

DIRECTORS' REPORT

& Audited Financial Statements

For the year ended June 30, 2015



Pakistan Poverty Alleviation Fund





AUDITED FINANCIAL STATEMENTS



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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 fifteenth Annual Report along with audited financial statements of the Company for the year ended June 30, 2015.

Pakistan's economy during the period 2014-15, grew at a steady pace, reaping its benefits in both economic and political spheres. Pakistan as an emerging economy has the potential of contributing to global economic growth. Declining inflation, relatively better growth in private sector and robust payments helped propel consumer spending. The launch of Pak-China Economic Corridor has become another major milestone, encouraging the major trading partners of Pakistan to grow with better outlook, which will provide an opportunity to uplift socio-economic condition of the common man.

Pakistan has shown gradual progress on various development facets in the past years. However it is necessary to systematically identify, prioritize and address bottlenecks in the development sector to realize the goals and targets specifically aimed at providing income generating opportunities to the poor in the socio-economic context of the country. Recurring issues on population and problems with demographic transition, natural resource degradation, and governance appear to be more pressing now than ever before. Natural disasters, being another spiral into human catastrophes, entrench the poverty that already exists and pull more people down into poverty, together with their means to generate income. The risk of impoverishment is linked to lack of access to the markets, capital, assets and insurance mechanisms that can help people to cope and to rebuild. This combination of exposure to climate vulnerability and limited access to social safety nets is a serious risk factor which is more widespread in a remote rural area. Growing inequalities weakens social cohesion and contributes to exacerbating conflicts within the Country.

One-third of Pakistani households are facing poverty, with uneven distribution among provinces and rural and urban populations, on less than \$1.25 a day. Challenges to poverty reduction are increasingly diversified across regions, and solutions are needed to take on multi-sectoral approaches. Disaster risk management has become a key component of poverty reduction efforts, focusing on protecting livelihoods as well as saving lives. Unless we are better prepared to face droughts and floods, extreme poverty cannot be eliminated. These development challenges require an ambitious, strategic focus to spur high economic growth, which is inclusive and environmentally sustainable, across the country.

2014-15 was a year PPAF dedicated to building and consolidating partnerships at all levels in order to deepen and broaden its outreach. PPAF's agenda and clear policies reflect its commitment towards its prime goal of poverty reduction entrenched within its overall development strategy. PPAF worked to expand economic opportunities for the poor and of the marginalized, and to encourage the entrepreneurial spirit of women. PPAF provided support for lending and linked services through social assistance, and infrastructure programs. Given the size of the challenges and limited resources, PPAF ensured institutional effectiveness and operational efficiency to better respond to the needs and voices of all stakeholders. Three strategic

approaches: inclusion, sustainable growth and regional integration remained the focal point of PPAF's overall operations. PPAF interventions are having a positive impact on the lives of the poor. PPAF remained proactive and responsive, striving for even greater achievements in poverty reduction. PPAF's multi facet, cost effectual structure safeguarded the faith and buoyancy of all stakeholders, including the Government of Pakistan, international bilateral and multilateral donor agencies, private and corporate sector institutions, Partner Organizations (POs) along with the deprived groups of communities.

PPAF was at the forefront to provide relief and rehabilitation support for people affected by the natural calamities across the country. PPAF facilitated the return of 900 Masuri Bugti families from District Rajanpur, where they remained marginalized and neglected for so many years, to their homes in Dera Bugti, Balochistan in April 2015. PPAF recognizes that any serious attempt about eradicating poverty must put disaster risk management at the heart of all interventions. Without this, the target of ending poverty may not be within reach. PPAF also emphasizes on comprehensive social safety nets framework to protect the poor and vulnerable, the focus on the rural economy, water resource availability and health and social services.

Progress Review:

During the year PPAF managed steady progress in terms of its operations. Total portfolio managed during the year was Rs 24,666 million as against Rs. 23,819 million in FY 2013-14, an increase of 4%.

Components	Rupees in millions		Variance (%)
	2015	2014	
Loan portfolio			
<i>Loan outstanding</i>	13,913	13,985	(1)
<i>Indirect placement</i>	3,600	3,820	(6)
Sub-total	17,513	17,805	(2)
Grants			
<i>Water & Infrastructure</i>	1,798	1,257	43
<i>Livelihood Enhancement & Protection</i>	2,335	2,429	(4)
<i>Health & Education</i>	234	522	(55)
<i>Institutional Development</i>	928	1,140	(19)
<i>Prime Minister's Interest Free Loan Scheme</i>	1,626	-	-
<i>Project activities</i>	232	666	(65)
Sub-total	7,153	6,014	19
Grand Total	24,666	23,819	4

Loan portfolio decreased by 2% to Rs. 17,513 million (FY 2013-14 – Rs. 17,805 million). This included Rs. 13,913 million as loan outstanding with POs (direct exposure) and Rs 3,600 million placed with bank as guarantee facility to facilitate lending (indirect exposure). All the available funds for lending were fully deployed.

Disbursements for grant based interventions during the year were Rs. 7,153 million as against Rs. 6,014 million last year, an increase of 19%. Disbursements for water and

infrastructure components increased by 43% to Rs 1,798 million (FY 2013-14 - Rs 1,257 million). The amount available under PPAF III project was utilized for integrated programming i.e. linking productive physical infrastructure for social-economic activities. Infrastructure was provided around livelihood areas including agriculture, productive platforms, rural connectivity, digital hubs, tourism etc. Moreover, renewable energy projects were initiated in off-grid areas. In addition, interventions and initiatives were taken to revitalize the dysfunctional schemes.

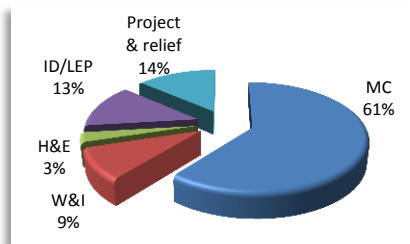
Disbursements for livelihood component showed a reduction of 4% and were Rs 2,335 million (FY 2013-14 – Rs. 2,429 million). Livelihood interventions focused on assets transfers, enterprise trainings, one stop shops that offer multiple facilities (Youth Centers, Loan Centers and Nokari Ya Karobar Centers) to cater to the needs of different sectors of the deprived communities.

Disbursements for health and education component declined by 55% to Rs. 234 million (FY 2013-14 – Rs. 522 million). PPAF, in line with its strategy, started handing over the education facilities to Government and communities. This has resulted in reduction PPAF supported facilities and related financing during the year. PPAF is now focusing on capacity building of local communities for ensuring sustainability of health and education initiatives.

Social mobilization disbursements were Rs. 928 million (FY 2013-14 – Rs. 1,140 million), reduction of 19% from last year. PPAF reached its scale in formation of community organizations last year. The available funding was used to consolidate the existing and previous portfolio focusing on building capacities of institutions for managing their own development, access to services through improved linkages with the local government, other development programs and private sector for sustainable service delivery after closure of PPAF III project.

During the year PPAF initiated the Prime Minister’s Interest Free Loan Scheme and disbursed Rs. 1,626 million. In addition to core operations, Rs 219 million (FY 2014 – Rs 666 million) were spent on projects and relief activities being carried out in flood and earthquake affected areas. [fig. 1]

Figure 2
Share of funds disbursed



Cumulative disbursements since inception to June 30, 2015, stood at Rs 162,878 million 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, 2015, 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, 2015

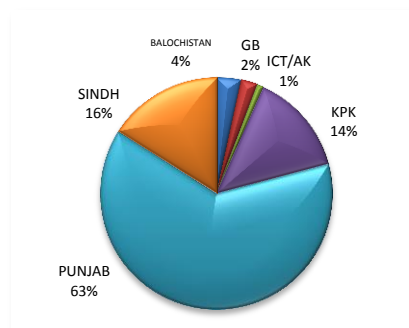


Figure 4 - Provincial distribution of Microcredit funds

Province	Microcredit	
	2014-15	Cumulative
BALOCHISTAN	0%	1%
GB	7%	1%
ICT/AK	0%	0%
KPK	7%	4%
PUNJAB	66%	77%
SINDH	20%	17%
TOTAL	100%	100%

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-

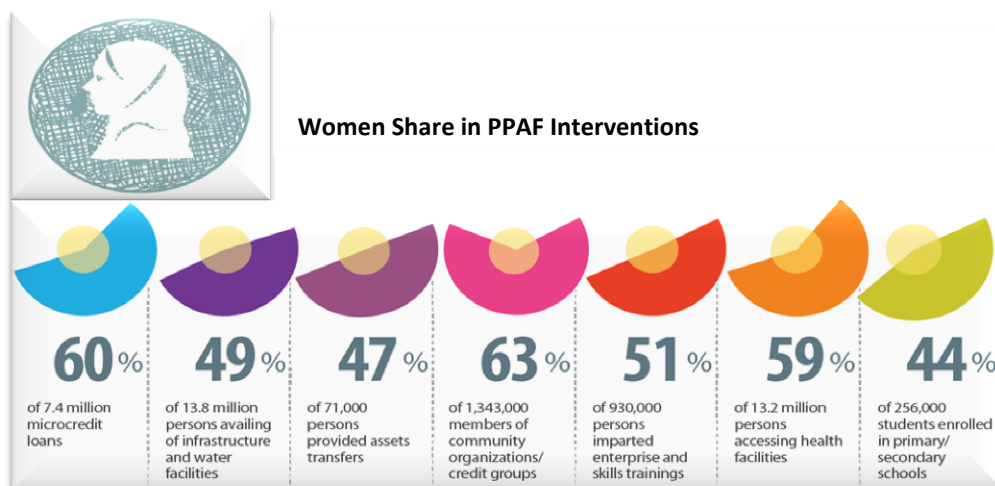
agricultural business. Accordingly, microcredit funding during the year concentrated primarily in Punjab with 66% of the total share followed by Sindh 20%, KPK 7% and GB 7%. [Fig 4].

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. 19% of the funds were allocated in KPK, 46% in Punjab, 11% in Balochistan, 20% in Sindh and 5% in GB/ICT. In the aftermath of 2005 earthquake, PPAF was involved in rehabilitation and reconstruction work in KPK and AJK on a massive scale which was reflected in the cumulative allocations. Due to this intervention there was variation in annual and cumulative allocation of funds.

Figure 5 - Provincial distribution of Grant funds

Row Labels	Grant	
	2014-15	Cumulative
BALUCHISTAN	11%	7%
GB	3%	4%
ICT/AK	2%	2%
KPK	19%	31%
PUNJAB	46%	41%
SINDH	20%	14%
TOTAL	100%	100%

By the end of June 2015, PPAF had expanded its partnership with 137 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 7.8 million microcredit loans, of which 4.8 million (61%) were to women with 80% of the financing extended in rural areas, completed over 35,000 health, education, water and infrastructure projects, transferred 82,000 assets to poor and organized over 17,000 training events for 986,000 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.

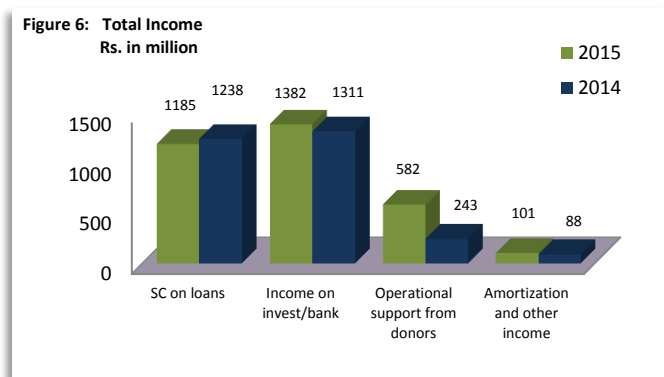


PPAF has extended its outreach in almost every district of the country. PPAF continued to work with its partners in both the private and public sector to help stimulate the strong links needed to reduce poverty and shared prosperity. During the year efforts continued to improve gender

equality in all PPAF projects by incorporating elements for gender balance. These included a high number of projects in education and skills development, agriculture and rural infrastructure.

Operational and Financial Highlights

PPAF, as a non-profit institution, capitalized on profits to earn sufficient revenue to run its financial and development activities smoothly.



Total income earned during the year increased by 13% to Rs 3,250 million (FY 2013-14 - Rs. 2,880 million). Despite reduction in KIBOR, income on investments/saving accounts increased by 5% due to increase in portfolio. Service charges on loans to POs declined by 4% due to reduction in KIBOR (to which pricing is related). During the year, grant

in support of operational expenses increased by 140% to Rs 582 million (FY 2013-14 – Rs. 243 million). The increase was due to reallocation of funds by World Bank from civil works for PPAF's office building (which remained un-utilized) to support for operational cost.

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. 100 million (FY 2013-14: Rs 74 million).

The general and administrative expenses related to the operations of PPAF decreased by 1% to Rs 586 million (FY 2013-14 – Rs 591 million) due to operational efficiency and synergies among staff. Major reduction was in travelling expenses which decreased by 13% to Rs. 70 million (FY 2013-14 – Rs 81 million). Salaries expenses for the year were Rs. 363 million against Rs. 346 million for FY 2013-14. Salaries were limited to a 5% increase as compared to 14% increase last year. Overall grant operations of PPAF were consolidated under one Group Head as against previous arrangement of two Group Heads. Also synergies were built among staff for monitoring by creation

Fig 7: Financial results are summarized as follows

	Rs. In millions	
	2015	2014
Service charges on loans to Partner Organizations	1,185	1,238
Income on investments and saving accounts	1,382	1,311
Amortization of deferred income - grant fund	582	243
Amortization of deferred benefit of below market rate of interest on long term loan	100	74
Other income	1	14
Total income	3,250	2,880
General and administrative expenses	586	591
Seminars, workshops and trainings	30	40
Technical and other studies	168	156
Loan loss provision	27	28
Impairment Loss	-	50
Financial charges	215	175
Total expenditure	1,026	1,040
SURPLUS BEFORE PROJECT AND RELIEF ACTIVITIES	2,224	1,840
Project and relief activities	219	666
Actuarial losses recognized	7	22
SURPLUS FOR THE YEAR	1,998	1,152

of provincial teams which resulted in reduced requirement of additional staff for achieving program targets. Due to this arrangement staff members who had left PPAF were not replaced. In addition most of new staff was also not hired which resulting in savings in salary bill.

Seminar, workshops and training expenses of Rs 30 million (FY 2013-14 - Rs 40 million) included Rs 19 million (FY 2013-14 - Rs 17 million) spent on trainings and Rs 11 million (FY 2013-14 - Rs 23 million) incurred on seminar and workshops. An amount of Rs 168 million (FY 2013-14 - Rs 158 million) was incurred on technical/other studies.

The loan loss provision of Rs 27 million (FY 2013-14 - Rs 28 million) was made against loans as per policy. The financial charges of Rs 215 million (FY 2013-14 - Rs 175 million) included service charges on long term loan and amortization of deferred benefit of below market interest rate on long term loan and bank charges. PPAF spent Rs 219 million (FY 2013-14 - Rs 666 million) on project and relief activities financed from PPAF own resources.

During the year Rs. 7 million was recognized as actuary adjustments as per new requirement of accounting standard for staff retirement benefit (gratuity fund). Previously such expenses were recognized over the life of the gratuity fund, however, amendment in accounting standard required immediate recognition.

Total expenditure decreased by 1% to Rs 1,027 million (FY 2014 - Rs 1,040 million). Surplus before project and relief activities and actuarial losses was Rs 2,250 million as against 1,845 million in FY 2013-14, indicating an increase of 22%. Net surplus for the year increased by 73% to Rs 1,998 million (FY 2013-14 – Rs 1.152 million).

Financing Agreements signed with the Government of Pakistan (GoP) required repayment of loan amounts along with service and commitments charges from PPAF on the stipulated rates each year. PPAF was current in all its repayments to GoP. During the year, Rs. 654 million (FY 2013-14 - Rs. 615.51 million) was repaid on account of principal amount of loan and Rs 114 million (FY 2013-14 - Rs 101.46 million) as service/commitment charges to the GoP.

Considering the increasing need for sustainable grant based operations in the absence of external financing, the Board of Directors has approved the 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, 2015 the reserve increased by 19% to Rs 6,706 million (FY 2013-14 - Rs 5,659 million).

