a lot more to be done. Climate change, natural disasters, and manmade and man-caused tragedies have presented challenges for Pakistan and the communities we work with. At the same time, there is immense potential in this nation which demonstrates formidable resilience in the face of tragedy nevertheless we must not lose sight of our priorities, which are to provide access to opportunities and choices to the marginalised communities of Pakistan.

For the future, large-scale development projects such as the China-Pakistan Economic Corridor (CPEC) linking Chinese markets with the Gwadar seaport in Balochistan offer a significant opportunity to improve the infrastructure and economic activities in many of the poorest districts. It can be a somewhat equalizing force in the wake of highly unequal landscape of poverty in Pakistan. At the same time, it also risks exacerbating the sense of alienation and deprivation unless the communities along the route of the projects are connected to the Corridor. PPAF is, also, striving for a Community Connectivity Fund which will build a community development component into the overall CPEC project. Connectivity will give the communities more reliable and quicker access to outside products, services, information, and social linkages and give external service product providers improved access to rural communities. Participation in the benefits of CPEC will bring hope and stability into communities and regions that have felt marginalized from the national mainstream.

Achieving positive development outcomes will increasingly rely on engagement with a diversity of stakeholders. Collaboration with stakeholders continued to grow stronger. PPAF has made important strides toward unlocking nontraditional sources of development finance and moving beyond official development assistance alone.

- **National Poverty Graduation Program –** On the request of GoP International Fund for Agricultural Development has appraised PPAF for national poverty graduation program. This will be a multisectoral project covering primarily livelihood interventions. The program will also be supported by USD 50 million of the already deployed funds under Prime Minister's Interest Free Loan Scheme. IFAD will finance USD 100 million and total project size would be USD 150 million. The project is for a period of six years and extends to whole of Pakistan. The project implementation is expected to commence in January 2017.
- **KfW Follow on project** - PPAF and KfW have signed Agreements for next phase of the 'Livelihood Support and Promotion of Small Community Infrastructure Program' (LACIP II). This project involved financing of Euro 10 million. The project would be executed in three years and would contribute to greater political participation of villagers in decision making in tehsil and village councils by supporting the implementation of decentralization reform in selected districts of KPK. The project implementation is expected to commence in January 2017.
- **Graduation project with Government** - The overall goal of the graduation strategy is to assist the ultra-poor and very poor BISP beneficiaries in graduating out of poverty on a sustainable basis. The development objective is to enable the rural poor and especially women 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 programme involves graduation of 250,000 BISP beneficiaries in FY 2017-18 involving financing of Rs. 15 billion. Modalities for the implementation of the project are being worked out by GoP, PPAF and BISP.

PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL HIGHLIGHTS

	2017	2016	2015	2014	2013
Funds deployment - *Rs. in million*					
Microcredit					
Loans receivable from POs (Gross)	10,708	14,716	13,913	13,985	13,300
Loan to PMIC	1,818	-	-	-	-
Equity investment in PMIC	2,883	-	-	-	-
Gurantee facility	420	2,150	3,600	3,820	3,265
	15,829	**16,866**	**17,513**	**17,805**	**16,565**
Grant					
Core Operations	2,186	5,456	6,934	5,349	6,079
Relief & Reconstruction Operations	151	408	219	665	108
	2,337	**5,864**	**7,153**	**6,014**	**6,187**
Total funds deployment	**18,166**	**22,730**	**24,666**	**23,819**	**22,752**
Balance Sheet - *Rs. in million*					
Total assets	31,259	30,857	32,285	35,914	31,656
Endowment Fund	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
Reserves					
Capital adequacy reserve	1,879	2,207	2,087	2,098	1,995
Grant fund	9,341	7,520	6,706	5,659	4,853
Reserve for lending activities	2,883	3,653	3,236	2,671	2,256
General reserve	1,564	-	-	-	-
Income on grant fund	-	1,139	978	582	754
	15,667	**14,519**	**13,007**	**11,010**	**9,858**
Total equity (endowment + reserves)	**16,667**	**15,519**	**14,007**	**12,010**	**10,858**
Long term loans	12,348	13,448	14,236	14,801	15,003
Operational Results - *Rs. in million*					
Total income	2,332	2,963	3,250	2,880	2,896
General and admin expenses	505	576	587	591	509
Surplus before loan loss prov. and relief work	1,409	1,964	2,250	1,845	2,094
Net Surplus	1,148	1,512	1,998	1,152	1,953
Financial Ratios - *Percentage*					
Surplus brefore provisions & relief/total income	60%	66%	69%	64%	72%
Return on equity (Surplus before provision and relief activities to Equity)	9%	11%	17%	16%	22%
Return on assets (Surplus before provision and relief activities to Assets)	5%	6%	7%	5%	7%
General and admin expenses/funds deployed	2.78%	2.53%	2.38%	2.48%	2.24%
Debt/equity	43:57	46:54	50:50	55:45	58 : 42

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Pakistan Poverty Alleviation Fund** ("the Company") as at 30 June, 2017 and the related income and expenditure account, statement of other comprehensive income, cash flow statement and statement of changes in funds and reserves together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change as stated in note 4 to the financial statements with which we concur;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

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c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, statement of other comprehensive income, cash flow statement and statement of changes in funds and reserves together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required, and respectively give a true and fair view of the state of the Company's affairs as at 30 June, 2017 and of the surplus and other comprehensive loss, its cash flows and changes in funds for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Ey Ford Rhodes

Chartered Accountants
Audit Engagement Partner's name: Mr. Khayyam Mushir
Date: 28 September 2017
Place: Islamabad

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Act, 2017)
BALANCE SHEET
AS AT 30 JUNE, 2017

	Note	2017	2016
ASSETS		----------- Rupees '000	-----------
NON-CURRENT ASSETS			
Property and equipment	6	**52,065**	70,724
Intangible assets	7	**368**	979
Investment in associate	8	**2,881,509**	-
Long-term investments	9	**1,783,356**	2,657,798
Long-term loans to associate	10	**1,818,000**	-
Long-term loans to Partner Organizations	11	**809,665**	1,735,675
Long-term deposits and prepayments	12	**7,556**	29,825
		7,352,519	4,495,001
CURRENT ASSETS			
Grant fund receivable	13	**60,127**	556,208
Loans and advances	14	**17,228**	20,679
Short-term prepayments	15	**24,511**	33,600
Profit / service charges receivable	16	**503,409**	702,606
Other receivables	17	**18,320**	48,484
Current maturity of long-term investments	9	**875,000**	300,000
Current maturity of loans to Partner Organizations	11	**8,923,734**	12,037,609
Short-term investments	18	**11,698,012**	11,227,080
Tax refunds due from the Government	19	**345,090**	251,208
Bank balances-specific to projects	20	**991,610**	898,004
Cash and bank balances	21	**449,569**	286,287
		23,906,610	26,361,765
TOTAL ASSETS		**31,259,129**	30,856,766
FUNDS, RESERVES AND LIABILITIES			
FUNDS AND RESERVES			
Endowment fund	22	**1,000,000**	1,000,000
Grant fund		**9,340,591**	7,519,584
Reserve for grant based activities		**-**	1,139,402
Accumulated surplus		**6,326,367**	5,860,255
		16,666,958	15,519,241
NON-CURRENT LIABILITIES			
Long-term financing	23	**10,474,762**	11,433,192
Deferred benefit	23	**1,872,752**	2,014,837
		12,347,514	13,448,029
CURRENT LIABILITIES			
Deferred liabilities - grant fund	24	**992,452**	910,939
Deferred income - grant fund	25	**13,375**	13,078
Trade and other liabilities	26	**114,313**	83,683
Service charges payable	28	**24,002**	25,489
Current portion of long-term financing	23	**1,100,515**	856,307
		2,244,657	1,889,496
TOTAL FUNDS, RESERVES AND LIABILITIES		**31,259,129**	30,856,766
CONTINGENCIES AND COMMITMENTS	29		

The annexed notes, from 1 to 48, 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)
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 30 JUNE, 2017

	Note	2017	2016
		Rupees '000	
INCOME			
Service charges on loans to Partner Organizations and associate	30	**1,036,382**	973,129
Income on investments and savings accounts	31	**1,040,698**	1,245,032
Amortization of deferred income - grant fund	25	**109,714**	206,965
Amortization of deferred benefit	23.5.1	**142,085**	122,676
Other income	32	**3,049**	415,056
		2,331,928	2,962,858
EXPENDITURE			
General and administrative expenses	33	**505,200**	575,930
Loan portfolio monitoring fee	8.2	**74,428**	-
Seminars, workshops and trainings	34	**16,349**	20,195
Technical and other studies	35	**76,775**	155,018
Provision against loans / service charges	36	**107,615**	45,159
Income tax refund written-off		**-**	11,810
Share of loss of an associate	8	**1,749**	-
Financial charges	37	**248,215**	235,270
		1,030,331	1,043,382
SURPLUS FOR THE YEAR BEFORE PROJECT AND RELIEF ACTIVITIES		**1,301,597**	1,919,476
Expenditure on project and relief activities	38	**151,186**	408,076
SURPLUS FOR THE YEAR		**1,150,411**	1,511,400

The annexed notes, from 1 to 48, 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, 2017

	Note	2017	2016
		------------ Rupees '000	------------
SURPLUS FOR THE YEAR		**1,150,411**	1,511,400
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Other comprehensive (loss) / income not to be reclassified to income and expenditure account in subsequent periods:			
Re-measurement (loss) / gain on employees' defined benefit plan	27	**(2,694)**	428
		1,147,717	1,511,828

The annexed notes, from 1 to 48, form an integral part of these financial statements.

