DIRECTORS' REPORT

& Audited Financial Statements

For the year ended June 30, 2016

Pakistan Poverty Alleviation Fund

DIRECTORS REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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PAKISTAN POVERTY ALLEVIATION FUND
DIRECTORS' REPORT

The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the Sixteenth Annual Report along with audited financial statements of the Company for the year ended June 30, 2016.

Despite the admirable achievements in poverty reduction, extreme poverty remains high. Half of the world's poorest people still live under miserable conditions on less than $1.90 a day—the updated international poverty line. In order to effectively combat global poverty focusing on key areas such as investing in economic systems, promoting education, and improving health systems has become vital. By improving these key factors in impoverished areas, the quality of life could be improved for a number of people.

Poverty is deep seeded in Pakistan with related problems of malnutrition, poor health, illiteracy, powerlessness, exclusion, violence, unemployment, underemployment, livelihood risks and vulnerabilities. Nevertheless, Pakistan's economy has maintained higher and broad based economic growth in outgoing fiscal year 2015-16 regardless of the number of internal and external challenges. The Government remained focused on the agenda aimed at reviving of the economy, resolving the energy crisis, improving security situation, and providing ample opportunities to all and sundry to boost up their socio-economic condition. Government has pursued growth oriented economic policies and introduced comprehensive structural reforms to achieve these objectives.

The key Government policy documents that outline the national poverty reduction strategy in Pakistan are Vision 2030, the Medium-Term Development Framework (2005-2010), Poverty Reduction Strategy Paper II (2008-2012) and the New Growth Framework (2010). Vision 2030 outlines ambitious plans for poverty reduction and aims to have "eliminated extreme poverty in all its manifestations before 2030." As part of these plans, Government strongly committed to supporting PPAF, seeing it as a key instrument of its support to alleviating poverty at the national level. The Government has turned to PPAF to implement some of its most important initiatives including the recently launched Prime Minister's Interest Free Loan Scheme. In its annual Pakistan Economic Survey, the Ministry of Finance acknowledges the contribution of PPAF to achieving overall growth and poverty alleviation objectives and in the delivery of priority social safety net programmes.

PPAF has been at the frontage of addressing the challenges based on gender, income, disability and inequality with strong commitment on targeting the women, the poor and the disadvantaged. Since inception PPAF has achieved remarkable outcomes through implementation of multidimensional project of different Donors. During the voyage of eighteen years not only did PPAF play a central role in helping to channel Government funds, but PPAF's own organizational structure and poverty graduation approach attracted a variety of multilateral and bilateral donors beyond the World Bank including the Asian Development Bank, Department for International Development (DFID), International Fund for Agricultural Development (IFAD), KfW - German development bank, the Government of Italy and several corporates like Mari Gas, Shell etc. with the aim to lift the poor people out of extreme poverty. As a result of PPAF's interventions most of the underprivileged community in the region have since achieved a lower middle-income status and now enjoy a better quality of life.

The successful completion of the World Bank financed third poverty alleviation project (PPAF III) involving funding of USD 256 million in March 2016 is one of the biggest milestones achieved during the year. The project comprised of five components: (i) Social mobilization and institution building (ii) Livelihoods enhancement and protection; (iii) Micro-credit access; (iv) Basic services/ infrastructure; and v) Project implementation support. The completion of PPAF III marks the 'graduation" of PPAF as an organization from World Bank financing. The project built on eight years of previous experience aimed to improve poverty outcomes through a deepening and saturation approach in targeted areas and having an even stronger focus on poor households and women. Despite the very difficult and challenging circumstances under which PPAF III project was implemented, the project fully reached its objective of ensuring that the targeted poor have increased their incomes, improved their productive capacity and access to services under the project. PPAF's integrated model and regional strategies focused on vulnerable groups made it possible to complete the project in due course of time. There are a number of outcomes which are particularly noteworthy to mention here are: (i) supporting the growth of a nationwide microfinance sector into one which is now rated as one of the best in the world (The Economist Intelligence Unit); (ii) organizing over 120,000 community institutions (cumulatively from the start of PPAF I to todate) with a core focus of inclusion of women and the poorest; (iii) developing the capacity of 130 civil society organizations; and (iv) taking to scale its poverty graduation approach that has shown to significantly and positively impact income, consumption and wealth of the poorest households.

The potential market for microfinance is estimated at a minimum of 20.5 million. The market is poised for growth and has institutions that possess the capacity to serve a much larger client base, however the sector remains constrained due to the unavailability of funds. In order to reach up to 10 million active borrowers by year 2020, the industry would require additional financing for on-lending up to Rs. 300 billion. In order to meet the funding demands of the sector, PPAF, DFID through Karandaaz Pakistan and the KfW joined hands to establish Pakistan Microfinance Investment Company Limited (PMIC), private-sector investment finance company. The legal formalities for establishment of PMIC were completed during the year and Shareholders Agreement, Shares Subscription Agreement and Non-Compete Agreement was signed on April 28, 2016 at a ceremony attended by the Finance Minister, Deputy Governor-SBP, Chairman SECP and other delegates from PPAF, DFID, German and British Governments and Ministry of Finance. All the modalities have been met and the new company will be operationalized by October 2016. The major objective of the new entity is to attract commercial funding to serve increasing demand of those who are financially excluded and further improve the capability and capacity of the sector to absorb these funds. The National Financial Inclusion Strategy (NFIS) also recognizes microfinance as an important instrument for increasing financial inclusion in the country and an important milestone of the strategy includes enhancing commercial funding for the microfinance sector through creation PMIC. The tripartite coalition between the three shareholders will be based on the initial equity investment of Rs. 5.5 to 6 billion. Thus, the entity would be able to bring in significant amount of foreign investment into the country in the form of both debt and equity. The entity is expected to attract sufficient funds from private and commercial sources to help the microfinance sector to meet the unmet demand for financial services and create employment opportunities in the country. PMIC is envisioned to follow the double bottom-line approach of poverty alleviation and financial sustainability, PMIC's mission is "to provide financial and institutional services to strengthen and scale-up provision of sustainable and responsible access to finance to individuals, micro entrepreneurs and micro enterprises in Pakistan to enhance employment and income opportunity for economically poor and underserved citizens and improve the lives of the poor'. In order to achieve the mission, strategic objectives of PMIC include (i) Creation of a financially sustainable organization; (ii) Provide innovative and customized support to PMIC investees, through a mix of financial instruments and institutional support to develop capacity to access commercial credit markets (iii) Contribute to building a robust financial ecosystem for the growth of sustainable micro finance in Pakistan (iv) Build a strong professional and innovative organization capable of achieving the mission of PMIC.

Progress Review:

During the year PPAF managed steady progress in terms of its operations. Total portfolio managed during the year was Rs 22,730 million as against Rs. 24,666 million in FY 2014-15.

Components	Rupees in millions 2016	Rupees in millions 2015	Variance (%age)
Loan portfolio			
Loan outstanding	14,716	13,913	6
Indirect placement	2,150	3,600	(40)
Sub-total	**16,866**	**17,513**	**(4)**
Grants			
Water & Infrastructure	1,512	1,798	(16)
Livelihood Enhancement & Protection	1,255	2,335	(46)
Health & Education	713	234	205
Institutional Development	359	941	(62)
Prime Minister's Interest Free Loan Scheme	1,617	1,626	(1)
Project activities	408	219	86
Sub-total	**5,864**	**7,153**	**(18)**
Grand Total	**22,730**	**24,666**	**(8)**

Loan portfolio decreased by 4% to Rs. 16,866 million (FY 2014-15 – Rs. 17,513 million). The deployed portfolio included Rs. 14,716 million as loan outstanding with POs (direct exposure) and Rs 2,150 million placed with bank as guarantee facility to facilitate lending (indirect exposure).

The decline in loan portfolio deployment was due to reduction in funds available for lending which are decreasing with repayments of loans by PPAF to the Government of Pakistan (PPAF repaid Rs 719 million during the year). Disbursements for grant based interventions during the year were Rs. 5,864 million as against Rs. 7,153 million last year, a decrease of 18%. The reduction was on account of closure of US$ 255 million World Bank financed PPAF-III project during the year.

Disbursements for water and infrastructure components decreased by 16% to Rs 1,512 million (FY 2014-15 - Rs 1,798 million). The decline was due to closure of PPAF III project which affected disbursement under the component. During the year Rs. 286 million was disbursed under PPAF III project as against Rs. 1,274 million during FY 2014-15.

Disbursements for livelihood component showed a reduction of 46% and were Rs 1,255 million (FY 2014-15 – Rs. 2,335 million). The bulk of funding for this component i.e. US$ 85 (33% of the total project size) was allocated under PPAF III Project the closure of which affected the disbursement (Rs. 897 million was disbursed during the year for PPAF III Project as against Rs. 2,209 million disbursed during FY 2014-15).

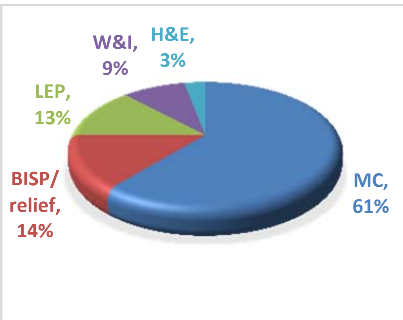
Disbursements for health and education component increased by 205% to Rs. 713 million (FY 2014-15 – Rs. 234 million). Under PPAF III project Rs 63 million was disbursed during the year. The increase in disbursement was on account of initiation of activities under Project for Poverty

Reduction (financed by Italian Development Corporation) under which Rs 651 million was disbursed (FY 2014-15 – NIL).

Social mobilization disbursements were Rs. 359 million (FY 2014-15 – Rs. 941 million), reduction of 62% from last year. Due to closure of PPAF III Rs. 176 million was disbursed under the Project during the year as against Rs. 715 million disbursed in FY 2014-15.

During the year PPAF completed the first phase of Prime Minister's Interest Free Loan Scheme and disbursed Rs. 1,617 million (FY 2014-15 – Rs. 1,626 million). In addition to core operations, Rs 408 million (FY 2014-15 – Rs 219 million) were spent on projects and relief activities [fig.1].

Figure 2
Share of funds disbursed

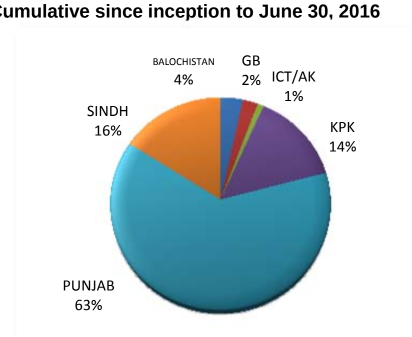


Cumulative disbursements since inception to June 30, 2016, stood at Rs 178 billion out of which credit disbursements were 61% followed by project and relief activities, including Prime Minister Interest Free Loan Scheme and Waseela-e-Haq Program (14%); human and institutional development (including social mobilization)/livelihood enhancement and protection (13%); community physical infrastructure (9%) and health & education (3%) [fig. 2].

Resource Allocation Strategy

Resource allocation strategy of PPAF focuses on regions that have historically lagged behind in socio-economic development and are particularly underserved. PPAF played a significant role with respect to providing provincial coverage to combat poverty. As of June 30, 2016, 63% of the funds were allocated in Punjab, 16% in Sindh, 14% in Khyber Pakhtunkhwa (KPK), 4% in Balochistan; 2% in Gilgit Baltistan (GB); and 1% in Azad Jammu and Kashmir (AJK Islamabad Capital Territory (ICT) [Fig 3].

Figure 3
Provincial distribution of funds
Cumulative since inception to June 30, 2016



Microcredit a major component of income generating activities caters to the needs of the poor people who are already engaged in a business or have a skill to earn a living but are unable to access financial institutions due to lack of collaterals or requiring small amounts as loans. The better off areas in Priority Index rating fall in the provinces of Punjab and Sindh, rich in fertile lands and rivers creating opportunities for the rural people to make them self-employed through agricultural and non-agricultural business. Accordingly, microcredit funding during the year concentrated primarily in Punjab with 71% of the total share followed by Sindh 19%, KPK 5% and GB 5%. [Fig 4].

Figure 4 - Provincial distribution of Microcredit funds

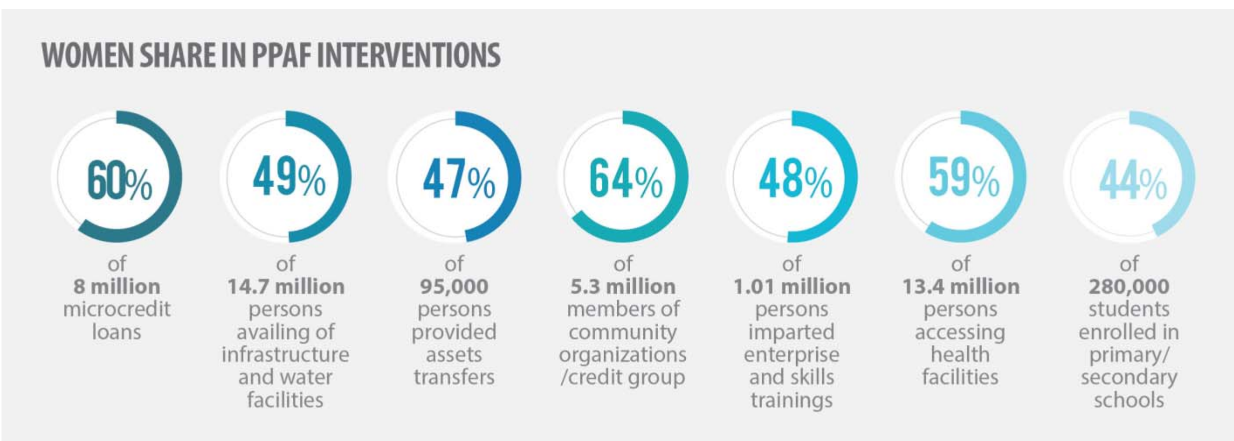
	Microcredit	
Province	**2015-16**	**Cumulative**
Balochistan	0%	1%
GB	5%	1%
KPK	5%	3%
Punjab	71%	82%
Sindh	19%	13%
Total	**100%**	**100%**

The grant based interventions are for the communities which lack in the basic social and infrastructure facilities in the first place. PPAF basic social and infrastructure grants provide help to pro poor communities to uplift and become part of the mainstream. During the year, grant funding was allocated in line with PPAF's strategy which focuses on deprived districts. 37% of the funds were allocated in KPK, 22% in Punjab, 22% in Balochistan, 14% in Sindh and 5% in GB/ICT.

Figure 5 - Provincial distribution of Grant funds

	Grant	
Province	**2015-16**	**Cumulative**
Balochistan	22%	6%
GB	5%	3%
ICT/AK	0%	2%
KPK	37%	33%
Punjab	22%	44%
Sindh	14%	12%
Total	**100%**	**100%**

By the end of June 2016, 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 38,000 health, education, water and infrastructure projects, transferred 97,000 assets to poor and organized over 17,000 training events for 1,093,000 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.



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.

Operational and Financial Highlights

PPAF, as a non-profit institution, capitalized on profits to earn sufficient revenue to run its operations smoothly.

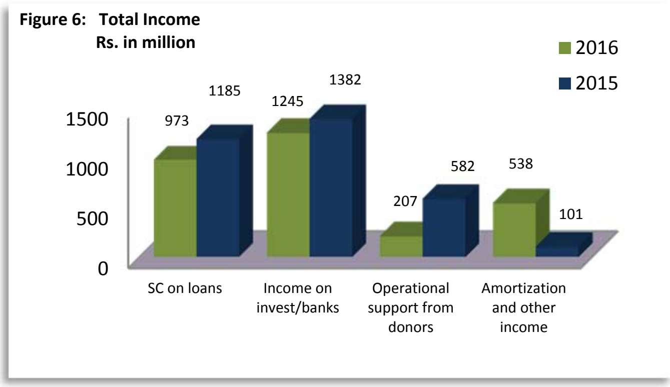


Figure 6: Total Income Rs. in million

Total income earned during the year was Rs 2,963 million as against Rs 3,250 million in FY 2014-15, a reduction of 9%. The decline was mainly on account of reduced KIBOR to which both investment and microcredit incomes are linked.

Service charges on loans to POs declined by 18%. The decrease in KIBOR resulted in reduction of lending rate charged to POs which decreased by 1.61% during the year and stood at 8.00% p.a. (FY 2015 9.61% p.a.). Income on investments/saving accounts had decreased by 10% mainly due to 3% average reduction in KIBOR during the year.

During the year grant in support of operational expenses decreased by 64% to Rs 207 million (FY 2014-15 – Rs. 582 million). The reduction was mainly due to reduced operational support under World Bank financed PPAF III project which closed during the year. Amount of Rs. 137 million realized as income from Project as against Rs. 505 million during FY 2014-15.

During the year other income of Rs. 408 million (FY 2014-15 – 1 million) was realized against projects which were closed in previous years against which all related project activities were completed. Further, there was no such communication, from respective donors, requiring the reimbursement of these funds. Accordingly, the obligation had been reassessed under these grant projects and the unspent balances are recognized as other income. This includes Rs. 116 million against US Agency for International Development; Rs. 99 million against US Department of Agriculture; Rs. 22 million against Committee Encouraging Corporate Philanthropy; Rs. 153 million against BISP; and Rs. 18 million against others.

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. 123 million (FY 2014-15: Rs 100 million).

The general and administrative expenses related to the operations of PPAF decreased by 2% to Rs 576 million (FY 2014-15 – Rs 587 million). Major reduction was in travelling expenses which decreased by 6% to Rs. 66 million (FY 2014-15 – Rs 70 million), rent expenses which reduced by 11% (due to consolidation of staff in one building) and repair expenses which reduced by 34%. Salaries expenses for the year also

Fig 7: Financial results are summarized as follows

Rs. In million	2016	2015
Service charges on loans to Partner Organizations	973	1,185
Income on investments and savings accounts	1,245	1,382
Amortization of deferred income - grant fund	207	582
Amortization of deferred benefit	123	100
Other income	415	1
Total income	**2,963**	**3,250**
General and administrative expenses	576	587
Seminars, workshops and trainings	20	30
Technical and other studies	155	168
Provision against loans / service charges	45	27
Income tax refund written off	12	-
Financial charges	235	215
Total expenditure	**1,043**	**1,027**
SURPLUS BEFORE PROJECT AND RELIEF ACTIVITIES	**1,920**	**2,223**
Project and relief activities	408	219
Other comprehensive income/(expense) for the year	-	6
SURPLUS FOR THE YEAR	**1,512**	**1,998**

reduced to Rs. 360 million against Rs. 363 million for FY 2014-15.