Total equity and reserves increased by 17% to Rs 14,007 million as at June 30, 2014 from Rs 12,010 million as at June 30, 2014. Total assets of the Company reached Rs. 32,285 million on June 30, 2015 against Rs 35,914 million as at June 30, 2014, a decrease of 10%. Total loan receivables were Rs 13,913 million on June 30, 2015 as against Rs 13,985 million as at June 30, 2014. The debt equity ratio improved to 50:50 (FY 2013-14 - 55:45).

The Company's cash and cash equivalents decreased by Rs 5,223 million as compared to last year. The funds were utilized mainly for programme/operational activities, making short and long term investments. At the end of the year, the Company had cash and cash equivalents of Rs

3,405 million. Detailed financial projections are prepared and regularly updated to ensure availability of funds 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 A. F. Ferguson & Co. Chartered Accountants have completed the annual audit for the year ended June 30, 2015, and have issued an unqualified audit report. The auditors will retire on the conclusion of the upcoming Annual General Meeting of the Company.

On the recommendations of Audit Committee and the Board of Directors a competitive process was followed for selection of Auditors following a criteria approved by Audit Committee. Based on competitive process, the Audit Committee recommended appointment of M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as External Auditors of the Company for the year ending June 30, 2016.

Conclusion:

Poverty has numerous facets, manifested in the form of low income, lack of access to resources, few opportunities for participation in the political process and high vulnerability to risk and shocks. Tackling poverty requires a holistic approach that promotes pro-poor economic growth, creates opportunities and choices while maintaining macroeconomic stability, improving governance, consolidating devolution to the grass roots level and protecting vulnerable segments of the society. PPAF acknowledge the need to further mainstream sustainable development at all levels, integrating economic, social and environmental aspects and recognizing their interlinkages, so as to achieve sustainable development in all its dimensions.

Acknowledgement:

The Board would like to place on record its sincere gratitude to all members in general and those who served in various committees of the Company in particular for their support, dedication and help they extended in policy formation and guiding the Company in achieving new milestones. We look forward for their enduring support in the future as well.

The Board would also like to thank the Government of Pakistan, all financing partners – the World Bank, International Fund for Agricultural Development, the Government of Italy and the Government of the Federal Republic of Germany (through KfW) as well as other civil and private partners for their continued support and their productive contribution.

The Board would also like to acknowledge the contributions made by management in strengthening the image of the Company and for their whole hearted support. The Board would

also like to take this opportunity to express its appreciation to the employees for their continuous hard work and dedication and for helping the Company in discharging its responsibilities.

Islamabad
September 21, 2015



Director

- Microcredit to be allocated to better off areas to cater to the needs of the entrepreneurial poor who have skills to earn a living but are unable to access finance due to lack of collateral and size of loans. The very poor are not to be given microcredit but grants for assets so as to facilitate them to initiate livelihoods.

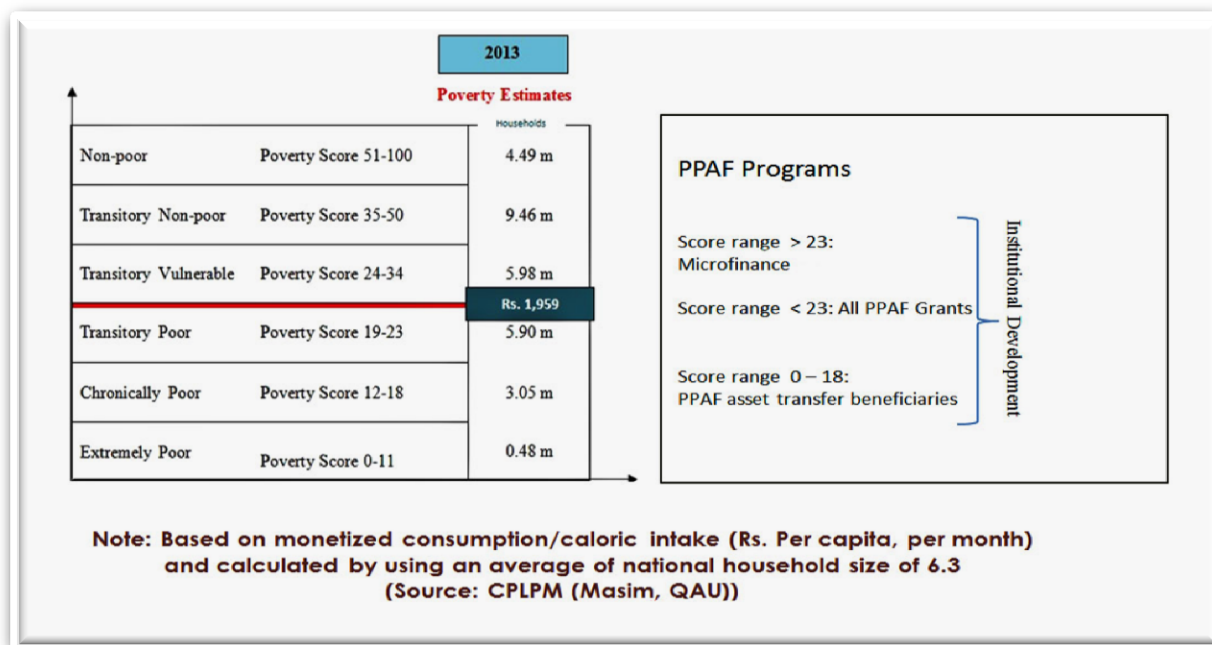
Districts marked in red and orange are highly food insecure and have low HDI ranks. PPAF grant funding can be allocated to all districts other than those shown in blue colour. All regions in the country will continue to benefit from Microfinance.

Three country-wide assessments were consulted in order to determine the development status of a district. These included (i) Trends in Regional Human Development Indices (Social Policy Development Center); (ii) Food Insecurity in Pakistan (World Food Programme) using FAO ranking; (iii) Government’s Medium Term Development Framework 2005-2010 which identified the 29 poorest districts of the country. The district prioritization policy was developed after extensive in-house consultation and was duly approved by the Board of Directors of PPAF.

III. Household Level

Proper identification of the various target groups is crucial to ensuring an inclusive approach. Poverty scorecard (PSC) developed and introduced by GoP is an effective tool to measure poverty. By ranking clients in accordance with their assets (to determine the extent of household poverty in an objective manner), it helps to target the poor and track changes in poverty. The use of the PSC has improved the service delivery mechanism in PPAF supported operations and caters to the differing needs of households within various bands of the PSC.

PPAF’s POs identify poor and ultra-poor using PSC data to allow for improved inclusion and standardization of targeting approaches in community level organizations. Every community level project components and interventions are proposed to be linked with the poverty scorecard results to provide comprehensive coverage to all PPAF interventions at union council and district level.



2. Programme Overview

During the year, the Government of Pakistan announced Rs. 3.5 billion Prime Minister's Interest Free Loan (PMIFL) Scheme to support productive microenterprise activities of poor, vulnerable and marginalized households, not yet tapped by the microfinance sector, so that they may engage in productive economic activities that will improve their lives and allow them to positively contribute to the economy. Based on its previous experience, PPAF was mandated by the Government of Pakistan to design, mobilize, implement and monitor the PMIFL Scheme. The POs have established loans centers at UC levels and funds are disbursed to beneficiaries as interest free loans as per predefined eligibility criteria. The community institutions are involved in different activities under this model under the supervision of POs. Eventually, the funds will be transferred to eligible Community Institutions which will continue revolving these funds on sustainable basis. Implementation progress as of June 30, 2015 is as follows:

Partner Organizations (POs)	25	
Coverage	Districts: 36	UCs: 265
Loan Applications	Total Received	Total Approved
	66,480	61,351
No. of Loan Centers/Branches established	164	
Funds Disbursed (Rs in Mill)	PPAF – PO	PO – Borrowers
	1,626	1,167
No. of Loans Disbursed to Borrowers	57,117	
	Male	Female
	20,814 (36%)	36,303 (64%)
Average Loan Size (Rs)	20,525	

The Program for Poverty Reduction (financed by GoP through Italian Government funding) became fully operationalized during the year. The 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, 2015 EUR 1.2 million were disbursed (3% of the total financing). Implementation progress as of June 30, 2015 is as follows:

Sr.	Indicators with Components	Progress till June 30, 2015
Component: Institutional Development & Social Mobilization		
1	No. of community organizations formed/revitalized	2,598
2	No. of village organizations formed	365
3	No. of local support organizations formed	17
4	Membership in community institutions (34% female)	38,897
5	Institutional Community Resource Persons (CRPs) developed (33% female)	403
6	Village Development Plans (VDPs) developed	165
7	Union Council Development Plans (UCDPs) developed	12
8	Community members trained (25% female)	279

Livelihood Support and Promotion of Small Community Infrastructure 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 KPK. The 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, 2015 EUR 20.44 million were disbursed (64% of the total financing). Implementation progress as of June 30, 2015 is as follows:

Sr.	Indicators with Components	Progress till June 30, 2015
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

The Third Poverty Alleviation Fund Project (financed by GoP through World Bank funding) involve funding of US\$ 250 million. The objective of the project is to empower the targeted poor with increased incomes through improve productive capacity and access to services to achieve sustainable livelihoods. This is being achieved by increasing organization and inclusion of poor - including women, youth, disabled and ultra-poor households - in community institutions and their enhanced participation in economic activities, skill enhancement for taking-up higher value employment, and increased income through an increased asset base, improved infrastructure and market linkages. PPAF III approach involves deepening and a more intensive intervention in the

poorest union councils while facilitating improved access to services and resources for communities in other parts of Pakistan.

PPAF has achieved most of the targets set under the original plan and is on track to complete the project by September 30, 2015. As of June 30, 2015 PPAF had disbursed US\$ 237.5 million i.e. 95% of the allocated funds (US\$ 250 million). The Implementation Support Mission of the World Bank which visited PPAF from May 11-21, 2015 concluded that *the project remains on track to meet its goals by project closure on 30 September 2015*. Implementation progress as of June 30, 2015 is as follows:

Indicators with Components	End Project Target	Status as of June 30, 2015	
		No.	%age of Total
Social Mobilization and Institution Building			
No. of new Community Organizations (COs) formed	25,000	53,126	213%
No./ %age of CO member households that are poor	60%	55%	92%
No. of Village Organizations (VOs) formed	3,250	5,616	173%
No. of Local Support Organizations (LSOs) formed	81	379	468%
Livelihoods, Employment and Enterprise Development			
No. of Common Interest Groups (CIGs) formed	2,300	8,392	365%
No./%age of Households receiving productive assets	79,756	76,125	95%
No./%age of women trained in enterprise skills	160,000	150,955	94%
No./%age of female grant recipients (asset transfers)	39,878	36,293	91%
No. of individuals to whom Livelihood training has been provided	320,000	315,658	99%
No./%age of individuals receiving daily wage compensation	54,315	57,477	106%
No./ %age of CIGs establishing links with market and line departments	20%	4,171	50%
No./ %age of Loan Centres	122	116	95%
No./%age of Production Centers (PCs)	71	71	100%
No./%age of Naukri ya Karobar (NyKs)	66	77	117%
No./%age of Youth Centers (YCs)	176	196	111%
No./%age of Community Resource Persons trained	2,730	2,339	86%
Disability			
Total no. of assistive devices distributed to Persons w/ disabilities	11,500	38,555	335%
No./%age of disabled persons trained in enterprise development	2,875	2,984	104%
Micro-Credit Access			
Micro-finance penetration rate in PPAF III districts	8.8%	11.87%	135%
No./%age of new borrowers	230,000	355,760	155%
%age of loans served to women	25%	67%	268%

Basic Services and Infrastructure			
Total no./%age of infrastructure schemes completed	4,934	4,321	88%
No./%age of COs benefitting from improved infrastructure	50%	46%	92%
Total No. of school facilities constructed or renovated	336	896	267%
Total no. of children benefitting from schools	40,081	127,059	317%
Total no. of health centers constructed, renovated and/or equipped	280	504	180%
Total no. of beneficiaries from health centers	2,242,187	12,581,564	561%

The Hydropower and Renewable Energy (HRE) Project (financed by GoP through funding of KfW – Development Bank of Germany) started in the year 2013 in KPK. The overall objective of the Project is to contribute to the improvement of the general living conditions and quality of life of the poor in KPK province. The project concerns about the financing of micro/mini hydropower plants, solar lighting systems, integrated water efficient solar irrigation systems and pilot projects in renewable energy in KPK. The 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, 2015 PPAF had disbursed EUR 1.4 million (14% of total financing). Implementation progress as of June 30, 2015 is as follows:

Sr.	Indicators with Components	Progress
1	Micro Hydropower Project (MHP)	
1.1	No. of Sites Identified	07
1.2	No. of Projects Designed	06
1.4	No. of Projects Initiated	05
2	Solar Lighting Systems (SLS)	
2.1	No. of Sites Identified	100
2.2	No. of Projects designed	100
3	Pilot Project in Renewable Energy (PPRE)-Mini Grid	
3.1	No. of Projects Identified	01
3.2	No. of Projects Designed	01

3. Programming and Compliance Framework

Institutional values

In PPAF’s culture values are very deeply rooted to supplement its overall development goal. PPAF’s values are well aligned with the organization’s vision and are the foundations of the way it works.

Inclusion - a very basis of equitable development - lies in the empowerment of individuals within communities who have no voice specifically women, the elderly, disabled, widows, orphans and minority or vulnerable groups such as the ultra-poor. Within our strategy, social inclusion is a cornerstone of the way we work. PPAF is focused on targeting the poorest and most marginalized communities and groups across the country.

Good Governance - PPAF’s focus on good governance means that we are focused on ensuring that our POs and community institutions can achieve optimal levels of good governance within their systems and structures, to be able to be more effective and accountable to all their stakeholders.

Transparency, accountability and responsiveness require both vertical and horizontal channels of checks and balances, which include strong democratic institutions, and an active and informed citizenry and civil society.

Sustainability is about putting its core values at the heart of day-to-day business. PPAF takes a zero-tolerance stance on compliance violations and reinforce full integrity in every business action from every employee, as well as treat each other with respect and empathy. PPAF collaborate and do business only with partners, who share and support our values. PPAF is committed to engaging - as a company and as individuals - with pride and passion as citizens of the communities where we are present.

Programme Framework

PPAF operations are clustered in two Groups:

(i) Grants Group. The group manages portfolio of public investments including health, education, small scale water and infrastructure, disaster preparedness and management; Institutional Development and social mobilization; livelihood employment and enterprise development; Prime Ministers Interest Free Loan Scheme.

(ii) Financial Services Group manages the lending component with focus on portfolio management and sector development.

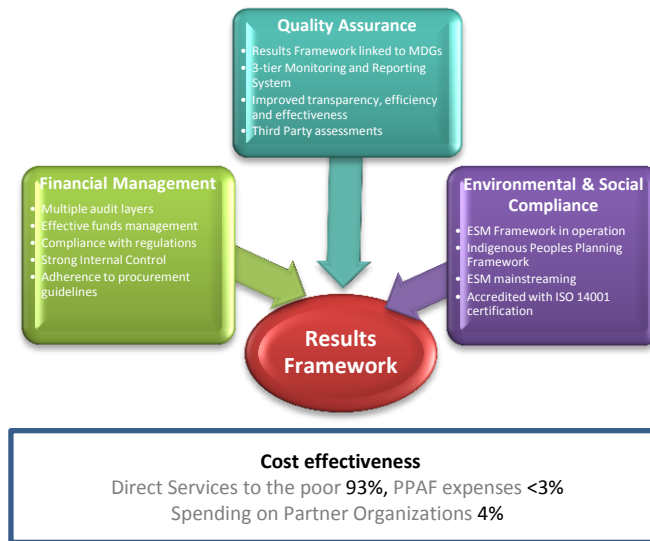


Compliance & Quality Assurance Framework

Quality Assurance

Formation of a compliance and quality assurance group strengthened and revamped monitoring, evaluation and research as well as environmental and social management functions. Quality assurance is ensured through:

- Progress against outcomes and impact, poverty targeting and institutional values which results in improved transparency, efficiency and effectiveness.
- Integrated management information system, regular monitoring and reviews/reports along-with multilayered customized functions to PPAF's requirements.
- External assessments and evaluations including impact assessments and surveys (quantitative and qualitative) to gauge contribution to MDGs and impact on poverty alleviation.
- Linkages with international and national research institutes and academia.