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DIRECTOR

CHIEF EXECUTIVE OFFICER

PAKISTAN POVERTY ALLEVIATION FUND

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE, 2017

	Note	2017	2016
		Rupees '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		1,150,411	1,511,400
Adjustment for non cash and other items:			
Depreciation		28,934	29,979
Amortization of intangible assets		463	3,489
Write-off of intangible assets		148	-
Amortization of deferred income - grant fund		(109,714)	(206,965)
Transfer of deferred liabilities - grant fund to other income		-	(407,676)
Amortization of deferred benefit		(142,085)	(122,676)
Provision against loans / service charges recognized		107,615	45,159
Income tax refund written-off		-	11,810
Gain on disposal of property and equipment		(2,119)	(4,859)
Project activities reported by POs	17.1	6,193	-
Financial charges		248,215	235,270
		137,650	(416,469)
		1,288,061	1,094,931
Working capital changes			
Decrease / (increase) in current assets:			
Loans and advances		3,451	780
Other receivables		15,155	(19,943)
Profit / service charges receivable		123,085	457,349
Increase in current liabilities:			
Trade and other liabilities		27,936	44,645
		169,627	482,831
		1,457,688	1,577,762
Disbursements to Partner Organizations:			
Loans		(5,276,853)	(9,668,239)
Grants		(2,185,789)	(5,456,332)
Recoveries of loans from Partner Organizations		9,285,235	8,864,572
Disbursement of loans to an associate		(1,818,000)	-
Income tax paid		(93,882)	(37,119)
Financial charges paid		(107,617)	(114,287)
Prepayments		31,489	(8,750)
Deposits		(131)	(3,197)
		(165,548)	(6,423,352)
Cash generated from / (utilized in) operating activities		1,292,140	(4,845,590)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		(631,884)	3,657,155
Investment in associate		(2,881,509)	
Capital expenditure incurred		(11,796)	(39,721)
Proceeds from disposal of fixed assets		3,640	6,166
Cash (utilized in) / generated from investing activities		(3,521,549)	3,623,600
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - received		-	68,471
Long term financing - repaid		(856,307)	(791,181)
Deferred liabilities - grant fund receipts		2,772,199	3,048,510
Deferred income - grant fund receipts		110,011	213,442
Cash generated from financing activities		2,025,903	2,539,242
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(203,506)	1,317,252
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		4,722,371	3,405,119
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	45	4,518,865	4,722,371

The annexed notes, from 1 to 48, 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, 2017

	Note	FUNDS		RESERVES		
		Endowment fund	Grant fund	Reserve for grant based activities	Accumulated surplus	TOTAL
		Rupees '000				
Balance as at 30 June, 2015		1,000,000	6,706,090	978,017	5,323,306	14,007,413
Total comprehensive income for the year						
Surplus for the year		-	-	-	1,511,400	1,511,400
Other comprehensive income		-	-	-	428	428
		-	-	-	1,511,828	1,511,828
Transfer from accumulated surplus to reserve for grant based activities	39	-	-	161,385	(161,385)	-
Transfer from accumulated surplus to grant fund		-	813,494	-	(813,494)	-
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	5.9	-	1,139,402	(1,139,402)	-	-
Transfer from accumulated surplus to grant fund in respect of income	39	-	476,728	-	(476,728)	-
Transfer from accumulated surplus to grant fund	5.9	-	204,877	-	(204,877)	-
Balance as at 30 June, 2017		**1,000,000**	**9,340,591**	**-**	**6,326,367**	**16,666,958**

The annexed notes, from 1 to 48, 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, 2017

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.

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.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the Accounting Standard for Not for Profit Organizations (NPOs) issued by the Institute of Chartered Accountants of Pakistan, as are notified under the repealed Companies Ordinance, 1984, provisions of and directives issued thereunder. In case requirements differ, the provisions or directives of the repealed Companies Ordinance, 1984 shall prevail.

The Securities and Exchange Commission of Pakistan, via its Circular No. 17 of 2017, dated July 20, 2017 read with the related Press Release, has instructed companies to prepare financial statements, for the year ended 30 June, 2017, in accordance with the provisions of the repealed Companies Ordinance, 1984. The Company will prepare its annual financial statements for the year ending 30 June, 2018 in accordance with the provisions of the Companies Act, 2017.

3 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 amendment / IFRIC, and have not been adopted early by the Company:

Standard / IFRIC		Effective date (annual periods beginning on or after)
IFRS 2	Share-based Payment (Amendment) - Classification and Measurement of Share-based Payment Transactions	01 January, 2018

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Standard / IFRIC		Effective date (annual periods beginning on or after)
IFRS 10	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
IAS 7	Statement of Cash Flows (Amendments) - Disclosure initiative	01 January, 2017
IAS 12	Income Taxes (Amendments) - Recognition of Deferred Tax Assets for unrecognized losses	01 January, 2017
IAS 40	Investment Property (Amendments) - Clarifying transfers of property to, or from, Investment Property	01 January, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01 January, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	01 January, 2019

The above amendments are not expected to have any material impact on the Company's financial statements in the period of their initial application.

In addition to the above amendments, improvements to various accounting standards (under the Annual Improvements 2014 - 16 cycle) have also been issued by the IASB. Such improvements are effective for accounting periods beginning on or after 01 January, 2017 or 01 January, 2018. 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	01 July, 2009
IFRS 9	Financial Instruments: Classification and Measurement	01 January, 2018
IFRS 14	Regulatory Deferral Accounts	01 January, 2016
IFRS 15	Revenue from Contracts with Customers	01 January, 2018
IFRS 16	Leases	01 January, 2019
IFRS 17	Insurance Contracts	01 January, 2021

The Company expects that the adoption of the above standards will have no material effect on the Company's financial statements, in the period of initial application, except for IFRS 9 and IFRS 16. The management is in the process of determining the effect of application of IFRS 9 and IFRS 16.

4 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:

AMENDMENTS IN STANDARDS

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

IFRS 10	Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)
IFRS 11	Joint Arrangements Accounting for Acquisition of Interest in Joint Operation (Amendment)
IAS 1	Presentation of Financial Statements Disclosure Initiative (Amendment)

IAS 16	Property, Plant and Equipment and IAS 38 Intangible assets: Clarification of Acceptable Method of Depreciation and Amortization (Amendment)
IAS 16	Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants (Amendment)
IAS 27	Separate Financial Statements: Equity Method in Separate Financial Statements (Amendment)

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 standards (under the annual improvements 2012 - 2014 cycle) have also been adopted:

IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations (Change in method of disposal)
IFRS 7	Financial Instruments: Disclosures (i. Servicing contracts, ii. Applicability of the amendments to IFRS 7 to interim condensed financial reporting)
IAS 19	Employees Benefits (Assessment of market depth of high quality bonds on offsetting disclosures at currency level)
IAS 34	Interim Financial Reporting (Disclosure of information 'elsewhere in the interim financial report)

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

Further, the SECP has also notified the application of an Accounting Standard for Not for Profit Organizations, issued by the Institute of Chartered Accountants of Pakistan, for companies licensed under section 42 of the repealed Companies Ordinance, 1984, for the annual financial period beginning on or after 01 July , 2016, The adoption of this Accounting Standard have only resulted in additional disclosures in the financial statements.

5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

5.1 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.

5.2 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 5.8). If the basis has not been changed, the surplus for the year would have been lower by Rs. 424,457 thousand.

5.3 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, 2017, the related details of which are given in note 27 to the financial statements.

(ii) The Company operates an approved contributory provident fund for all employees for which contributions, at 10% of basic salary, amounting to Rs. 21,438 thousand (2016: Rs. 18,769 thousand) were charged to income for the year.

5.4 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.

5.5 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.

5.6 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 recognised at cost. The carrying amount of the investment is adjusted to recognise 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 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 recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in funds and reserves. Unrealised 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 recognise 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 recognises 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 recognises 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 recognised in income and expenditure account.