Seminar, workshops and training expenses of Rs 20 million (FY 2014-15 - Rs 30 million) included Rs 10 million (FY 2014-15 - Rs 19 million) spent on trainings and Rs 10 million (FY 2014-15 - Rs 11 million) incurred on seminar and workshops. An amount of Rs 155 million (FY 2014-15 - Rs 168 million) was incurred on technical/other studies.

PPAF acquired income tax exemption from FBR with effect from the tax year 2003. Resultantly the income tax refundable created before this date will not be allowed by FBR and hence the amount of tax refundable Rs. 11.81 million was written off in accounts for the current year.

During the year general provision of 5% was created on loan portfolio i.e. Rs. 27 million (FY 2015 – Rs. 20 million); and provision of 18 million (FY 2015 – Rs. 7 million) was created for service charges.

The financial charges of Rs 235 million (FY 2014-15 - Rs 215 million) included Rs 112 million as service charges on long term loans and Rs 123 million amortization of deferred benefit of below market interest rate on long term loans and bank charges.

PPAF spent Rs 408 million (FY 2014-15 - Rs 219 million) on project and relief activities financed from its own resources. This amount included disbursements for emergency relief against flood & earthquake Rs. 9 million; Rs. 103 million spent on closure of PPAF III; Rs. 95 million for projects implemented in Dera Bugti; Rs. 62 million provided as Equity to microfinance institutions; Rs. 70 million as continuous support for Education Facilities; Rs 43 million for providing Interest Free Loans; and Rs. 26 million for other project activities.

Total expenditure increased by 2% to Rs 1,043 million (FY 2014-15 - Rs 1,027 million). Surplus before project and relief activities and actuarial losses was Rs 1,920 million as against 2,224 million in FY 2014-15. Net surplus for the year decreased by 24% to Rs 1,512 million (FY 2014-15 – Rs 1,998 million) mainly on account of decrease in KIBOR rates and increase in project and relief activities.

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. 791 million (FY 2014-15 - Rs. 654 million) was repaid on account of principal amount of loan and Rs 112 million (FY 2014-15 - Rs 114 million) as service/commitment charges to the GoP.

Considering the need for sustaining grant based operations in the absence of external financing, the Board of Directors had approved creation of a reserve for grant operations. The principal amount of the reserve was held in investments and interest earned thereon 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. As at June 30, 2016, the reserve stood at Rs 7,520 million, an increase of 12% (FY 2014-15 - Rs 6,706 million).

Total equity and reserves increased by 11% to Rs 15,519 million as at June 30, 2016 from Rs 14,007 million as at June 30, 2015. Total assets of the Company reached Rs. 30,857 million on

June 30, 2016 against Rs 32,263 million as at June 30, 2015, a decrease of 4%. Total loan receivables were Rs 14,716 million on June 30, 2016 as against Rs 13,913 million as at June 30, 2015. The debt equity ratio improved to 44:56 (FY 2014-15 - 50:50).

During the year the cash and bank balances decreased by Rs 2,221 million as compared to last year. The main reduction was on account of closure of PPAF III project under which the available funds were fully utilized during the period (FY 2014-15 – Rs. 1,378 million) and use of Rs. 556 million for Italian Project for Poverty Reduction from own resources. 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. At the end of the year, the Company had cash and bank balances of Rs 1,184 million (2014-15: Rs. 3,405 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, 2016, and shall retire at the conclusion of 20th 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, 2017. The Board also endorsed the recommendations of the Audit Committee.

Conclusion:

Nearly one third of the people in the country are living in extreme poverty who want an equal opportunity for a better life. They are counting on policies and programs that give them a chance. PPAF seize this moment. Our private sector partners are also exploring new investments. PPAF, its multilateral development partners, and new partners on the horizon all are working together to not let this opportunity slip away and collaborate with real conviction. Working together, we can promote inclusive and sustainable growth, as well as opportunity for the poor and the vulnerable. We can be the generation that ended extreme poverty.

PPAF believes in and continued to strive for inclusive economic growth to help ensure that each of its partnership reflects support for poor across the country. It invested in a range of programs and projects to create and expand economic opportunities, ensure broader access to these opportunities - especially for the poor and disadvantaged - and support social protection to reduce poverty and vulnerability. PPAF drives social protection by ensuring access to essential services for disadvantaged people, including widows, the jobless, children in poor households, and people with disabilities.

Acknowledgement:

PPAF would like to place on record its sincere gratitude to all its members in general 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.

PPAF expresses its appreciation for the work done by its General Body and Board Members and would like to acknowledge the contributions made by them in strengthening the image of the Company and for their whole hearted support.

PPAF would also like to thank all its Stakeholders; 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 their continued support and placing their trust on us and giving us the invaluable opportunity to contribute towards the betterment of our economy and the deprived community of the country.

At the core of PPAF's success, without a doubt, is the spirit and dedication of our incomparable employees. PPAF would like to take this opportunity to express its appreciation to its determined and dedicated staff, and gratefully acknowledges the active role they have played in order to enrich its performance and for helping PPAF in discharging its responsibilities at the grass root level.

Islamabad
September 27, 2016

Director

Annexures

1. PPAF STRATEGY AND APPROACH

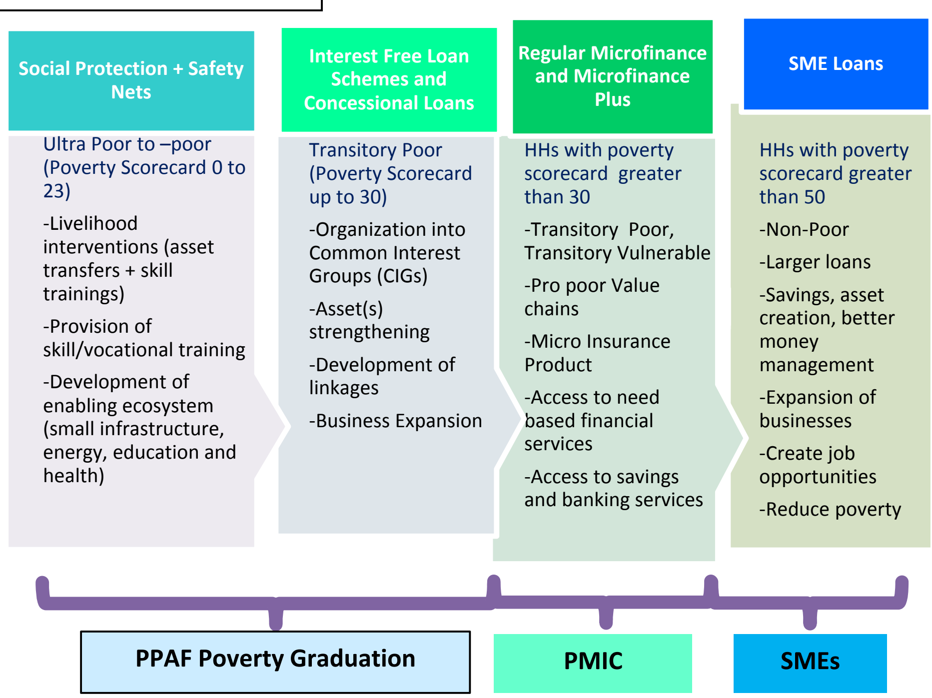
The macroeconomic crisis in Pakistan and the unfolding global economic slowdown have made social protection an urgent priority as well as a strategic opportunity to build systems and institutions for better service delivery. Keeping in view the emerging needs of sector, PPAF management devised strategy by creating pathways to pull out the most vulnerable from extreme poverty into sustainable livelihoods.

Graduating the poor:

PPAF's "Graduation Approach" is designed to provide sequenced safety nets, livelihoods and microfinance for the poorest to help them "graduate" out of extreme poverty in a time bound manner. The initial phase of the program would focus on social protection and safety nets for the ultra-poor (poverty scorecard 0 to 23) through skills / vocational trainings, regular coaching and asset transfers. This will be supplemented by development of an enabling ecosystem through provision of small scale infrastructure schemes, energy, health and education. The second phase would target the transitory poor (poverty scorecard up to 30) through interest free/concessional loans and will be complemented by organizing households into common interest groups, asset(s) strengthening, development of linkages and business expansion. In the third phase households with poverty scorecard greater than 30 would be provided micro credit and related services which would include pro-poor value chains, micro insurance products and access to need based financial services, savings and banking services. In the last phase households with poverty scorecard greater than 50 could access larger loans which would facilitate in expansion of businesses, creation of job opportunities and poverty reduction. This would result in savings, asset creation and better money management.

PPAF the parent company will finance and implement the first two phases of the Graduation Approach whereas PPAF's associate company PMIC will provide microfinance and related service. For the last phase the beneficiaries can approach the financial sector.

Stages of the Graduation Approach



Inclusion and mainstreaming of lagging regions:

In order to encourage all-inclusive participation there must be universal access to public infrastructure and facilities (such as community centers, recreational facilities, public libraries, resource centers with internet facilities, well maintained public schools, clinics, water supplies and sanitations). These are the basic services which will create, when partly or fully put into place, conditions for people to have a sense of belonging by not suffering the painful consequence of being unable to afford them.

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.

To advance the cause of connecting different views, experiences, issues and vulnerabilities, PPAF use inclusion as methodology to reducing poverty and recognizes demographic diversity-women, children, elderly, persons with disabilities, indigenous groups and religious minorities. PPAF emphasis on active participation of women in Community Organizations (COs) 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:

In recent years, development discourse has increasingly focused on how institutions and organizations can improve access to goods and services, enhance rural livelihoods and promote economic competitiveness in rural areas. Sound institutional and organizational development is critical in designing, implementing and coordinating development efforts.

Strengthening pro-poor institutions and organizations is a key principle of engagement within PPAF's Strategic Framework. Through established policies, PPAF has put in place a responsive system of managing the affairs of the community institutions.

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; and
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.

2. PROGRAMME OVERVIEW

Completion of PPAF III Project:

Third Poverty Alleviation Fund Project (PPAF III), initiated on August 1, 2009 involving funding of USD 255 million, was successfully completed in March 2016. The Project Development Objective (PDO) was to ensure that the targeted poor were empowered with increased incomes, improved productive capacity and access to services to achieve sustainable livelihoods. The PPAF III Results Framework identified three outcome indicators to measure the achievement of the PDO. These indicators specified that (i) at least 60% of community institutions were viable and sustainable; (ii) at least 60% of the community members report a minimum of 20% increase in household incomes and/or assets and (iii) at least 33% of targeted community groups/institutions report improved access to municipal local services.

An assessment of the performance of PPAF and its partners based on a host of external evaluations and reports by the POs shows that ***PPAF has been able to achieve the development objective of ensuring that the targeted poor have increased their incomes, improved their productive capacity and access to services under PPAF III.*** Under the project PPAF and its POs organized 65,448 COs with a membership of 1.28 million households. The reports of POs and third party assessments indicate that based on the performance rating criterion established to assess the viability and sustainability of the COs, 67% of the organizations were meeting this criteria at the end of December 2015. From among these members, 60% or roughly 730,000 households were expected to report a minimum of 20% increase in household income. An assessment of the number of beneficiaries from the different components who could have potentially realized an increase in income indicates that there are estimated to be 1.219 million households who have received training, assets, micro-credit services and benefitted from infrastructure schemes. Third Party assessments from a range of different sources report increase of income which is upwards of 20%. There are 127,112 students who benefited from the support to community and public sector schools and more than 12 million visits are reported to avail of the services of the community health centers and the basic health units established under PPAF III.

Despite the very difficult and challenging circumstances under which the project was implemented, PPAF successfully disbursed all the resources allocated (USD 255.82 million including the exchange gain of USD 5.82 million) under the PPAF III project and exceeded most of the physical targets specified under the project. One of the main reasons for the success of the organization in delivering the PPAF III targets was its well-established procedures for implementation of its activities through its POs. In addition, PPAF has had long standing relationships with most of the POs that were used to implement the project and has helped to build its own and its partners' capacity to comply with the financial management, environmental and social safeguards required under the project.

PPAF III initiated in 1610 Union Councils (UCs) located in 82 districts in the country. The priority districts were selected based on previous investments in social mobilization as part of the World Bank-assisted social mobilization project, their status with reference to the Human

Development Index (HDI), and the extent to which floods and food insecurity affected them. Since HDI values were not available for the 24 districts and agencies in AJK, FATA and GB, food security rankings were used as the primary basis for inclusion among the Priority Districts. However after the decision in July 2011 to further focus the efforts of the project its activities were concentrated in 1,020 Priority Union Councils (UCs) for further saturation and deepening. The provincial and special area coverage of the project shows that the provinces and special areas that were disadvantaged got a much larger share of the resources of the project. Balochistan and Khyber Pakhtunkhwa both got much larger shares of the PPAF-III allocation compared with the other provinces.

By the end of December 2015 the Project had achieved all of it targets by forming or revitalizing 65,448 COs/Women Organizations, 5,616 Village Organizations and 380 Local Support Organizations. The institutional development component was implemented in 1006 UCs. The COs have a total membership of 1,287,617 households or 31% of the 3.89 million households in the target area. All numerical targets under the Project were exceeded by a significant margin. These institutions were the main channel for disbursement of PPAF III resources which they have undertaken effectively. The Community Institutions have implemented the infrastructure schemes and played an important role in other components of the Project. These institutions are also beginning to enhance their scope of work to include activities in the social sectors and livelihoods. The preparation of Village Development Plans and Union Council Development Plans served to identify the needs at the local level and help in sharpening the vision of the communities about their future. There has been considerable training of community members in organizational and financial management and leadership. The area of peace and tolerance and rights is gradually being introduced to their terms of reference. In 2012, PPAF also undertook additional efforts with dedicated financing for promoting women’s inclusion. A Gender Committee (GenCom), comprising women and men from different units and tiers in the organization, was formed within PPAF to spearhead this effort. The objective of this committee was to facilitate a culture of inclusion within PPAF, POs and communities and to mainstream inclusion in the implementation of PPAF III. Activities included organizing conferences of rural women, instituting an award to recognize rural women leaders, initiating a national retreat for social mobilizers to dialogue on promoting Sustainable Development Goal (SDG) 5 – Gender Equality and running a pilot on reducing Gender-Based Violence.

The livelihood component has successfully achieved and exceeded most of its targets with distribution of assets to 88,357 beneficiaries and training delivered to 388,750 women and men. The arrangements for implementing the livelihood component were complex. It was initially delivered through 40 POs in 390 UCs dispersed in 48 districts across Pakistan and then focused in on 143 UCs in 26 districts in the last two years. A key achievement of PPAF III has been the inclusion of the ultra-poor, women, youth and persons of disability through this component. This was achieved through proactive policies, use of quotas, and utilization of a monitoring system that collected data disaggregated by gender, age and poverty scores for active course correction. The institutional innovations introduced under the component such as Nokri ya Karobar centres, Digital Hubs, Production Centres and Youth Centres required careful planning with POs which had little or no previous experience in these areas and were supported by PPAF through the development of detailed and high-quality training manuals. A key factor responsible for the success in achieving the training targets was the strategy of creating Community Resource Persons and providing training to communities through them.

The funds available for on-lending were fully utilized. By the end of December 2015, PPAF had disbursed the entire Rs. 2,975 million of the loan funds and revolved it around three times from reflows and exchange rate gains amounting to a total of Rs. 8,387 million. This disbursement translates into achieving 278% of the original component allocation. As far as the grant is concerned, PPAF disbursed Rs. 712.4 million which includes Rs. 500.4 million (USD 5.56 m) of the original allocation and Rs. 212 million which accrued as a result of exchange rate gains. The micro-credit component was implemented by 22 Partner Organizations across the country. However, support for institutional development from the grant sources was provided to 31 organizations. Funds for on-lending to organizations not working in the selected districts was made available through PPAF reflows and other sources. From an analysis of the funds under the component, it appears that 40% of the POs received 83% of the credit funds. These same organizations received 58% of the grant funds. The PPAF approach to extending outreach through its partner Micro Finance Institutions succeeded in providing 582,990 loans with new loans comprising 376,532 as on December 2015. The gender distribution of the loans shows that women received 72% of the loans.

The targets specified under small scale community infrastructure component were categorised into several types of schemes. Under the project a total of 7,169 sub-projects were implemented at a total cost of Rs. 4.806 billion. These projects were implemented in 641 union councils, in 66 districts, ICT and 2 Agencies in some of the most remote and poor areas of Pakistan. These schemes were undertaken with the help of 9,139 COs and benefited 479,737 households. A categorization of these sub-projects shows that 29% were for drinking water supply, 28% were irrigation related schemes 18% were roads and bridges, and 10% were for the improvement or new drainage and sanitation infrastructure, while the remaining 15 % included other infrastructure which suited the local requirements and community needs. The provincial spread shows that the 30% of the schemes were in Sindh, 25% in Punjab, 24% in Balochistan, 14% in KPK, whereas the remaining 7% were in AJK, GB and FATA.

The education component exceeded its targets in terms of the number of schools it supported, the teachers hired and trained and the number of students supported. PPAF supported 896 schools of which 690 were government schools and 206 were community schools. Two thousand teachers were trained and placed in public schools and 1500 teachers were provided to the community schools. Under PPAF III, support was provided to schools in which a total of 127,112 students were enrolled. Of these 98,384 students or 77% were enrolled in the public schools and 28,728 students or 23% were enrolled in community schools. The health programme provided support to 504 health facilities: 361 were government health facilities and 143 Community Health Centres. The health programme's key achievement was providing Primary Health Care (PHC) and Maternal, Neo-natal and Child Health (MNCH) services through facilities where more than 12 million women and men are reported to have visited the public and private health facilities during the project duration. About 83% of the patients (10 million) accessed public health facilities and 17% (2 million) used Community Health Centres.