Financial Accountability:

PPAF constantly strives to encourage and facilitate all processes and procedures aimed at strengthening the highest level of accountability.

- Comprehensive and effective audit framework, financial audit of PPAF and POs conducted by Chartered Account firms having satisfactory quality control rating assigned by Institute of Chartered Accountant of Pakistan.
- Third party reviews/assessments, semi-annual donor supervision missions, performance audit by Auditor General of Pakistan.
- Compliance with financial and legal covenants (stipulated in donors' agreements and by laws of the institution) and adherence to procurement guidelines and practices.
- True and fair presentation and dissemination of financial and non-financial information.

Environmental and social responsibility:

PPAF is an environmentally sensitive organization and is committed to sustainable development from a social and environmental perspective. PPAF always ensures that all PPAF supported interventions remain socially acceptable and environmental friendly. In line with these objectives compliance with the PPAF Environment and Social Management Framework (ESMF) is essential for all the POs while implementing small scale infrastructure projects, and extending microfinance. Existing ESMF covers the national environmental laws and following World Bank safeguard policies for social and environmental safeguards.

4. Assessments and Ratings

Third Parties Assessments:

Since PPAF provide services to the public sector, accountability and transparency continues to be an important concern for it. PPAF therefore 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 SCAD Program (2014-15) by SEMIOTICS Consulting (Pvt.) Limited:**

In 2006, PPAF initiated the Sindh Coastal Areas Development (SCAD) Program with the funding of World Bank to carry out infrastructure interventions in 52 Union Councils of 4 coastal districts of SCAD. The objective of the assessment of the study was to evaluate the overall effectiveness and impact of the multi-sector Sindh Coastal Areas Development (SCAD) Program on the beneficiary population.

The findings of the assessment were that the SCAD program specifically contributed to the livelihood improvement and poverty reduction of the coastal communities. The impact, whether direct or indirect, had a positive effect on the community members. Community organizations had been established along with their associated village organizations and local support organizations. Thus, this paved the way for inclusive planning as individuals cited a platform to raise their voices and prioritize needs. A leading factor which helped improve livelihoods was the implementation of strategic infrastructure according to the needs of the community. The development of such infrastructure had a direct and indirect effect on individuals' livelihoods – from access to major roads, time saved on acquiring water and provision of lighting during night hours. Nevertheless, additional work needs to take place in building capacities of individuals in regard to skills and enterprise development, which is directly associated with income levels.

- **User/Beneficiary Assessment Survey –II (2014-15) by APEX Consulting Pakistan:**

The study reported that overall 91% of the respondents said they were actively involved in the community activities and social mobilization directly or indirectly. Intermediate outcome indicator of making 60% of the targeted poor household members a part of community activities/community members seems to have been achieved. The average increase in income was around Rs.4500 per month of livelihoods program beneficiaries. Under the basic services and infrastructure interventions, all beneficiaries opined that they were satisfied with the drinking water scheme. Time-saving was the main benefit of the water supply in or near the homes of beneficiaries. Another major benefit was lesser incidence of waterborne diseases in children and other members of household (76% respondents). Around 83% beneficiaries were very satisfied with sanitation facilities. A major portion of irrigation sub-project beneficiaries affirmed increase in the crop yield, especially in rupee terms. Moreover, 83% beneficiaries reported improvement in the cleanliness of household and saving in time to clean the house because of less dust from improved soling in the streets. Overall 83% of the respondents expressed satisfaction with the health facilities, which included pre-and post-

natal services, family planning services, pharmacy, vaccinations for children under one year old. Finally, a majority of respondents (93%) expressed satisfaction with the education interventions.

- The findings from the fourth outcome assessment survey of micro-credit recipients financed by the PPAF through Gallup Pakistan revealed that on the whole, 61% of borrowers experienced a positive change in their personal income. Moreover, it can be seen that 98% of the borrowers experienced significant increments in their household incomes. Overall, it was observed that the household expenditures of 95% of borrowers underwent a positive increase and 17% report improved changes in overall food consumption.
- Assessment Survey of the PPAF's Social Safety Net, Targeting Ultra Poor (SSN-TUP), by Innovation Development Strategies (IDS) reported that the beneficiaries of the program on average earn more, spent more, and were wealthier in terms of the assets they own than non-beneficiaries. Beneficiaries of the program earn Rs. 34,122 more in a year than non-beneficiaries. Furthermore, beneficiaries saw their incomes increase 178% over the period 2008-12 while non-beneficiaries saw their incomes rise by only 41% over the same period.
- Results from impact assessment survey conducted by Semiotics Consultants concluded that the PPAF's Programme for Increasing Sustainable Microfinance (PRISM) has performed well to meet its development goal of "reducing poverty, promote economic growth and improve livelihoods of rural households."
- Assessment of outcomes for Small Scale Infrastructure study analyzed the outcomes and impact of conventional infrastructure interventions in Punjab: namely irrigation, drinking-water, drainage and sanitation interventions. Findings suggest that the number of hours required for irrigating land once decreased by 20% on average; changes in yield of wheat and rice of the project areas for irrigation are much larger than those reported by Punjab Agricultural Development for the same period; drinking water access through open sources such as canals, open wells, streams and ponds decreased by 7.2% households; prevalence of major diseases such as malaria, typhoid and diarrhea amongst our treatment households saw a decrease.

Donor Ratings

The Supervision Missions of donors carry out regular visits of PPAF to review the progress of project implementation and achievements of development outcomes. The ratings of the recent supervision missions were:

World Bank - The World Bank conducted two "Implementation Supervision Missions" during the year first in November 2014 and second in May 2015, respectively. The overall Project Implementation Progress was rated "Satisfactory".

KfW – The supervision mission of KfW rated performance of Livelihood and Community Infrastructure Project and Hydro and Renewable Energy Projects as "Satisfactory" (February 2015).

Italian Corporation – The supervision missions of Italian Corporation rated performance of their Project for Poverty Reduction as "Satisfactory" (November 2014 and second in May 2015).

5. Corporate Governance

With a view to ensuring long term satisfaction of our shareholders, regulators, employees, and suppliers, PPAF have ensured transparency and good governance at the very core of its business strategies and practices.

Governance Framework

The company maintains an established control framework comprising clear structures, authority limits, and accountabilities, well understood policies and procedures and budgeting for review processes. All policies and control procedures are documented in manuals. The Board establishes corporate strategy and the Company's business objectives and the management integrates these objectives into their respective groups' business strategies with supporting financial objectives.

Best Corporate Practices:

Sound Corporate Governance is critical to our Company integrity and maintaining investors trust in the Company. 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. This is evident from the fact that PPAF has voluntarily adopted the Code of Corporate Governance which is applicable on companies listed on the stock exchange.

PPAF has committed itself to conduct its business in an honest, ethical and legal manner. The Company wants to be seen as a role model in the community by its conduct and business practices. All this depends on the Company's personnel, as they are the ones who are at the forefront of Company's affairs with the outside world.

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 quarterly and half yearly and nine monthly 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.

Corporate Governance:

PPAF corporate governance structure is based on the Company's Article of Association, statutory, regulatory and other compliance requirements applicable to companies limited by guarantee.

The Company throughout the year endured dedication to conduct its business in line with the listing regulations. Significant policies required under the Code of Corporate Governance have been framed and implemented. 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.
- Key operating and financial data of the last six (6) years in summarized form is annexed.

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 present Board comprises of twelve Members including the Chairman and the Chief Executive Officer. Of these, three were 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; and HR policies and procedures.

The 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:

<i>Sr. No.</i>	<i>Name</i>	<i>No. of meetings attended</i>	<i>No. of meetings eligible to attend</i>
1	Mr. Hussain Dawood	1	4
2	Dr. Naved Hamid	3	4
3	Mr. Amjad Mahmood	4	4
4	Dr. Rajab Ali Memon	3	4
5	Mr. Sarfaraz Ahmad Rehman	1	4
6	Dr. M. Suleman Shaikh	4	4
7	Dr. Fareeha Zafar	1	4
8	Mr. Aijaz Ahmad Qureshi	2	4
9	Mr. Omar Hamid Khan	1	2
10	Mr. Qazi Azmat Isa	4	4
11	Dr. Saba Gul Khattak	-	2
12	Dr. Zeba Ayesha Sathar	-	2
13	Mr. Zafar Nasrullah Khan	-	2

Appointment of Directors:

As per the Articles of Association of the Company, all Members of the Board, except Government nominees, are appointed for a term of three years, on completion of which they are eligible for re-election through a formal election process. However, no such Member of the Board of Directors shall serve for more than two consecutive terms of three years each except for Government nominees.

Change of Directors:

The Board places on record its appreciation for the valuable contributions made by the outgoing Directors; Mr. Zafar Nasrullah Khan, Dr. Zeba Sathar, and Dr. Saba Gul Khattak towards progress of the Company. The Board also welcomes the new Director; Mr. Omar Hamid Khan. We look forward to working in partnership with him to benefit from his vision and valued experience which we are confident will go a long way in the future growth and prosperity of the Company.

Board Committees***Board Audit Committee:***

The Audit Committee comprising of four 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 four times during the year and these meetings were held prior to the Board meetings. 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; unaudited 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 Compensation Committee comprises of four members of the Board including the Chairman who is appointed by the Board from the non-executive Directors. The Head of Human Resource Unit acts as Secretary of the Committee.

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

The Committee met twice during the year to review the HR related agendas. The Committee reviewed and recommended for Board's approval: annual increment for the employees; appointment of group head; revised HR manual, mechanism for selection of General Body and Board of Directors etc. The Chief Executive Officer and other management employees are invited to attend meetings for discussion and suggestions.

Risk Oversight Committee:

The Risk Oversight Committee comprises of four members including its Chairman who is appointed by the Board from the non-executive Directors. The head of Financial Services Group acts as Secretary of the 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.

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.

6. Human Resource (HR) Management

Our most valued resource is our competent and committed work force, powering Company's growth and contributing towards its corporate image. PPAF invests in its human capital to maintain a healthy working relationship by providing an employee friendly environment, nurturing their skills and talents.

Effectively managing our workforce leads to efficient business operations and that directly impact Company's growth and profit. Workforce has to be retained and kept motivated to sustain growth in the industry. To achieve the best from our employees we provide them environment where they can demonstrate leadership, accountability and teamwork, and through these behaviours, they contribute to the overall success of the Company.

The Company reviews the compensation and benefits of employees so that they are in line with the market not only to retain the current workforce but also to attract the competent and valued personnel. These benefits reflect Company's business success. In addition to competitive salaries, we offer our employees additional benefits as well. PPAF strives to consistently attract, hire and retain high quality talent, so that together we can combine our strengths and skills to build a successful partnership that can help us sustain our competitive edge. Our key areas of focus for the year were policy development; diversity and inclusion; talent development; automation of our HR processes.

Consequently with an enhanced focus on the above mentioned areas, PPAF worked consistently to deploy initiatives that ensured top employee performance and satisfaction. Moreover, PPAF worked on implementing a rigorous talent development framework which focused on multi-pronged areas and ensured a healthy talent pipeline that guarantees presence of well-rounded future leaders for the organization.

For PPAF nothing means more than the safety of its people. PPAF's aim is to empower employees and communities and find ways to enable them in a culture that is conducive to professional growth. PPAF endorse and practice equal opportunities and is committed to impartial treatment of all employees, irrespective of origin, race or gender.

Whistle blowing Policy

In order to ensure accountability and integrity in our conduct, we have devised a transparent and effective whistle blowing mechanism for sounding of alerts 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 & the Board and 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.

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 has 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.

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 he/she wants assistance in correcting the problem.

7. Treasury Management

Treasury operation at PPAF continues to expand, and the function is increasingly playing a more central role in corporate decision-making. 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.

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

Maintain liquidity

The portfolio is managed to provide timely funding for the company's operational and lending needs. Short and long-term cash forecasts are done on regular basis and investment duration are matched against expected cash flow requirements.

Security of capital

Protection of principal is given high priority by limiting the company's investments to Government and other high credit rated securities.

Obtain competitive rate of return

The prime consideration is the security of capital/funds and then on maximization of return.

Support to Microfinance Sector

Provide financial support to the microfinance sector by placing funds in fixed income securities and other instruments (commercial papers or term finance certificates) of microfinance banks where the risk levels are deemed justifiable.

8. Risk Management

It is PPAF's policy to view risk management as integral part to the creation, protection and enhancement of shareholder value by managing the uncertainties and risks that could possibly influence the achievement of our corporate goals and objectives. By adequately assigning responsibilities throughout the organization, risks are identified from across the organization and are ranked based on their impact and probability. The Board has an overall responsibility for the risk management process, incorporating risk management and internal control procedures.

Risks are broadly categorized between financial and nonfinancial risks. Upon identification of risks, a strategy is devised to mitigate its impact which is regularly monitored by the senior management. The Company is exposed to the risks identified in the following sections, which are subject to diverse levels of uncertainty against which the Company has implemented effective mitigating strategies as discussed below.

The strategic, commercial, operational and financial risks can emanate from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate aggressive actions from an adversary, or events of uncertain or unpredictable nature.

Business Risks and Challenges

PPAF's risk management framework focuses on identification, assessment, and prioritization of risks, followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unforeseen events, or to maximize the realization of opportunities.

At PPAF the management and the Board of Directors are cognizant of their responsibilities and ensure that the Company's risk management system properly identifies and provides timely response to the emerging risks. In the uncertain financial and economic environment, PPAF is exposed to various risks which may have potential impact on the operational and financial performance of the Company carrying out its development mandate.

Key operational and non-operational risks including strategic risks are outlined below:

1. Strategic Risks

Strategic risks are associated with operating in a particular industry and are beyond our control. It is linked to undertaking current and prospective impact on overall Company's returns arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. The challenges are growing due to increasing competition for access to opportunities and heightened political and security situations in the country. To counter the risk of the strategic failure the Company has a well devised strategy which is updated on regular intervals.

2. Operational Risks

These are risks associated with operational and administrative procedures, such as workforce turnover, supply chain disruption, IT system shutdowns, changes in Board structure or control failures. By adopting an integrated approach, PPAF ensures that all operational risk management initiatives are aligned with the corporate strategy.

1. Financial risk management

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

a) Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to loans to POs, investments and bank balances. The Company is exposed to credit related losses in the event of non-performance by POs of micro-credit loans to the extent of Rs 13,913 million (2014: Rs 13,985 million) (including loans to five major POs of Rs 7,300 million; 2014: five major POs of Rs 7,282 million). The Company controls the credit risk through credit appraisals, assessing the credit-worthiness of POs and creating charge on the assets of POs. The credit risk on investments and bank balances is limited because the counter parties are banks and Government of Pakistan.

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.

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 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 27,370 million (2014: Rs 27,312 million) and financial liabilities include balances of Rs 15,027 million (2014: Rs 15,454 million) which are subject to interest rate risk. Applicable interest rates for financial assets and financial liabilities have been indicated in respective notes.

If interest rates had been 1% higher/lower with all other variables held constant, surplus for the year would have been Rs 123 million (2014: Rs 118 million) higher/lower.

iii. Other price risk

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

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

d) 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.

2. 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.

9. Key Activities Update

PPAF has successfully implemented the first phase of the Prime Minister's Interest Free Loan Scheme (PMIFL) and has received second tranche. The program is directed towards districts with low human development indicators and food security and low or no access to activities in livelihoods, employment or enterprise development.

The International Fund for Agricultural Development (IFAD) has awarded PPAF with the prestigious Gender Award in Asia and the Pacific Region for 2014. PPAF's Program for Increasing Sustainable Microfinance (PRISM) funded by IFAD was recognized for addressing gender inequalities, empowering women and providing them visibility in the best possible manner throughout IFAD and across its network of partners in Pakistan. PPAF has invested in the formation of women-led value chains and facilitated capacity building and provision of loans to generate income streams. These value chains are geared to enable communities, especially women, to access quality financial services and to truly utilize economic opportunities leading to reduction in poverty. PPAF has also facilitated women in accessing improved income generation enterprises under PRISM.