5.7 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, with effect from the current year, 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. Till 30 June, 2016, an amount equivalent to 15% of the loans receivable from Partner Organizations, only, was 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 (2016: 35% of the surplus funds in excess of the above investments were employed for lending activities), and (ii) of the remaining surplus funds, 85% are classified as the grant fund (2016: 65%).

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% (2016: 0%) 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, 2017, investments amounting to Rs. 1,878,901 thousand and Rs. 9,340,591 thousand (2016: 2,207,458 thousand and 7,519,584 thousand), respectively, are held for capital adequacy and the grant fund.

5.8 Loans to Partner Organizations and associate

These are stated 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 has 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. In previous years, the general provision was made at 5% of the gross outstanding balances of loans to POs, and once a provision was made, it was not reduced with the corresponding reduction in the outstanding balances of these loans, in subsequent years.

Further, previously, a specific provision for loan losses was made against loans, which were considered doubtful of recovery. With effect from 30 June, 2017, 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.

5.9 Grant fund

The grant fund represents 85% of the surplus funds of the Company, in excess of investments, as detailed in note 5.7 (2016: 65%).

Previously, the Company presented the income on investments held under the grant fund (used for grant based health, education, infrastructure, emergency and other activities that fall within the overall strategic framework of Company's objectives), separately, as a reserve for grant based activities. This presentation has been discontinued with effect from 30 June, 2017.

5.10 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.

5.11 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.

5.12 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 thereagainst.

5.13 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.

5.14 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.

5.15 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.

5.16 Borrowing costs

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

5.17 Taxation

No incidence of tax accrues to the Company as it is entitled to tax credits equivalent to its tax liability under the provisions of section 100(C) of the Income Tax Ordinance, 2001 (the Ordinance).

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 Ordinance.

5.18 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.

5.19 Financial assets

5.19.1 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.

5.19.2 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.

5.19.3 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.

5.20 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.

5.21 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.

5.22 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.

5.23 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.

5.24 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

2017	COST				Rate	ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at 01 July	Additions	Disposals	As at 30 June		As at 01 July	Charge for the year	On disposals	As at 30 June	As at 30 June
	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**

2016	COST				Rate	ACCUMULATED DEPRECIATION				WRITTEN DOWN VALUE
	As at 01 July	Additions	Disposals	As at 30 June		As at 01 July	Charge for the year	On disposals	As at 30 June	As at 30 June
	Rupees '000				%	Rupees '000				Rupees '000
Furniture and fixtures	18,909	2,883	(2,357)	19,435	20	13,861	1,939	(2,285)	13,515	5,920
Vehicles	101,248	29,395	(17,260)	113,383	20	70,828	15,312	(16,709)	69,431	43,952
Office equipment	53,841	1,375	(14,240)	40,976	20	40,477	3,949	(13,775)	30,651	10,325
Computer equipment	71,783	5,916	(6,689)	71,010	25	58,174	8,779	(6,470)	60,483	10,527
	245,781	39,569	(40,546)	244,804		183,340	29,979	(39,239)	174,080	70,724

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

7 INTANGIBLE ASSETS

2017	COST				Rate	ACCUMULATED AMORTIZATION				WRITTEN DOWN VALUE
	As at 01 July	Additions	Write-off	As at 30 June		As at 01 July	Charge for the year	On write-off	As at 30 June	As at 30 June
					%	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**

2016	COST				Rate	ACCUMULATED AMORTIZATION				WRITTEN DOWN VALUE
	As at 01 July	Additions	Disposals	As at 30 June		As at 01 July	Charge for the year	On disposals	As at 30 June	As at 30 June
	Rupees '000				%	Rupees '000				Rupees '000
Satellite imageries	19,078	-	-	19,078	25	19,078	-	-	19,078	-
Computer software	19,259	152	-	19,411	25	14,943	3,489	-	18,432	979
	38,337	152	-	38,489		34,021	3,489	-	37,510	979

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

8	INVESTMENT IN ASSOCIATE	Note	2017	2016
			----------- Rupees '000 -----------	
	Investment during the year	8.1	2,883,258	-
	Share of loss of an associate	8.2	(1,749)	-
			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. It has been set-up to catalyse and lead the next phase of growth in the microfinance sector of Pakistan. PMICL intends to provide a wide range of financial services, including wholesale funding to promote financial inclusion in Pakistan, to alleviate poverty and contribute to broad based development. 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 The Company, Karandaaz Pakistan and German Financial Co-operation (KfW) (collectively hereinafter referred to as "the sponsors") signed a Shareholder's Agreement, dated April 28, 2016, to incorporate PMICL. In addition to the "Shareholder's Agreement", the sponsors have also signed two related agreements, a "Share Subscription Agreement" and a "Non-Compete Agreement", both dated 28 April, 2016, defining the terms and conditions governing the relationship between themselves and PMICL. The Company, after obtaining (i) an approval from its members under Section 208 of the Companies Ordinance, 1984 (now replaced by Section 199 of the Companies Act, 2017) and SECP, and (ii) a permission from the Government of Pakistan, acquired 49% of the shareholding interest in PMICL, whereas Karandaaz Pakistan and KfW jointly acquired 51% of the shareholder's interest in PMICL. Accordingly, the Company invested an amount of Rs. 2,883,258 thousand in PMICL's equity, whereas Karandaaz Pakistan and KfW invested GBP 15 million (equivalent to Rs. 2,224,244 thousand) and Euro 7 million (equivalent to Rs. 776,720 thousand), respectively. The exact amount of investment by the Company was determined on the basis of the foreign currency rate prevailing at the time the contributions by Karandaaz Pakistan and KfW were made.

PMICL has commenced the business of provision of loans, to the Company's Partner Organizations (POs), for utilization, in the microfinance business. In accordance with the terms of the Non-Compete Agreement, as amended on 03 August, 2016, the Company has ceased to underwrite new loans to POs in Pakistan, with effect from 21 February, 2017, as communicated by PMICL. PMICL and the Company have entered into a Loan Portfolio Agreement on 17 November, 2016, 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,
(ii) desk and field monitoring, and
(iii) providing recommendations on restructuring requests of POs.

PMICL is 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. 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. As no existing non-current assets of the Company were sold / transferred, disclosures and re-measurement of non-current assets under IFRS-5 – "Non-current Assets Held for Sale and Discontinued Operations" are not required. 20 employees of the Company, working in the Financial Services Group, were also transferred to PMICL.

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 December, 2016, and un-audited interim financial information for the six month period ended 30 June, 2017:

	Rupees '000 30 June, 2017
Current assets	3,583,738
Non-current assets	4,153,441
Current liabilities	(38,527)
Non-current liabilities	(1,818,000)
Equity	5,880,652
The carrying amount of the Company's investment	2,881,509

	01 August, 2016 to 30 June, 2017
Income	266,565
Administrative expenses	(218,473)
Other income	23,764
Finance costs - borrowings	(4,876)
Finance costs - bank charges	(45)
General provision against loan portfolio	(42,100)
Profit before taxation	24,835
Taxation	(28,404)
Loss for the period	(3,569)
The Company's share of loss	(1,749)

9 LONG-TERM INVESTMENTS	Note	2017 Rupees '000	2016 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		**(34,499)**	(41,536)
		965,501	958,464
Specific to others			
Pakistan Investment Bonds	9.2 & 9.3	**1,675,000**	1,975,000
Add: Unamortized premium on purchase of PIBs		**17,855**	24,334
		1,692,855	1,999,334
		2,658,356	2,957,798
Less: Long-term investments maturing within next twelve months shown as a current asset		**(875,000)**	(300,000)
		1,783,356	2,657,798

9.1 Represents investments in PIBs as follows:

Principal Rupees '000	Issue date	Maturity date	Coupon rate (per annum)	Payment terms (Coupon)
200,000	22 July, 2010	22 July, 2020	12%	Semi annually
200,000	22 July, 2010	22 July, 2020	12%	Semi annually
194,500	18 August, 2011	18 August, 2021	12%	Semi annually
5,500	18 August, 2011	18 August, 2021	12%	Semi annually
400,000	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	Maturity date	Coupon rate (per annum)	Payment terms (Coupon)
408,000	17 July, 2014	17 July, 2017	11.25%	Semi annually
144,000	17 July, 2014	17 July, 2017	11.25%	Semi annually
35,000	17 July, 2014	17 July, 2017	11.25%	Semi annually
144,000	17 July, 2014	17 July, 2017	11.25%	Semi annually
144,000	17 July, 2014	17 July, 2017	11.25%	Semi annually
400,000	17 July, 2014	17 July, 2019	11.50%	Semi annually
400,000	17 July, 2014	17 July, 2019	11.50%	Semi annually
1,675,000				

9.3 Pursuant to changes in the policy for maintenance of grant and other funds and reserves (refer to note 5.7), the Company does not, designate investments (refer to notes 9 and 18) to specific funds and reserves, except for Endowment Fund, and has accordingly updated the corresponding information for consistent presentation.