After the modification of the education and health strategy and the withdrawal of PPAF III support from these facilities, these were handed over to the Government, community, taken over by the PO or continued with PPAF's own support. All the community schools and health facilities are still functioning and are being supported through one of these mechanisms. The modification of the health and education strategy entailed the direct financing of students through education vouchers, the training of 68 Community Resource Persons (CRPs) on the rights to education, 21 on education as social enterprise, 112 on school development plan, including 22% women. Due to these initiatives, 117 school development plans have been developed, 483 awareness raising sessions have been organized, and 68 awareness raising and confidence building events have been organized for children. Similarly, under the health component, the activities such as capacity building of CRP, health day advocacy, knowledge management and innovative health and nutrition models have been implemented. About 56 health CRPs have trained 19,355 community members (32% women) in improved hygiene practices. In addition, 103 Nutrition/MNCH CRPs have trained 82,557 community members. As a result of these efforts, 280 malnourished children and 147 pregnant lactating women were referred. Under the sub-component, 44 community health workers were also trained as social entrepreneurs and 144 awareness raising campaigns were launched by youth centers on polio; Expanded Programme on Immunization (EPI) vaccination; and Water and Sanitation for Health (WASH) which were attended by round 6,000 persons (14% women).

The implementation support component was designed to facilitate various governance, implementation, coordination, monitoring & evaluation, learning and quality enhancement efforts for successful project implementation. It consisted of four sub-components: (i) Governance Management; (ii) Project Management; (iii) Monitoring and Evaluation; and (iv) Capacity Building for Institutional Development. The expected outcome of this component was an effective and transparent project management established for coordination, learning and impact evaluation, and quality enhancement. PPAF made significant changes to integrate the functioning of its units, instituted an MIS system, strengthened its monitoring and evaluation functions, instituted a system for grievance redressal and aligned its salary and benefit structure and made some key changes to enhance its capacity for implementation of the wide range of activities under PPAF III.

There are a number of other outcomes which are particularly noteworthy including: (i) supporting the growth of a nationwide microfinance sector into one which is now rated as one of the best in the world (The Economist Intelligence Unit); (ii) organizing over 120,000 community institutions (cumulatively from the start of PPAF I to todate) with a core focus of inclusion of women and the poorest; (iii) developing the capacity of 130 civil society organizations; and (iv) taking to scale its poverty graduation approach that has shown to significantly and positively impact income, consumption and wealth of the poorest households. Transformation of PPAF's microfinance operations into a separate entity under the Pakistan Micro-Finance Investment Company was one of the milestones achieved under PPAF III. This transformation had been seen as a special government strategy by the Government of Pakistan (GoP) to increase commercial finance to the microfinance sector. PPAF is also seen as an important partner in the strategy to help the Government develop new products and business models that rely on digital platforms, provision of agriculture finance and ensuring the adoption of principles of consumer protection. The Ministry of Finance's approval to PPAF to initiate the process for establishing the Pakistan Microfinance Investment Company shows that the Government is in accord with PPAF's long-term vision about its role in enhancing financial services to the poor. PPAF has also been invited to help shape the policy and regulatory environment for the sector as a member of the State Banks of Pakistan's Consultative Council.

The unit cost of establishing a community organization and sustaining it under PPAF III for six years was USD 515 per CO. This investment enabled PPAF and its POs to implement the livelihood, community infrastructure and social sector components valued at USD 165 million. The community capacity to manage funds under PPAF was worth almost five times the funds invested in its own development. Community involvement through active participation in financial and labour contribution, financial management and the procurement of building materials not only improved the efficiency of expenditures, but ensured stronger community ownership of community infrastructure projects and empowered participating communities.

PPAF also helped to improve the fiduciary systems within the POs (especially small POs) and to strengthen financial management capacity at the community level. Within PPAF itself, a corporate governance framework compatible with best national and international practices was introduced alongside compliance with the statutory requirements and covenants stipulated in the agreements with the World Bank, other development partners and GoP.

Continued improvements in monitoring and evaluation capabilities were seen throughout the project implementation period. A Compliance and Quality Assurance Group was set up in 2012 to look after all monitoring, evaluation, research and environment and social management compliance. A three-tier monitoring system was established to monitor outputs, outcomes and process. A number of third party assessments were also carried out to measure outcomes/impacts including The World Bank Development Economics Research Group (DECRG) which managed the impact assessment of PPAF III. The World Bank's own reviews of fiduciary arrangements of PPAF-III demonstrated the adequacy of the control and reporting systems including at all three tiers of World Bank-financed activities (PPAF, POs and COs). The financial management arrangements in place were rated as "Satisfactory" throughout the PPAF III implementation period.

Lessons Learned:

Given the positive learning for development approaches globally, PPAF also learnt some valuable lessons which were identified and documented during the project's life cycle. The purpose of documenting lessons learned is to share and use knowledge derived from experience to promote and preclude the recurrence of desirable outcomes. Amongst some of the most important lessons are the following:

a) The use of the Poverty Score Card to target the beneficiaries for transfer of asset and training programs and the use of COs to verify the poverty status of households to rectify any exclusion or inclusion errors from the scorecards was an essential element in the improved poverty targeting and deepening that was at the center of the project objectives.

b) PPAF did not dictate the political processes that community institutions were to use. Rather PPAF focused on providing guidelines to ensure that the community institutions were not hijacked to meet the political interests of one party but reflected the broader interests of the membership. This was an important evolution in the role of CO facilitation which continues to provide solid evidence to global experience that community driven approaches have the capacity to implement a large number of community physical infrastructure schemes efficiently and cost-effectively.

c) The project provided many interconnected lessons on how to deliver on a deeper and more sustainable micro-finance sector and particularly on the ability to reach the ultra-poor. This included methods for better use of third party oversight in Community Livelihood Funds. The lessons also relate to striking a better balance between growth objectives and promotion of diversity amongst Micro Finance Institutions (MFIs) to get better outcomes. PPAF's role as an advocate for the smaller MFIs was instrumental in enhancing the sustainability of the microfinance sector.

d) A saturation approach to poverty reduction requires continued innovation in methods of delivery. Building the capacity of hard-to-reach localities through the training of young people as community resource persons is a successful strategy to engage youth who may otherwise have been marginalized and to create a new and energetic network of development actors at the community level who also act as agents of change. Differentiated strategies are required for girls and boys.

e) The feedback received from the field by PPAF and its POs indicates that there is strong demand for quality education and thus a need to invest greater resources in service delivery models which can provide quality education. Investing in demand creation without the provision of a supply of quality education is neither efficient nor effective and may be counter-productive. PPAF has learnt that educating girls is the single most important intervention for women's empowerment. Although financing community schools entailed higher costs, it is likely that such schools would have been the most effective over the longer term. PPAF should have committed to the community schools for a longer period of time, at least 10 -15 years, as this is what is required to create and graduate local human resource to sustain those schools.

Prime Minister's Interest Free Loan:

The Government of Pakistan (GoP) announced Rs. 3.5 billion Prime Minister's Interest Free Loan (PMIFL) Scheme, MOU signed on May 14, 2014 for a period of four years ending on June 2018, 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 GoP 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 finds on sustainable basis. Implementation progress as of June 30, 2016 is as follows:

<table>
<tr><td>Partner Organizations (POs)</td><td colspan="2">26</td></tr>
<tr><td>Coverage</td><td>Districts: 44</td><td>UCs: 287</td></tr>
<tr><td rowspan="2">Loan Applications</td><td>Total Received</td><td>Total Approved</td></tr>
<tr><td>213,009</td><td>197,278</td></tr>
<tr><td>No. of Loan Centers/Branches established</td><td colspan="2">233</td></tr>
<tr><td rowspan="2">Funds Disbursed (Rs in Mill)</td><td>PPAF – PO</td><td>PO – Borrowers</td></tr>
<tr><td>3,248</td><td>4,068.64</td></tr>
<tr><td rowspan="3">No. of Loans Disbursed to Borrowers</td><td colspan="2">188,785</td></tr>
<tr><td>Male</td><td>Female</td></tr>
<tr><td>72,587 (38%)</td><td>116,198 (62%)</td></tr>
<tr><td>Average Loan Size (Rs)</td><td colspan="2">21,552</td></tr>
</table>

Program for Poverty Reduction:
The project (financed by GoP through Italian Government funding) became fully operationalized during the year. The overall project size is EUR 40 million. The objective of the project 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, 2016 EUR 14.01 million were disbursed (35% of the total financing). Implementation progress as of June 30, 2016 is as follows:

Indicators with Components	Status as of June 30, 2016
	No.
Social Mobilization and Institution Building	
Formation & strengthening of community organizations	3,702
Formation & strengthening of 2nd tier community institutions	538
Formation & strengthening of 3rd tier community institutions	38
Number of Community members trainings	15,339
Number of staff members trainings	709
Livelihoods, Enhancement and Protection (LEP)	
No. of LIPs developed	2,246
No. of CIGs formed	167
Number of CRPs developed	215
No. of individuals received skills/entrepreneurial training	5,308
No. of ultra and vulnerable poor received productive assets	2,246
Number of Loan center established through CLF	2
Community Physical Infrastructure (CPI)	
No. of Water and Infrastructure projects completed	149
No. of beneficiary households	70,805
No. of population beneficiaries (51% female)	395,328
Basic Health & Education Services	
Total No. of school facilities constructed or renovated	491
Total no. of children benefitting from schools	65,934
Total no. of health centers constructed, renovated and/or equipped	45
Total no. of beneficiaries from health centers	194,757

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, in Khyber Pakhtunkhwa (KPK) though GoP financed by Germany Development Bank (KfW). The project 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, 2016 EUR 24.4 million were disbursed (77% of the total financing). Implementation progress as of June 30, 2016 is as follows:

Sr.	Indicators with Components	Status as of June 30, 2016
Component: Institutional Development & Social Mobilization		
1	No. of community organizations formed/revitalized	3,593
2	No. of village organizations formed	256
3	No. of local support organizations formed	50
4	Membership in community institutions (39% female)	67,170
Component: Water and Infrastructure		
5	No. of Water and Infrastructure projects completed	1,843
6	No. of beneficiary households	1,375
7	No. of population beneficiaries (51% female)	960,380
Component: Livelihood, Employment and Enterprise Development		
9	No. of ultra/vulnerable poor received productive assets (42% female)	6,465
10	No. of individuals received skills/entrepreneurial training (30% female)	6,043
Component: Education, Health and Nutrition		
11	Total Enrolment	32,721
	- Boys	18,855
	- Girls	13,866
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

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, 2016 PPAF had disbursed EUR 3.3 million (30% of total financing). Implementation progress as of June 30, 2016 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

Microcredit Spin Off

The potential market for microfinance is estimated at 20.5 million individuals. The market is poised for growth however the sector remains constrained due to the lack of funds. Conservative estimates depict that in order to reach 10 million clients by FY 2020 the industry would require additional debt for on-lending of up to Rs. 300 billion. One third of this amount will be financed through deposits raised by Microfinance Banks but long and short term debt will continue to remain the main driver of growth. Additional debt of over Rs. 200 billion and equity of over 45 billion will be required to meet the growing financing needs of the sector. This will necessitate obtaining funds from more commercially-minded sources, such as international microfinance investment vehicles (MIVs) and domestic sources such as commercial banks, capital markets, and even depositors.

Pakistan Microfinance Investment Company (PMIC)

Given the needs of the Microfinance sector and PPAF's agreement with the World Bank under PPAF-III Project in 2009 the Company decided (based on the study and assessment of independent international consultants engaged for the purpose) to spin-off its microcredit function into a new independent microfinance apex entity Pakistan Microfinance Investment Company (PMIC). The establishment of an autonomous micro-finance entity will ensure that PPAF is best able to support the expansion of a solid microfinance sector in Pakistan that can provide financial services to those with no access and to participate in the professionalization of the sector. The decision to create a new entity was endorsed by many stakeholders including World Bank, State Bank of Pakistan, Securities and Exchange Commission of Pakistan, Pakistan Microfinance Network (PMN) and retail service providers. Having been mentioned as a major milestone in the National Financial Inclusion Strategy (NFIS), launched by the Finance Minister, PMIC also received full support and endorsement from the Government of Pakistan.

The objective of the Company is to provide market based financing mainly through debt initially to microfinance providers serving micro, small and medium enterprises (MSMEs) in Pakistan potentially accompanied by technical assistance. PMIC Board will comprise of members from the private sector having expertise in the fields of banking, finance, social sector development and overseeing financial affairs of large financial institutions. The company will inherit the institutional values of PPAF and its core team will comprise of staff members from the Financial Services Group at PPAF while some of the key positions will also be filled through bringing on board individuals with sound experience in working with financial markets.

In order to reach up to 10 million active borrowers by year 2020, the industry would require additional financing for on-lending of up to Rs. 300 billion. The United Kingdom's Department for International Development (through section 42 Company KARANDAAZ) and Germany's Development Bank (KfW) have agreed to co-invest with PPAF in PMIC which follows the double bottom-line approach of financial sustainability and positive social impact. PMIC will have a commercial (for-profit) structure by being the first national level Microfinance Investment Vehicle (MIV) in the world registered as an Investment Finance Company under NBFC rules of SECP. While PPAF brings with it expertise, credibility and domestic experience of working with the retail microfinance sector in the country, DFID and KfW together bring rich international experience and resources which would be imperative in accessing additional sources of funds both domestically and internationally.

The Shareholders Agreement for PMIC was signed on April 28, 2016 at a ceremony attended by the Finance Minister, Deputy Governor-SBP, Chairman SECP and other delegates from PPAF, DFID, German and British Governments and Ministry of Finance. The Shareholders' Agreement was signed by CEO PPAF Qazi Azmat Isa, CEO Karandaaz Pakistan Mr. Ali Sarfraz Hussain and Deputy Head of KfW Pakistan Dr. Parvaiz Naim on behalf of their respective organizations. Moreover, shareholders also signed the Non-Compete Agreement and Share Subscription Agreement.

As per the Shareholder Agreement signed between PPAF, KARANDAAZ and KfW, the parties shall own the following respective percentage shareholding interests in PMIC:

PPAF	49%
Karandaaz	37%
KFW	14%

PPAF will invest an amount not exceeding Rs.3 billion (exact amount to be determined based on foreign currency rate prevailing at the time of contribution in EUROs by KfW) in Pakistan Microfinance Investment Company (PMIC), a for-profit entity, comprising not less than 49% shareholding in the PMIC. The contribution by other shareholders will be: Karandaaz – Amount (Rs. equivalent of GBP 15 million); KfW – Amount (Rs. equivalent EUR 7 million).

The tripartite coalition between the three shareholders will be based on the initial equity investment of Rs. 5.5 - 6 billion. Thus, the entity would be able to bring in significant amount of foreign investment into the country in the form of both debt and equity. The entity is expected to attract sufficient funds from private and commercial sources to help the microfinance sector to meet the unmet demand for financial services and create employment opportunities in the country.

In order to achieve the mission, strategic objectives of PMIC include:

i. Create a financially sustainable organization,
ii. Provide innovative and customized support to PMIC investees, through a mix of financial instruments and institutional support to develop capacity to access commercial credit markets,
iii. Contribute to building a robust financial ecosystem for the growth of sustainable micro finance in Pakistan
iv. Build a strong professional and innovative organization capable of achieving the mission of PMIC.

Efforts are currently underway to complete all legal and compliance formalities and PMIC is expected to receive license to operate by 1st week of October 2016 following which the entity will initiate its operations.

3. 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.

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

- **Impact Assessment of Basic Services and Infrastructure Component of PPAF-III Programme (2015-16) by SEBCON Consulting (Pvt.) Limited:**

  An Impact Assessment (IA) of PPAF intervention pertaining to Basic Services and Community Physical Infrastructure schemes was conducted by SEBCON Islamabad. The focused sectors were: Irrigation Water, Drinking Water Supply, Roads and Bridges, Drainage & Sanitation, and Renewable Energy. The sample selection was undertaken in consultation with PPAF staff based on multi-stage criteria. Four types of questionnaires were developed for data collection for; individual households, Focused Group Discussions/Key Informant Interviews, POs, and Environmental and Social Management Framework stakeholders. The data was collected from 40 Union Councils (UCs) from 12 districts of four provinces of the country. A majority of respondents stated that schemes were relevant. Affirmative responses regarding priority were 100% for energy, 83% for Drinking Water Supply Schemes (DWSS), 79% for Roads, 75% for irrigation and 62% for drainage & sanitation showing that schemes were demand driven. The schemes have created social and economic capital in the form of better health of men, women and children. The field investigations revealed that the schemes were mostly inclusive except irrigation schemes where male domination was more evident and women's participation was limited.

- **Impact Assessment of PPAF Communities and Skills Training Programs (2015-16) by AASA consulting:**

  The primary purpose of this study was to assess the impact of PPAF and their POs training programs over the course of the PPAF-III project period (FY 2010-2013), with regards to outreach, impact and sustainability at the individual and community level.

  During the survey, it was validated that a common yardstick was used in all provinces to reach out to program beneficiaries. The selection of beneficiaries was done with the help of Poverty Score Card which ruled prejudice out of the equation and, therefore, all individuals of the society including women, minorities and disabled had an equal chance of becoming a part of the skill training program.

  The findings of the survey confirm that the training program was relevant in terms of the needs of the COs and the household beneficiaries. The impact of the skill trainings was effective and, most importantly, the training programs ensured making COs self-sufficient. Most COs affirmed that they have been instilled with skills and knowledge with the help of which they will be able to run and manage their respective COs without the help of PPAF and POs.