PPAF sponsored international conference on "Pakistan's First Innovation Forum" which was organized by Pakistan Innovation Foundation (PIF). The innovation challenge identified and inspired students, professionals, entrepreneurs and citizen innovators to use their talent and creativity to help solve Pakistan's competitiveness challenges and development problems. The conference brought together leaders of the industry, business, academic and government dignitaries as well as innovators and entrepreneurs together at a platform to share and learn from one another experience.

PPAF is an environmentally and socially sensitive organization. Based on this sensitivity PPAF has developed and implemented Environmental and Social Management Framework (ESMF) since 2009. Recognizing its obligation, PPAF is continually striving for environmental protection through adoption of cleaner technologies and efficient processes. PPAF received ISO14000 certification from International Organization for Standardization (ISO) representative – Resource Inspection Canada Incorporated (RICI-Pak) – in recognition of PPAF's efforts in sustainable Environmental Management System.

PPAF actively participated in the "Second Pakistan Conference on Sanitation (PACOSAN-II)" organized by Ministry of Climate Change to review progress of sanitation and hygiene in Pakistan in the light of past experiences for formulation of roadmap towards 2025 to achieve the sanitation targets. President of Islamic Republic of Pakistan, His Excellency Mr. Mamnoon Hussain, inaugurated the conference and delivered keynote address.

PPAF celebrated International Women's Day by conferring Amtul Raqeeb Award to six recipients and exhibited artworks titled "What Makes Me Happy" by schoolchildren from PPAF-supported communities. Addressing the participants, Chief Guest Dr. Haroona Jatoi, Advisor to Ministry of Education, said, the recipients of Award serve as a guiding light for the community members.

PPAF organized 9th Citi-PPAF Microentrepreneurship Awards (CMA) ceremony to celebrate achievements of outstanding microentrepreneurs across Pakistan. The CMA program is a

signature initiative of Citi Foundation aimed at raising awareness about importance of microfinance in supporting financial inclusion and economic empowerment of the low-income individuals.

PPAF facilitated 900 Masoori Bugtis families' return to their hometown. These tribe people were temporarily settled in Rajanpur for the past four to ten years. PPAF provided quilts, water coolers, hygiene kits, tarpaulin sheets and food basket to each of the households.

In collaboration with NRSP Bahawalpur, PPAF implemented its Agri-Value Chain initiative successfully. Crop and livestock productivity enhancement training was imparted to over 10,000 farmers, which has enhanced crop productivity. Further, local farmers were facilitated to establish linkages with local fertilizer company for provision of quality fertilizer and seeds.

PPAF established 80 digital hubs in as many union councils as a step towards promotion of social enterprise to facilitate communities for providing them access to digital technology and improve rural connectivity in Punjab, Sindh, Balochistan and Khyber Pakhtunkhwa. PPAF POs identified these union councils on the basis of the need expressed by Local Support Organizations (LSOs) during consultation on Union Council Development Plans. Each digital hub is equipped with internet, laptop, projector, speakers, digital camera, android-based tablet, and printer/scanner/fax and photo copier along with UPS to cope with power breakdowns. The digital hubs are set up in the office of LSO which will hire a computer literate digital manager to provide technical services to communities.

As a step forward to the annual awards for POs announced by KfW in Feb. 2015, first ever Mashal-e-Khyber Awards Ceremony 2014 was organized on April 23, 2015 to acknowledge the best practices in project implementation under various program components, for the year 2014 under LACIP. These awards were also intended to appreciate hard work of the POs and to encourage them to put their best foot forward and work competitively to eradicate poverty in their targeted areas. The award ceremony was attended by KfW officials, PPAF senior management, representatives from POs and award nominees. Social Action Bureau for Assistance in Welfare and Organizational Networking (SABAWON), Rural Development Project (RDP) and National Rural Support Programme (NRSP) won the first, second and third prizes respectively.

10. Future Outlook

Poverty reduction is an overarching and encompassing objective of PPAF. The Company assigns very high priority and commitment to reduce poverty by articulating holistic policies and developing synergies across sectors. PPAF promotes policies and programmes that reduce poverty by satisfying unmet basic needs of the poor in terms of shelter, health and education through a participatory process that empowers the poor. PPAF's pro-poor economic policies aim to increase the economic returns for the poor segments of the society. It subsumes achievability of Vision 2020 and Millennium Development Goals (MDG) targets, further underpinning economic and pro-poor policy not only to sustain but accelerate the ongoing growth momentum within a stable macroeconomic environment.

At the heart of our strategy is an understanding that investments in women reduce poverty and promote global stability. PPAF aims at establishing a just and sustainable economic system for reducing poverty and achieving MDGs. In its ongoing dedication to overcoming poverty and creating opportunity for people in destitute areas, PPAF is making progress both internally and in the field, and continues to improve the way it serves its clientele. The impact of such growth on the poor regions within the country has been profound. Moreover, PPAF remained asserted and aligned to achieve the MDGs, and is now working with its national partners to prepare to adopt Sustainable Development Goals (SDGs). PPAF has to systematically focus first on climate change happening, then on SDGs and then on financing. Getting the sequencing of events right and ensuring that all three of them are aligned correctly with one another will make sustainable development much more likely to be achieved in short span of time.

PPAF is preparing to help integrate the SDGs into national development planning, and providing support for measuring progress toward the new goals, both locally and globally. The new global (SDGs) will guide policy and funding for the next 15 years, beginning with a historic pledge to end poverty. Working towards a new sustainable development framework and achieving the SDGs require new ways of working PPAF itself will transform to meet these challenges in years to come.

PAKISTAN POVERTY ALLEVIATION FUND
FINANCIAL HIGHLIGHTS

	2015	2014	2013	2012	2011	2010
Outreach - Numbers (Cumulative)						
Partner Organizations	137	130	127	116	100	87
Districts	129	129	129	129	128	127
Loans ('000')		6,717	5,900	5,167	5,000	3,600
Water & Infrastructure Projects		32,581	28,528	26,933	25,500	21,000
Funds deployment - Rs. in million						
Microcredit						
Loans receivable from POs (Gross)	13,913	13,985	13,300	13,434	11,755	11,202
Guarantee facility	3,600	3,820	3,265	1,845	1,445	600
	17,513	17,805	16,565	15,279	13,200	11,802
Grant						
Core Operations	6,934	5,349	6,079	6,437	4,580	4,798
Relief & Reconstruction Operations	219	666	108	202	208	9
	7,153	6,015	6,187	6,639	4,788	4,807
Total funds deployment	24,666	23,820	22,752	21,918	17,988	16,609
Balance Sheet - Rs. in million						
Total assets	32,285	35,914	31,656	27,090	24,565	23,629
Endowment Fund	1,000	1,000	1,000	1,000	1,000	1,000
Reserves						
Capital adequacy reserve	2,087	2,098	1,995	2,015	2,351	2,240
Grant fund	6,706	5,659	4,853	3,804	2,572	1,763
Reserve for lending activities	3,236	2,671	2,256	1,686	1,385	950
Income on grant fund	978	582	754	400	222	161
	13,007	11,010	9,858	7,905	6,530	5,114
Total equity (endowment + reserves)	14,007	12,010	10,858	8,905	7,530	6,114
Long term loans	14,236	14,801	15,003	15,355	13,761	12,246
Operational Results - Rs. in million						
Total income	3,250	2,880	2,896	2,794	2,485	2,070
General and admin expenses	586	591	509	435	349	358
Surplus before loan loss prov. and relief work	2,250	1,845	2,094	2,070	1,444	1,404
Net Surplus	1,998	1,152	1,953	1,375	1,416	1,329
Financial Ratios - Percentage						
Surplus before provisions & relief/total income	69%	64%	72%	74%	58%	68%
Return on equity (Surplus before provision and relief work to Equity)	17%	16%	21%	25%	21%	#REF!
Return on assets (Surplus before provision and relief work to Assets)	7%	5%	7%	8%	6%	#REF!
General and admin expenses/funds deployed	2.38%	2.48%	2.24%	1.98%	1.94%	2.16%
Debt/equity	50:50	55:45	58 : 42	63 : 37	65 : 35	67 : 33

PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2015**



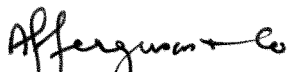
AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Poverty Alleviation Fund (the Company) as at June 30, 2015 and the related statement of comprehensive income, cash flow statement and statement of changes in fund and reserves together with the notes forming part thereof for the year then ended, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and statement of comprehensive income together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, statement of comprehensive income, cash flow statement and statement of changes in fund and reserves together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2015 and of the total comprehensive income, its cash flows and changes in fund and reserves for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).


Chartered Accountants

Islamabad

Date: September 21, 2015

Engagement partner: Asim Masood Iqbal

*A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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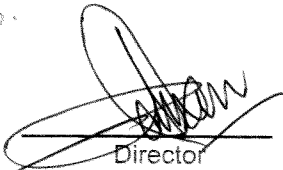
*Karachi: State Life Building No. 1-C, I. I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan; Tel: +92 (21) 32426682-5/32426711-5; Fax: +92 (21) 32415007
Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Lahore-54660, Pakistan; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872
Kabul: Apartment No 3, 3rd Floor, Doost Tower, Haji Yaqub Square, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320*

**PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET AS AT JUNE 30, 2015**

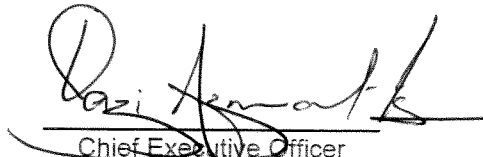
	Note	2015	2014
		(Rupees in '000)	
NON CURRENT ASSETS			
Property, plant and equipment	5	62,441	75,802
Intangible assets	6	4,316	8,283
Long term investments	7	2,975,000	1,586,400
Long term loans to Partner Organizations	8	<u>1,528,948</u>	<u>1,919,650</u>
		4,570,705	3,590,135
CURRENT ASSETS			
Current maturity of long term investments	7	286,400	-
Current maturity of loans to Partner Organizations	8	11,467,824	11,169,061
Short term investments	9	11,064,519	11,380,705
Advances, deposits, prepayments and other receivables	10	312,368	251,152
Profit/service charges receivable	11	1,177,959	895,193
Bank balances - specific to projects	12	3,291,088	8,446,212
Cash and bank balances	13	114,031	181,942
		27,714,189	32,324,265
		<u>32,284,894</u>	<u>35,914,400</u>
FUND AND RESERVES			
Endowment fund	14	1,000,000	1,000,000
Grant fund		6,706,090	5,659,138
Reserve for grant based activities		978,017	582,216
Accumulated surplus		<u>5,323,306</u>	<u>4,768,466</u>
		14,007,413	12,009,820
LONG TERM LOANS			
	15	12,143,998	12,726,964
DEFERRED BENEFIT OF BELOW MARKET RATE OF INTEREST ON LONG TERM LOAN			
	15.5.1	2,091,869	2,073,650
CURRENT LIABILITIES			
Deferred liabilities - grant fund	16	3,155,221	8,304,497
Deferred income - grant fund	17	6,601	8,474
Current portion of long term loans	15	791,181	653,734
Service charges payable	18	27,182	28,355
Accrued and other liabilities	19	61,429	108,906
		4,041,614	9,103,966
CONTINGENCIES AND COMMITMENTS			
	21		
		<u>32,284,894</u>	<u>35,914,400</u>

The annexed notes 1 to 37 form an integral part of these financial statements.

Affix



Director



Chief Executive Officer

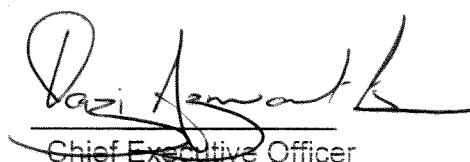
**PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		(Rupees in '000)	
INCOME			
Service charges on loans to Partner Organizations	22	1,184,374	1,238,493
Income on investments and saving accounts	23	1,382,108	1,311,422
Amortization of deferred income - grant fund	17	582,315	242,921
Amortization of deferred benefit of below market rate of interest on long term loan	15.5.1	99,697	73,860
Other income	24	1,263	13,462
		<u>3,249,757</u>	<u>2,880,158</u>
EXPENDITURE			
General and administrative expenses	25	586,759	590,818
Seminars, workshops and trainings	26	29,819	40,317
Technical and other studies	27	168,026	155,845
Project and relief activities	28	218,630	666,025
Provision against loans/service charges	29	26,648	27,524
Provision for impairment loss on short term investments	9.1	-	50,000
Financial charges	30	215,414	175,122
		<u>1,245,296</u>	<u>1,705,651</u>
SURPLUS FOR THE YEAR		2,004,461	1,174,507
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Items that will not be reclassified to surplus			
Remeasurement loss on employees' retirement defined benefit plan	20	6,868	22,930
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>1,997,593</u></u>	<u><u>1,151,577</u></u>

The annexed notes 1 to 37 form an integral part of these financial statements.

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Director


Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2015

Note	2015	2014
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year	2,004,461	1,174,507
Adjustment for non cash items:		
Depreciation	29,577	30,552
Amortization of intangible assets	4,089	3,860
Amortization of deferred income - grant fund	(582,315)	(242,921)
Amortization of deferred benefit of below market rate of interest on long term loan	(99,697)	(73,860)
Adjustment on closure of project - IFAD PRISM	54,449	-
Provision against loans/service charges	26,648	27,524
Provision for impairment loss on short term investments	-	50,000
Gain on disposal of property, plant and equipment	(786)	(12,981)
Remeasurement loss on employees' retirement defined benefit plan	(6,868)	(22,930)
Financial charges	215,414	175,122
	<u>(359,489)</u>	<u>(65,634)</u>
	1,644,972	1,108,873
Working capital changes		
Increase in current assets:		
Advances, deposits, prepayments and other receivables	(61,216)	(167,399)
Profit/service charges receivable	(289,817)	(46,759)
(Decrease)/ increase in current liabilities:		
Accrued and other liabilities	(47,477)	21,562
	<u>(398,510)</u>	<u>(192,596)</u>
Cash generated from operations	1,246,462	916,277
Disbursements to Partner Organizations:		
Loans	(9,444,989)	(9,199,685)
Grants	(6,934,141)	(5,348,685)
Recoveries of loans from Partner Organizations	9,517,331	8,514,555
Financial charges paid	(116,890)	(101,562)
	<u>(6,978,689)</u>	<u>(6,135,377)</u>
Cash flows from operating activities	(5,732,227)	(5,219,100)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments - net purchases	(1,358,814)	(100,710)
Capital expenditure incurred	(20,102)	(34,517)
Proceeds from disposal of property, plant and equipment	4,550	15,195
Cash flows from investing activities	(1,374,366)	(120,032)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term loans - received	171,985	451,018
Long term loans - repaid	(653,734)	(615,507)
Deferred liabilities - grant fund receipts	1,831,350	8,995,559
Deferred liabilities - grant fund repaid to donor	(300)	(399,740)
Deferred income - grant fund receipts	534,257	245,539
Cash flows from financing activities	<u>1,883,558</u>	<u>8,676,869</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,223,035)	3,337,737
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	8,628,154	5,290,417
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>3,405,119</u></u>	<u><u>8,628,154</u></u>
Cash and cash equivalents comprise of:		
Bank balances - specific to projects	12 3,291,088	8,446,212
Cash and bank balances	13 114,031	181,942
	<u><u>3,405,119</u></u>	<u><u>8,628,154</u></u>

The annexed notes 1 to 37 form an integral part of these financial statements.