		Note	2017	2016
10	**LONG-TERM LOANS TO ASSOCIATE**		---------- Rupees '000	----------
	PMICL - unsecured	10.1 & 10.2	**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 the required approvals from the SECP and 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 disbursed two separate loans to PMICL, amounting to Rs. 824,000 thousand and Rs. 994,000 thousand, on 01 June, 2017 and 29 June, 2017, respectively. The relevant 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 October, 2031	42
	1,818,000			

* 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% per annum.

11 LONG-TERM LOANS TO PARTNER ORGANIZATIONS

	Note	2017	2016
		---------- Rupees '000 ----------	
Secured			
Considered good		**10,021,920**	14,498,193
Considered doubtful		**686,084**	218,193
	11.1	**10,708,004**	14,716,386
Less: Provision for doubtful loans	11.3	**(974,605)**	(943,102)
		9,733,399	13,773,284
Less: Amount receivable within next twelve months shown as a current asset		**(8,923,734)**	(12,037,609)
		809,665	1,735,675

11.1 Breakup of loans to Partner Organizations

	2017	2016
Association for Gender Awareness and Human Empowerment Pakistan	**89,833**	88,333
Al Mehran Rural Development and Welfare Organization Foundation	**155,895**	147,207
ASA Pakistan Limited	**499,859**	600,751
Asasah	**197,096**	197,096
Badbaan Enterprise Development Forum	**16,555**	24,232
Baidarie	**19,647**	25,147
BRAC Pakistan	**316,846**	386,692
Buksh Foundation	**49,925**	49,925
Bunyad Literacy Community Council	**9,750**	14,850
Community Support Concern - CEIP	**266,903**	390,946
Development Action for Mobilization and Emancipation Support Programme	**946,786**	1,384,518
Farmers Friend Organization Microfinance Company	**331,107**	369,677
Ghazi Brotha Taraqiatee Idara	**48,560**	65,200
Jinnah Welfare Society Pakistan	**409,400**	538,000
Kashf Foundation	**1,931,000**	2,878,000
Khajji Cooperative Society	**12,620**	12,620
Khushhali Bank	**320,000**	980,000
Khwendo Kor Women and Children Development Programme	**-**	4,250
Mashal Development Organization	**505**	505
Mehran Education Society	**21,748**	21,748
Micro Options (Formerly Dia Welfare Organization)	**50,206**	74,925
Mojaz Foundation Support Programme	**367,583**	335,933
Narowal Rural Development Programme	**63,455**	79,755
National Rural Support Programme	**1,820,224**	2,026,614
NRSP Microfinance Bank	**-**	150,000
Orangi Charitable Trust	**122,043**	122,043
Organization for Participatory Development Support Program	**74,733**	93,360
Poverty Eradication Network	**1,827**	1,827
Punjab Rural Support Programme	**305,179**	442,136
Rural Community Development Program	**433,640**	796,000
SAATH Microfinance Foundation Pakistan	**75,354**	74,695
Save The Poor	**4,872**	4,872
Sayya Microfinance Company	**40,388**	23,900
Shadab Rural Development Organization	**71,000**	97,139
Shah Sachal Sami Welfare Association	**100,555**	90,615
Sindh Agricultural & Forestry Workers Coordinating Organization Support Foundation	**329,905**	620,963
Soon Valley Development Programme	**110,869**	166,768
Thardeep Microfinance Foundation	**823,417**	1,065,375
Waasil Foundation (Formerly Centre for Women Cooperative Development)	**257,839**	258,839
Women Social Organization	**4,230**	4,280
Young Pioneers Society	**6,650**	6,650
	10,708,004	14,716,386

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, loans were disbursed at service charges of 8% (2016: ranging from 4.00% to 9.00%) per annum. As discussed in note 8.2, the Company has ceased to underwrite new loans with effect from 21 February, 2017.

During the year, after the effective date of the Loan Portfolio Agreement, the Company has rescheduled loan agreements with two POs, in accordance with recommendations received from PMICL.

		Note	2017 Specific	2017 General	2017 Total	2016 Total
			Rupees '000	Rupees '000	Rupees '000	Rupees '000
11.3	Movement in provision for doubtful loans					
	Opening balance		218,193	724,909	943,102	915,947
	Provision recognized / (reversed) during the year	36 & 11.3.1	455,960	(424,457)	31,503	27,155
			674,153	300,452	974,605	943,102

11.3.1 As a result of change of the Company's method of estimating the general provision for loan losses (refer to note 5.8), the balance of the general provision has been reduced.

11.4 Particulars of non-performing loans

	2017 Loan amount Rupees '000	2017 Provision required %	2017 Provision amount Rupees '000
Other Assets Especially Mentioned	-	0%	-
Sub-standard	-	25%	-
Doubtful	23,863	50%	11,932
Loss	662,221	100%	662,221
	686,084		674,153

		Note	2017 Rupees '000	2016 Rupees '000
11.5	Movement in loans to Partner Organizations			
	Opening balance		14,716,386	13,912,719
	Add: Disbursements		5,276,853	9,668,239
			19,993,239	23,580,958
	Less: Recoveries		(9,285,235)	(8,864,572)
			10,708,004	14,716,386
	Less: Provision for doubtful loans	11.3	(974,605)	(943,102)
			9,733,399	13,773,284

12 LONG-TERM DEPOSITS AND PREPAYMENTS

	Note	2017	2016
Deposits		7,556	7,425
Prepaid rent		22,400	56,000
Less: Current portion of prepaid rent shown under current assets	15	(22,400)	(33,600)
		-	22,400
		7,556	29,825

13	GRANT FUND RECEIVABLE	Note	2017 Rupees '000	2016 Rupees '000
	Considered good, unsecured	13.1 & 24.2	60,127	556,208

13.1 The current year balance represents the amounts disbursed to POs, from the Company's own financial resources, in respect of the "Development of Hydropower and Renewable Energy in Khyber Pakhtunkhwa" project (refer to note 24.3).

14 LOANS AND ADVANCES

	Note	2017	2016
		Rupees '000	
Loans - considered good, secured			
Employees	14.1	**15,346**	19,209
Advances - considered good, unsecured			
Employees		**1,708**	806
Suppliers		**174**	664
		1,882	1,470
		17,228	20,679

14.1 This represents the advance salary loans and car loans given to the employees of the Company, carrying annual mark-up of 3% (2016: 3%) and 8% (2016: 8%), respectively. The principal amounts are repayable in 18 equal monthly instalments.

15 SHORT-TERM PREPAYMENTS

	Note	2017	2016
		Rupees '000	
Prepayments		**2,111**	-
Current portion of long-term prepaid rent	12	**22,400**	33,600
		24,511	33,600

16 PROFIT / SERVICE CHARGES RECEIVABLE

	Note	2017	2016
Service charges on Investments			
Specific to Endowment Fund		**51,600**	51,978
Specific to projects		**12,575**	29,795
Specific to others and savings accounts		**242,265**	241,561
		306,440	323,334
Service charges receivable on loans to associate		**4,876**	-
Service charges receivable on loans to POs		**331,631**	442,698
Less: Provision for doubtful service charges	16.1	**(139,538)**	(63,426)
		192,093	379,272
		503,409	702,606

16.1 Movement in provision for doubtful service charges:

	Note	2017	2016
Opening balance		**63,426**	52,473
Add: Provision for the year	36	**76,112**	18,004
Less: Service charges written-off against provision		-	(7,051)
		139,538	63,426

17 OTHER RECEIVABLES

	Note	2017	2016
Considered good, unsecured			
Receivables from POs	17.1 & 24.2	-	15,009
Pre-incorporation expenses paid (PMICL)	17.2	-	18,658
Employees' provident fund		**9,690**	6,025
Consultants / service providers		**7,595**	7,787
Others		**1,035**	1,005
		18,320	48,484

17.1 This represented excess amounts distributed to POs, under the Government of Pakistan - IDA-III Project. During the year, the Company has recovered Rs. 8,816 thousand from these POs. Further, certain POs have reported project related expenses, amounting to Rs. 6,193 thousand, which have been borne by the Company (refer to note 38.)

17.2 During the year, PMICL reimbursed the Company for the entire amount of pre-incorporation expenses incurred by it.

Ey

18	SHORT-TERM INVESTMENTS	Note	2017	2016
			---------- Rupees '000 ----------	
	Held-to-Maturity			
	Specific to projects	18.1	**420,000**	2,150,000
	Specific to others	18.2	**11,278,012**	9,077,080
			11,698,012	11,227,080

18.1 These represent investments in Term Deposit Receipts (TDRs) maturing within six months to one year from the date of investment, at per annum mark-up rates ranging from 5.00% to 6.10% (2016: 5.40% to 6.75%).