- **World Bank undertook an Implementation Support Mission in November 2015. Rating by the mission is as follows:**

Ratings of Key Project Data:

DESCRIPTION	RATING
Development Objectives	Satisfactory
Implementation Progress	Satisfactory
Financial Management	Satisfactory
Procurement	Satisfactory
Monitoring and Evaluation	Satisfactory
Environment and Social Safeguards	Satisfactory

Performance Ratings for Project Components:

DESCRIPTION	RATING
Social Mobilization & Institutional Building	Satisfactory
Livelihood Enhancement & Protection	Satisfactory
Microcredit Access	Highly Satisfactory
Basic Services and Infrastructure	Satisfactory
Project Implementation Support	Satisfactory

- **Auditor General Pakistan (AGP) audited the financial statement of IDA CREDIT No. 4599 (PPAF-III project) for the year ended June 30, 2015 and gave the following opinion:**
  - The financial statements present fairly, in all material respects. The cash receipts and payments by the project for the year ended 30th June, 2015 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.

- **PPAF was reviewed by and certified by PCP in July 2015. PPAF performance during the last three years i.e. from 2012 to 2014 was evaluated in this regard. The PCP report examined PPAF's structure, finances, systems, procedures, processes and programmes during the period from 2012 to 2014 against standardized parameters. The relevant scores under the review are as follows:**

Evaluation Parameters	Total Score	Minimum Score Required	Score Obtained	Strength (%age)	Remarks
	(A)	(B)	(C)	(C/A%)	
Internal Governance	300	150	287	95.66%	Qualified
Financial Management	300	150	290	96.66%	Qualified
Programme Delivery	400	200	339	84.75%	Qualified
Total	**1000**	**600**	**916**	**91.6%**	**Qualified**

4. Corporate Governance

Good governance is an indispensable tool for maintenance of Company's integrity and credibility in the eyes of its stakeholders. The Board of Directors hence, emphasizes on operational transparency and adherence to the best ethical practices, beyond the regulatory requirements for governance. In order to ensure that Company operations are carried out in an ethical manner, the Board has prioritized corporate accountability through provision of leadership within a framework of generally accepted best practices, compliance with corporate governance regulations, sound internal controls, the Code of Conduct, the Code of Business Ethics and the Whistle Blowing Policy.

Best Corporate Practices:
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. Sound Corporate Governance is critical to our Company's integrity and maintaining investors trust. PPAF always held the best practices of corporate governance in high esteem and believes in widely propagating its values and ethics for strict adherence by all employees, suppliers and others while doing business of the Company.

The Company is committed to comply and take all reasonable actions for compliance, with all applicable laws, rules and regulations of state or local jurisdiction in which the Company conducts business. Every director and employee, no matter what position he or she holds, is responsible for ensuring compliance with applicable laws.

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.

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.

Specific statements to comply with the Code of Corporate Governance are as follows:

- 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 Ordinance, 1984 and the Memorandum and Articles of Association of the Company, through Board meetings.

Composition of the Board

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. The Board comprises of twelve Members including the Chairman and the Chief Executive Officer. Of these, three are nominated by the Government; eight elected by the General Body; and the Chief Executive Officer appointed by the Board. The Chairman 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.

Role and Responsibilities of the Board

Board's prime role is to protect and enhance long term stakeholders' value. A formal schedule of responsibilities has been specifically ordained for the Board by virtue of provisions of the Articles of Association of the Company, the Companies Ordinance 1984 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; amendment in Memorandum of Association to allow PPAF to investment in associate companies, investment of Rs 3 billion in Pakistan Microfinance Investment Company, agreements related to PMIC (Shareholders Agreement, Non-Compete Agreement and Shares subscription Agreement).

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	Mr. Hussain Dawood*	-	-
2	Dr. Naved Hamid	-	1
3	Mr. Amjad Mahmood	-	1
4	Dr. Rajab Ali Memon	1	1
5	Mr. Sarfaraz Ahmad Rehman	-	1
6	Dr. M. Suleman Shaikh	4	4
7	Dr. Fareeha Zafar	2	4
8	Mr. Aijaz Ahmad Qureshi	3	4
9	Mr. Omar Hamid Khan	3	4
10	Mr. Qazi Azmat Isa	4	4
11	Syed Ahmed Raza Asif	2	3
12	Ms. Roshan Khursheed Bharucha	2	3
13	Mr. Ahlullah Khan	2	3
14	Zubyr Soomro	2	3

* Mr. Hussain Dawood had resigned, hence did not attend.

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:
Dr. M. Suleman Shaikh, Mr. Aijaz Ahmed Qureshi and Dr. Fareeha Zafar were re-elected as Directors while Mr. Zubyr Soomro, Ms. Roshan Khursheed Bharucha and Mr. Ahlullah Khan were elected as Directors for a period of three year in the Extra-Ordinary General Meeting held on January 25, 2016.
Dr. Rajab Ali Memon, Dr. Naved Hamid, and Mr. Sarfaraz Ahmad Rehman retired on January 25, 2016 as Directors on completion of their three year term. Mr. Amjad Mahmood was replaced by Syed Ahmed Raza Asif as Director of the Company. Mr. Zubyr Soomro resigned on assuming the responsibility of Chairman Pakistan Microfinance Investment Company (an associate company of PPAF) to avoid conflict of interest.

The Board placed on record its appreciation for the valuable contributions made by the outgoing Directors. The Board extended welcome to new Directors and resolved to work in partnership with them to benefit from their vision and valued experience which would go a long way in the future growth and prosperity of the Company.

Board Committees

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

The Committee oversees managements' monitoring and assists the Board in over sighting of Company's financial controls and audits, including internal controls and financial reporting; qualification and independence of Company's external auditors; and performance of the Company's internal and external auditors.

The Audit Committee met two times during the year. The Committee reviewed and discussed assertions on system of internal controls, internal audit reports, risk management and audit process besides recommending for Board's approval, annual work plan of internal audit; appointment of external auditors; 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. The Committee held separate meetings with the Chief Financial Officer and the External Auditors to discuss issues of concern.

Board Compensation 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.

The Board Compensation Committee and Risk Oversight Committee are in the process of being re-constitution.

Role and Responsibilities of the Chairman and the Chief Executive Officer:
The Chairman 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 Chairman coordinates the activities of the Directors and various committees of the Board, and presides over the meetings of the Board and General Body. The 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.

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.

5. 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.

6. 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 of directors' 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.

7. 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.

8. HUMAN RESOURCE MANAGEMENT

PPAF endeavors to incessantly evolve and redefine its HR strategy, systems and practices by proactively anticipating, analyzing and responding to the emerging needs and challenges faced by the Company while promoting diversity including representation of special persons, in an equitable and unbiased manner.

Human capital is the driving force behind PPAF's progress and it recognizes the importance of investing not only in talent acquisition but the management and retention thereof. Recognizing the ever increasing importance of human capital management, the Company has an effective and dynamic HR function to address all employee related matters including training, performance evaluation, career development and succession planning in a transparent and non-discriminatory manner while promoting a culture of integrity and compliance with the Company's Code of Conduct.

Employee Management

PPAF system provides leadership and supporting management processes helped ensure employees are placed in the right roles with clearly defined responsibilities so that they are able to deliver against organizational goals.

During 2015-16, PPAF focused on further integrating the principles governing the system into our human resources practices at all levels. These principles reinforce the central role of people in achieving our organization objectives and the value being placed on treating one another with dignity and respect. PPAF's aim is to simplify human resources approach, translating it into practical action which could be easily applied, which emphasized focusing on relationships and interaction at all levels of the business and which harnessed technology to improve and streamline people management functions.

Talent Management And Career Development

With a long term perspective in mind, PPAF also ensures that competent personnel are available in each department and ready to assume higher positions through a comprehensive succession planning policy, in terms of pre-defined criteria including an individual's potential, qualification, period of service and professional attitude amongst other factors. This succession plan is updated periodically in line with the Company's requirements and career development objectives. Our consistent focus on talent acquisition and grooming our people via training and development in addition to providing them with market commensurate compensation packages ensures that we build and retain a workforce fully geared to steer the Company forward.

PPAF prides itself in being an equal opportunity employer, promoting gender diversity and providing one of the most rewarding career opportunities in the country thereby attracting high caliber professionals, and transforming them into future leaders.

9. TREASURY MANAGEMENT

The Company maintains a dynamic and flexible portfolio of investments for placement of surplus cash / liquidity in the money market / Government securities, term deposits with banks / financial institutions to augment profitability and increase the shareholders' returns.

Treasury Management System comprises of the following objectives/tools while remaining within acceptable levels of risk and exposure:

- Periodic evaluation of planned revenues from sales/investment income and comparison with the timing and quantum of working capital requirements
- Identification of cash surpluses for investment in suitable opportunities offering optimal returns while providing preservation of invested capital.
- Matching of maturity dates of investments with working capital/other funding requirements.
- Maintenance of a fairly diversified portfolio to earn maximum returns, remaining within prudent levels of exposure.
- Investment options may include short/long term placements, with high credit rated institutions to minimize credit risk.

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.

The role of Treasury has fundamentally and irrevocably transformed significantly into a more visible and highly strategic way. At PPAF treasury management provides the Company with strategic financial and economic policy advice with the aim of promoting and investing its resources which are available after financing of its operations. The treasury activities are controlled and carried out in accordance with the policies approved by the Board. The purpose of the treasury policies is to ensure that adequate cost-effective funding is available at all times and that exposure to financial risk is minimized. 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.

PPAF maintains a dynamic and flexible portfolio of investments to augment profitability through placement of cash surpluses in money market and government securities, in compliance with applicable statutory requirements.

10.RISK MANAGEMENT

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 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 judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 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 donor 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 14,716,386 thousand (2015: Rs 13,912,719 thousand) (including loans to five major POs of Rs. 8,334,507 thousand) (2015: loans to five major POs of Rs. 7,299,601 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 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 position of the Company is closely monitored to ensure availability of sufficient funds to meet operational requirements and to safeguard the Company against cash flow risks. This is done through effective cash flow forecasting, maintenance and management of maturity profiles of assets and liabilities to match cash inflows and outflows thereby optimizing the working capital cycle. In addition, the Company’s Treasury Management System ensures placement of surplus funds in short term investments yielding incremental income for the Company.

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 material 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 28,252,192 (2015: Rs 27,441,473) thousand and financial liabilities include balances of Rs 14,304,338 (2015: Rs 15,027,048) 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 139,479 (2015: Rs 124,144) 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

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

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 Company.

Risk Governance

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

Board of Directors:

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.

Policies & Procedures

Board and its committees adopt a set of policies and procedures, promote a culture of ethics and values and delegate the authority to senior management for implementation of approved policies and procedures.

The senior management assesses the risks and place appropriate controls to mitigate these risks.

Performance Management

Through the continuous cycle of monitoring performance of the implemented controls to identify weaknesses and devising strategic plans for improvement, majority of risks are averted.

Internal Audit

Provides independent and objective evaluations and reports directly to Management and the Audit Committee on the effectiveness of governance, risk management and control processes.

Internal Control Compliance

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

11.KEY ACTIVITIES

Children’s Global Network Pakistan (CGNP), in collaboration with PPAF under a pilot project titled “Social Educational Enterprise” imparted training to 28 community resource persons (CRPs) from Kharan, Gawader, Kech, Panjgur, Awaran and Upper Dir. The six week training aimed at encouraging the participants on how to provide quality education to out of school children in their own area by setting up their “Educational Enterprise” in the form of a low-cost private school. The training program built capacities of the participants on school management, teaching methodologies, school feasibility and business plans. The participants also received practical exposure of attending classroom sessions directly by visiting various schools set up by educational entrepreneurs in other areas. CGNP arranged a certificates distribution ceremony for the participants in Peshawar.

Thardeep Microfinance Foundation and PPAF successfully introduced Alternate Delivery Channels (ADC) for the new applicants of microfinance. This ADC e-appraisal system is benefiting microfinance clients at their doorstep, removing their burden of taking heavy files from home to offices. It has replaced the entire traditional manual mechanism of filling application forms to get microloan, taking photo state documents, including CNIC, pictures, etc.

A symposium on “Promoting Partnership for Youth and Community Development” was arranged jointly by AKRSP and AKPBS-P under the guidance of PPAF in Gilgit. Mr. Hafiz Hafeez-ur-Rahman – Chief Minister Gilgit-Baltistan -- was the chief guest on this occasion. Around 250 LSOs representatives, CRPs, youth and other stakeholders attended the symposium.

A consultative workshop organized for KPK POs’ to provide them orientation on PPAF Vision 2020 comprising program areas, operations, closure of PPAF-III, sustainability of on-going projects, formation of committees for KPK and FATA Chapters, developing a strategy at provincial level after the 18th Amendment and how to coordinate with officials of government line departments.

In collaboration with MANSOL Manpower Solutions, PPAF and Taraqee Foundation jointly organized a launching ceremony on technical training for youths of district Ziarat in Quetta recently. The three months training would be aimed at enhancing capacity of 220 youth between 20 to 35 years of age in technical and vocational skills to ensure them guaranteed job opportunities in the Gulf countries including Dubai, Qatar, United Arab Emirates and Saudi Arabia. Dr. Abdul Malik Baloch, Chief Minister, Balochistan, was the chief guest at the ceremony.

PPAF inaugurated a two-day Naukri Ya Karobar convention in Islamabad, where NyK operators showcased their success with participants so that they can replicate the model for economic betterment of their communities.

PPAF celebrated International Day of the World’s Indigenous People with communities in Kalash valley by engaging women to highlight the importance of the Day and discussing the implementation of the PPAF Indigenous Peoples’ Plan. This year’s theme was “Indigenous Peoples’ Right to Education”. PPAF Indigenous People’s Plan ensures provision of education to the indigenous communities of Kalash Valley, Chitral – Khyber Pakhtunkhwa.

The PMIFL Scheme Team of PPAF facilitated the visit of Minister of State/BISP Chairperson, Ms. Marvi Memon to districts of Badin and Nagarparkar in Sindh where she met with BISP beneficiaries, who have also availed Prime Minister's Interest Free Loan (PMIFL) Scheme and become entrepreneurs to transform their lives.

PPAF participated in a seminar organized by UNDP in collaboration with Planning Commission titled "Bringing Inequality to the Public Agenda" in Islamabad. Federal Minister for Planning, Development and Reform, Mr. Ahsan Iqbal said the government had adopted inclusive and sustainable economic policies to minimize socio-economic inequalities. He noted that inclusive growth strategy implied egalitarian distribution of income and resources. In the seminar, Qazi Azmat Isa, CEO PPAF suggested the Planning Commission to devise a mechanism to determine whether the new public sector spending was going to Lahore or southern-Rajanpur district, which is at the bottom of Human Development Index.

PPAF - an innovative model of public private partnership, celebrates every year in collaboration with Citi Foundation – the philanthropic arm of Citibank. 10th Citi Microentrepreneurship Awards (CMA) were held in Islamabad. PPAF Chief Executive Officer Mr. Qazi Azmat Isa and Citi Country Officer Mr. Nadeem Lodhi led the ceremony. CMA programme has become known for its success in increasing awareness for microfinance and providing incentives to microentrepreneurs. This year, a record breaking number of nominations were received from various microfinance institutions.

Mari Petroleum Company Limited (MPCL) and the Pakistan Poverty Alleviation Fund (PPAF) signed a MoU – launching the "School Improvement Program" in Quetta and Harnai districts of Balochistan. Through this agreement, MPCL and PPAF have agreed to form an alliance to embark on interventions in the fields of education, infrastructure, renewable energy and social sector services as identified by local stakeholders and as mutually agreed by MPCL and PPAF. Initially this pilot project included rehabilitation of two Government schools, i.e. the Government Girls and Boys School Astangi, Margat Quetta and the Government Girls High School, Harnai while a third school i.e., Govt. Primary School, Ziarat Kach, UC Khost became part of the project on MPCL's proposition. This project is being funded through MPCL's Corporate Social Responsibility (CSR) budget.

12. MOVING FORWARD

The Millennium Development Goals (MDGs) have guided countries and partners over the last 15 years in improving the living conditions of the poor. As the world reflects on the Millennium Development Goals and refines a new sustainable development agenda, it is evident now more than ever that development is no longer the work of traditional actors and donors alone. With 2016 marking the new beginning with a transition from the Millennium to the Sustainable Development Goals (SDGs), the international community celebrated many development successes since 2000. Ensuring that no one is left behind is at the core of the 2030 Agenda for Sustainable Development, and is a fundamental guiding principle for its implementation.

PPAF has also started aligning its work with SDGs after the transition of developmental goals from MDGs to SDGs. In order to realign its programme with the new sustainable development agenda for the next 15 years, PPAF's results framework has been mapped against the SDGs and Targets. Given that the SDGs and their targets are universal and all-encompassing in nature, PPAF has identified 11 SDGs and 23 targets which are fully or partially aligned with PPAF's programme articulated in the form on nine long term goals and 34 targets. This results framework is being reviewed by the senior and middle tier management of PPAF for adoption as its agenda for the next 15 years. PPAF remains firmly committed to the task of development and poverty alleviation. PPAF has taken over the responsibility for achieving the SDGs which outline a 15-year agenda to address the 17 issues of the developing world which include poverty, hunger, quality education, clean water, sanitation and affordable energy etc. With its wealth of experience and innovation, PPAF is in a strong position to assist the GoP and its current and future development partners in the achievement of the SDGs in partnership with its Partner Organizations and the community institutions on the ground.

PPAF aims to further strengthen its position in promoting economic diversity, enhancing regional connectivity, improving cross-border economic corridors, enhancing delivery of public services, and managing climate change. These ambitions will build up the forward-looking ventures and will require increased resources—and close coordination with development partners.

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.

PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL HIGHLIGHTS

	2016	2015	2014	2013	2012
Outreach - *Numbers (Cumulative)*					
Partner Organizations	137	137	130	127	116
Districts	129	129	129	129	129
Funds deployment - *Rs. in million*					
Microcredit					
Loans receivable from POs (Gross)	14,716	13,913	13,985	13,300	13,434
Gurantee facility	2,150	3,600	3,820	3,265	1,845
	16,866	**17,513**	**17,805**	**16,565**	**15,279**
Grant					
Core Operations	5,456	6,934	5,349	6,079	6,437
Relief & Reconstruction Operations	408	219	665	108	202
	5,864	**7,153**	**6,014**	**6,187**	**6,639**
Total funds deployment	**22,730**	**24,666**	**23,819**	**22,752**	**21,918**
Balance Sheet - *Rs. in million*					
Total assets	30,857	32,285	35,914	31,656	27,090
Endowment Fund	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**
Reserves					
Capital adequacy reserve	2,207	2,087	2,098	1,995	2,015
Grant fund	7,520	6,706	5,659	4,853	3,804
Reserve for lending activities	3,653	3,236	2,671	2,256	1,686
Income on grant fund	1,139	978	582	754	400
	14,519	**13,007**	**11,010**	**9,858**	**7,905**
Total equity (endowment + reserves)	**15,519**	**14,007**	**12,010**	**10,858**	**8,905**
Long term loans	13,448	14,236	14,801	15,003	15,355
Operational Results - *Rs. in million*					
Total income	2,963	3,250	2,880	2,896	2,794
General and admin expenses	576	587	591	509	435
Surplus before loan loss prov. and relief work	1,919	2,250	1,845	2,094	2,070
Net Surplus	1,511	1,998	1,152	1,953	1,375
Financial Ratios - *Percentage*					
Surplus brefore provisions & relief/total income	65%	69%	64%	72%	74%
Return on equity (Surplus before provision and relief activities to Equity)	13%	17%	16%	21%	25%
Return on assets (Surplus before provision and relief activities to Assets)	6%	7%	5%	7%	8%
General and admin expenses/funds deployed	2.53%	2.38%	2.48%	2.24%	1.98%
Debt/equity	46:54	50:50	55:45	58 : 42	63 : 37

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EY Ford Rhodes
Chartered Accountants
Eagle Plaza 75-West, Fazlul-Haq Road
Blue Area, P.O. Box 2388
Islamabad 44000, Pakistan

Tel: +9251 234 4160-62
Fax: +9251 234 4163
ey.isb@pk.ey.com
ey.com/pk

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Pakistan Poverty Alleviation Fund** ("the Company") as at 30 June, 2016 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;

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

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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, 2016 and of the surplus and other comprehensive income, 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).

Other Matter

The financial statements of the Company for the year ended 30 June, 2015, were audited by another firm of chartered accountants, who expressed an unmodified opinion on those financial statements on 21 September, 2015.

Chartered Accountants
Audit Engagement Partner's name: Mr. Khayyam Mushir
Date: 27 September, 2016
Place: Islamabad

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Ordinance, 1984)
BALANCE SHEET
AS AT 30 JUNE, 2016

	Note	2016	2015 (Restated) (Note 45)
		----Rupees '000----	
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	**70,724**	62,441
Intangible assets	7	**979**	4,316
Long-term investments	8	**2,657,798**	2,953,037
Long-term loans to Partner Organizations	9	**1,735,675**	1,528,948
Long-term deposits and prepayments	10	**29,825**	4,228
		4,495,001	4,552,970
CURRENT ASSETS			
Grant fund receivable	11	**556,208**	-
Loans and advances	12	**20,679**	21,459
Short-term prepayments	13	**33,600**	47,250
Profit / service charges receivable	14	**702,606**	1,177,959
Other receivables	15	**48,484**	13,532
Current maturity of long-term investments	8	**300,000**	286,400
Current maturity of loans to Partner Organizations	9	**12,037,609**	11,467,824
Short-term investments	16	**11,227,080**	11,064,519
Tax refunds due from the Government	17	**251,208**	225,899
Bank balances-specific to projects	18	**898,004**	3,291,088
Cash and bank balances	19	**286,287**	114,031
		26,361,765	27,709,961
TOTAL ASSETS		**30,856,766**	32,262,931
FUNDS, RESERVES AND LIABILITIES			
FUNDS AND RESERVES			
Endowment fund	20	**1,000,000**	1,000,000
Grant fund		**7,519,584**	6,706,090
Reserve for grant based activities		**1,139,402**	978,017
Accumulated surplus		**5,860,255**	5,323,306
		15,519,241	14,007,413
NON-CURRENT LIABILITIES			
Long-term financing	21	**11,433,192**	12,143,998
Deferred benefit	21	**2,014,837**	2,091,869
		13,448,029	14,235,867
CURRENT LIABILITIES			
Deferred liabilities - grant fund	22	**910,939**	3,155,221
Deferred income - grant fund	23	**13,078**	6,601
Trade and other liabilities	24	**83,683**	39,466
Service charges payable	26	**25,489**	27,182
Current portion of long-term financing	21	**856,307**	791,181
		1,889,496	4,019,651
TOTAL FUNDS, RESERVE AND LIABILITIES		**30,856,766**	32,262,931
CONTINGENCIES AND COMMITMENTS	27		

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

DIRECTOR **CHIEF EXECUTIVE OFFICER**

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Ordinance, 1984)
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 30 JUNE, 2016

	Note	2016	2015
		----------- Rupees '000	-----------
INCOME			
Service charges on loans to Partner Organizations	28	**973,129**	1,184,374
Income on investments and savings accounts	29	**1,245,032**	1,382,108
Amortization of deferred income - grant fund	23	**206,965**	582,315
Amortization of deferred benefit	21	**122,676**	99,697
Other income	30	**415,056**	1,263
		2,962,858	3,249,757
EXPENDITURE			
General and administrative expenses	31	**575,930**	586,759
Seminars, workshops and trainings	32	**20,195**	29,819
Technical and other studies	33	**155,018**	168,026
Provision against loans / service charges	34	**45,159**	26,648
Income tax refund written-off		**11,810**	-
Financial charges	35	**235,270**	215,414
		1,043,382	1,026,666
EXCESS OF INCOME OVER EXPENDITURE BEFORE PROJECT AND RELIEF ACTIVITIES		**1,919,476**	2,223,091
Expenditure on project and relief activities	36	**408,076**	218,630
EXCESS OF INCOME OVER EXPENDITURE		**1,511,400**	2,004,461

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

DIRECTOR | **CHIEF EXECUTIVE OFFICER**

Qazi Azmat Isa

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Ordinance, 1984)
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE, 2016

	Note	2016	2015
		----------- Rupees '000 -----------	
SURPLUS FOR THE YEAR		**1,511,400**	**2,004,461**
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Other comprehensive income not to be reclassified to income and expenditure in subsequent periods:			
Re-measurement gain / (loss) on employees' defined benefit plan	25	**428**	(6,868)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,511,828**	1,997,593

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

DIRECTOR

CHIEF EXECUTIVE OFFICER

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Ordinance, 1984)
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE, 2016

	Note	2016	2015 (Restated)
		Rupees '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		1,511,400	2,004,461
Adjustment for non cash and other items:			
Depreciation		29,979	29,577
Amortization of intangible assets		3,489	4,089
Amortization of deferred income - grant fund		(206,965)	(582,315)
Transfer of deferred liabilities - grant fund to other income		(407,676)	-
Amortization of deferred benefit		(122,676)	(99,697)
Adjustment on closure of project - IFAD Prism		-	54,449
Provision against loans / service charges		45,159	26,648
Income tax refund written-off		11,810	-
Gain on disposal of property and equipment		(4,859)	(786)
Remeasurement gain / (loss) on defined benefit plan		-	(6,868)
Financial charges		235,270	215,414
		(416,469)	(359,489)
		1,094,931	1,644,972
Working capital changes			
Decrease / (Increase) in current assets:			
Loans and advances		780	(8,259)
Other receivables		(19,943)	16,741
Short-term prepayments		-	30,600
Profit / service charges receivable		457,349	(289,817)
Increase / (decrease) in current liabilities:			
Trade and other liabilities		44,645	(47,477)
		482,831	(298,212)
Cash generated from operations		1,577,762	1,346,760
Disbursements to partner organizations:			
Loan		(9,668,239)	(9,444,989)
Grants		(5,456,332)	(6,934,141)
Recoveries of loans from partner organizations		8,864,572	9,517,331
Income tax paid		(37,119)	(100,298)
Financial charges paid		(114,287)	(116,890)
Prepayments		13,650	-
Deposits		(25,597)	-
		(6,423,352)	(7,078,987)
Cash utilized in operating activities		(4,845,590)	(5,732,227)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		3,657,155	(1,358,814)
Capital expenditure incurred		(39,721)	(20,102)
Proceeds from disposal of fixed assets		6,166	4,550
Cash generated from/ (utilized in) investing activities		3,623,600	(1,374,366)
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing - received		68,471	171,985
Long term financing - repaid		(791,181)	(653,734)
Deferred liabilities - grant fund receipts		3,048,510	1,831,050
Deferred income - grant fund receipts		213,442	534,257
Cash generated from financing activities		2,539,242	1,883,558
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		1,317,252	(5,223,035)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		3,405,119	8,628,154
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	43	4,722,371	3,405,119

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

DIRECTOR

CHIEF EXECUTIVE OFFICER

PAKISTAN POVERTY ALLEVIATION FUND
(A Company incorporated under Section 42 of the Companies Ordinance, 1984)
STATEMENT OF CHANGES IN FUNDS AND RESERVES
FOR THE YEAR ENDED 30 JUNE, 2016

	Note	FUNDS		RESERVES		TOTAL
		Endowment Fund	Grant fund	Reserve for grant based activities	Accumulated Surplus	
		Rupees '000				
Balance as at 30 June, 2014		1,000,000	5,659,138	582,216	4,768,466	12,009,820
Total comprehensive income for the year						
Surplus for the year		-	-	-	2,004,461	2,004,461
Other comprehensive income		-	-	-	(6,868)	(6,868)
		-	-	-	1,997,593	1,997,593
Transfer from accumulated surplus to grant fund		-	1,046,952	-	(1,046,952)	-
Transfer from accumulated surplus to reserve for grant based activities	37	-	-	395,801	(395,801)	-
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 grant fund		-	813,494	-	(813,494)	-
Transfer from accumulated surplus to reserve for grant based activities	37	-	-	161,385	(161,385)	-
Balance as at 30 June, 2016		**1,000,000**	**7,519,584**	**1,139,402**	**5,860,255**	**15,519,241**

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

DIRECTOR | **CHIEF EXECUTIVE OFFICER**

PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2016

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. 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 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 The Company, Karandaaz Pakistan and German Financial Co-operation (KfW) (collectively hereinafter referred to as sponsors) have signed a Shareholder's Agreement, dated April 28, 2016, to incorporate a new company, by the name of Pakistan Microfinance Investment Company Limited (PMICL). In addition to the "Shareholder's Agreement", the sponsors have also signed two related agreements "Share Subscription Agreement", and "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 and (ii) a permission from the Government of Pakistan, has committed to acquire 49% of the shareholding interest in PMICL, whereas Karandaaz Pakistan and KfW have jointly committed to acquire 51% of the shareholder's interest in PMICL. The Company's total investment in PMICL's equity will be limited to an amount up to Rs. 3 billion, whereas Karandaaz Pakistan and KfW will invest GBP 15 million and Euro 7 million, respectively. The exact amount of investment by the Company will be determined on the basis of the foreign currency rate prevailing at the time the contributions by Karandaaz Pakistan and KfW are made.

Subsequent to the year end, PMICL has been incorporated as a public company, on 10 August, 2016, and is in the process of obtaining a Non-Banking Finance Company (NBFC) license, from the SECP, to enable it to operate as an "Investment Finance Company", in accordance with the requirements of the Companies Ordinance, 1984. PMICL will carry out the business of provision of loans, to the Company's POs, for utilization, in the microfinance business. In accordance with the terms of the Non-Compete Agreement, the Company will cease to carry out the provision of new loans to its POs. PMICL will manage the recoveries, in respect of loans to POs already disbursed by the Company, for a period of two years, against a monitoring fee, to be mutually agreed between the Company and PMICL. The Company will retain all risks and rewards and control over these loans. Accordingly, the Company will continue to maintain its existing loan portfolio and the related general and specific provisions for these loans in its financial statements. The Company intends to maintain its investment portfolio, equivalent to 15% of the outstanding loan principal, until the entire loan principal has been repaid (refer to note 5.6).

The Company also intends to provide a shareholder's loan to PMICL, utilizing the loans provided to the Company by the Government of Pakistan, in accordance with terms to be mutually agreed between the Company and PMICL. The repayment terms of the shareholder loan will be structured to ensure that sufficient funds are available with the Company to enable it to repay its loan, to the Government of Pakistan, as and when the installments fall due.

As no existing non-current assets of the Company are being 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, currently working in its Financial Services Group, will be transferred to PMICL. The impact of related early settlement of gratuity payable has been incorporated in these financial statements.

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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 such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

3 AMMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

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

Standard		Effective date (annual periods beginning on or after)
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendment)	01 January, 2018
IFRS 10	Consolidated Financial Statements, IFRS 12; Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements Investment Entities: Applying the Consolidation Exception (Amendment)	Not yet finalized
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)	01 January, 2016
IFRS 11	Joint Arrangements Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January, 2016
IAS 1	Presentation of Financial Statements Disclosure Initiative (Amendment)	01 January, 2016
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 16	Property, Plant and Equipment and IAS 38 Intangible assets: Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January, 2016
IAS 16	Property, Plant and Equipment and IAS 41 Agriculture : Bearer Plants (Amendment)	01 January, 2016
IAS 27	Separate Financial Statements: Equity Method in Separate Financial Statements (Amendment)	01 January, 2016

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 2012-14 cycle) have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January, 2016. 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:

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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

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 Companies Ordinance, 1984, for the annual financial period beginning on or after 01 July , 2016, The Company is in the process of assessing the implication of adopting this standard.

4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES RESULTING FROM ADOPTION OF 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:

New Standards

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

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures

The adoption of the above accounting standards did not have any effect on 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 loan.

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 9.3), deferred benefit of below market rate of interest on long-term loans (note 21.5) and the staff gratuity scheme (note 25).

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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, 2016, the related details of which are given in note 25 to the financial statements.

(ii) The Company operates an approved contributory provident fund for all employees for which contributions of Rs 18,769 thousand (2015: Rs 21,524 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 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 provide to sufficient capital adequacy, with effect from 01 July, 2009, an amount equivalent to 15% (2015: 15%) of the total loan receivable from Partner Organizations is held in investments. 35% of the surplus funds of the Company, in excess of the above investments, are employed for lending activities (micro-credit and enterprise development facility), and the balance 65% are held in investments in the grant fund, the income of which is used for grant based health, education, infrastructure, emergency and other activities that fall within the overall strategic framework of the Company's objectives.

In order to respond quickly in emergency situations, with effect from July 1, 2011, an amount of 5% of the total loan receivable from Partner Organizations shall be kept as a disaster fund. The disaster fund has been aggregated in the grant fund in these financial statements.

5.7 Loans to Partner Organizations

These are stated net of provisions for loan losses.

A general provision is made for loan losses at the rate of 5% (2015: 5%) of the gross outstanding balances of loans to POs at the year end, provided that a provision once made will not be reduced with the reduction of outstanding balances of these loans in subsequent years.

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

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

5.8 Grant fund / Reserve for grant based activities

The grant fund represents 65% of the surplus funds of the Company, in excess of investments as detailed in note 5.6. In order to respond quickly in emergency situations, 5% of the total loan receivable from POs is kept as a disaster fund, which is also aggregated in the grant fund in these financial statements.

Reserve for grant based activities represent income on investments held under the grant fund, which is used for grant based health, education, infrastructure, emergency and other activities that fall within the overall strategic framework of Company's objectives.

5.9 Long-term financing

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

5.10 Receipt - loans and grants

Agreements have been entered into between the Government of Pakistan and various donors for the execution of 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 statement of expenses, raised by the Company on a periodic basis, under the relevant categories, as specified in the Financing Schedules under the respective Financing Agreements.

5.11 Deferred liabilities - grant fund

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

5.12 Income Recognition

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

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

5.13 Provisions

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

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5.14 Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment at each balance sheet 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 balance sheet date. Reversals of the impairment loss are restricted to the extent, that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss or reversal of impairment loss is recognized in income for the year.

5.15 Borrowing costs

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

5.16 Taxation

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.

5.17 Financial instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument, and de-recognized when the Company loses control of the contractual rights that comprise the financial assets, in case of financial liabilities, these are derecognized when the obligation specified in the contract is discharged, cancelled or expires. All financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given and received. These are subsequently measured at fair value, amortized cost or cost, as the case may be.

5.18 Financial assets

5.18.1 Classification

The Company classifies its financial assets in four categories:

i. Held-to-maturity
ii. Loans and receivables
iii. At fair value through profit or loss and
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 balance sheet date, which are classified as non-current assets. The Company's loans and receivables comprise Loans to POs, Advances, Deposits, Prepayments 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.

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(iii) Financial assets 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 financial assets

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 balance sheet date.

5.18.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the Income and Expenditure account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred, and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortized cost using the Effective Interest Rate method.

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

5.18.3 Impairment

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

5.19 Foreign currency translation

i Functional and presentation currency

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

ii Transaction and balances

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

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5.20 Related party transactions

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

5.21 Offsetting

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

5.22 Cash and cash equivalents

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

5.23 Fair value measurement

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

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

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

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

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

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

i Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
ii Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
iii Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

6 PROPERTY AND EQUIPMENT

2016	COST As at 01 July	Additions	Disposals	As at 30 June	Rate	ACCUMULATED DEPRECIATION As at 01 July	Charge for the year	On disposals	As at 30 June	WRITTEN DOWN VALUE As at 30 June
	Rupees '000				%	Rupees '000				Rupees in '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 Additions during the year include furniture and fixtures and office equipment received by the Company as a grant-in-kind, under the Italian Project (refer to note 22.10), with fair values of Rs. 174 thousand and Rs. 556 thousand, respectively. Control over these assets has been transferred to the Company by the Government of Italy.

6.2 Depreciation for the year is charged to General and Administrative expenses (refer to note 31).

2015	COST As at 01 July	Additions	Disposals	As at 30 June	Rate	ACCUMULATED DEPRECIATION As at 01 July	Charge for the year	On disposals	As at 30 June	WRITTEN DOWN VALUE As at 30 June
	Rupees '000				%	Rupees '000				Rupees in '000
Furniture and fixtures	21,590	345	(3,026)	18,909	20	14,724	2,146	(3,009)	13,861	5,048
Vehicles	97,771	9,605	(6,128)	101,248	20	60,489	13,082	(2,743)	70,828	30,420
Office equipment	55,982	3,165	(5,306)	53,841	20	40,137	5,470	(5,130)	40,477	13,364
Computer equipment	76,283	6,865	(11,365)	71,783	25	60,474	8,879	(11,179)	58,174	13,609
	251,626	19,980	(25,825)	245,781		175,824	29,577	(22,061)	183,340	62,441

7 INTANGIBLE ASSETS

2016	COST As at 01 July	Additions	Disposals	As at 30 June	Rate	ACCUMULATED AMORTIZATION As at 01 July	Charge for the year	On disposals	As at 30 June	WRITTEN DOWN VALUE As at 30 June
	Rupees '000				%	Rupees '000				Rupees in '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 31).