Director


Chief Executive Officer

**PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF CHANGES IN FUND AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2015**

Note	Endowment fund	Grant fund	Reserve for grant based activities	Accumulated surplus	Total	
----- (Rupees in '000) -----						
Balance as at July 1, 2013	1,000,000	4,853,675	754,136	4,250,432	10,858,243	
Total comprehensive income for the year						
Surplus for the year	-	-	-	1,174,507	1,174,507	
Other comprehensive income / (loss)	-	-	-	(22,930)	(22,930)	
	-	-	-	1,151,577	1,151,577	
Transfer from accumulated surplus to grant fund	4.5	-	805,463	-	(805,463)	-
Transfer to accumulated surplus from reserve for grant based activities	31	-	-	(171,920)	171,920	-
Balance as at June 30, 2014	<u>1,000,000</u>	<u>5,659,138</u>	<u>582,216</u>	<u>4,768,466</u>	<u>12,009,820</u>	
Total comprehensive income for the year						
Surplus for the year	-	-	-	2,004,461	2,004,461	
Other comprehensive income/(loss)	-	-	-	(6,868)	(6,868)	
	-	-	-	1,997,593	1,997,593	
Transfer from accumulated surplus to grant fund	4.5	-	1,046,952	-	(1,046,952)	-
Transfer from accumulated surplus to reserve for grant based activities	31	-	-	395,801	(395,801)	-
Balance as at June 30, 2015	<u>1,000,000</u>	<u>6,706,090</u>	<u>978,017</u>	<u>5,323,306</u>	<u>14,007,413</u>	

The annexed notes 1 to 37 form an integral part of these financial statements.

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Director


Chief Executive Officer

**PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

1. STATUS, BACKGROUND AND NATURE OF OPERATIONS

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

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

During the year ended June 30, 2014, the Board of Directors (BoD) of the Company approved creation of a new entity for microfinance and authorized the Chief Executive Officer to take necessary steps in this respect. The management of the Company is working out the legal and operational modalities in consultation with other stakeholders of the Company. The process for formation of new entity will be completed on getting the specific approvals of the BoD, General Body of the Company, Ministry of Finance and Securities and Exchange Commission of Pakistan.

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. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

	Effective date (annual periods beginning on or after)
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (Amendments)	July 1, 2016
IFRS 7 Financial Instruments: Disclosures (Amendments)	July 1, 2016
IFRS 10 Consolidated Financial Statements	January 1, 2015
IFRS 11 Joint Arrangements	January 1, 2015
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2015
IFRS 13 Fair Value Measurement	January 1, 2015
IFRS 14 Regulatory Deferral Accounts	January 1, 2016
IFRS 15 Revenue from Contracts with Customers	January 1, 2017
IAS 1 Presentation of Financial Statements (Amendments)	January 1, 2016
IAS 16 Property, Plant and Equipment (Amendments)	January 1, 2016
IAS 19 Employee Benefits (Amendments)	January 1, 2016
IAS 27 Separate Financial Statements (Amendments)	January 1, 2015
IAS 28 Investment in Associates and Joint Ventures (Amendments)	January 1, 2015
IAS 34 Interim Financial Reporting (Amendments)	January 1, 2016
IAS 38 Intangible Assets (Amendments)	January 1, 2016
IAS 41 Agriculture (Amendments)	January 1, 2016

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The management anticipates that the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the financial statements other than in presentation/disclosures.

Further, the following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan, for the purpose of their applicability in Pakistan:

IFRS 1	First-time adoption of International Financial Reporting standards
IFRS 9	Financial instruments

The following interpretations issued by the IASB have been waived off by SECP:

IFRIC 4	Determining whether an arrangement contains lease
IFRIC 12	Service concession arrangements

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 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 actuarial valuation and fair value of deferred benefit of below market rate of interest on long term loan.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 areas involving a higher degree of judgment or complexity or area where assumptions and estimates are significant to the financial statements are loan loss provision (note 8), deferred benefit of below market rate of interest on long term loans (note 15.5.1) and staff gratuity scheme (note 20).

4.2 Employee benefits

The Company operates the following staff retirement benefits plans:

- (i) The Company operates approved defined benefit gratuity fund for all eligible employees who complete the qualifying period of service. The fund is administered by trustees. Annual contribution to the gratuity fund is based on Actuarial valuation using projected unit credit method. The amounts arising out of remeasurements 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 June 30, 2015, related details of which are given in note 20 to the financial statements.
- (ii) The Company operates a contributory provident fund for all employees for which contributions of Rs 18,253 thousand (2014: Rs 17,998 thousand) are charged to income for the year.



4.3 Taxation

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

4.4 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 reliable estimate can be made of the amount of obligation.

4.5 Grant fund/Reserve for grant based activities

Grant fund represents 65% of the surplus funds of the Company, in excess of investments as are detailed in note 4.9. In order to respond quickly in emergency situations, 5% of total loan receivable from POs is kept as disaster fund, which is also aggregated in the grant fund in the financial

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

4.6 Deferred liabilities - grant fund

Receipts related to grants specific to Partner Organizations (POs) are stated as deferred liabilities and related disbursements to POs during the year are netted off thereagainst.

4.7 Property, plant and equipment

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

Depreciation is charged to income applying straight line method whereby the cost of an asset is written off over its estimated useful life at the rates specified in note 5. Depreciation is charged on additions from the date the asset becomes available for the 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 are capitalized and the assets so replaced are retired.

Gain or loss on sale or retirement of assets is included in current year's surplus/(loss).

4.8 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 6. Amortisation is charged on additions from the date the asset becomes available for the intended use up to the date on which they are derecognized.

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4.9 Investments

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

In order to safeguard against major default and provide sufficient capital adequacy, with effect from July 1, 2009, an amount of 15% (2014: 15%) of total loan receivable from Partner Organizations is held in investments. 35% of the surplus funds of the Company, in excess of above investments, are employed for lending activities (micro-credit and enterprise development facility) and the balance 65% are held in investments as grant fund, the income of which will be used for grant based health, education, infrastructure, emergency and any other activity that falls within the overall strategic framework of Company's objectives.

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

4.10 Loans to Partner Organizations

These are stated net of provision for loan losses.

General provision is made for loan losses at the rate of 5% (2014: 5%) of the gross outstanding balances of loans to POs at the year end, provided that provision once made will not be reduced with the reduction of outstanding balances of loan in subsequent years.

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

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

4.11 Revenue recognition

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

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

4.12 Receipts - loans and grants

Receipts from the Government of Pakistan (GoP) on account of donors' (International Development Association (IDA), International Fund for Agricultural Development (IFAD), German Financial Cooperation - KfW and Government of Italy) projects and Prime Minister's Interest Free Loan Scheme (PMIFL) are recorded on the basis of Financial Monitoring Reports, advance request and Statement of Expenses, raised on periodic basis, under relevant categories as specified in the Financing Schedules of the respective Financing Agreements.

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4.13 Long term loans

Long term loans whose disbursement commenced before June 30, 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 July 1, 2009 are carried at present value and the difference between present value and loan proceeds is treated as government grant and deferred as a liability. The benefit is recognized as income using the effective interest method over the period of the loan. A corresponding charge at market rate of interest on the carrying value of loan is recognized as imputed interest expense.

4.14 Borrowing costs

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

4.15 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 Pakistan Rupees, which is the Company's functional currency.

ii) Transactions and balances

Transactions in foreign currencies are translated in Pak Rupees at the monthly average rate of exchange. Monetary assets and liabilities expressed in foreign currencies are translated into Pak Rupees at the official rate prevailing on the balance sheet date. Gains and losses on foreign currency transactions are included in surplus for the year

4.16 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 and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given and received. These are subsequently measured at fair value, amortized cost or cost, as the case may be.

4.17 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 wherever 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 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 has been recognized. An impairment loss or reversal of impairment loss is recognized in income for the year.



4.18 Financial assets

4.18.1 Classification

The Company classifies its financial assets in four categories: held to maturity, loans and receivables, at fair value through profit or loss and 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 Organizations", "Advances, deposits, prepayments and other receivables", "Profit/service charges receivable", "Bank balances - specific to projects" 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 counter party, probability that counter party will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than the credit period specified in agreements) are considered indicators that the amount is uncollectible. When the amount is uncollectible, it is written off against the allowance.

(iii) 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 12 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.

4.18.2 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 profit and loss 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 method.

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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 surplus for the year in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the surplus for the year as part of other income when the Company's right to receive payment is established.

4.18.3 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.

4.19 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.

4.20 Cash and cash equivalents

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

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5. PROPERTY, PLANT AND EQUIPMENT

	Furniture & fixtures	Vehicles	Office equipment Rupees in '000	Computer equipment	Total
At July 1, 2013					
Cost	21,143	105,381	45,990	67,314	239,828
Accumulated depreciation	(12,345)	(62,132)	(34,804)	(51,837)	(161,118)
Net book amount	<u>8,798</u>	<u>43,249</u>	<u>11,186</u>	<u>15,477</u>	<u>78,710</u>
Year ended June 30, 2014					
Opening net book amount	8,798	43,249	11,186	15,477	78,710
Additions	447	10,450	9,992	8,969	29,858
Disposals					
Cost	-	(18,060)	-	-	(18,060)
Accumulated depreciation	-	15,846	-	-	15,846
	-	(2,214)	-	-	(2,214)
Depreciation charge	(2,379)	(14,203)	(5,333)	(8,637)	(30,552)
Closing net book amount	<u>6,866</u>	<u>37,282</u>	<u>15,845</u>	<u>15,809</u>	<u>75,802</u>
At June 30, 2014					
Cost	21,590	97,771	55,982	76,283	251,626
Accumulated Depreciation	(14,724)	(60,489)	(40,137)	(60,474)	(175,824)
Net book amount	<u>6,866</u>	<u>37,282</u>	<u>15,845</u>	<u>15,809</u>	<u>75,802</u>
Year ended June 30, 2015					
Opening net book amount	6,866	37,282	15,845	15,809	75,802
Additions	345	9,605	3,165	6,865	19,980
Disposals					
Cost	(3,026)	(6,128)	(5,306)	(11,365)	(25,825)
Accumulated depreciation	3,009	2,743	5,130	11,179	22,061
	(17)	(3,385)	(176)	(186)	(3,764)
Depreciation charge	(2,146)	(13,082)	(5,470)	(8,879)	(29,577)
Closing net book amount	<u>5,048</u>	<u>30,420</u>	<u>13,364</u>	<u>13,609</u>	<u>62,441</u>
At June 30, 2015					
Cost	18,909	101,248	53,841	71,783	245,781
Accumulated depreciation	(13,861)	(70,828)	(40,477)	(58,174)	(183,340)
Net book amount	<u>5,048</u>	<u>30,420</u>	<u>13,364</u>	<u>13,609</u>	<u>62,441</u>
Annual rate of depreciation (%)	20	20	20	25	

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6. INTANGIBLE ASSETS

	Satellite imageries	Computer software	Total
	----- Rupees in '000 -----		
At July 1, 2013			
Cost	19,078	14,478	33,556
Accumulated amortization	(18,812)	(7,260)	(26,072)
Net book amount	<u>266</u>	<u>7,218</u>	<u>7,484</u>
Year ended June 30, 2014			
Opening net book amount	266	7,218	7,484
Additions	-	4,659	4,659
Amortization charge	(133)	(3,727)	(3,860)
Closing net book amount	<u>133</u>	<u>8,150</u>	<u>8,283</u>
At June 30, 2014			
Cost	19,078	19,137	38,215
Accumulated amortization	(18,945)	(10,987)	(29,932)
Net book amount	<u>133</u>	<u>8,150</u>	<u>8,283</u>
Year ended June 30, 2015			
Opening net book amount	133	8,150	8,283
Additions	-	122	122
Amortization charge	(133)	(3,956)	(4,089)
Closing net book amount	<u>-</u>	<u>4,316</u>	<u>4,316</u>
At June 30, 2015			
Cost	19,078	19,259	38,337
Accumulated amortization	(19,078)	(14,943)	(34,021)
Net book amount	<u>-</u>	<u>4,316</u>	<u>4,316</u>
Annual rate of amortization (%)	25	25	

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	Note	2015	2014
(Rupees '000')			
7. LONG TERM INVESTMENTS - held to maturity			
Specific to Endowment fund			
Pakistan Investment Bonds (PIBs)	7.1	1,000,000	1,000,000
Specific to grant fund			
Pakistan Investment Bonds (PIBs)	7.2	1,503,400	236,400
Term Deposit Receipts (TDRs)	7.3	50,000	50,000
Specific to others			
Pakistan Investment Bonds (PIBs)	7.4	708,000	300,000
		3,261,400	1,586,400
Less: Long term investments maturing within next twelve months shown as current asset		(286,400)	-
		<u>2,975,000</u>	<u>1,586,400</u>

7.1 Represents investments in PIBs as follows:

Principal (Rupees '000)	Issue date	Maturity date	Coupon rate (% per annum)	Payment terms
400,000	22-07-2010	22-07-2020	12.00	Semi annually
200,000	18-08-2011	18-08-2021	12.00	Semi annually
400,000	19-07-2012	19-07-2022	12.00	Semi annually

7.2 Represents investments in PIBs as follows:

Principal (Rupees '000)	Issue date	Maturity date	Coupon rate (% per annum)	Payment terms
236,400	19-07-2012	19-07-2015	11.25	Semi annually
467,000	17-07-2014	17-07-2017	11.25	Semi annually
800,000	17-07-2014	17-07-2019	11.50	Semi annually

7.3 These investments represent Term Deposit Receipts of commercial banks maturing in October 2015 at mark up rate of 10.2% p.a. (2014: 10.2% p.a.).

7.4 Represents investments in PIBs as follows:

Principal (Rupees '000)	Issue date	Maturity date	Coupon rate (% per annum)	Payment terms
300,000	18-07-2013	18-07-2016	11.25	Semi annually
408,000	17-07-2014	17-07-2017	11.25	Semi annually

7.4.1 These funds are available for lending activities.

	Note	2015	2014
(Rupees in '000)			
8. LONG TERM LOANS TO PARTNER ORGANIZATIONS - secured			
Considered good		13,696,026	13,787,965
Considered doubtful		216,693	197,096
	8.1	13,912,719	13,985,061
Less: Loan loss provision	8.3	(915,947)	(896,350)
		12,996,772	13,088,711
Less: Amount receivable within next twelve months shown as current asset		(11,467,824)	(11,169,061)
		<u>1,528,948</u>	<u>1,919,650</u>

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	2015	2014
	(Rupees in '000)	
8.1 Break up of loans to Partner Organizations:		
Association for Gender Awareness and Human Empowerment	82,506	57,733
Al Mehran Rural Development and Welfare Organization	236,421	164,077
ASA Pakistan Limited	459,875	304,707
Asasah	197,096	197,096
Badbaan Enterprise Development Forum	36,934	30,704
Baidarie	53,847	85,529
BRAC Pakistan	486,002	572,845
Buksh Foundation	46,075	67,275
Bunyad Literacy Community Council	35,813	26,275
Community Support Concern	318,206	394,727
Development Action for Mobilization and Emancipation	1,181,073	1,017,636
Farmers Friend Organization	418,292	283,737
Ghazi Brotha Taraqiatee Idara	1,555	34,821
Jinnah Welfare Society	538,000	366,313
Karwan Community Development Organization	-	14,045
Kashf Foundation	2,239,018	2,180,000
Khajji Cooperative Society	11,120	10,920
Khushali Bank	520,000	600,000
Khwendo Kor Women and Children Development Programme	14,592	12,618
Kiran Welfare Organization	-	100
Mashal Development Organization	550	550
Mehran Education Society	37,130	41,900
Micro Options (formerly Dia Welfare Organization)	79,405	79,160
Mojaz Foundation	311,958	175,007
Narowal Rural Development Programme	144,981	145,581
National Rural Support Programme	2,026,614	2,292,390
NRSP Microfinance Bank	150,000	575,000
Orangi Charitable Trust	172,043	170,333
Organization for Participatory Development	136,856	97,608
Orix Leasing Pakistan Limited	120,299	241,363
Poverty Eradication Network	1,827	1,827
Punjab Rural Support Programme	326,398	308,949
Rural Community Development Society	734,175	523,052
SAATH Development Society	77,900	35,100
Sarhad Rural Support Programme	37,500	43,500
Save The Poor	4,872	13,322
Sayya Foundation	23,844	23,500
Shadab Rural Development Organization	112,292	64,229
Shah Sachal Sami Welfare Association	118,375	79,150
Sindh Agricultural & Forestry Workers Coordinating Organization	313,393	400,973
Sindh Rural Support Organization	556,025	817,500
Soon Valley Development Programme	150,189	91,867
Swabi Women Welfare Society	-	24,500
Thardeep Rural Development Programme	1,118,721	974,667
Villagers Development Organization	3,875	19,167
Wasil Foundation (formerly Centre for Women Cooperative Development)	258,839	296,802
Women Social Organization	11,583	20,256
Young Pioneers Society	6,650	6,650
	<u>13,912,719</u>	<u>13,985,061</u>

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8.2 The Company disburses microcredit loans to POs under respective Financing Agreements at service charges based upon a range of benchmarks including KIBOR. These loans are secured through letter of hypothecation on receivables of POs created out of financing obtained from the Company. Further, the Company maintains a first charge on all assets/capital items created out of financing provided for capacity building and under the exclusive lien of the Company until full repayment of the principal, service charges and other outstanding amounts payable to the Company. These loans are repayable on quarterly basis within two years under the respective Financing Agreements signed between the Company and the POs. Rates for service charges are on the basis of classification of POs into "for-profit" and "not-for-profit" and further sub categories into geographical areas. During the year the loans were disbursed at a service charge ranging from 4.61% p.a. to 11.68% p.a. (2014: 4.06% p.a. to 11.61 % p.a.).