These funds were placed with commercial banks as cash collaterals for providing a partial guarantee to those banks to facilitate lending to the below mentioned Microfinance Institutions.

Microfinance institutions	Investment amount		Finance facility	
	2017	2016	2017	2016
	---------- Rupees '000 ----------		---------- Rupees '000 ----------	
National Rural Support Programme	**270,000**	1,000,000	**900,000**	2,150,000
NRSP Micro-finance Bank Limited	-	1,000,000	-	1,550,000
Orangi Charitable Trust	**150,000**	150,000	**150,000**	150,000
	420,000	2,150,000	**1,050,000**	3,850,000

18.1.1 The above cash collaterals will remain in effect until the maturities of the related investments. Any renewal is dependent upon analysis of the underlying conditions at that date.

		Note	2017	2016
			---------- Rupees '000 ----------	
18.2	Specific to others			
	Term Deposit Receipts (TDRs)	18.2.1	**9,674,007**	9,077,080
	Government Treasury Bills	18.2.2	**1,604,005**	-
			11,278,012	9,077,080

18.2.1 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 5.80% to 8.80% (2016: 6.30% to 11.00%).

18.2.2 These funds are invested in Government Treasury Bills maturing within three months from the date of investment, at a mark-up rate of 5.97% per annum.

19	TAX REFUNDS DUE FROM THE GOVERNMENT	Note	2017	2016
			---------- Rupees '000 ----------	
	Income tax refunds	19.1	**345,090**	251,208

19.1 This represents tax refunds relating to tax years 2003 to 2017. 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	2017	2016
		---------- Rupees '000 ----------	
	In current accounts		
	Specific to KfW - Livelihood and Community Infrastructure	**102,106**	370,471
	Specific to KfW - Renewable Energy	**3,624**	115,330
	Specific to Italian Project - Poverty Reduction Through Rural Development Activities in Baluchistan, KPK and FATA	**338,109**	80
	Specific to Prime Minister's Interest Free Loan Scheme (PMIFL)	**547,771**	412,123
		991,610	898,004

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.

		Note	2017	2016
			Rupees '000	
21	**CASH AND BANK BALANCES**			
	Cash in hand		102	9
	Cash at banks in:			
	- Current accounts		1,834	479
	- Deposit accounts	21.1	447,633	285,799
			449,467	286,278
			449,569	286,287

21.1 These balances carry a per annum mark-up ranging between 3.5% to 6.7% (2016: 3.7% to 6.0%).

		2017	2016
		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.

		Note	2017	2016
			Rupees '000	
23	**LONG-TERM FINANCING**			
	Unsecured - from a related party:			
	Government of Pakistan - PPAF - I (IDA financing)	23.1	1,096,387	1,315,674
	Government of Pakistan - PPAF - II (IDA financing)	23.2	6,624,234	6,982,227
	Government of Pakistan - (IFAD financing - MIOP)	23.3	879,221	955,675
	Government of Pakistan - (IFAD financing - PRISM)	23.4	1,786,816	1,924,264
	Government of Pakistan - PPAF - III (IDA financing)	23.5	3,061,371	3,126,496
			13,448,029	14,304,336
	Less: Amounts payable within the next twelve months shown as a current liability		(1,100,515)	(856,307)
			12,347,514	13,448,029
	Less: Deferred benefit of below market rate of interest on long-term financing - Government of Pakistan - PPAF - III (IDA financing)	23.5.1	(1,872,752)	(2,014,837)
			10,474,762	11,433,192

		2017	2016
23.1	Government of Pakistan - PPAF - I (IDA financing)		
	Opening balance	1,315,674	1,534,961
	Amount repaid	(219,287)	(219,287)
		1,096,387	1,315,674

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 (SDR) of 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.

		2017	2016
		Rupees '000	
23.2	Government of Pakistan- PPAF - II (IDA financing)		
	Opening balance	6,982,227	7,340,220
	Amount repaid	(357,993)	(357,993)
		6,624,234	6,982,227

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 SDR 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.

		2017	2016
		---------- Rupees '000 ----------	
23.3	Government of Pakistan - (IFAD financing - MIOP)		
	Opening balance	**955,675**	1,032,129
	Amount repaid	**(76,454)**	(76,454)
		879,221	955,675

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 SDR of 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.

		2017	2016
		---------- Rupees '000 ----------	
23.4	Government of Pakistan - (IFAD financing - PRISM)		
	Opening balance	**1,924,264**	2,061,712
	Amount repaid	**(137,448)**	(137,448)
		1,786,816	1,924,264

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 SDR of 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	2017	2016
			---------- Rupees '000 ----------	
23.5	Government of Pakistan- PPAF - III (IDA financing)			
	Opening balance		**3,126,496**	3,058,025
	Amount received		**-**	68,471
	Amount repaid		**(65,125)**	-
			3,061,371	3,126,496
	Less: Deferred benefit of below market rate of interest on long-term financing	23.5.1	**(1,872,752)**	(2,014,837)
			1,188,619	1,111,659

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 SDR of 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	2017	2016
		---------- Rupees '000 ----------	
Deferred benefit			
Opening balance		**2,014,837**	2,091,869
Additions during the year		**-**	45,644
Amortization during the year		**(142,085)**	(122,676)
		1,872,752	2,014,837

24 DEFERRED LIABILITIES - GRANT FUND

	Note	2017	2016
Government of Pakistan - KfW Renewable Energy (RE)	24.3	**-**	115,330
Government of Pakistan - KfW Livelihood Support and Protection of Small Community Infrastructure (LACIP)	24.4	**104,956**	370,655
Poverty Reduction through Rural Development Activities in Baluchistan, Khyber Pakhtunkhwa, Federally Administered Tribal Areas - (Italian Project)	24.5	**331,199**	-
Government of Pakistan - Prime Minister's Interest Free Loan (PMIFL) Scheme	24.6	**544,971**	412,123
Others	24.7	**11,326**	12,831
		992,452	910,939

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	IDA III	KfW RE	KfW LACIP	Italian Project	PMIFL	Others	2017	2016
Opening balance		(15,009)	115,330	370,655	(556,208)	412,123	12,831	**339,722**	3,155,221
Receipts during the year		-	-	229,813	2,328,995	310,000	13,402	**2,882,210**	3,261,952
Transfers to the deferred income - grant fund	25	-	(19,245)	(36,272)	(54,494)	-	-	**(110,011)**	(213,442)
Project activities reported by POs	17.1	6,193	-	-	-	-	-	**6,193**	-
Transfers to other Income	32	-	-	-	-	-	-	**-**	(407,677)
		(8,816)	96,085	564,196	1,718,293	722,123	26,233	**3,118,114**	5,796,054
Less: (Recovery) / Disbursements for									
Water and infrastructure		(242)	75,980	306,889	496,443	-	-	**879,070**	1,511,775
Social sector development		-	-	9,307	469,742	-	2,000	**481,049**	713,494
Capacity/Institutional building		(8,271)	-	66,605	220,416	12,041	12,907	**303,698**	256,512
Social mobilization		-	-	-	27,316	-	-	**27,316**	44,357
Livelihood enhancement and protection		(242)	-	76,439	173,177	-	-	**249,374**	1,254,780
Micro credit access		(61)	80,232	-	-	165,111	-	**245,282**	1,675,414
	24.8	(8,816)	156,212	459,240	1,387,094	177,152	14,907	**2,185,789**	5,456,332
		-	(60,127)	104,956	331,199	544,971	11,326	**932,325**	339,722
Represented by:									
Deferred liabilities - grant fund		-	-	104,956	331,199	544,971	11,326	**992,452**	910,939
Grant fund receivable		-	(60,127)	-	-	-	-	**(60,127)**	(556,208)
Receivable from POs		-	-	-	-	-	-	**-**	(15,009)
		-	(60,127)	104,956	331,199	544,971	11,326	**932,325**	339,722

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 will expire on 31 December, 2017.

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

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, the project duration was extended up to 31 December, 2016 and 30 June, 2017. Subsequent to the reporting date, the project duration has been extended to 31 December, 2017.

24.5 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 neighbouring 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 has now been extended up to 30 September, 2018.

24.6 Prime Minister's Interest Free Loan 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 behavioural 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. During the year, the Government of Pakistan agreed to release an additional amount of Rs. 315,723 thousand for operational expenses of POs incurred in 2016 - 17. The Government of Pakistan has released an amount of Rs. 310,000 thousand till date and the Company will disburse the amounts to POs after due verification.

24.7 Other Funds

24.7.1 Engro Foundation - Flood Relief

Engro Foundation signed a Memorandum of Understanding (MoU) with the Company on 14 August, 2010 for provision of relief and rehabilitation services to flood affectees of Punjab and Sindh. Such services include food, shelter, drinking water, clothing etc.

24.7.2 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.