2015	COST As at 01 July	Additions	Disposals	As at 30 June	Rate	ACCUMULATED AMORTIZATION As at 01 July	Charge for the year	On disposals	As at 30 June	WRITTEN DOWN VALUE As at 30 June
	Rupees '000				%	Rupees '000				Rupees in '000
Satellite imageries	19,078	-	-	19,078	25	18,945	133	-	19,078	-
Computer software	19,137	122	-	19,259	25	10,987	3,956	-	14,943	4,316
	38,215	122	-	38,337		29,932	4,089	-	34,021	4,316

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8 LONG-TERM INVESTMENTS

	Note	2016	2015
		Rupees '000	
Held-to-Maturity			
Specific to Endowment Fund			
Pakistan Investment Bonds (PIBs)	8.1	1,000,000	1,000,000
Less: Unamortized discount on purchase of PIBs		(41,536)	(49,119)
		958,464	950,881
Specific to Grant Fund			
Pakistan Investment Bonds (PIBs)	8.2	1,675,000	1,503,400
Add: Unamortized premium on purchase of PIBs		24,434	39,076
		1,699,434	1,542,476
Term Deposit Receipts (TDRs)		-	50,000
Specific to others			
Pakistan Investment Bonds (PIBs)	8.3	300,000	708,000
Less: Unamortized discount on purchase of PIBs		(100)	(11,920)
		299,900	696,080
		2,957,798	3,239,437
Less: Long-term investments maturing within next twelve months shown as a current asset		(300,000)	(286,400)
		2,657,798	2,953,037

8.1 Represents investments in PIBs as follows:

Principal (Rupees '000)	Issue date	Maturity date	Coupon rate (per annum)	Payment terms
200,000	22 July, 2010	22 July, 2020	12%	Semi annually
200,000	22 July, 2010	22 July, 2020	12%	Semi annually
200,000	18 August, 2011	18 August, 2021	12%	Semi annually
400,000	29 April, 2014	19 July, 2022	12%	Semi annually
1,000,000				

8.2 Represents investments in PIBs as follows:

Principal (Rupees '000)	Issue date	Maturity date	Coupon rate (per annum)	Payment terms
467,000	17 July, 2014	17 July, 2017	11.25%	Semi annually
800,000	17 July, 2014	17 July, 2019	11.50%	Semi annually
408,000	17 July, 2014	17 July, 2017	11.25%	Semi annually
1,675,000				

8.3 Represents investments in PIBs as follows:

Principal (Rupees '000)	Issue date	Maturity date	Coupon rate (per annum)	Payment terms
300,000	18 July, 2013	18 July, 2016	11.25%	Semi annually

8.3.1 These funds are available for lending activities, until PMICL commences its operations (refer to note 1.3).

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			2016	2015
9	**LONG-TERM LOANS TO PARTNER ORGANIZATIONS**	Note	----------- Rupees '000 -----------	
	Secured			
	Considered good		14,498,193	13,696,026
	Considered doubtful		218,193	216,693
		9.1	14,716,386	13,912,719
	Less: Provision for doubtful loans	9.3	(943,102)	(915,947)
			13,773,284	12,996,772
	Less: Amount receivable within next twelve months shown as a current asset		(12,037,609)	(11,467,824)
			1,735,675	1,528,948

9.1 Breakup of loans to Partner Organizations:

	2016	2015
Association for Gender Awareness and Human Empowerment	88,333	82,506
Al Mehran Rural Development and Welfare Organization	147,207	236,421
ASA Pakistan Limited	600,751	459,875
Asasah	197,096	197,096
Badbaan Enterprise Development Forum	24,232	36,934
Baidarie	25,147	53,847
BRAC - Pakistan	386,692	486,002
Buksh Foundation	49,925	46,075
Bunyad Literacy Community Council	14,850	35,813
Community Support Concern	390,946	318,206
Development Action for Mobilization and Emancipation	1,384,518	1,181,073
Farmers Friend Organization	369,677	418,292
Ghazi Brotha Taraqiatee Idara	65,200	1,555
Jinnah Welfare Society	538,000	538,000
Kashf Foundation	2,878,000	2,239,018
Khajji Cooperative Society	12,620	11,120
Khushhali Bank	980,000	520,000
Khwendo Kor Women and Children Development Programme	4,250	14,592
Mashal Development Organization	505	550
Mehran Education Society	21,748	37,130
Micro Options (Formerly Dia Welfare Organization)	74,925	79,405
Mojaz Foundation	335,933	311,958
Narowal Rural Development Programme	79,755	144,981
National Rural Support Programme	2,026,614	2,026,614
NRSP Microfinance Bank	150,000	150,000
Orangi Charitable Trust	122,043	172,043
Organization for Participatory Development	93,360	136,856
Orix Leasing Pakistan Limited	-	120,299
Poverty Eradication Network	1,827	1,827
Punjab Rural Support Programme	442,136	326,398
Rural Community Development Society	796,000	734,175
SAATH Development Society	74,695	77,900
Sarhad Rural Support Programme	-	37,500
Save The Poor	4,872	4,872
Sayya Foundation	23,900	23,844
Shadab Rural Development Organization	97,139	112,292
Shah Sachal Sami Welfare Association	90,615	118,375
Sindh Agricultural & Forestry Workers Coordinating Organization	620,963	313,393
Sindh Rural Support Organization	-	556,025
Soon Valley Development Programme	166,768	150,189
Thardeep Rural Development Programme	1,065,375	1,118,721
Villagers Development Organization	-	3,875
Waasil Foundation (Formerly Centre for Women Cooperative Development)	258,839	258,839
Women Social Organization	4,280	11,583
Young Pioneers Society	6,650	6,650
	14,716,386	13,912,719

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9.2 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 secured through a letter of hypothecation on the receivables of POs, created out of financing obtained from the Company. Further, the Company maintains a first charge on all assets / capital items created out of financing provided for capacity building and under the exclusive lien of the Company until full repayment of the principal, service charges and other outstanding amounts payable to the Company. These loans are repayable on a quarterly basis within two years, under the respective Financing Agreements signed between the Company and the PO. 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 agreements signed after 30 September, 2015 with "for profit" Microfinance Institutions and Microfinance Banks include service charges on the basis of an internal rating system of the Company, with rates ranging from 9% per annum to 9.5% per annum (2015: nil). All other financing facilities, that have completed two years of subsidized funding, are now charged service charges at the standard rates based on KIBOR, with a floor of 8% per annum. During the year, loans were disbursed at service charges ranging from 4.00% to 9.00% (2015: 4.16% to 11.68%). As explained in note 1.3, the Company will cease to provide new loans to its POs, after PMICL has commenced its operations.

	Note	2016 Specific	2016 General	2016 Total	2015 Total
		Rupees '000			
9.3 Movement in provision for doubtful loans					
Opening balance		**216,693**	**699,254**	**915,947**	896,350
Provision during the year	34	**1,500**	**25,655**	**27,155**	19,597
		218,193	**724,909**	**943,102**	915,947

9.4 Movement in loans to Partner Organizations	Note	2016	2015
		Rupees '000	
Opening balance		**13,912,719**	13,985,061
Add: Disbursements		**9,668,239**	9,444,989
		23,580,958	23,430,050
less: Recoveries		**(8,864,572)**	(9,517,331)
		14,716,386	13,912,719
Less: Provision for doubtful loans	9.3	**(943,102)**	(915,947)
		13,773,284	12,996,772

10 LONG-TERM DEPOSITS AND PREPAYMENTS

	Note	2016	2015
Deposits		**7,425**	4,228
Prepaid rent		**56,000**	-
Less: Current portion of prepaid rent shown under current assets	13	**(33,600)**	-
		22,400	-
		29,825	4,228

11 GRANT FUND RECEIVABLE

	Note	2016	2015
Considered good, unsecured	11.1 & 22.2	**556,208**	-

11.1 This represents the amounts disbursed to POs, from the Company's own financial resources, in respect of the "Poverty Reduction through Rural Development Activities in Baluchistan, Khyber Pakhtunkhwa and Federally Administered Tribal Areas" project (refer to note 22.10).

			2016	2015
12	**LOANS AND ADVANCES**	**Note**	---------- Rupees '000 ----------	
	Loans - considered good, secured			
	Employees	12.1	**806**	2,534
	Advances - considered good, unsecured			
	Employees		**19,209**	15,852
	Suppliers		**664**	3,073
			19,873	18,925
			20,679	21,459

12.1 This represents the advance salary loans and car loans given to the employees of the Company, carrying annual mark-up of 3% (2015: 3%) and 8% (2015: 8%), respectively. The principal amount is repayable in 18 equal monthly installments.

			2016	2015
13	**SHORT-TERM PREPAYMENTS**	**Note**	---------- Rupees '000 ----------	
	Prepaid rent		**-**	47,250
	Current portion of long-term prepaid rent	10	**33,600**	-
			33,600	47,250
14	**PROFIT / SERVICE CHARGES RECEIVABLE**			
	Service charges on Investments			
	Specific to Endowment Fund		**51,978**	51,933
	Specific to projects		**174,198**	114,385
	Specific to Grant Fund		**67,363**	336,242
	Specific to others and savings accounts		**29,795**	115,722
			323,334	618,282
	Service charges receivable on loans to POs		**442,698**	612,150
	Less: Provision for doubtful service charges	14.1	**(63,426)**	(52,473)
			379,272	559,677
			702,606	1,177,959
14.1	Movement in provision for doubtful service charges:			
	Opening balance		**52,473**	45,422
	Add: Provision for the year	34	**18,004**	7,051
	Less: Service charges written-off against provision		**(7,051)**	-
			63,426	52,473
15	**OTHER RECEIVABLES**			
	Considered good - unsecured			
	Receivable from POs	15.1 & 22.2	**15,009**	-
	Pre-incorporation expenses paid (PMICL)	15.2	**18,658**	-
	Employees' Provident Fund		**6,025**	2,939
	Consultant/service provider		**7,787**	9,824
	Others		**1,005**	769
			48,484	13,532

15.1 This represents excess amounts distributed to POs, under the Government of Pakistan-IDA-III Project. These receivables are interest-free and the Company expects to recover them within twelve months, from the reporting date.

15.2 In a meeting of the prospective shareholders of PMICL on 04 August, 2016, it has been clarified that all the parties will contribute in full for the shares' subscription and PMICL will reimburse the Company for the entire amount of pre-incorporation expenses incurred by it.

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16	SHORT-TERM INVESTMENTS	Note	2016	2015
			---------- Rupees '000 ----------	
	Specific to projects	16.1	**2,150,000**	3,600,000
	Specific to Grant Fund	16.2	**5,844,585**	5,152,690
	Specific to others	16.3	**3,232,495**	2,311,829
			11,227,080	11,064,519

16.1 These represent investments in Term Deposit Receipts (TDRs) maturing within one month to one year from the date of investment, at per annum mark-up rates ranging between 5.40% and 6.75% (2015: 6.57% to 10.35%).

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. These deposits include Rs. 1,924,265 thousand (Rs. 2,061,713 thousand) invested out of funds received from IFAD in respect of the Programme for Increasing Sustainable Microfinance (PRISM) activities.

Microfinance institutions	Investment amount		Finance facility	
	2016	2015	2016	2015
	-------- Rupees '000 --------		---------- Rupees '000 ----------	
National Rural Support Programme	**1,000,000**	1,000,000	**2,150,000**	2,400,000
NRSP Micro-finance Bank Limited	**1,000,000**	1,000,000	**1,550,000**	1,600,000
Orangi Charitable Trust	**150,000**	150,000	**150,000**	150,000
Kashf Foundation	-	1,000,000	-	1,500,000
BRAC Pakistan	-	250,000	-	250,000
SAFCO Support Foundation	-	100,000	-	130,000
Punjab Rural Support Program	-	100,000	-	150,000
Total	2,150,000	3,600,000	3,850,000	6,180,000

16.1.1 The above cash collaterals will remain in effect until the maturities of the related investments.

16.2	Specific to Grant Fund	Note	2016	2015
			---------- Rupees '000 ----------	
	Term Deposit Receipts (TDR)	16.2.1 & 16.2.2	**5,844,585**	2,952,852
	Government Treasury Bills		-	2,199,838
			5,844,585	5,152,690

16.2.1 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 6.30% to 11.00% (2015: 8.25% to 10.25%).

16.2.2 These include investments of Rs 735,819 thousand (June 2015: Rs 695,636 thousand), equivalent to 5% (June 2015: 5%) of the loan receivable from Partner Organizations, as disaster relief fund, and Rs 6,783,765 thousand (June 2015: Rs 4,457,050 thousand) as grant fund to finance grant based activities, of which Rs. 1,675,000 thousand is appearing as long-term investment (refer to note 8).

16.3	Specific to others	Note	2016	2015
			---------- Rupees '000 ----------	
	Term Deposit Receipts (TDR)	16.3.1 & 16.3.2	**3,232,495**	2,169,120
	Government Treasury Bills		-	142,709
		16.3.2	3,232,495	2,311,829

16.3.1 These investments in Term Deposit Receipts (TDRs) are maturing within one year from the date of investment, at per annum mark-up rates ranging between 6.50% and 8.00% per annum (2015: 6.17% and 10.05%).

16.3.2 These include investments of Rs. 2,207,458 thousand (2015: Rs 2,086,908 thousand), equivalent to 15% (2015: 15%) of the loan receivable from POs, to safeguard against any major default on loans receivable and provide capital adequacy, and Rs. 1,025,037 thousand (2015: Rs. 224,921 thousand) for lending activities.

17	TAX REFUNDS DUE FROM THE GOVERNMENT	Note	2016	2015
			---------- Rupees '000 ----------	
	Income tax refunds	17.1	251,208	225,899

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17.1 This represents tax refunds relating to tax years 2003 to 2016. 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.

18 BANK BALANCES-SPECIFIC TO PROJECTS	Note	2016	2015
		Rupees '000	
Current accounts			
Specific to IDA III		-	1,378,503
Specific to KfW - Livelihood and Community Infrastructure		370,471	394,471
Specific to KfW - Renewable Energy		115,330	108,457
Specific to Italian Project - Poverty Reduction Through Rural Development Activities in Baluchistan, KPK and FATA		80	1,180,780
Specific to Benazir Income Support Program (BISP) - Waseela -e- Haq (Sindh)		-	84,374
Specific to Prime Minister's Interest Free Loan Scheme (PMIFL)		412,123	124,324
	18.1	898,004	3,270,909
Deposit accounts			
Specific to USDA grant		-	552
Specific to Benazir Income Support Programme- Waseela-e-Haq		-	19,627
	18.2	-	20,179
		898,004	3,291,088

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

18.2 These balances carry a per annum mark-up of 4% (2015: 4%).

19 CASH AND BANK BALANCES	Note	2016	2015
		Rupees '000	
Cash in hand		9	58
Cash at banks in:			
- Current accounts		479	169
- Deposit accounts	19.1	285,799	113,804
		286,278	113,973
		286,287	114,031

19.1 These balances carry a per annum mark-up ranging between 3.7% to 6.0% (2015: 4.5% to 7.0%).

	Note	2016	2015
		Rupees '000	
20 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. Under the SFA, the fund is to be invested in the government schemes / bonds and income generated therefrom shall be utilized for revenue and capital expenditure of the Company.

21 LONG-TERM FINANCING	Note	2016	2015
		Rupees '000	
Unsecured - from a related party:			
Government of Pakistan - PPAF - I (IDA financing)	21.1	1,315,674	1,534,961
Government of Pakistan- PPAF - II (IDA financing)	21.2	6,982,227	7,340,220
Government of Pakistan - (IFAD financing - MIOP)	21.3	955,675	1,032,129
Government of Pakistan - (IFAD financing - PRISM)	21.4	1,924,264	2,061,713
Government of Pakistan- PPAF - III (IDA financing)	21.5	3,126,496	3,058,025
		14,304,336	15,027,048
Less: Amount payable within next twelve months shown as a current liability		(856,307)	(791,181)
		13,448,029	14,235,867
Less: Deferred benefit of below market rate of interest on long-term financing - Government of Pakistan - PPAF - III (IDA financing)	21.5.1	(2,014,837)	(2,091,869)
		11,433,192	12,143,998

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21.1 Government of Pakistan - PPAF - I (IDA financing)

	Note	2016	2015
		Rupees '000	
Opening balance		**1,534,961**	1,754,248
Amount repaid		**(219,287)**	(219,287)
		1,315,674	1,534,961

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 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 GoP and the Company, 50% of the amount was disbursed as a loan to the Company and the balance as a grant on 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 installments payable on each 15 May and 15 November, commencing from 15 November, 2007 and ending on 15 May, 2022. Each installment upto and including the installment payable on 15 May, 2013 was equal to 2.083% of such principal amount, and each installment 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.

21.2 Government of Pakistan- PPAF - II (IDA financing)

	Note	2016	2015
		Rupees '000	
Opening balance		**7,340,220**	7,698,213
Amount repaid		**(357,993)**	(357,993)
	21.2.1	**6,982,227**	7,340,220

21.2.1 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 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 tot the Company and the balance as a grant on 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 installments, payable on each 01 Feb and 01 August commencing from 01 February, 2012 and ending on 01 August, 2026. Each installment upto and including the installment payable on 01 August, 2017 shall be equal to 2.083% of such principal amount, and each installment 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.

21.3 Government of Pakistan - (IFAD financing MIOP)

	2016	2015
	Rupees '000	
Opening balance	**1,032,129**	1,108,583
Amount repaid	**(76,454)**	(76,454)
	955,675	1,032,129

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 installments, 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.

