

DIRECTORS' REPORT

& Audited Financial Statements

For the year ended June 30, 2013



Pakistan Poverty Alleviation Fund

1 Hill View Road, Banigala, Islamabad, Pakistan
Phone: +92 51 111 000 102
Fax: +92 51 2613931-33
Web Site : www.ppaf.org.pk





UN-AUDITED FINANCIAL STATEMENTS

Attachments:

Page No.

- **Directors' Report**

- Strategic Framework
- Corporate Governance Framework
- Business Risk and Challenges
- Developing Linkages
- Key Events/Initiatives
- Future Outlook

- **Financial Statements for the year ended June 30, 2013**

- Auditors' Report to the Members
- Balance Sheet
- Income and Expenditure Account
- Cash Flow Statement
- Statement of Changes in Fund and Reserves
- Notes to the Financial Statements

PAKISTAN POVERTY ALLEVIATION FUND

DIRECTORS' REPORT

The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the thirteenth Annual Report along with audited financial statements of the Company for the year ended June 30, 2013.

The persistent embittering socio-economic conditions over the past years quivered the economy of the country consequently reducing the resilience of the development sector to confront poverty. The majority of the underprivileged population of the country is living in slum areas struggling on less than 1\$ a day. The prime contributing factors of this tenacious decline are environmental degradation, food insecurity, depletion of natural resources, disparities in health, education and drinking water facilities and rising inequalities. Despite the difficulties confronted in poverty reduction activities, PPAF continued to play a leading role in economic and development progression by providing quality income generating products and allied services to improve people's lives in the country. PPAF is delivering services to the vulnerable meritoriously and proficiently across multiple sectors focusing on microcredit, infrastructure, health, education, livelihood and institutional development. In addition, it also designs and implements effective strategies in a variety of socio-economic contexts, disaster situations and natural calamities.

During the year, PPAF achieved significant results in overcoming poverty and spawning better prospects for sustainable development. PPAF continued its endeavor towards a more result oriented apex institution driven by inspiration and dedication to ensure enhanced alignment with unrelenting and inclusive growth in the development sector. To help meet the country's ongoing and emerging development challenges, PPAF successfully implemented its operational and financial targets addressing various development issues. The main focus remained on three primary strategic approaches: inclusion, sustainable growth and regional integration. PPAF has paid special attention on accomplishing and contributing in realization of the Millennium Development Goals (MDGs) with a particular focus on marginalized communities, especially women.

PPAF emphasizes its commitment towards its main objective of alleviating poverty through continued focus on its rigorous and sustainable efforts for the disadvantaged. PPAF has succeeded in marking its presence in almost every district of the country. This outreach is accomplished by deploying a diverse range of products and services like social mobilization, institutional development and individual empowerment essential for overarching impact in poverty reduction. The emphasis remained on delivering customized solutions tailored to address specific constraints of poor households and communities and at the same time, be culturally sensitive and contextually relevant. PPAF's multifaceted role as a vanguard institution has paid special attention in rendering development resources to the poor through cost effective and efficient delivery mechanisms. This approach has safeguarded the trust and confidence of all stakeholders, including the Government of Pakistan, international bilateral and multilateral donor agencies, private and corporate sector institutions, partner organizations along with the deprived communities.

Programme Review:

PPAF continued to maintain a resilient financial position over the past year. PPAF's operations demonstrated impressive performance which was manifest from the strong asset base, improved equity

Fig 1: Disbursements

Description	Rs. Million		Variance (%)
	JUN 30, 2013	JUN 30, 2012	
Disbursements for operations:			
Loans (micro credit & EDF)	11,589	13,549	-14
Grants	6,079	6,436	-6
- Water and infrastructure grant	1,243	1,271	-2
- Education & health grant	758	830	-9
- Social mobilization/ID grant	2,644	2,819	-6
- Livelihood enhancement/Disability	1,434	1,516	-5
Total	17,668	19,985	-17

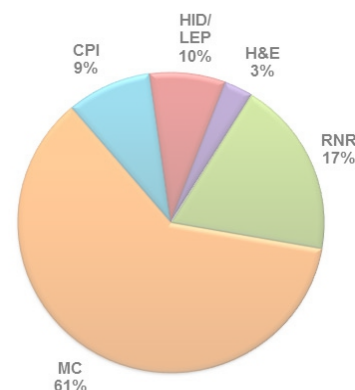
and sustained returns. Total disbursements during the year were Rs 17,668 million as compared to Rs 19,985 million during FY 2011-12, a reduction of 17%. Loan disbursements (microcredit and enterprise development facilities) dipped down to Rs 11,589 million as compared to Rs 13,549 million in FY 2011-12 indicating a decrease of 14%. The steep reduction in KIBOR rate made PPAF lending rates non compatible with the market. The rates were adjusted after getting the necessary approvals of the Board. This affected credit disbursements during the

interim period. Disbursements for grants based interventions (water and infrastructure; health and education; capacity building/social mobilization; livelihood enhancement and protection) were Rs. 6,079 million as against Rs. 6,436 million last year, a reduction of 6% which is systematic yearly variation [fig. 1].

During the period under review, PPAF financed over 888,000 microcredit loans; 1,229 water and infrastructure projects were completed; 1,377 health and education projects were supported; 35,261 community organizations were formed/revitalized, 127,506 staff and community members were trained; 24,500 assets were transferred to poor households and 2,346 persons with disabilities rehabilitated.