24.7.3 Fauji Fertilizer Company Limited

Fauji Fertilizer Company Limited (FFC) signed an agreement with PPAF on June 19, 2012 to carry out "School Improvement Program", in the 12 selected Government schools of district Ghotki, via seminars and teacher training programs.

24.8 Breakup of disbursements to POs

	IDA III	KfW RE	KfW LACIP	Italian Project	PMIFL	Others	2017	2016
	Rupees '000							
Awami Development Organization	-	-	-	-	2,000	-	**2,000**	77,617
Association of Gender Awareness and Human Empowerment Pakistan	-	-	-	-	2,000	-	**2,000**	62,103
Asia Humanitarian Organization	-	-	-	-	-	-	-	50,225
Akhuwat	-	-	-	-	41,850	-	**41,850**	123,490
AKPBS-Water and Sanitation Extension Programme	-	-	-	-	-	-	-	52,230
Aga Khan Rural Support Programme	-	48,309	63,670	19,120	-	-	**131,099**	163,010
Al-Mehran Rural Development and Welfare Organization Foundation	-	-	-	-	3,000	-	**3,000**	33,000
Awaz Foundation Pakistan - Centre for Development Services	-	-	-	-	-	-	-	(135)
AZAT Foundation	-	-	-	56,430	-	-	**56,430**	47,469
Baanhn Beli	-	-	-	-	-	-	-	8,250
Baidarie	-	-	-	-	-	-	-	(2,650)
Baluchistan Rural Development Society	-	-	-	-	-	-	-	42,673
Baluchistan Environmental and Educational Journey	-	-	-	-	-	-	-	81,742
Bunyad Literacy Community Council	-	-	-	-	800	-	**800**	19,566
BRAC Pakistan	-	-	-	76,923	-	-	**76,923**	102,973
Baluchistan Rural Development and Research Society	-	-	-	21,689	-	-	**21,689**	30,402
Badin Rural Development Society	-	-	-	-	-	-	-	32,131
Baluchistan Rural Support Programme	(240)	-	-	130,889	9,261	-	**139,910**	400,586
Center of Excellence for Rural Development	-	-	-	60,157	-	-	**60,157**	14,611
Children's Global Network Pakistan	-	-	-	-	-	-	-	268
Change in Education	-	-	9,307	-	-	-	**9,307**	13,749
Community Mobilization and Development Organization	(2)	-	-	-	-	-	**(2)**	80,867
Courage Development Foundation	-	-	-	-	-	-	-	8,032
Community Support Concern - CEIP	-	-	-	-	2,400	-	**2,400**	118,668
Community Support Foundation	-	-	54,286	-	-	-	**54,286**	25,097
Community Uplift Programme	-	-	-	-	-	-	-	6,309
Environment Protection Society	-	-	27,490	136,532	3,000	-	**167,022**	206,988
Farmers Development Organization	-	-	-	-	3,000	-	**3,000**	103,389
Farmers Friend Organization Microfinance Company	-	-	-	-	2,000	-	**2,000**	1,000
Ghazi Brotha Taraqiatee Idara	-	-	54,426	-	1,400	-	**55,826**	129,779
Hazara Development and Advocacy Foundation	-	-	3,520	-	-	-	**3,520**	53,414
Helping Hand for Relief and Development	-	-	-	-	21,240	-	**21,240**	122,760
Health and Nutrition Development Society	-	-	-	-	1,000	-	**1,000**	66,094
Human Development Foundation	-	-	-	-	-	-	-	48,001
Heartfile	-	-	-	-	-	-	-	755
Indus Earth Trust	-	-	-	-	-	-	-	81,258
Indus Resource Centre	-	-	-	-	-	-	-	16,277
Idara Taleem O Agahi	-	-	-	-	-	-	-	3,721
Jinnah Welfare Society Pakistan	-	-	-	-	-	-	-	34
Kashf Foundation	-	-	-	-	3,000	-	**3,000**	20,666
Khwendo Kor Women and Children Development Programme	-	-	-	42,087	-	-	**42,087**	60,961
Lasoona Society for Human and Natural Resource Development	-	-	-	87,489	-	-	**87,489**	52,722
Mehran Education Society	-	-	-	-	-	-	-	15,264
Mountain and Glacier Protection Organization	-	250	-	-	-	-	**250**	(16)
Mountain Institute of Educational Development	-	-	1,178	-	-	-	**1,178**	23,822
Mojaz Foundation Support Programme	-	-	-	-	2,000	-	**2,000**	66,139
National Integrated Development Association	-	-	-	43,212	-	-	**43,212**	13,016
National Rural Support Programme	-	-	134,724	390,163	36,000	-	**560,887**	875,423
Narowal Rural Development Programme	-	-	-	-	-	-	-	30,000
NRSP Micro-finance Bank Limited	-	-	-	-	-	1,220	**1,220**	-
Pakistan Foundation Fighting for Blindness	-	-	-	-	-	-	-	2,755
Balance carried forward	(242)	48,559	348,601	1,064,691	133,951	1,220	**1,596,780**	3,586,505

	IDA III	KfW RE	KfW LACIP	Italian Project	PMIFL	Others	2017	2016
	Rupees '000							
Balance brought forward	(242)	48,559	348,601	1,064,691	133,951	1,220	**1,596,780**	3,586,505
Participatory Integrated Development Society	-	-	-	62,250	-	-	**62,250**	92,057
Punjab Rural Support Programme	-	-	-	-	4,000	-	**4,000**	31,488
Rural Community Development Program	-	-	-	-	5,000	-	**5,000**	137,575
Rural Development Project	-	-	-	-	-	-	-	24,358
Saath Microfinance Foundation Pakistan	-	-	-	-	-	-	-	18,028
Social Action Bureau for Assistance in Welfare and Organization Network	-	16,930	43,184	-	-	-	**60,114**	65,513
SAFCO Support Foundation	-	-	-	-	-	-	-	29,271
Sindh Agricultural & Forestry Workers Co-ordinating Organization	-	-	-	-	8,000	-	**8,000**	15,277
Salik Development Foundation	-	-	-	-	-	-	-	10,779
South Asia Partnership Pakistan	-	-	-	-	-	-	-	44,561
Sarhad Rural Support Programme	(2,576)	90,723	59,621	142,646	-	-	**290,414**	652,958
Save The Poor	-	-	-	-	-	-	-	200
Sayya Microfinance Company	-	-	-	-	2,000	-	**2,000**	15,756
Society for Conservation and Protection of Environment	-	-	-	-	-	-	-	1,034
SEHER	-	-	-	6,106	-	-	**6,106**	78,592
Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment	(61)	-	-	-	-	-	**(61)**	59,765
Sindh Rural Support Programme	-	-	-	-	-	-	-	11,818
SOS Children's Village	-	-	-	-	-	-	-	(53)
Sustainable Peace and Development Organization	-	-	-	-	-	-	-	18,582
Shadab Rural Development Organization	-	-	-	-	-	-	-	6,648
Sindh Rural Support Organization	-	-	-	-	15,000	-	**15,000**	61,226
Shah Sachal Sami Foundation	-	-	-	-	-	-	-	5,462
Sungi Development Foundation	-	-	-	-	-	-	-	1,532
Sustainable Use Special Group-Central Asia	(242)	-	-	-	-	-	**(242)**	27,540
Soon Valley Development Programme	-	-	-	-	-	-	-	214
Support With Working Solutions	-	-	-	-	-	-	-	19,301
Taraqee Foundation	(5,660)	-	-	55,656	-	-	**49,996**	169,985
Thardeep Microfinance Foundation	-	-	-	-	6,400	-	**6,400**	147,753
Villagers Development Organization	-	-	-	-	-	-	-	(409)
Water Environment & Sanitation Society	-	-	-	-	-	11,687	**11,687**	205
Women Social Organization	-	-	-	-	-	-	-	12,081
Youth Organization	-	-	-	19,669	-	-	**19,669**	33,758
Direct expenses on project activities	(35)	-	7,834	36,076	2,801	2,000	**48,676**	76,972
	(8,816)	156,212	459,240	1,387,094	177,152	14,907	**2,185,789**	5,456,332

25 DEFERRED INCOME - GRANT FUND

	Government of Pakistan (GoP) - Capacity building					
	IFAD (PRISM)	KfW (RE)	KfW (LACIP)	Government of the Italian Republic	2017	2016
	Rupees '000					
Opening Balance	562	126	10,839	1,551	**13,078**	6,601
Amount received	-	19,245	36,272	54,494	**110,011**	213,442
Expenditure from grant recognized as income	-	(19,245)	(35,972)	(54,497)	**(109,714)**	(206,965)
	562	126	11,139	1,548	**13,375**	13,078

26 TRADE AND OTHER LIABILITIES

	Note	2017	2016
		Rupees '000	
Creditors		480	2,217
Accrued liabilities		2,647	6,522
Payable to staff gratuity fund	27.1	4,686	12,633
Consultancy fee payable		3,505	20,282
Withholding tax payable		1,339	2,315
Loan Portfolio Monitoring fee payable	26.1	74,428	-
Other payables			
CMA Awards payable		3,346	12,792
Payable to provident fund		13,103	9,959
Others		10,779	16,963
		27,228	39,714
		114,313	83,683

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).