	2015			2014
	Specific	General	Total	Total
(Rupees in '000)				
8.3 Movement of loan loss provision				
Opening balance	197,096	699,254	896,350	868,826
Provision during the year	19,597	-	19,597	27,524
Closing balance	<u>216,693</u>	<u>699,254</u>	<u>915,947</u>	<u>896,350</u>
		<u>Note</u>	<u>2015</u>	<u>2014</u>
			(Rupees in '000)	
8.4 Movement of loans to POs				
Opening balance			13,985,061	13,299,931
Disbursements during the year			9,444,989	9,199,685
			<u>23,430,050</u>	<u>22,499,616</u>
Recoveries during the year			(9,517,331)	(8,514,555)
			<u>13,912,719</u>	<u>13,985,061</u>
Less: Loan loss provision			(915,947)	(896,350)
			<u>12,996,772</u>	<u>13,088,711</u>
9. SHORT TERM INVESTMENTS				
Specific to projects	9.1		3,600,000	3,770,000
Specific to grant fund	9.2		5,152,690	5,372,738
Specific to others	9.3		2,311,829	2,237,967
			<u>11,064,519</u>	<u>11,380,705</u>

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- 9.1 These represent investments in term deposit receipts maturing within one year from the date of investment at markup rates ranging from 6.57% p.a. to 10.35% p.a. (2014: 7.75% p.a. to 10.50% p.a.). These funds were placed with commercial banks as cash collaterals for providing a partial guarantee to those banks to facilitate lending to following Microfinance Institutions. These deposits include Rs 2,061,713 thousand (2014: Rs 2,002,286 thousand) invested out of funds received from IFAD in respect of Programme for Increasing Sustainable Microfinance (PRISM) activities.

Microfinance Institutions	Investment amount		Finance facility limit	
	2015	2014	2015	2014
	(Rupees '000)		(Rupees '000)	
Kashf Foundation	1,000,000	1,000,000	1,500,000	1,500,000
National Rural Support Programme	1,000,000	830,000	2,400,000	1,720,000
NRSP - Microfinance Bank	1,000,000	1,000,000	1,600,000	1,600,000
Orangi Charitable Trust	150,000	150,000	150,000	150,000
BRAC Pakistan	250,000	250,000	250,000	275,000
SAFCO Support Foundation	100,000	-	130,000	-
Punjab Rural Support Program	100,000	100,000	150,000	150,000
Asasah	-	50,000	-	55,000
Jinnah Welfare Society	-	40,000	-	60,000
Rural Community Development Society	-	100,000	-	160,000
Development Action for Mobilization and Emancipation	-	150,000	-	225,000
Community Support Concern	-	50,000	-	75,000
Thardeep Rural Development Program	-	100,000	-	150,000
	<u>3,600,000</u>	<u>3,820,000</u>	<u>6,180,000</u>	<u>6,120,000</u>
Less: Provision for impairment loss - note 9.1.1	-	(50,000)	-	-
Total	<u>3,600,000</u>	<u>3,770,000</u>		<u>6,120,000</u>

- 9.1.1 Investment placed as cash collateral with a commercial bank against finance facility to a PO in default of its obligation has been written off against provision during the year.

	Note	2015	2014
		(Rupees in '000)	
9.2 Specific to grant fund			
Term Deposit Receipts (TDRs)	9.2.1	2,952,852	3,339,010
Government Treasury Bills	9.2.2	2,199,838	2,033,728
		<u>5,152,690</u>	<u>5,372,738</u>

- 9.2.1 These funds are invested in Term Deposit Receipts maturing within one year from the date of investment, at mark up rates ranging from 8.25% p.a. to 10.25% p.a. (2014: 8.5% p.a. to 10.35% p.a.).

- 9.2.2 These funds are invested in Government Treasury Bills maturing within one year from the date of investment, at mark up rate of 9.99% p.a. (2014: 9.94% p.a. to 9.98% p.a.).

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	<u>Note</u>	<u>2015</u>	<u>2014</u>
		(Rupees in '000)	
9.3	Specific to others		
	Term Deposit Receipts (TDRs)	2,169,120	1,039,090
	Government Treasury Bills	142,709	1,198,877
		<u>2,311,829</u>	<u>2,237,967</u>

9.3.1 These funds are invested in Term Deposit Receipts maturing within one year from the date of investment, at mark up rates ranging from 6.17% p.a. to 10.05% p.a. (2014: 8.67% p.a. to 10.35% p.a.).

9.3.2 These include Rs 109,000 thousand (2014: Rs Nil) invested out of funds specific to USDA grant.

9.3.3 These funds are invested in Government Treasury Bills maturing within one year from the date of investment, at mark up rates ranging from 8.64% p.a. to 9.99% p.a. (2014: 8.90% p.a. to 9.99% p.a.).

9.3.4 Specific to others include investments of Rs 2,086,908 thousand (2014: Rs 2,097,759 thousand) (equivalent to 15% (2014: 15%) of the loan receivable from POs) to safeguard against any major default on loan receivable and provide capital adequacy; and Rs 224,921 thousand (2014: Rs 140,208 thousand) available for lending activities.

	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
10. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Loans and advances - considered good		
Employees/consultants - note 10.1	28,210	21,577
Suppliers	<u>3,073</u>	<u>1,447</u>
	31,283	23,024
Deposits	4,228	4,228
Prepayments	47,250	77,850
Income tax refundable	225,899	125,601
Receivable from PPAF Employees' Provident Fund	2,939	19,696
Other receivables	<u>769</u>	<u>753</u>
	<u>312,368</u>	<u>251,152</u>

0.0 This includes advance salary loans and car loans given to the employees of the Company, carrying mark up of 3% p.a. (2014: 3% p.a.) and 8% p.a. (2014: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly installments.

	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
11. PROFIT / SERVICE CHARGES RECEIVABLE		
Profit receivable on investments		
Specific to Endowment Fund	51,933	39,751
Specific to projects	114,385	109,269
Specific to grant fund	336,242	149,489
Specific to others and saving accounts	<u>115,722</u>	<u>66,207</u>
	618,282	364,716
Service charges receivable on loans to POs - net of provision for doubtful receivable of Rs 52,472 thousand (2014: Rs 45,421 thousand)	<u>559,677</u>	<u>530,477</u>
	<u>1,177,959</u>	<u>895,193</u>

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	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
12. BANK BALANCES - SPECIFIC TO PROJECTS		
Cash at banks - current accounts		
Specific to IDA III	1,378,503	5,010,382
Specific to KfW - Livelihood and Community Infrastructure	394,471	3,654
Specific to KfW - Renewable Energy	108,457	88,781
Specific to Italian Project - Poverty Reduction Through Rural Development Activities in Balochistan, KPK and FATA	1,180,780	1,388,169
Specific to Benazir Income Support Program - Waseela-e-Haq (Sindh)	84,374	84,374
Specific to Prime Minister's Interest Free Loan Scheme (PMIFL)	124,324	1,750,000
	<u>3,270,909</u>	<u>8,325,360</u>
Cash at banks - deposit accounts		
Specific to USDA grant - note 12.2	552	102,319
Specific to Benazir Income Support Program- Waseela-e-Haq	19,627	18,533
	<u>20,179</u>	<u>120,852</u>
	<u>3,291,088</u>	<u>8,446,212</u>

- 12.1 As per the financing agreements signed with various donors, PPAF is allowed to draw funds from the special accounts for carrying out eligible categories of expenses.
- 12.2 During the year, Rs 109,000 thousand have been invested in TDRs of a scheduled bank as disclosed in note 9.3.2.

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		(Rupees in '000)	
13. CASH AND BANK BALANCES			
Cash in hand		58	19
Cash at banks - current accounts		169	10,287
Cash at banks - deposit accounts	13.1	113,804	171,636
		<u>113,973</u>	<u>181,923</u>
		<u>114,031</u>	<u>181,942</u>

- 13.1 The balances in deposit accounts carry average mark up of 6.5% p.a. (2014: 8.85% p.a.).

14. ENDOWMENT FUND

This represents the amounts paid by GoP for 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.

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	<u>Note</u>	<u>2015</u>	<u>2014</u>
		(Rupees in '000)	
15. LONG TERM LOANS - Unsecured			
Government of Pakistan - PPAF - I (IDA financing)	15.1	1,534,961	1,754,248
Government of Pakistan- PPAF - II (IDA financing)	15.2	7,340,220	7,698,213
Government of Pakistan - (IFAD financing-MIOP)	15.3	1,032,129	1,108,583
Government of Pakistan - (IFAD financing-PRISM)	15.4	2,061,713	2,007,264
Government of Pakistan- PPAF - III (IDA financing)	15.5	3,058,025	2,886,040
		<u>15,027,048</u>	<u>15,454,348</u>
Less: Amount payable within next twelve months shown as current liability		(791,181)	(653,734)
		<u>14,235,867</u>	<u>14,800,614</u>
Deferred benefit of below market rate of interest on Government of Pakistan - PPAF III (IDA financing)	15.5.1	(2,091,869)	(2,073,650)
		<u>12,143,998</u>	<u>12,726,964</u>
15.1 Government of Pakistan - PPAF - I (IDA financing)			
Opening balance		1,754,248	1,973,535
Amount repaid		(219,287)	(219,287)
		<u>1,534,961</u>	<u>1,754,248</u>

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

Under Subsidiary Financing Agreement (SFA) dated August 18, 1999 executed between GoP and the Company 50% of the amount was disbursed as loan to the Company and the balance as grant on non reimbursable basis. The principal amount of 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 May 15, and November 15 commencing from November 15, 2007 and ending on May 15, 2022. Each installment upto and including the installment payable on May 15, 2013 shall be equal to 2.083% of such principal amounts 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 the commitment charge at the rate set by the IDA on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on May 15 and November 15 each year.

	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
15.2 Government of Pakistan- PPAF - II (IDA financing)		
Opening balance	7,698,213	8,056,206
Amount repaid	(357,993)	(357,993)
	<u>7,340,220</u>	<u>7,698,213</u>

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

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Under SFA dated March 24, 2004 executed between the GoP and the Company, the GoP agreed to provide 56% of the amount as loan to the Company and the balance as grant on non reimbursable basis. The principal amount of 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 Feb 01, and August 01 commencing from February 01, 2012 and ending on August 01, 2026. Each installment upto and including the installment payable on August 01, 2017 shall be equal to 2.083% of such principal amounts 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 the commitment charge at the rate set by the IDA on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on February 01 and August 01 each year.

	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
15.3 Government of Pakistan - (IFAD financing MIOP)		
Opening balance	1,108,583	1,144,527
Amount repaid	(76,454)	(38,227)
Adjustment on finalization of repayment schedule with GoP - note 28	-	2,283
	<u>1,032,129</u>	<u>1,108,583</u>

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

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

	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
15.4 Government of Pakistan - (IFAD financing - PRISM)		
Opening balance	2,007,264	1,999,036
Amount received	-	3,250
Adjustment on closure of project - note 28	54,449	-
Transferred from deferred liabilities - grant fund	-	4,978
	<u>2,061,713</u>	<u>2,007,264</u>

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

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

As per

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		(Rupees in '000)	
15.5 Government of Pakistan- PPAF - III (IDA financing)			
Opening balance		2,886,040	2,445,533
Amount received		<u>171,985</u>	<u>440,507</u>
		3,058,025	2,886,040
Less: Deferred benefit of below market rate of interest on long term loan	15.5.1	<u>(2,091,869)</u>	<u>(2,073,650)</u>
		<u>966,156</u>	<u>812,390</u>

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

Under Subsidiary Loan Agreement (SLA) dated June 15, 2009 executed between the GoP and the Company, the GoP agreed to provide 13% of the amount as loan to the Company and the balance as grant on non reimbursable basis. The principal amount of 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 June 15, and December 15 commencing from June 15, 2017 and ending on December 15, 2031. Each installment upto and including the installment payable on December 15, 2022 shall be equal to 2.083% of such principal amounts 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 the commitment charge at the rate set by the IDA on the principal amount of the loan not withdrawn from time to time. The service and commitment charges are payable on June 15 and December 15 each year.

15.5.1 The loan is carried at present value computed at market based interest rate. The difference between present value and loan proceeds is recognized as deferred benefit. The deferred benefit is recognized as income using the effective interest method over the period of the loan. Movement of deferred benefit during the year is as follows:

	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
Deferred benefit as at July 1	2,073,650	1,830,404
Additions during the year	117,916	317,106
Amortization during the year	<u>(99,697)</u>	<u>(73,860)</u>
Balance as at June 30	<u>2,091,869</u>	<u>2,073,650</u>

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	Note	2015	2014
(Rupees in '000)			
16. DEFERRED LIABILITIES - GRANT FUND			
Government of Pakistan - IDA III	16.2	946,545	4,733,366
US Agency for International Development (USAID) - Pakistan	16.3	115,984	115,984
Government of Pakistan - USDA	16.4	97,528	90,294
Government of Pakistan - KfW Renewable Energy (RE)	16.5	106,876	86,201
Government of Pakistan - KfW Livelihood Support & Promotion of Small Community Infrastructure (LACIP)	16.6	386,880	(55,981)
Committee Encouraging Corporate Philanthropy (CECP)	16.7	21,668	21,668
Benazir Income Support Program (BISP)	16.8	152,947	157,312
Government of Pakistan - Poverty Reduction Through Rural Development Activities in Balochistan, KPK and FATA (Italian Project)	16.9	1,177,768	1,372,642
Government of Pakistan - Prime Minister's Interest Free Loan (PMIFL) Scheme	16.10	124,324	1,750,000
Others		24,701	33,011
		<u>3,155,221</u>	<u>8,304,497</u>

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

16.1 Movement during the year

Note	IDA III	USAID	USDA	KfW RE	KfW LACIP	CECP	BISP	Italian Project	PMIFL	Others	Total
(Rupees in '000)											
Opening balance	4,733,366	115,984	90,294	86,201	(55,981)	21,668	157,312	1,372,642	1,750,000	33,011	8,304,497
Amount received during the year	645,655	-	7,234	106,278	1,067,183	-	-	-	-	5,000	1,831,350
Amount transferred to deferred income - grant fund	-	-	-	-	-	-	-	(46,185)	-	-	(46,185)
Amount repaid to donor during the year	-	-	-	-	-	-	(300)	-	-	-	(300)
	<u>5,379,021</u>	<u>115,984</u>	<u>97,528</u>	<u>192,479</u>	<u>1,011,202</u>	<u>21,668</u>	<u>157,012</u>	<u>1,326,457</u>	<u>1,750,000</u>	<u>38,011</u>	<u>10,089,362</u>
Less: Disbursements for											
Water and infrastructure	1,265,730	-	-	84,231	447,944	-	-	-	-	-	1,797,905
Social sector development	222,679	-	-	-	11,036	-	-	-	-	-	233,715
Capacity/Institutional building	327,057	-	-	1,372	39,151	-	-	148,689	-	-	516,269
Social mobilization	208,206	-	-	-	-	-	-	-	-	-	208,206
Livelihood enhancement and protection	2,208,591	-	-	-	126,191	-	-	-	-	-	2,334,782
Waseel-e-Haq Program	-	-	-	-	-	-	4,065	-	-	-	4,065
Micro credit access	200,213	-	-	-	-	-	-	-	-	-	200,213
Interest free loans	-	-	-	-	-	-	-	-	1,625,676	-	1,625,676
Projects	-	-	-	-	-	-	-	-	-	13,310	13,310
16.11	<u>4,432,476</u>	<u>-</u>	<u>-</u>	<u>85,603</u>	<u>624,322</u>	<u>-</u>	<u>4,065</u>	<u>148,689</u>	<u>1,625,676</u>	<u>13,310</u>	<u>6,934,141</u>
	<u>946,545</u>	<u>115,984</u>	<u>97,528</u>	<u>106,876</u>	<u>386,880</u>	<u>21,668</u>	<u>152,947</u>	<u>1,177,768</u>	<u>124,324</u>	<u>24,701</u>	<u>3,155,221</u>

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16.2 Grants from the Government of Pakistan - IDA III

Financing Agreement was signed between GoP and IDA on June 9, 2009 and Subsidiary Loan Agreement between GoP and PPAF on June 15, 2009 for PPAF-III project. The Project Agreement was signed between PPAF and IDA on June 9, 2009, under which financing is to be provided to the Partner Organisations (POs) 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.