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21.4 Government of Pakistan - (IFAD financing - PRISM)

	2016	2015
	Rupees '000	
Opening balance	2,061,712	2,007,264
Adjustment on closure of project	-	54,448
Amount repaid	(137,448)	-
	1,924,264	2,061,712

A programme loan agreement was signed between the International Fund for Agriculture Development (IFAD) and 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 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 installments, 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.

21.5 Government of Pakistan- PPAF - III (IDA financing)

	Note	2016	2015
		Rupees '000	
Opening balance		3,058,025	2,886,040
Amount received		68,471	171,985
		3,126,496	3,058,025
Less: Deferred benefit of below market rate of interest on long-term financing	21.5.1	(2,014,837)	(2,091,869)
		1,111,659	966,156

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 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 installments, payable on each 15 June and 15 December commencing from 15 June, 2017 and ending on 15 December, 2031. Each installment upto and including the installment payable on 15 December, 2022 shall be equal to 2.083% of such principal amount and each installment 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.

21.5.1 The loan is carried at present value computed at a market based interest rate. 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

	2016	2015
	Rupees '000	
Deferred benefit		
Opening balance	2,091,869	2,073,650
Additions during the year	45,644	117,916
Amortization during the year	(122,676)	(99,697)
	2,014,837	2,091,869

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22 DEFERRED LIABILITIES - GRANT FUND

	Note	2016	2015
		Rupees '000	
Government of Pakistan - IDA III	22.3	-	946,545
US Agency for International Development (USAID) - Pakistan	22.4	-	115,984
Government of Pakistan - United States Department of Agriculture (USDA)	22.5	-	97,528
Government of Pakistan - KfW Renewable Energy (RE)	22.6	**115,330**	106,876
Government of Pakistan - KfW Livelihood Support and Protection of Small Community Infrastructure (LACIP)	22.7	**370,655**	386,880
Committee Encouraging Corporate Philanthropy (CECP)	22.8	-	21,668
Benazir Income Support Programme (BISP)	22.9	-	152,947
Poverty Reduction through Rural Development Activities in Baluchistan, Khyber Pakhtunkhwa, Federally Administered Tribal Areas - (Italian Project)	22.10	-	1,177,768
Government of Pakistan - Prime Minister's Interest Free Loan (PMIFL) Scheme	22.11	**412,123**	124,324
Others	22.12	**12,831**	24,701
		910,939	3,155,221

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

22.2 Movement during the year:

	Note	IDA III	USAID	USDA	KfW RE	KfW LACIP	CECP	BISP	Italian Project	PMIFL	Others	2016	2015
		Rupees '000											
Opening balance		946,545	115,984	97,528	106,876	386,880	21,668	152,947	1,177,768	124,324	24,701	3,155,221	8,304,497
Receipts during the year		561,349	-	1,854	348,134	439,789	-	-	-	1,905,000	5,826	3,261,952	1,831,350
Transfers to the deferred income - grant fund	23	(137,282)	-	-	(7,924)	(25,771)	-	-	(42,465)	-	-	(213,442)	(46,185)
Transfers to other Income	30	-	(115,984)	(99,382)	-	-	(21,668)	(152,947)	-	-	(17,696)	(407,677)	-
Repayment to the donor during the year		-	-	-	-	-	-	-	-	-	-	-	(300)
		1,370,612	-	-	**447,086**	**800,898**	-	-	**1,135,303**	**2,029,324**	**12,831**	**5,796,054**	**10,089,362**
Less: Disbursements for													
Water and infrastructure		281,552	-	-	331,880	304,933	-	-	593,410	-	-	1,511,775	1,797,905
Social sector development		47,443	-	-	-	14,773	-	-	651,278	-	-	713,494	233,715
Capacity/Institutional building		66,399	-	-	(124)	35,829	-	-	154,408	-	-	256,512	516,269
Social mobilization		44,357	-	-	-	-	-	-	-	-	-	44,357	208,206
Livelihood enhancement and protection		887,657	-	-	-	74,708	-	-	292,415	-	-	1,254,780	2,334,782
Waseela-e-Haq Program		-	-	-	-	-	-	-	-	-	-	-	4,065
Micro credit access		58,213	-	-	-	-	-	-	-	1,617,201	-	1,675,414	200,213
Interest-free loans		-	-	-	-	-	-	-	-	-	-	-	1,625,676
Projects		-	-	-	-	-	-	-	-	-	-	-	13,310
	22.13	**1,385,621**	-	-	**331,756**	**430,243**	-	-	**1,691,511**	**1,617,201**	-	**5,456,332**	**6,934,141**
		(15,009)	-	-	**115,330**	**370,655**	-	-	**(556,208)**	**412,123**	**12,831**	**339,722**	**3,155,221**
Represented by:													
Deferred liabilities - grant fund		-	-	-	115,330	370,655	-	-	-	412,123	12,831	910,939	3,155,221
Grant fund receivable	11	-	-	-	-	-	-	-	(556,208)	-	-	(556,208)	-
Receivable from POs	15	(15,009)	-	-	-	-	-	-	-	-	-	(15,009)	-
		(15,009)	-	-	**115,330**	**370,655**	-	-	**(556,208)**	**412,123**	**12,831**	**339,722**	**3,155,221**

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22.3 Grants from Government of Pakistan - IDA III

A Financing Agreement was signed between GoP and IDA on 09 June, 2009 and a Subsidiary Loan Agreement between the GoP and PPAF on 15 June, 2009, for the PPAF-III project. The Project agreement was signed between PPAF and IDA on 09 June, 2009, under which financing is to be provided to Partner Organizations, for the implementation of the Project. The project focuses on empowering the targeted poor with increased incomes, improved productive capacity and access to services to achieve sustainable livelihood. This would include stronger approaches to building institutions of the poor and to livelihood enhancement that would enable poor households and communities to be more successful at attracting financial and other service providers.

22.4 Grants from USAID/Pakistan

The previous year's closing balance represented the revolving fund for disbursement to POs. These funds were received as a grant from U.S. Agency for International Development Mission to Pakistan (USAID/Pakistan) for Enterprise Development Facility. The management of the Company has decided to utilize these funds as they are relatively small.

As fully explained in note 1.3, the Company will discontinue the provision of loans to microfinance institutions, after the commencement of business by PMICL. Accordingly, the Company has derecognized its liability against the above mentioned revolving fund. As the Company is not obligated to return these funds to USAID, the Company has recorded an amount of Rs. 115,984 thousand under its Other Income (refer to note 30).

22.5 Grants from Government of Pakistan - USDA

On 30 August, 2002, the Government of the United States of America and GOP signed an agreement, under which the U.S. Department of Agriculture (USDA) through its Commodity Credit Corporation, agreed to provide 37,800 metric tons of soybean oil to GOP. The GoP authorized the Trading Corporation of Pakistan to receive and monetize the commodity and use the sale proceeds to finance the Company to implement long-term poverty reduction programmes, including small-scale infrastructure programmes and sustainable agriculture development programmes. The project was completed in previous years and the Company had already utilized the funds provided by the Trading Corporation of Pakistan together with the profit earned by the Company on these funds. The remaining balance only represented the additional return on the profit earned by the Company on the funds provided by the Trading Corporation of Pakistan. During the year, the Company reassessed its obligation under the project and accordingly has recognized the unspent balance under Other Income (refer to note 30).

22.6 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 grant a 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 30 December, 2017.

22.7 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 expire on 31 December, 2015, however, the project duration has now been extended to 31 December, 2016.

22.8 Grants from Committee Encouraging Corporate Philanthropy (CECP)

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

During the year, the Company reassessed its obligation under the Project, and concluded that the outstanding balance of Rs. 21,668 thousand represented only the realized exchange gain, on funds received by the Company, which is not repayable. The Company has recognized the outstanding amount as under Other Income (refer to note 30).

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22.9 Benazir Income Support Program (BISP)

BISP signed an agreement with the Company on 29 September, 2010. Under the agreement the Company agreed to provide enterprise development training to 18,000 participants and skill trainings to 13,500 participants, of BISP's Waseela-e-Haq program. The project had a total cost of Rs. 884,400,814 and was initially for a period of two years. The specific objective of the enterprise and skill development training was to enhance the capacity of BISP's Waseela-e-Haq beneficiaries or their nominees, so that they can properly utilize the amount received by them for setting up business.

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

Every beneficiary having successfully undergone enterprise and skill training was entitled to a maximum of Rs 300,000 as a loan from BISP, on terms and conditions laid down by BISP from time to time. For the purpose of preparation of pay orders in the names of Waseela-e-Haq beneficiaries, according to the beneficiaries lists issued and verified by BISP from time to time, BISP was required to transfer the funds into a bank account specifically opened by the Company. The Company handed over pay orders to BISP, for onward distribution to the beneficiaries. The beneficiaries was required to repay the loan directly to BISP, without any involvement of the Company. Further, there was no involvement of the Company in selection of beneficiaries and disbursements to the beneficiaries.

The Company had completed the aforementioned enterprise development and skill trainings by financial year 2013. However, owing to an ongoing reconciliation exercise with BISP, in respect of the aforementioned activities, the Company had not recognized an income of Rs. 152,947 thousand, representing the value attributable to its monitoring activities under the project. During the year, the Company has reassessed, in light of its recent correspondence with BISP, the probability of any reimbursement to BISP, in respect of any deficiency on the Company's part, and has accordingly recognized this amount under Other Income (refer note 30).

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

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

22.11 Prime Minister's Interest Free Loan Scheme

On 14 May, 2014 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 is 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 is for operating costs of POs, and Rs.25 million for the establishment of Loan Centres by POs. The objective of the scheme is to reach marginalized men, women and youth not tapped by the micro-finance sector, support female participation by disbursing 50% of the loans, encourage behavioral change of beneficiaries and strengthen community-based institutions. The loans (revolving funds) amount is transferred to POs under respective agreements for on-lending of funds under the PMIFL Scheme to eligible beneficiaries. The funding to POs is secured through letters of hypothecation on receivables of POs created out of financing, obtained from the Company. Upon expiry of the terms of the agreement with the Company, the receiving fund loans will continue to be administered by the POs.

22.12 Other Funds

22.12.1 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.

22.12.2 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.

22.13 Breakup of disbursements to POs

	IDA III	KfW RE	KfW LACIP	Italian Project	PMIFL	2016	2015
	Rupees '000						
Awami Development Organization	6,117	-	-	-	71,500	77,617	105,970
Association of Gender Awareness and Human Empowerment	34,823	-	-	-	27,280	62,103	78,670
Asia Humanitarian Organization	-	-	50,225	-	-	50,225	23,696
Agha Khan Health Services - Pakistan	-	-	-	-	-	-	1,215
Akhuwat	-	-	-	-	123,490	123,490	358,860
AKPBS-Water and Sanitation Extension Programme	52,230	-	-	-	-	52,230	42,292
Aga Khan Rural Support Programme	20,916	85,568	-	56,526	-	163,010	153,231
Al-Mehran Rural Development and Welfare Organization	-	-	-	-	33,000	33,000	33,000
Awaz Foundation Pakistan - Centre for Development Services	(135)	-	-	-	-	(135)	8,594
AZAT Foundation	-	-	-	47,469	-	47,469	17,952
Baanhn Beli	8,250	-	-	-	-	8,250	42,552
Baidarie	(2,650)	-	-	-	-	(2,650)	7,536
Baluchistan Rural Development Society	42,673	-	-	-	-	42,673	36,370
Badbaan Enterprise Development Forum	-	-	-	-	-	-	1,657
Baluchistan Environmental and Educational Journey	81,742	-	-	-	-	81,742	24,336
Bunyad Literacy Community Council	1,526	-	-	-	18,040	19,566	34,840
BRAC - Pakistan	1,316	-	-	101,657	-	102,973	112,575
Baluchistan Rural Development and Research Society	6,529	-	-	23,873	-	30,402	18,951
Badin Rural Development Society	32,131	-	-	-	-	32,131	66,029
Baluchistan Rural Support Programme	134,251	-	-	176,635	89,700	400,586	276,485
Center of Excellence for Rural Development	-	-	-	14,611	-	14,611	2,170
Community Development Concern	-	-	-	-	-	-	624
Children's Global Network Pakistan	-	-	268	-	-	268	-
Change in Education	-	-	13,749	-	-	13,749	12,612
Community Mobilization and Development Organization	11,605	69,262	-	-	-	80,867	107,223
Courage Development Foundation	8,032	-	-	-	-	8,032	2,972
Community Support Concern	-	-	-	-	118,668	118,668	26,313
Community Support Foundation	-	-	25,097	-	-	25,097	14,137
Community Uplift Programme	474	-	5,835	-	-	6,309	94,809
Environment Protection Society	58,665	-	19,430	105,793	23,100	206,988	148,247
Farmers Development Organization	3,289	-	-	-	100,100	103,389	85,843
Family Educational Services Foundation	-	-	-	-	-	-	1,921
Farmers Friend Organization	-	-	-	-	1,000	1,000	58,509
Ghazi Brotha Taraqiatee Idara	-	-	67,145	-	62,634	129,779	83,046
Hazara Development and Advocacy Foundation	(28)	-	53,442	-	-	53,414	53,297
Helping Hand for Relief and Development	-	-	-	-	122,760	122,760	26,400
Health and Nutrition Development Society	6,202	-	-	-	59,892	66,094	43,266
Human Development Foundation	(1,626)	-	-	49,627	-	48,001	8,100
Heartfile	-	-	755	-	-	755	2,765
Himalayan Wildlife Foundation	-	-	-	-	-	-	(81)
Indus Earth Trust	81,258	-	-	-	-	81,258	4,940
Indus Resource Centre	16,277	-	-	-	-	16,277	67,812
Idara Taleem O Agahi	3,721	-	-	-	-	3,721	-
Jinnah Welfare Society	34	-	-	-	-	34	1,039
Khushaal Awareness and Development Organization	-	-	-	-	-	-	14,683
Kashf Foundation	(4,084)	-	-	-	24,750	20,666	58,256
Khwendo Kor Women and Children Development Programme	(90)	-	-	61,051	-	60,961	18,436
Lasoona Society for Human and Natural Resource Development	-	-	-	52,722	-	52,722	2,125
Mamoona Development Foundation	-	-	-	-	-	-	1,134
Mehran Education Society	15,264	-	-	-	-	15,264	-
Mountain and Glacier Protection Organization	(16)	-	-	-	-	(16)	65,810
Mountain Institute of Educational Development	-	-	23,822	-	-	23,822	7,680
Mojaz Foundation	139	-	-	-	66,000	66,139	138,749
Marvi Rural Development Organization	-	-	-	-	-	-	12,837
Balance carried forward	**618,835**	**154,830**	**259,768**	**689,964**	**941,914**	**2,665,311**	**2,610,485**

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22.13 Breakup of disbursements to POs

	IDA III	KfW RE	KfW LACIP	Italian Project	PMIFL	2016	2015
	Rupees '000						
Balance brought forward	**618,835**	**154,830**	**259,768**	**689,964**	**941,914**	**2,665,311**	**2,610,485**
National Integrated Development Association	-	-	-	13,016	-	13,016	-
National Rural Support Programme	153,878	69,667	109,694	284,784	257,400	875,423	1,657,816
Narowal Rural Development Programme	-	-	-	-	30,000	30,000	46,181
NRSP Micro-finance Bank Limited	-	-	-	-	-	-	2,203
Omar Asghar Khan Development Foundation	-	-	-	-	-	-	63,609
ORIX Leasing Pakistan	-	-	-	-	-	-	44,000
Poverty Eradication Initiative	-	-	-	-	-	-	28,158
Pakistan Foundation Fighting for Blindness	2,755	-	-	-	-	2,755	15,009
Participatory Integrated Development Society	32,453	-	-	59,604	-	92,057	181,896
Punjab Rural Support Programme	-	-	-	-	31,488	31,488	12,483
Rural Community Development Society	8,875	-	-	-	128,700	137,575	171,920
Rural Development Project	-	-	24,358	-	-	24,358	3,222
Saath Development Society	-	-	-	-	18,028	18,028	11,000
Social Action Bureau for Assistance in Welfare and Organization Network	-	51,731	13,782	-	-	65,513	48,360
SAFCO Support Foundation	1,905	-	-	-	27,366	29,271	132,144
Sindh Agricultural & Forestry Workers Co-ordinating Organization	15,277	-	-	-	-	15,277	317,394
Salik Development Foundation	2,427	-	8,352	-	-	10,779	25,955
South Asia Partnership Pakistan	44,561	-	-	-	-	44,561	195,334
Sarhad Rural Support Programme	197,415	56,282	(23,992)	423,253	-	652,958	391,663
Save The Poor	200	-	-	-	-	200	-
Sayya Foundation	401	-	-	-	15,355	15,756	34,400
Society for Conservation and Protection of Environment	1,034	-	-	-	-	1,034	48,249
SEHER	(4,228)	-	-	82,820	-	78,592	7,753
Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment	(1)	-	(184)	-	59,950	59,765	53,561
Sindh Rural Support Programme	11,818	-	-	-	-	11,818	27,547
SOS Children's Village	(53)	-	-	-	-	(53)	3,710
Sustainable Peace and Development Organization	-	-	18,582	-	-	18,582	7,319
Strengthening Participatory Organization	-	-	-	-	-	-	99,879
Shadab Rural Development Organization	6,648	-	-	-	-	6,648	3,328
Sindh Rural Support Organization	31,226	-	-	-	30,000	61,226	155,986
Shah Sachal Sami Foundation	5,462	-	-	-	-	5,462	-
Sungi Development Foundation	1,532	-	-	-	-	1,532	60,259
Sustainable Use Special Group-Central Asia	27,540	-	-	-	-	27,540	49,166
Soon Valley Development Programme	214	-	-	-	-	214	3,608
Support With Working Solutions	-	-	19,301	-	-	19,301	4,130
Taraqee Foundation	128,355	-	-	41,630	-	169,985	144,975
Tehreek	-	-	-	-	-	-	8,481
Thardeep Rural Development Programme	70,753	-	-	-	77,000	147,753	228,948
Villagers Development Organization	(409)	-	-	-	-	(409)	11,600
Water Environment & Sanitation Society	205	-	-	-	-	205	4,093
Women Social Organization	12,081	-	-	-	-	12,081	300
Youth Organization	-	-	-	33,758	-	33,758	2,199
Direct expenses on project activities	14,462	(754)	582	62,682	-	76,972	15,818
	1,385,621	331,756	430,243	1,691,511	1,617,201	5,456,332	6,934,141