27 DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY FUND

27.1 The movement in liability is as follows:

	2017	2016
	Rupees '000	
Opening net liability	12,633	7,203
Expense recognized during the year	14,286	14,630
Contributions made directly to the Fund	(24,927)	(7,203)
Benefit payments on behalf of the Fund	-	(1,569)
Re-measurement loss recognized in other comprehensive income	2,694	(428)
	4,686	12,633

27.2 The details of actuarial valuation carried out as at 30 June, 2017 and 2016 are as follows:

27.2.1 Reconciliation of payable to Defined Benefit Plan

	Note	2017	2016
		Rupees '000	
Present value of the defined benefit obligation	27.2.2	102,069	102,160
Fair value of the plan assets	27.2.4	(97,383)	(89,527)
		4,686	12,633

27.2.2 Change in the present value of defined benefit obligation

	2017	2016
Opening balance	102,160	85,245
Current service cost	13,483	14,588
Past service cost	333	-
Interest cost on defined benefit obligation	6,662	7,502
Benefits paid	(20,539)	(3,774)
Actuarial gain recognized	(30)	(1,401)
	102,069	102,160

27.2.3 Charge recognized in the Income and Expenditure Account

	2017	2016
Current service cost	13,483	14,588
Past service cost	333	-
Interest cost on defined benefit obligation	6,662	7,502
Interest income on plan assets	(6,192)	(7,460)
	470	42
	14,286	14,630

Ey

	2017	2016
Charge recognized in the Statement of Other Comprehensive Income	---------- Rupees '000 ----------	
Actuarial (gain) / loss recognized	**(30)**	(1,401)
Return on plan assets, excluding the amount included in interest income	**2,724**	973
	2,694	(428)

27.2.4 Change in fair value of plan assets

	2017	2016
Opening balance	**89,527**	78,042
Interest income	**6,192**	7,460
Contributions made directly to Fund	**24,927**	7,203
Payments made on behalf of the Fund	**-**	1,569
Benefits paid	**(20,539)**	(3,774)
Return on plan assets, excluding the amount included in interest income	**(2,724)**	(973)
	97,383	89,527

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

	2017		2016	
	Rupees '000	%	Rupees '000	%
Term Deposit Receipts	**97,018**	**100**	84,000	94
Cash and cash equivalents	**365**	**0**	5,527	6
	97,383	**100**	89,527	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:

	2017	2016
Valuation discount rate (per annum)	**8.00%**	7.25%
Salary increase rate (per annum)	**7.00%**	6.25%
Salary increase rate - 1 year (per annum)	**5.75%**	5.00%

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, 2016 and 2017.

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 percent.

	Defined benefit obligation	
	1% Increase	1% decrease
	---------- Rupees '000 ----------	
Discount rate (1%)	(8,436)	9,870
Salary increase rate (1%)	10,334	(8,961)

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:

	Years
Plan duration	
30 June, 2017	8.17
30 June, 2016	9.56

	2017	2016
	---------- Rupees '000 ----------	
27.2.7 Projected payments as at 30 June		
Contributions for next financial year	**14,318**	15,645
Benefit payments:		
Year 1	**19,432**	17,379
Year 2	**6,716**	4,981
Year 3	**4,850**	6,945
Year 4	**10,932**	4,841
Year 5	**3,280**	10,057

28 SERVICE CHARGES PAYABLE

These represent service charges payable to GOP at the rate of 0.75% per annum (2016: 0.75% per annum) on the principal amount of long term-financing outstanding withdrawn from time to time.

	Note	2017	2016
29 CONTINGENCIES AND COMMITMENTS		---------- Rupees '000 ----------	
29.1 Contingencies			
29.1.1 Guarantees to banks against lending to Microfinance institutions	18.1	**420,000**	2,150,000

29.1.2 In March 2016, the Community Uplift Programme (CUP, a PO of the Company), filed a suit with the Honourable Court of the Senior Civil Judge (West), Islamabad, for the recovery of Rs. 69,204 thousand representing the unpaid amount of a grant under a financing agreement, signed between the Company and CUP, for implementation of the Livelihood Support and Small Infrastructure Projects program, along with an additional amount of Rs. 15,000 thousand as damages for non-payment for an extended period of time. The management of the Company contends that the Company has acted in accordance with the provisions of the concerned financing agreement. Further, CUP was required, under the Financing Agreement, to resolve any grievance by approaching an Arbitrator, appointed in accordance with the Arbitration Act, 1940. The Company has filed an application with the Honourable Court of the Senior Civil Judge for the dismissal of the suit, which is pending adjudication. Subsequent to reporting date, Chief Executive of CUP has submitted an unconditional apology and has declared its intention to resume implementation of the Company funded projects. Accordingly, no provision has been made against the aforementioned case in these financial statements, as the management is confident that the case will be withdrawn in due course.

		2017	2016
29.2	**Commitments**	Rupees '000	
29.2.1	Aggregate commitments under Financing Agreements with Partner Organizations for:		
	Loans	-	1,378,624
	Grants		
	Community physical infrastructure	**579,404**	1,016,461
	Capacity building	**305,760**	361,565
	Social sector development	**239,161**	622,737
	Social mobilization	**94,187**	-
	Livelihood enhancement and protection	**139,260**	217,666
		1,357,772	2,218,429
	Loans under the Master Subordinate Loan Agreement with an associate of the Company	**10,529,520**	-
		11,887,292	3,597,053

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, 2017, the aggregate net book value of shares held by these shareholders is Rs. 2,999,143 thousand (at Rs. 0.999 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

	2017	2016
Service charges on loans to Partner Organizations	**1,031,506**	973,129
Service charges on loans to associate	**4,876**	-
	1,036,382	973,129

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	2017	2016
		Rupees '000	
Profit on investments			
Specific to Endowment Fund		**126,680**	128,440
Specific to projects		**30,074**	217,824
Specific to Grant Fund	31.1	**627,914**	569,461
Specific to others and savings accounts		**256,030**	329,307
		1,040,698	1,245,032

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.

			2017	2016
32	**OTHER INCOME**		---------- Rupees '000	----------
	Income from financial assets			
	Mark-up on loans to employees		**394**	206
	Income from non-financial assets			
	Gain on disposal of property, plant and equipment		**2,119**	4,859
	Transferred from deferred liability- grant fund:			
	US-Agency for International Development		-	115,984
	United States Department of Agriculture		-	99,382
	Committee Encouraging Corporate Philanthropy		-	21,669
	Benazir Income Support Programme		-	152,945
	Others		-	17,696
		32.1	-	407,676
	Miscellaneous		**536**	2,315
			3,049	415,056

32.1 These represented amounts transferred from deferred liabilities - grant fund during the previous year, in respect of closed grant funded projects.

			2017	2016
33	**GENERAL AND ADMINISTRATIVE EXPENSES**	**Note**	---------- Rupees '000	----------
	Salaries, wages and other benefits	33.1	**325,356**	359,640
	Rent, rates and taxes		**33,902**	28,229
	Repairs and maintenance		**8,895**	7,466
	Traveling, lodging and conveyance		**41,890**	65,742
	Communication		**6,021**	6,326
	Printing and stationery		**6,034**	4,512
	Insurance		**13,022**	13,093
	Vehicles running and maintenance		**16,831**	20,008
	Utilities		**4,876**	4,681
	Legal and professional charges		**6,015**	9,492
	Auditors' remuneration	33.2	**2,420**	2,300
	Advertisement		**1,795**	1,854
	Media projection		**736**	4,229
	Newspapers, books and periodicals		**408**	576
	Depreciation	6.1	**28,934**	29,979
	Amortization	7.1	**463**	3,489
	Security services		**2,453**	3,389
	Office shifting and related expenses		-	4,550
	Others		**5,149**	6,375
		33.3	**505,200**	575,930

33.1 This includes Rs. 33,440 (2016: Rs. 33,399) thousand in respect of employees' retirement benefits.

		2017	2016
33.2	Auditor's remuneration	---------- Rupees '000	----------
	EY Ford Rhodes		
	Statutory audit	**1,100**	1,100
	Projects' audit	**1,320**	1,200
		2,420	2,300

33.3 General and administration expenses include Rs. 69,002 (2016: Rs. 46,591) thousand incurred on different programme activities, as disclosed in note 25.