16.3 Grants from USAID - Pakistan

The closing balance represents revolving fund for disbursement to POs. These funds were received as grant from U.S. Agency for International Development Mission to Pakistan (USAID - Pakistan) for Enterprise Development Facility.

16.4 Grants from the Government of Pakistan - USDA

On August 30, 2002, the Government of United States of America and GoP signed an agreement under which U.S. Department of Agriculture (USDA) through its Commodity Credit Corporation agreed to provide 37,800 metric tons of soybean oil to GoP. The GoP authorized Trading Corporation of Pakistan to receive and monetize the commodity and use the sale proceeds to finance PPAF to implement long-term poverty reduction programmes, including small-scale infrastructure programmes and sustainable agriculture development programmes.

16.5 Grants from the Government of Pakistan - KfW Renewable Energy

On June 22, 2012 PPAF and German Financial Cooperation - KfW signed Financing and Project Agreement under which KfW agreed to make available an amount of EUR 10 million to PPAF as grant on 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. Under the Agreement the Project is implemented through six (6) POs. The agreement will expire on December 30, 2017.

16.6 Grants from the Government of Pakistan - KfW Livelihood Support & Promotion of Small Community Infrastructure (LACIP)

On June 12, 2010 PPAF and German Financial Cooperation - KfW signed Loan, Financing and Project Agreement under which KfW agreed to make available an amount of EUR 31,562,661 to PPAF as grant on non reimbursable basis for the support of livelihood measures and the promotion of small community economic and social infrastructure in Khyber Pakhtunkhwa. PPAF has entered into separate financing agreements with twenty three (23) POs for the implementation of the project. The agreement will expire on December 31, 2015.

16.7 Grants from Committee Encouraging Corporate Philanthropy (CECP)

On August 15, 2006 PPAF and CECP signed a Programme Agreement under which CECP agreed to make available an amount of US Dollars 12 million to PPAF as grant on non reimbursable basis for design, reconstruction and refurbishment of regional health centers, clinics, primary schools and secondary schools affected by the earthquake.

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16.8 Benazir Income Support Program (BISP)

On September 29, 2010 PPAF and BISP signed an agreement, under which PPAF agreed to provide enterprise development training to 18,000 participants and skill training to 13,500 participants of BISP's Waseel-e-Haq program. The project had a total cost of Rs 884.4 million and was initially for a period of two years. The specific objective of the enterprise and skill development training is to enhance the capacity of BISP's Waseel-e-Haq beneficiaries or their nominees so that they can properly utilize the amount received by them for setting up business.

On June 7, 2011 under Amendment 1 to the agreement, PPAF will receive 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 development training will be entitled for 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 disbursement of amounts to beneficiaries, BISP shall transfer the funds into a bank account specifically opened by PPAF solely for onward disbursements to Waseela-e-Haq beneficiaries according to the beneficiaries lists issued and verified by BISP from time to time. On the basis of beneficiary list provided by BISP, PPAF get the pay order prepared in the beneficiaries' name and hands over the pay order to BISP for distribution of pay order to the beneficiary. The beneficiaries will repay the loan directly to BISP without any involvement of PPAF. Further, there is no involvement of PPAF in selection of beneficiaries and disbursements to the beneficiaries.

- 16.8.1** During the year an amount of Rs 300 thousand (2014: Rs 399,740 thousand) was repaid to BISP representing demand drafts/pay orders in respect of 2 (2014: 2,667) beneficiaries, which were cancelled on the instructions of BISP.

16.9 Poverty Reduction Through Rural Development Activities in Balochistan, KPK and FATA (Italian Project)

On January 14, 2011 the Government of Italy and the GoP signed Program Agreement for the Italian Project. Financing Agreement was signed between GoP and Artigiancassa S.p.A. (on behalf of Government of Italy) on March 21, 2011 under which the Government of Italy has agreed to make available an amount of EUR 40 million to PPAF on non-reimbursable basis. Subsidiary Financing Agreement was signed between the GoP and PPAF on December 2, 2011. The Project focuses on poverty reduction through rural development in Balochistan, Khyber-Pakhtunkhwa, Federally Administered Tribal Areas and neighbouring areas. Under the Agreement, the World Bank would act as Supervision Body, PPAF as Project Executing Agency and interventions will be operated through POs.

16.10 GoP-Prime Minister's Interest Free Loan Scheme

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

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16.11 Break up of disbursements to POs

	IDA III	KfW RE	KfW LACIP	BISP	Italian Project	PMIFL	Other funds	2015	2014
Disbursement to:	(Rupees in '000')								
Awami Development Organization	83,970	-	-	-	-	22,000	-	105,970	35,760
Association for Gender Awareness and Human Empowerment	28,950	-	-	-	-	49,720	-	78,670	22,057
Aga Khan Education Support Programme	-	-	-	-	-	-	-	-	645
Aga Khan Health Services Pakistan	1,215	-	-	-	-	-	-	1,215	457
AKPBS-Water and Sanitation Extension Programme	42,292	-	-	-	-	-	-	42,292	32,267
Aga Khan Rural Support Programme Akhuwat	57,019	27,408	64,594	-	4,210	-	-	153,231	267,610
AL Mehran Rural Development and Welfare Organization	-	-	-	-	-	358,860	-	358,860	-
ASA Pakistan Limited	-	-	-	-	-	33,000	-	33,000	-
Awaz Foundation Pakistan - Centre for Development Services	8,594	-	-	-	-	-	-	8,594	3,700
AZAT Foundation	13,902	-	-	-	4,050	-	-	17,952	-
Asia Humanitarian Organization	-	-	23,696	-	-	-	-	23,696	44,437
Baanhn Beli	42,552	-	-	-	-	-	-	42,552	84,150
Baidarie	7,536	-	-	-	-	-	-	7,536	2,657
Badbaan Enterprise Development Forum	1,657	-	-	-	-	-	-	1,657	11,166
Balochistan Environmental and Educational Journey	24,336	-	-	-	-	-	-	24,336	30,804
Bunyard Literacy Community Council	26,040	-	-	-	-	8,800	-	34,840	33,479
Balochistan Rural Development Society	36,370	-	-	-	-	-	-	36,370	10,782
BRAC - Pakistan	104,475	-	-	-	8,100	-	-	112,575	51,887
Balochistan Rural Development & Research Society	14,901	-	-	-	4,050	-	-	18,951	6,736
Badin Rural Development Society	66,029	-	-	-	-	-	-	66,029	37,114
Balochistan Rural Support Programme	255,920	-	-	4,365	16,200	-	-	276,485	141,565
Community Development Concern	624	-	-	-	-	-	-	624	2,364
Candle International	-	-	-	-	-	-	-	-	20,070
Center of Excellence for Rural Development	-	-	-	-	2,170	-	-	2,170	-
Courage Development Foundation	2,972	-	-	-	-	-	-	2,972	7,281
Chenab Development Foundation	-	-	-	-	-	-	-	-	10,601
Change in Education	-	-	12,612	-	-	-	-	12,612	29,006
Children's Global Network Pakistan	-	-	-	-	-	-	-	-	19,573
Community Mobilisation and Development Organization	107,223	-	-	-	-	-	-	107,223	65,294
Community Support Concern	(87)	-	-	-	-	26,400	-	26,313	(1,680)
Community Support Foundation	-	-	14,137	-	-	-	-	14,137	32,387
Community Uplift Programme	73,925	-	20,884	-	-	-	-	94,809	14,466
Development Action for Mobilization and Emancipation	-	-	-	-	-	-	-	-	32,000
Development in Literacy	-	-	-	-	-	-	-	-	1,505
Dia Welfare Organization	-	-	-	-	-	-	-	-	16,800
Environment Protection Society	59,085	-	42,562	-	8,100	38,500	-	148,247	122,873
Farmers Development Organization	52,843	-	-	-	-	33,000	-	85,843	86,876
Family Educational Services Foundation	1,921	-	-	-	-	-	-	1,921	16,639
Farmers Friend Organization	37,509	-	-	-	-	21,000	-	58,509	35,119
Family Planning Association of Pakistan	-	-	-	-	-	-	-	-	2,690
Ghazi Brotha Taraqiatee Idara	-	-	67,646	-	-	15,400	-	83,046	89,961
Hazara Development and Advocacy Foundation	-	-	53,297	-	-	-	-	53,297	73,014
Human Development Foundation	-	-	-	-	8,100	-	-	8,100	7,837
Health and Nutrition Development Society	37,366	-	-	-	-	5,900	-	43,266	40,555
Heartfile	-	-	2,765	-	-	-	-	2,765	-
Helping Hand for Relief and Development	-	-	-	-	-	26,400	-	26,400	-
Himalayan Wildlife Foundation	(81)	-	-	-	-	-	-	(81)	-
Indus Earth Trust	4,940	-	-	-	-	-	-	4,940	89,391
Indus Resource Centre	67,812	-	-	-	-	-	-	67,812	61,906
Idara Taleem O Agahi	-	-	-	-	-	-	-	-	3,097
Jinnah Welfare Society	1,039	-	-	-	-	-	-	1,039	2,950
Kashf Foundation	50,006	-	-	-	-	8,250	-	58,256	23,162
Khwendo Kor Women and Children Development Programme	14,386	-	-	-	4,050	-	-	18,436	2,360
Kushal Awareness and Development Organization	-	-	14,683	-	-	-	-	14,683	6,278
Lead Foundation	-	-	-	-	-	-	-	-	(11,602)
Light for All	-	-	-	-	-	-	-	-	4,348
Lasoon Society for Human & Natural Resource Development	-	-	-	-	2,125	-	-	2,125	-
Balances carried forward	1,327,241	27,408	316,876	4,365	61,155	647,230	-	2,384,275	1,733,004

	IDA III	KfW RE	KfW LACIP	BISP	Italian Project	PMIFL	Other funds	2015	2014
	(Rupees in '000')								
Balances brought forward	1,327,241	27,408	316,876	4,365	61,155	647,230	-	2,384,275	1,733,004
Mamoona Development Foundation	1,134	-	-	-	-	-	-	1,134	-
Mehran Education Society	-	-	-	-	-	-	-	-	17,500
Mountain and Glacier Protection Organization	15,002	5,370	45,438	-	-	-	-	65,810	108,602
Mountain Institute of Educational Development	7,680	-	-	-	-	-	-	7,680	41,261
Mojaz Foundation	82,649	-	-	-	-	56,100	-	138,749	95,223
Marvi Rural Development Organization	12,837	-	-	-	-	-	-	12,837	29,465
Narowal Rural Development Programme	(19)	-	-	-	-	46,200	-	46,181	1,000
National Rural Support Programme	1,024,930	52,825	147,611	-	36,450	396,000	-	1,657,816	1,258,782
NRSP Bank	-	-	-	-	2,203	-	-	2,203	-
Omar Asghar Khan Development Foundation	63,609	-	-	-	-	-	-	63,609	-
Orix Leasing Pakistan Limited	-	-	-	-	-	44,000	-	44,000	-
Organization for Participatory Development	-	-	-	-	-	-	-	-	1,700
Poverty Eradication Initiative	28,158	-	-	-	-	-	-	28,158	26,950
Pakistan Foundation Fighting for Blindness	15,009	-	-	-	-	-	-	15,009	8,487
Participatory Integrated Development Society	177,846	-	-	-	4,050	-	-	181,896	95,098
Pakistan Microfinance Network	-	-	-	-	-	-	-	-	60,000
Punjab Rural Support Programme	(29)	-	-	-	-	12,512	-	12,483	1,100
Research Advocacy & Health Strengthening Alliance (Guarantee) Limited	-	-	-	-	-	-	-	-	(1,836)
Rural Community Development Society	116,920	-	-	-	-	55,000	-	171,920	113,576
Rural Development Project	(994)	-	4,216	-	-	-	-	3,222	47,834
Saath Development Society	-	-	-	-	-	11,000	-	11,000	9,800
SAFCO Support Foundation	1,110	-	-	-	-	131,034	-	132,144	55,600
Salik Development Foundation	25,955	-	-	-	-	-	-	25,955	110,678
Sarhad Rural Support Programme	296,824	-	62,439	-	32,400	-	-	391,663	427,610
Save The Poor	-	-	-	-	-	-	-	-	2,775
Sayya Foundation	300	-	-	-	-	34,100	-	34,400	1,439
SEHER	3,703	-	-	-	4,050	-	-	7,753	778
Sindh Agricultural & Forestry Workers Coordinating Organization	317,394	-	-	-	-	-	-	317,394	148,651
Shadab Rural Development Organization	3,328	-	-	-	-	-	-	3,328	4,111
Shah Sachal Sami Welfare Association	-	-	-	-	-	-	-	-	800
Sindh Rural Support Organization	43,676	-	-	-	-	99,000	13,310	155,986	147,552
Sindh Rural Support Programme	27,547	-	-	-	-	-	-	27,547	11,416
Soon Valley Development Programme	3,608	-	-	-	-	-	-	3,608	2,824
Social Action Bureau for Assistance in Welfare and Organisation Network	19,976	-	28,384	-	-	-	-	48,360	128,298
Society for Community Support for Primary Education Balochistan	-	-	-	-	-	-	-	-	12,630
Society for Conservation and Protection of Environment	48,249	-	-	-	-	-	-	48,249	4,871
South Asia Partnership Pakistan	195,334	-	-	-	-	-	-	195,334	95,476
SOS Children's Village	3,710	-	-	-	-	-	-	3,710	6,977
Sustainable Peace & Development Organization	-	-	7,319	-	-	-	-	7,319	26,630
Strengthening Participatory Organization	99,879	-	-	-	-	-	-	99,879	33,497
Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment	20,852	-	9,609	-	-	23,100	-	53,561	33,739
Sungi Development Foundation	60,259	-	-	-	-	-	-	60,259	37,565
Support With Working Solutions	4,130	-	-	-	-	-	-	4,130	4,136
Sustainable Use Specialist Group - Central Asia	49,166	-	-	-	-	-	-	49,166	30,924
Taraqee Foundation	140,925	-	-	-	4,050	-	-	144,975	144,878
Tehreek	8,481	-	-	-	-	-	-	8,481	3,296
Thardeep Rural Development Programme	158,548	-	-	-	-	70,400	-	228,948	246,771
Villagers Development Organization	11,600	-	-	-	-	-	-	11,600	16,242
Water, Environment & Sanitation Society	4,093	-	-	-	-	-	-	4,093	3,716
Women Social Organisation	300	-	-	-	-	-	-	300	400
Youth Organization	-	-	-	-	2,199	-	-	2,199	-
Payment to beneficiaries through BISP	-	-	-	-	-	-	-	-	(101,679)
Direct expenses on project activities	11,556	-	2,430	(300)	2,132	-	-	15,818	58,538
	<u>4,432,476</u>	<u>85,603</u>	<u>624,322</u>	<u>4,065</u>	<u>148,689</u>	<u>1,625,676</u>	<u>13,310</u>	<u>6,934,141</u>	<u>5,348,685</u>

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17. DEFERRED INCOME - GRANT FUND

	As at July 01, 2014	Amount received	Expenditure from grant recognized as income	As at June 30, 2015
----- (Rupees in '000) -----				
Government of Pakistan (GoP)				
Capacity Building - IDA III - note 17.1	-	505,271	505,271	-
Capacity Building - IDA (Social mobilization)	495	-	495	-
Capacity Building - IFAD (MIOP)	258	-	258	-
Capacity Building - IFAD (PRISM)	1,656	-	547	1,109
Capacity Building - KfW (LACIP)	5,320	25,452	25,516	5,256
Capacity Building - KfW (RE)	346	3,534	3,644	236
Capacity Building - USDA	399	-	399	-
Capacity Building - Italian Project	-	46,185	46,185	-
2015	<u>8,474</u>	<u>580,442</u>	<u>582,315</u>	<u>6,601</u>
2014	<u>5,856</u>	<u>245,539</u>	<u>242,921</u>	<u>8,474</u>

17.1 Expenditure from grant recognized as income, includes Rs 265,232 thousand expenditure incurred by PPAF in prior years, claimed from donor in current year, upon approval by IDA during the year of reclassification within budget line item available for Incremental operating costs.