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23 DEFERRED INCOME - GRANT FUND	As at 01 July, 2015	Amount received	Expenditure from grant recognized as income	As at 30 June, 2016
	------	Rupees '000	------	
Government of Pakistan (GoP) - Capacity building				
IDA III	-	137,282	137,282	-
IFAD (PRISM)	1,109	-	547	562
KfW (RE)	236	7,924	8,034	126
KfW (LACIP)	5,256	25,771	20,188	10,839
Government of the Italian Republic	-	42,465	40,914	1,551
2016	6,601	213,442	206,965	13,078
2015	8,474	580,442	582,315	6,601

24 TRADE AND OTHER LIABILITIES	Note	2016	2015
		------ Rupees '000	------
Creditors		**2,217**	398
Accrued liabilities		**6,522**	5,800
Payable to Staff Gratuity Fund	25.1	**12,633**	7,203
Consultancy fee payable		**20,282**	9,180
Withholding tax payable		**2,315**	2,183
Other payables			
CMA Awards payable		**12,792**	9,066
Payable to Provident Fund		**9,959**	1,199
Others		**16,963**	4,437
		39,714	14,702
		83,683	39,466

25 DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY FUND

25.1 The movement in liability is as follows:

	2016	2015
Opening net liability	**7,203**	-
Expense recognized during the year	**14,630**	14,656
Contribution made directly to the Fund	**(7,203)**	-
Benefit payments on behalf of the Fund	**(1,569)**	(14,321)
Remeasurement loss recognized in other comprehensive income	**(428)**	6,868
	12,633	7,203

25.2 The details of actuarial valuation carried out as at 30 June, 2016 and 2015 are as follows:

25.2.1 Reconciliation of payable to Defined Benefit Plan	Note	2016	2015
		------ Rupees '000	------
Present value of the defined benefit obligation	25.2.2	**102,160**	85,245
Fair value of the plan assets	25.2.4	**(89,527)**	(78,042)
		12,633	7,203

25.2.2 Change in the present value of defined benefit obligation

	2016	2015
Opening balance	**85,245**	71,755
Current service cost	**14,588**	15,605
Interest cost on defined benefit obligation	**7,502**	8,559
Benefits paid	**(3,774)**	(14,321)
Actuarial (gain) / loss recognized	**(1,401)**	3,647
	102,160	85,245

25.2.3 Charge recognized in the Income and Expenditure Account

	2016	2015
Current service cost	**14,588**	15,605
Interest cost on defined benefit obligation	**7,502**	8,559
Interest income on plan assets	**(7,460)**	(9,508)
	42	(949)
	14,630	14,656

Charge recognized in the Statement of Other Comprehensive Income

	2016	2015
Actuarial (gain) / loss recognized	**(1,401)**	3,647
Return on plan assets, excluding the amount included in interest income	**973**	3,221
	(428)	6,868

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25.2.4 Change in fair value of plan assets

	2016	2015
	---------- Rupees '000 ----------	
Opening balance	**78,042**	71,755
Interest income	**7,460**	9,508
Contribution made directly to Fund	**7,203**	-
Payments made on behalf of the Fund	**1,569**	-
Benefits paid	**(3,774)**	-
Return on plan assets, excluding the amount included in interest income	**(973)**	(3,221)
	89,527	78,042

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

	2016		2015	
	Rupees '000	**%**	**Rupees '000**	**%**
Term Deposit Receipts	**84,000**	**94**	72,000	92
Cash and cash equivalents	**5,527**	**6**	6,042	8
	89,527	**100**	78,042	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.

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

	2016	2015
Valuation discount rate (per annum)	**7.25%**	9.00%
Salary increase rate (per annum)	**6.25%**	7.75%
Salary increase rate - 1 year (per annum)	**5.00%**	7.75%

Mortality was assumed as per adjusted State Life Insurance Corporation (SLIC) 2001-2005 mortality table with one year age set back at valuations on both dates i.e. 30 June, 2015 and 2016.

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 and salary 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 %)	**(8,981)**	**10,552**
Salary increase rate (1%)	**11,054**	**(9,547)**

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

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

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

Plan duration	**Years**
30 June, 2016	**9.56**
30 June, 2015	**9.61**

	Rupees '000
25.2.7 Projected payments as at 30 June, 2016	
Contributions FY 2017	**15,645**
Benefit payments:	
Financial year 2017	**17,379**
Financial year 2018	**4,981**
Financial year 2019	**6,945**
Financial year 2020	**4,841**
Financial year 2021	**10,057**

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26 SERVICE CHARGES PAYABLE

These represent service charges payable to GOP at the rate of 0.75% per annum (2015: 0.75% per annum) on the principal amount of long term-financing outstanding withdrawn from time to time.

27 CONTINGENCIES AND COMMITMENTS	Note	2016	2015
		Rupees '000	
27.1 Contingencies			
27.1.1 Guarantees to the banks against lending to Microfinance institutions	16.1	**2,150,000**	3,600,000

27.1.2 In March 2016, the Community Uplift Programme (CUP, a PO of the Company), filed a suit with the Honorable Court of the Senior Civil Judge (West), Islamabad, for the recovery of Rs. 69,204 thousand representing the unpaid amount of grant under a financing agreement signed between the Company and CUP, for implementation of Livelihood Support and Small Infrastructure Projects, 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 Honorable Court of Senior Civil Judge for the dismissal of the suit, which is pending adjudication. No provision has been made against the aforementioned case in these financial statements, as the management and its legal counsel are confident that the matter will ultimately be decided in favor of the Company.

27.2 Commitments	Note	2016	2015
		Rupees '000	
Aggregate commitments under Financing Agreements with Partner Organizations for:			
Loans		**1,378,624**	5,421,946
Grants			
Community physical infrastructure		**1,016,461**	2,942,256
Capacity building		**361,565**	597,812
Social sector development		**622,737**	765,441
Social mobilization		**-**	75,022
Livelihood enhancement and protection		**217,666**	1,700,332
		2,218,429	6,080,863
		3,597,053	11,502,809

28 SERVICE CHARGES ON LOANS TO PARTNER ORGANIZATIONS

These represent service charges on loans to POs under respective Financing Agreements at the rates disclosed in note 9.2.

29 INCOME ON INVESTMENTS AND SAVINGS ACCOUNTS	2016	2015
	Rupees '000	
Profit on investments		
Specific to Endowment Fund	**128,440**	125,675
Specific to projects	**217,824**	343,650
Specific to Grant Fund	**569,461**	614,431
Specific to others and savings accounts	**329,307**	298,352
	1,245,032	1,382,108

30 OTHER INCOME		2016	2015
Income from financial assets			
Mark-up on loans to employees		**206**	226
Income from non-financial assets			
Gain on disposal of property, plant and equipment		**4,859**	786
Transferred from deferred liability- grant fund:			
US-Agency for International Development	22.4	**115,984**	-
United States Department of Agriculture	22.5	**99,382**	-
Committee Encouraging Corporate Philanthropy	22.8	**21,669**	-
Benazir Income Support Programme	22.9	**152,945**	-
Others		**17,696**	-
	30.1	**407,676**	-
Miscellaneous		**2,315**	251
		415,056	1,263

30.1 These represent amounts transferred from deferred liabilities - grant fund during the year, in respect of closed grant projects.

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31 GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2016	2015
		Rupees '000	
Salaries, wages and other benefits	31.1	**359,640**	363,048
Rent, rates and taxes		**28,229**	31,875
Repairs and maintenance		**7,466**	11,291
Traveling, lodging and conveyance		**65,742**	70,301
Communication		**6,326**	5,585
Printing and stationery		**4,512**	5,197
Insurance		**13,093**	12,023
Vehicles running and maintenance		**20,008**	23,319
Utilities		**4,681**	3,816
Legal and professional charges		**9,492**	3,635
Auditors' remuneration	31.2	**2,300**	6,130
Advertisement		**1,854**	3,319
Media projection		**4,229**	1,567
Newspapers, books and periodicals		**576**	691
Depreciation	6	**29,979**	29,577
Amortization	7	**3,489**	4,089
Security services		**3,389**	3,511
Office shifting and related expenses		**4,550**	1,155
Others		**6,375**	6,630
	31.3	**575,930**	586,759

31.1 This includes Rs 33,399 (2015: 37,525) thousand in respect of employees' retirement benefits.

31.2 Auditor's remuneration

	2016	2015
	Rupees '000	
EY Ford Rhodes		
Statutory audit	**1,100**	-
Projects' audit	**1,200**	-
	2,300	-
A. F. Ferguson & Co.		
Statutory audit	-	1,100
Projects' audit	-	1,200
Audit of POs	-	3,830
	-	6,130
	2,300	6,130

31.3 General and administration expenses include Rs. 46,591 (2015: Rs 166,305) thousand incurred on different programme activities, as disclosed in note 23.

32 SEMINARS, WORKSHOPS AND TRAININGS

	Note	2016	2015
		Rupees '000	
Training		**9,959**	19,198
Seminar and workshops		**10,236**	10,621
	32.1	**20,195**	29,819

32.1 Seminars, workshops and training expenses include Rs. 9,304 (2015: Rs 24,259) thousand incurred on different programme activities as disclosed in note 23.

	Note	2016	2015
		Rupees '000	
33 TECHNICAL AND OTHER STUDIES	33.1	**155,018**	168,026

33.1 Technical and other studies include Rs. 151,070 (2015: Rs 126,519) thousand incurred on different programme activities as disclosed in note 23.

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		Note	2016	2015
34	**PROVISION AGAINST LOANS / SERVICE CHARGES**		---------- Rupees '000	----------
	Provision against loans to POs	9.3	**27,155**	19,597
	Provision against service charges receivable	14.1	**18,004**	7,051
			45,159	26,648
35	**FINANCIAL CHARGES**			
	On long-term financing		**109,946**	113,917
	Imputed interest on long-term loan at below market interest rate		**122,676**	99,697
	Bank charges		**2,648**	1,800
			235,270	215,414
36	**EXPENDITURE ON PROJECT AND RELIEF ACTIVITIES**			
	Earthquake relief	36.1	**3,192**	36,662
	Flood relief	36.2	**5,755**	48,139
	Project and other activities	36.3	**399,129**	79,380
	Project activities for PRISM (IFAD)		**-**	54,449
			408,076	218,630

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

36.2 This represented expenses incurred on flood relief activities carried out in the District Narowal of Punjab province through various POs.

36.3 This includes amounts disbursed to POs in respect of Institutional Development - Social Mobilization, infrastructure schemes, education interventions, endowment funds and interest-free loan schemes amounting to Rs. 145,036 thousand, 78,252 thousand, 68,437 thousand, 62,000 thousand and 43,187 thousand, respectively.

		Note	2016	2015
37	**MOVEMENT IN RESERVE FOR GRANT BASED ACTIVITIES**		---------- Rupees '000	----------
	Income earned during the period on grant fund investments	29	**569,461**	614,431
	Less: expenditure on project and relief activities	36	**(408,076)**	(218,630)
			161,385	395,801
38	**REMUNERATION OF CHIEF EXECUTIVE OFFICER**			
	Managerial remuneration		**20,430**	20,430
	House rent allowance		**5,100**	5,100
	Contribution to staff Provident Fund		**1,857**	1,857
			27,387	27,387
	Number of persons		**1**	1

38.1 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.

38.2 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.

39 TRANSACTIONS WITH RELATED PARTIES

The related parties of the Company comprise the Government of Pakistan, Employees Gratuity Fund, Employees Provident Fund, directors and key management personnel. Transactions with related parties and amounts due from/(to) related parties are disclosed in the relevant notes 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.

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40 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

40.1 Financial assets and liabilities

	2016			2015		
	Held to maturity investments	Loans and receivables	Total	Held to maturity investments	Loans and receivables	Total
	Rupees '000					
Financial Assets:						
Maturity upto one year:						
Current maturity of long-term investments	300,000	-	300,000	286,400	-	286,400
Current maturity of loans to Partner Organizations	-	12,037,609	12,037,609	-	11,467,824	11,467,824
Short-term investments	11,227,080	-	11,227,080	11,064,519	-	11,064,519
Loans to employees	-	806	806	-	2,534	2,534
Other receivables	-	48,484	48,484	-	13,532	13,532
Profit/service charges receivable	-	702,606	702,606	-	1,177,959	1,177,959
Bank balances - specific to projects	-	898,004	898,004	-	3,291,088	3,291,088
Cash and bank balances	-	286,287	286,287	-	114,031	114,031
Maturity after one year:						
Long-term deposits	-	7,425	7,425	-	4,228	4,228
Long-term investments	2,657,798	-	2,657,798	2,953,037	-	2,953,037
Long-term loans to Partner Organizations	-	1,735,675	1,735,675	-	1,528,948	1,528,948
	14,184,878	15,716,896	29,901,774	14,303,956	17,600,144	31,904,100

Financial Liabilities:		2016 Other financial liabilities	2016 Total		2015 Other financial liabilities	2015 Total
		Rupees '000			Rupees '000	
Maturities upto one year						
Deferred liabilities - grant fund	-	910,939	910,939		3,155,221	3,155,221
Current portion of long-term financing	-	856,307	856,307		791,181	791,181
Service and commitment charges payable	-	25,489	25,489		27,182	27,182
Trade and other payables	-	58,931	58,931		28,996	28,996
Maturity after one year but before five years						
Long-term financing	-	4,939,300	4,939,300		5,043,274	5,043,274
Maturity after five years						
Long-term financing	-	8,508,731	8,508,731		9,192,593	9,192,593
	-	15,299,697	15,299,697	-	18,238,447	18,238,447
Off balance sheet items:						
Commitments	-	3,597,053	3,597,053	-	11,502,809	11,502,809

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41 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	2016	2015
			Rupees '000	
Investments				
Counterparties with external credit rating				
	PACRA	A1+	**6,796,000**	5,527,973
	JCR-VIS	A-1+	**2,815,880**	2,393,999
	PACRA	A1	-	280,000
	JCR-VIS	A-1	**1,365,200**	320,000
	JCR-VIS	A-2	**250,000**	250,000
Securities issued/supported by Government of Pakistan			**2,957,798**	5,531,984
			14,184,878	14,303,956
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	**1,176,465**	188,828
	JCR-VIS	A-1+	**7,486**	3,216,072
	JCR-VIS	A-1	**309**	-
	JCR-VIS	A-2	**11**	150
Balance with National Saving Centre			**11**	11
			1,184,282	3,405,061
Loans to Partner Organizations				
Counterparties with external credit rating				
	JCR-VIS	A-2	**150,000**	142,500
	JCR-VIS	A-1	**980,000**	494,000
Counterparties without external credit rating -Counterparties with no default in the past			**12,643,284**	12,360,272
			13,773,284	12,996,772
Profit/service charges receivable				
Counterparties with external credit rating				
	PACRA	A1+	**117,302**	172,413
	JCR-VIS	A-1+	**6,338**	98,352
	PACRA	A1	-	1,312
	JCR-VIS	A-1	**45,005**	31,145
	JCR-VIS	A-2	**36,651**	17,778
Securities issued/supported by Government of Pakistan			**154,689**	341,899
Counterparties without external credit rating Counterparties with no defaults in the past.			**342,621**	515,060
			702,606	1,177,959

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41.1 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 donor 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 14,716,386 thousand (2015: Rs 13,912,719 thousand) (including loans to five major POs of Rs. 8,334,507 thousand) (2015: loans to five major POs of Rs. 7,299,601 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 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 40.1.

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 28,252,192 (2015: Rs 27,441,473) thousand and financial liabilities include balances of Rs 14,304,338 (2015: Rs 15,027,048) 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 139,479 (2015: Rs 124,144) 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.

41.2 Off-setting financial assets and liabilities

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

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41.3 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.

42 CONTRIBUTORY PROVIDENT FUND

Details of Employees' Provident Fund are as follows:

	2016	2015
	Rupees '000	
a) Size of the fund:		
Net assets	**130,843**	106,309
Total assets	**133,419**	110,080
Cost of investments made	**95,986**	89,518
Percentage of investments made to total assets	**72%**	81%
Fair value of investments made	**95,986**	89,518

b) Breakup of investments - Fair value	2016 Rupees '000	2016 %	2015 Rupees '000	2015 %
National Saving Scheme	**40,000**	**30%**	85,921	78%
Pakistan Investment Bonds	**40,148**	**30%**	-	0%
Balance with banks	**15,838**	**12%**	3,597	3%
	95,986	**72%**	89,518	81%

c) All the investments out of provident fund have been made in accordance with the provisions of section 227 of the Companies Ordinance, 1984 and the rules formulated for the purpose. The above figures are un-audited.

43 CASH AND CASH EQUIVALENTS	Note	2016	2015
		Rupees '000	
Short-term investments	16	**3,538,080**	-
Bank balances-specific to projects	18	**898,004**	3,291,088
Cash and bank balances	19	**286,287**	114,031
		4,722,371	3,405,119

44 NUMBER OF EMPLOYEES	2016	2015
Number of employees	**208**	217
Average number of employees during the year	**210**	222

45 CORRESPONDING FIGURES

Corresponding figures have been re-arranged and reclassified, wherever necessary, for more appropriate presentation of transactions and events for the purpose of comparisons. Significant reclassification is as follows:

From	To	2015 Rupees '000
Advances, deposits, prepayments and other receivables	Loans and advances	**21,459**
	Short-term prepayments	**47,250**
	Tax refunds due from the Government	**225,899**
	Other receivables	**13,532**
	Long-term deposits and prepayments	**4,228**
Trade and other payables	Long-term investments	**17,202**

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As the impact of the above mentioned reclassifications is not material, a balance sheet as at the beginning of the preceding period (i.e. 01 July, 2014) is not presented.

46 GENERAL

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

47 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Company on 27 SEP 2016

DIRECTOR

CHIEF EXECUTIVE OFFICER