		Note	2017	2016
34	**SEMINARS, WORKSHOPS AND TRAININGS**		---------- Rupees '000 ----------	
	Training		**6,009**	9,959
	Seminars and workshops		**10,340**	10,236
		34.1	**16,349**	20,195

34.1 Seminars, workshops and training expenses include Rs. 5,826 (2016: Rs. 9,304) thousand incurred on different programme activities as disclosed in note 25.

		Note	2017	2016
			---------- Rupees '000 ----------	
35	**TECHNICAL AND OTHER STUDIES**	35.1	**76,775**	155,018

35.1 Technical and other studies include Rs. 34,886 (2016: Rs. 151,070) thousand incurred on different programme activities as disclosed in note 25.

		Note	2017	2016
36	**PROVISION AGAINST LOANS / SERVICE CHARGES**		---------- Rupees '000 ----------	
	Provision made against loans to POs	11.3	**31,503**	27,155
	Provision against service charges receivable	16.1	**76,112**	18,004
			107,615	45,159

37	**FINANCIAL CHARGES**			
	On long-term financing		**104,345**	109,946
	Imputed interest on long-term loan at below market interest rate		**142,085**	122,676
	Bank charges		**1,785**	2,648
			248,215	235,270

38	**EXPENDITURE ON PROJECT AND RELIEF ACTIVITIES**			
	Earthquake relief	38.1	-	3,192
	The Government of Pakistan - IDA-III Project	17.1 & 24.2	**6,193**	-
	Flood relief	38.2	**22,420**	5,755
	Project and other activities	38.3	**122,573**	399,129
			151,186	408,076

38.1 This represented expenses incurred on earthquake relief activities carried out in District Awaran and Kech of Baluchistan province, through the National Rural Support Programme (NRSP).

38.2 This represents expenses incurred on flood relief activities carried out in District Muzaffargarh and Jhang of the Punjab province, through National Rural Support Programme (NRSP) and Mojaz Foundation (MF), and in Sher Afzal banda area, through Support With Working Solutions (SWWS).

38.3 This includes amounts disbursed to POs in respect of Institutional Development - Social Mobilization, infrastructure schemes, health and education interventions, endowment funds and livelihood enhancement schemes amounting to Rs. 20,506 thousand, 25,060 thousand, 45,855 thousand, 11,000 thousand and 20,152 thousand, respectively.

		Note	2017	2016
39	**MOVEMENT IN GRANT FUND / RESERVE FOR GRANT BASED ACTIVITIES**		---------- Rupees '000 ----------	
	Income allocated to grant fund / reserve for grant based activities	31	**627,914**	569,461
	Less: expenditure on project and relief activities	38	**(151,186)**	(408,076)
			476,728	161,385

40 REMUNERATION OF CHIEF EXECUTIVE OFFICER	2017	2016
	Rupees '000	
Managerial remuneration	**21,043**	20,430
House rent allowance	**5,100**	5,100
Contribution to staff Provident Fund	**1,913**	1,857
	28,056	27,387
Number of persons	**1**	1

40.1 In addition, the Chief Executive Officer is provided with the medical insurance and a company maintained car. Gratuity is payable to the Chief Executive Officer in accordance with the terms of employment.

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:

Transactions with associate	2017 Rupees '000	2016 Rupees '000
Expenses incurred on behalf of PMICL	**74,231**	-
Payments in lieu of contributions made to the provident fund	**28,515**	7,921

42 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

42.1 Financial assets and liabilities

	2017			2016		
	Held to maturity investments	Loans and receivables	Total	Held to maturity investments	Loans and receivables	Total
Financial Assets:	Rupees '000					
Maturity up to one year:						
Current maturity of long-term investments	875,000	-	875,000	300,000	-	300,000
Current maturity of loans to Partner Organizations	-	8,923,734	8,923,734	-	12,037,609	12,037,609
Short-term investments	11,698,012	-	11,698,012	11,227,080	-	11,227,080
Loans to employees	-	15,346	15,346	-	19,209	19,209
Other receivables	-	18,320	18,320	-	48,484	48,484
Profit / service charges receivable	-	503,409	503,409	-	702,606	702,606
Bank balances - specific to projects	-	991,610	991,610	-	898,004	898,004
Cash and bank balances	-	449,569	449,569	-	286,287	286,287
Maturity after one year:						
Long-term deposits	-	7,556	7,556	-	7,425	7,425
Long-term investments	1,783,356	-	1,783,356	2,657,798	-	2,657,798
Long-term loans to associate	-	1,818,000	1,818,000	-	-	-
Long-term loans to Partner Organizations	-	809,665	809,665	-	1,735,675	1,735,675
	14,356,368	13,537,209	27,893,577	14,184,878	15,735,299	29,920,177

	2017	2016
Financial Liabilities:	Rupees '000	
Maturities up to one year:		
Deferred liabilities - grant fund	992,452	910,939
Current portion of long-term financing	1,100,515	856,307
Service charges payable	24,002	25,489
Trade and other payables	95,185	58,931
Maturity after one year but before five years:		
Long-term financing	5,118,330	4,939,300
Maturity after five years:		
Long-term financing	7,229,184	8,508,731
	14,559,668	15,299,697
Off balance sheet items:		
Commitments	11,887,292	3,597,053

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	2017	2016
			---------- Rupees '000 ----------	
Investments				
Counterparties with external credit rating				
	PACRA	A1+	**6,921,407**	6,796,000
	JCR-VIS	A-1+	**1,199,000**	2,815,880
	PACRA	A1	**1,180,000**	-
	JCR-VIS	A-1	**793,600**	1,365,200
	JCR-VIS	A-2	-	250,000
Securities issued / supported by Government of Pakistan			**4,279,005**	2,957,798
			14,373,012	14,184,878
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	**1,433,554**	1,176,465
	JCR-VIS	A-1+	**3,576**	7,486
	PACRA	A1	**2,249**	-
	JCR-VIS	A-1	**1,676**	309
	JCR-VIS	A-2	**11**	11
Balance with National Saving Centre			**11**	11
			1,441,077	1,184,282
Loans to Partner Organizations and associate				
Counterparties with external credit rating				
	JCR-VIS	A-1	**310,400**	980,000
	JCR-VIS	A-2	-	150,000
	JCR-VIS	A-3	**2,357,933**	-
Counterparties without external credit rating				
- Counterparties with no default in the past				
Loans to Partner Organizations			**7,065,066**	12,643,284
Loans to associate			**1,818,000**	-
			11,551,399	13,773,284
Profit / service charges receivable				
Counterparties with external credit rating				
	PACRA	A1+	**93,238**	117,302
	JCR-VIS	A-1+	**19,099**	6,338
	PACRA	A1	**35,734**	-
	JCR-VIS	A-1	**30,320**	45,005
	JCR-VIS	A-2	-	36,651
	JCR-VIS	A-3	**18,786**	-
Securities issued/supported by Government of Pakistan			**138,355**	154,689
Counterparties without external credit rating				
- Counterparties with no defaults in the past			**167,877**	342,621
			503,409	702,606

43.1 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. 10,708,004 thousand (2016: Rs. 14,716,386 thousand) (including loans to five major POs of Rs. 6,021,286 thousand) (2016: loans to five major POs of Rs. 8,334,507 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. 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. 25,923,113 (2016: Rs. 28,263,170) thousand and financial liabilities include balances of Rs. 13,448,029 (2016: Rs. 14,304,338) 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. 124,751 (2016: Rs. 139,588) 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.

43.2 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 CONTRIBUTORY PROVIDENT FUND

Details of Employees' Provident Fund are as follows:

	2017	2016
	---------- Rupees '000 ----------	
a) Size of the fund		
Net assets	**123,268**	130,843
Total assets	**133,446**	133,419
Cost of investments made	**86,060**	95,986
Percentage of investments made to total assets	**64%**	72%
Fair value of investments made	**86,060**	95,986

	2017		2016	
	Rupees '000	%	Rupees '000	%
b) Breakup of investments - Fair value				
National Savings Scheme	**40,000**	**46%**	40,000	30%
Pakistan Investment Bonds	**40,092**	**47%**	40,148	30%
Balances with banks	**5,968**	**7%**	15,838	12%
	86,060	**100%**	95,986	72%

c) All the investments out of provident fund have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the rules formulated for the purpose. The above figures are un-audited.

45 CASH AND CASH EQUIVALENTS

	Note	2017	2016
		---------- Rupees '000 ----------	
Short-term investments	18	**3,077,686**	3,538,080
Bank balances-specific to projects	20	**991,610**	898,004
Cash and bank balances	21	**449,569**	286,287
		4,518,865	4,722,371

46 NUMBER OF EMPLOYEES

	2017	2016
Number of employees	**170**	208
Average number of employees during the year	**182**	210

47 GENERAL

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

48 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Company on 28 SEP 2017

DIRECTOR

CHIEF EXECUTIVE OFFICER