18. SERVICE CHARGES PAYABLE

These represent service charges payable to GoP at the rate of 0.75% p.a. (2014: 0.75% p.a.) on the principal amount of long term loan outstanding withdrawn from time to time.

	Note	2015	2014
(Rupees in '000)			
19. ACCRUED AND OTHER LIABILITIES			
Consultancy fee payable		9,180	9,661
Accrued expenses and other liabilities		23,083	40,068
Payable to Staff Gratuity Fund	20	7,203	-
Unamortized discount on purchase of PIBs	19.1	21,963	59,177
		<u>61,429</u>	<u>108,906</u>

19.1 Amortization of discount for the year amounts to Rs 1,524 thousand (2014: Rs 5,149 thousand).

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	<u>2015</u>	<u>2014</u>		
	(Rupees in '000)			
20. DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY FUND				
20.1 The movement in liability is as follows:				
Opening net liability	-	10,090		
Expense recognized in surplus for the year	14,656	17,272		
Remeasurement loss recognized in other comprehensive income	6,868	22,930		
Contribution made directly to the Fund	-	(43,125)		
Benefit payments on behalf of the Fund	(14,321)	(7,167)		
Closing net liability	<u>7,203</u>	<u>-</u>		
20.2 The details of actuarial valuation carried out as at June 30, 2014 and June 30, 2013 are as follows:				
(a) Reconciliation of payable to Defined Benefit Plan				
Present value of defined benefit obligation	85,245	71,755		
Fair value of plan assets	(78,042)	(71,755)		
	<u>7,203</u>	<u>-</u>		
(b) Change in the present value of defined benefit obligation				
Opening defined benefit obligation	71,755	49,264		
Current service cost	15,605	14,500		
Interest cost	8,559	5,665		
Benefits paid	(14,321)	(7,167)		
Remeasurement loss recognized	3,647	9,493		
Closing defined benefit obligation	<u>85,245</u>	<u>71,755</u>		
(c) Expense for the year - recognized in surplus for the year				
Current service cost	15,605	14,500		
Interest cost	8,559	5,665		
Expected return on plan assets	(9,508)	(2,893)		
	<u>14,656</u>	<u>17,272</u>		
(d) Changes in fair value of plan assets				
Opening fair value of plan assets	71,755	25,411		
Interest income	9,508	2,893		
Contribution made directly to the Fund	-	43,125		
Remeasurement (loss)/gain	(3,221)	326		
Closing fair value of plan assets	<u>78,042</u>	<u>71,755</u>		
(e) Major categories of plan assets as a percentage of total plan assets are as follows:				
	<u>2015</u>		<u>2014</u>	
	Rs in '000	%age	Rs in '000	%age
Term Deposit Receipts	72,000	92	38,487	54
Bank balances	6,042	8	33,268	46
	<u>78,042</u>	<u>100</u>	<u>71,755</u>	<u>100</u>

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

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

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- (f) The Projected Unit Credit Method using the following significant assumptions was used for the valuation of the scheme:

	2015	2014
Valuation discount rate (per annum)	9.00%	13.25%
Expected rate of increase in salary level (per annum)	7.75%	12.00%
Expected return on plan assets (per annum)	9.00%	13.25%

Mortality was assumed as per adjusted SLIC 2001-2005 mortality table with one year age set back at valuations on both dates, June 30, 2014 and 2015.

The gratuity plan is 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 employees of the Company.

The plan expose the Company to various actuarial risks: 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 impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in respective assumptions by one percent.

	Defined benefit obligation	
	1 percent increase	1 percent decrease
	(Rupees in '000)	
Discount rate	(7,535)	8,852
Expected rate of increase in salary level (per annum)	9,308	(8,041)

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 the defined benefit obligation is given below:

Plan duration	Years
June 30, 2015	9.61
June 30, 2014	9

Projected payments

	Rupees in '000
Contributions FY 2016	14,880
Benefit payments:	
FY 2016	11,847
FY 2017	8,060
FY 2018	4,294
FY 2019	6,336
FY 2020	4,384

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	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
21. CONTINGENCIES AND COMMITMENTS		
Contingencies		
Guarantees to the banks against lending to Microfinance institutions as given in note 9	<u>3,600,000</u>	<u>3,820,000</u>
Commitments		
Aggregate commitments under Financing Agreements with Partner Organizations for:		
Loans	5,421,946	6,909,935
Grants		
Community physical infrastructure	2,942,256	3,427,401
Capacity building	597,812	499,820
Social sector development	765,441	1,139,292
Social mobilization	75,022	365,570
Livelihood enhancement and protection	1,700,332	2,205,076
	<u>6,080,863</u>	<u>7,637,159</u>
	<u>11,502,809</u>	<u>14,547,094</u>

22. SERVICE CHARGES ON LOANS TO PARTNER ORGANIZATIONS

These represent service charges on loans to POs under respective Financing Agreements at rates disclosed in note 8.2.

	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
23. INCOME ON INVESTMENTS AND SAVING ACCOUNTS		
Profit on investments		
Specific to Endowment Fund	125,675	97,629
Specific to projects	343,650	330,306
Specific to grant fund	614,431	494,105
Specific to others and saving accounts	298,352	389,382
	<u>1,382,108</u>	<u>1,311,422</u>

24. OTHER INCOME

Gain on disposal of property, plant and equipment	786	12,981
Markup on loans to employees	226	481
Others	251	-
	<u>1,263</u>	<u>13,462</u>

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	Note	2015	2014
(Rupees in '000)			
25. GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries, wages and other benefits	25.1 & 25.3	363,048	346,189
Rent, rates and taxes		31,875	31,590
Repairs and maintenance		11,291	8,660
Traveling, lodging and conveyance		70,301	80,732
Communication		5,585	4,767
Printing and stationery		5,197	7,126
Insurance		12,023	11,811
Vehicles running and maintenance		23,319	24,405
Utilities		3,816	4,124
Legal and professional charges		3,158	1,799
Auditor's remuneration	25.4	6,607	5,820
Advertisement		3,319	2,690
Media projection		1,567	5,356
Newspapers, books and periodicals		691	1,068
Depreciation		29,577	30,552
Amortization		4,089	3,860
Security services		3,511	3,324
Office shifting and related expenses		1,155	9,344
Others		6,630	7,601
		<u>586,759</u>	<u>590,818</u>

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

Managerial remuneration	20,430	17,772
Contribution to Staff Provident Fund	1,857	1,616
	<u>22,287</u>	<u>19,388</u>

In addition, the Chief Executive Officer is provided medical insurance, car and accommodation/house rent allowance. Gratuity and provident fund are payable to the Chief Executive Officer in accordance with the terms of employment.

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

25.3 This includes Rs 37,525 thousand (2014 : Rs 35,270 thousand) in respect of employees' retirement benefits.

	2015	2014
(Rupees in '000)		
25.4 Auditor's remuneration		
Statutory and projects' audit	2,300	2,100
Audit of POs	3,830	3,480
Tax services	477	240
	<u>6,607</u>	<u>5,820</u>

25.5 General and administration expenses include Rs 166,305 thousand (2014: Rs 108,564 thousand) incurred on different programme activities as disclosed in note 17.

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	2015	2014
26. SEMINARS, WORKSHOPS AND TRAININGS	(Rupees in '000)	
Training	19,198	17,615
Seminar and workshops	10,621	22,702
	<u>29,819</u>	<u>40,317</u>

26.1 Seminars, workshops and training expenses include Rs 24,259 thousand (2014: Rs 12,492 thousand) incurred on different programme activities as disclosed in note 17.

27. TECHNICAL AND OTHER STUDIES

Technical and other studies include Rs 126,519 thousand (2014: Rs 121,865 thousand) incurred on different programme activities as disclosed in note 17.

	2015	2014
28. PROJECT AND RELIEF ACTIVITIES	(Rupees in '000)	
Earthquake relief - note 28.1	36,662	343,388
Flood relief - note 28.2	48,139	289,776
Project and other activities	79,380	30,578
Project activities for PRISM (IFAD)	54,449	-
Project activities for MIOP (IFAD)	-	2,283
	<u>218,630</u>	<u>666,025</u>

28.1 This represents expense incurred on earthquake relief activities carried out in districts Awaran and Kech of Balochistan province through the PO - National Rural Support Programme (NRSP).

28.2 This represents expense incurred on flood relief activities carried out in district Narowal of Punjab province through various POs.

	2015	2014
29. PROVISION AGAINST LOANS/SERVICE CHARGES	(Rupees in '000)	
Provision against loans to POs	19,597	27,524
Provision against service charges receivable	7,051	-
	<u>26,648</u>	<u>27,524</u>

30. FINANCIAL CHARGES

On long term loans	113,917	100,034
Imputed interest on below market rate long term loan	99,697	73,860
Bank charges	1,800	1,228
	<u>215,414</u>	<u>175,122</u>

31. MOVEMENT IN RESERVE FOR GRANT BASED ACTIVITIES

Income earned during the year on grant fund investments	614,431	494,105
Less: Expenditure on project and relief activities - note 27	218,630	666,025
	<u>395,801</u>	<u>(171,920)</u>

32. 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 normal course of business pays for electricity, gas and telephone (utility bills) to entities controlled by Government of Pakistan which are not material, hence not disclosed in these financial statements.

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33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

33.1 Financial assets and liabilities

	2015			2014		
	Held to maturity investments	Loans and receivables	Total	Held to maturity investments	Loans and receivables	Total
----- (Rupees in '000) -----						
Financial Assets:						
Maturity upto one year						
Current maturity of long term investments	286,400	-	286,400	-	-	-
Current maturity of loans to Partner Organizations	-	11,467,824	11,467,824	-	11,169,061	11,169,061
Short term investments	11,064,519	-	11,064,519	11,380,705	-	11,380,705
Advances, deposits and other receivables	-	36,146	36,146	-	46,254	46,254
Profit/service charges receivable	-	1,177,959	1,177,959	-	895,193	895,193
Bank balances - specific to projects	-	3,291,088	3,291,088	-	8,446,212	8,446,212
Cash and bank balances	-	114,031	114,031	-	181,942	181,942
Maturity after one year						
Long term investments	2,975,000	-	2,975,000	1,586,400	-	1,586,400
Long term loans to Partner Organizations	-	1,528,948	1,528,948	-	1,919,650	1,919,650
	<u>14,325,919</u>	<u>17,615,996</u>	<u>31,941,915</u>	<u>12,967,105</u>	<u>22,658,312</u>	<u>35,625,417</u>
Financial Liabilities:						
		Other financial liabilities			Other financial liabilities	
Maturity upto one year						
Deferred liabilities - grant fund	-	3,155,221	3,155,221	-	8,304,497	8,304,497
Current portion of long term loans	-	791,181	791,181	-	653,734	653,734
Service and commitment charges payable	-	27,182	27,182	-	28,355	28,355
Accrued and other liabilities	-	61,429	61,429	-	108,906	108,906
Maturity after one year but before five years						
Long term loans	-	5,043,274	5,043,274	-	3,988,034	3,988,034
Maturity after five years						
Long term loans	-	9,192,593	9,192,593	-	10,812,580	10,812,580
	-	<u>18,270,880</u>	<u>18,270,880</u>	-	<u>23,896,106</u>	<u>23,896,106</u>
Off balance sheet items:						
Commitments	-	11,502,809	11,502,809	-	14,547,094	14,547,094

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34. Credit quality of financial assets

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

	Name of Credit rating Agency	Rating	2015 Balance Rs in '000	2014 Balance Rs in '000
Investments				
Counterparties with external credit rating				
	PACRA	A1+	5,527,973	3,074,000
	JCR-VIS	A-1+	2,393,999	3,118,000
	PACRA	A1	280,000	2,000,000
	JCR-VIS	A1	320,000	-
	JCR-VIS	A-2	250,000	250,000
Securities issued/supported by Government of Pakistan			5,553,947	4,525,105
			<u>14,325,919</u>	<u>12,967,105</u>
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	188,828	246,453
	JCR-VIS	A-1+	3,216,072	8,381,290
	PACRA	A1	-	62
	JCR-VIS	A-2	150	319
Balance with National Saving Centre			11	11
			<u>3,405,061</u>	<u>8,628,135</u>
Loans to Partner Organizations				
Counterparties with external credit rating				
	JCR-VIS	A-1	494,000	570,000
	JCR-VIS	A-2	142,500	546,250
Counterparties without external credit rating - Counterparties with no defaults in the past			12,330,272	11,972,461
			<u>12,966,772</u>	<u>13,088,711</u>
Profit/service charges receivable				
Counterparties with external credit rating				
	PACRA	A1+	172,413	75,673
	JCR-VIS	A-1+	98,352	88,704
	PACRA	A1		43,498
	JCR-VIS	A-1	31,145	
	PACRA	A-1	1,312	
	JCR-VIS	A-2	17,778	20,755
Securities issued/supported by Government of Pakistan			341,899	152,547
Counterparties without external credit rating - Counterparties with no defaults in the past			515,060	514,016
			<u>1,177,959</u>	<u>895,193</u>

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34.1 Financial risk management

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

a) Concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to loans to partner organizations, 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 13,912,719 thousand (2014: Rs 13,985,061 thousand) (including loans to five major POs of Rs 7,299,601 thousand; 2014: five major POs of Rs 7,282,193 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.

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 financial liabilities are disclosed in note 33.1.

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 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 27,350,901 thousand (2014: Rs 27,312,678 thousand) and financial liabilities include balances of Rs 15,027,048 thousand (2014: Rs 15,454,348 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 123,239 thousand (2014: Rs 118,643 thousand) higher/lower.

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(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) 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.

34.2 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.

35. CONTRIBUTORY PROVIDENT FUND

Details of Employees' Provident Fund are as follows:

	<u>2015</u>	<u>2014</u>
	(Rupees in '000)	
a) Size of the fund:		
- Net assets	106,309	77,463
- Total assets	<u>110,080</u>	<u>97,260</u>
Cost of investments made	<u>89,518</u>	<u>86,850</u>
Percentage of investments made to total assets	<u>81%</u>	<u>89%</u>
Fair value of investments made	<u>89,518</u>	<u>86,850</u>

	<u>2015</u>		<u>2014</u>	
	(Rupees in '000)	%	(Rupees in '000)	%
b) Breakup of investments - at cost				
National Saving Scheme	85,921	96	38,477	44
Balance with banks	3,597	4	48,373	56
	<u>89,518</u>	<u>100</u>	<u>86,850</u>	<u>100</u>

c) 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.

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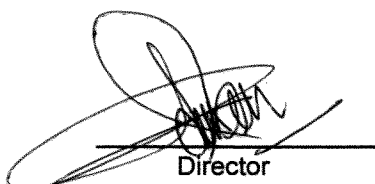
36. NUMBER OF EMPLOYEES

Total number of employees at the end of the year were 217 (2014: 219). Average number of employees during the year were 222 (2014: 218).

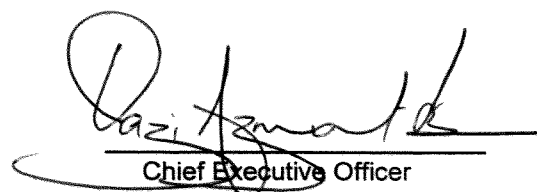
37. DATE OF AUTHORISATION

These financial statements were authorized for issue by the Board of Directors of the Company on 21 SEP 2015.

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Director



Chief Executive Officer