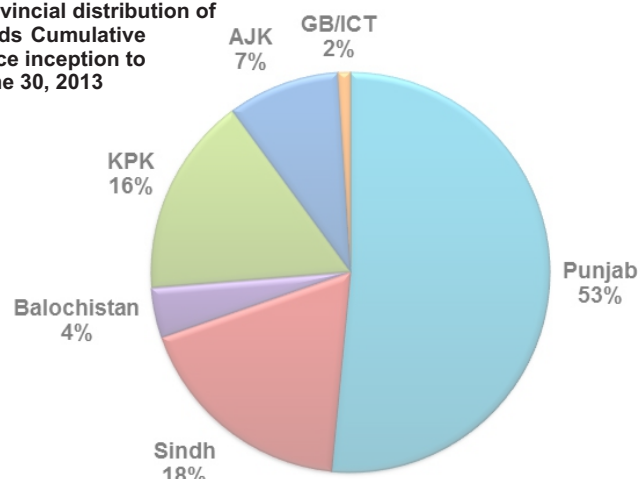
Cumulative disbursements since inception to June 30, 2013, stood at Rs 129,983 million out of which credit and enterprise development was 61% followed by relief, rehabilitation and reconstruction activities (17%); human and institutional development (including social mobilization)/livelihood enhancement and protection (10%); community physical infrastructure (9%) and health & education (3%) [fig. 2].

Figure 2
Share of funds disbursed



The 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, 2013, 53% of the funds were allocated in Punjab, 18% in Sindh, 16% in Khyber Pakhtunkhwa (KPK), 4% in Balochistan; 7% in Azad Jammu and Kashmir (AJK); 1% each in Gilgit Baltistan (GB) and Islamabad Capital Territory (ICT) [Fig 3].

Figure 3
Provincial distribution of funds Cumulative since inception to June 30, 2013



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 72% of the total share followed by Sindh 21%, KPK 6% and GB 1%. The yearly and cumulative pattern is almost consistent [Fig 4].

Figure 4 - Provincial distribution of Microcredit funds

PROVINCE	MICROCREDIT	
	2012-13	Cumulative
AJK	0%	1%
BALUCHISTAN	0%	2%
KPK	6%	4%
GB	1%	1%
PUNJAB	72%	70%
SINDH	21%	22%
TOTAL	100%	100%

The grant based interventions are for the communities which lack in the basic social and infrastructure

facilities in the first place. PPAF basic social and infrastructure grants provide help to pro poor communities to uplift and become part of the mainstream. During the year, grant funding was allocated in line with PPAF's strategy which focuses on deprived districts. 36% of the funds were allocated in Punjab, 28% in KPK, 22% in Sindh, 10% in Balochistan, 3% in GB and 1% in AJK. 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

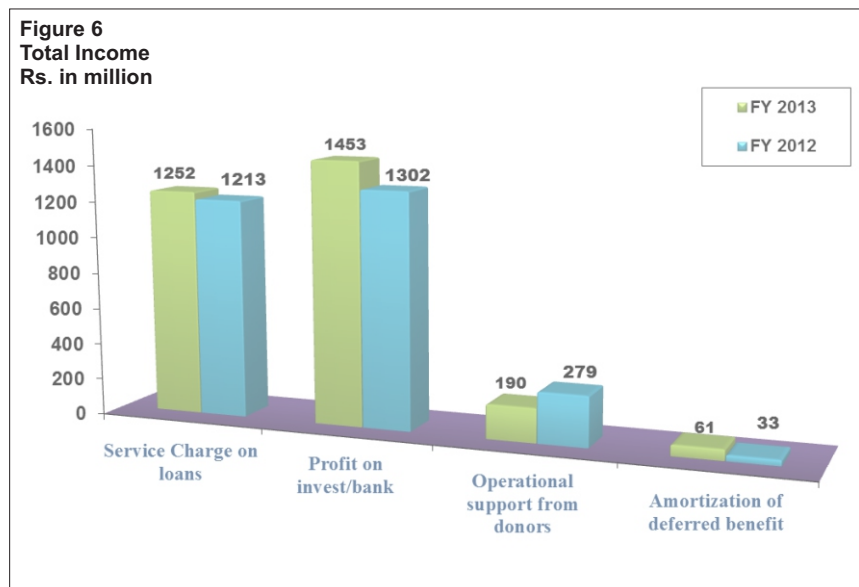
PROVINCE	GRANT	
	2012-13	Cumulative
AJK	1%	18%
BALUCHISTAN	10%	7%
KPK	28%	33%
GB	3%	4%
PUNJAB	36%	23%
SINDH	22%	15%
TOTAL	100%	100%

By the end of June 2013, PPAF had expanded its partnership with 127 partner organizations which deployed resources in both urban and rural areas of 121 districts of the country. Aggregately, PPAF enumerated a record spread of 5,900,000 microcredit loans, of which 2,728,000 were to women, completed 28,528 water and infrastructure projects, supported and financed 2,459 health and education facilities, transferred 41,687 assets to poor and trained 758,933 staff and community members nationwide. In provision of addressing the natural crisis within the country, PPAF provided record financing to 122,000 households during the previous years for construction of earthquake resistant homes and to build capacities of over 100,000 individuals in seismic construction and related skills.

Operational and Financial Highlights

As a non-profit institution, PPAF seeks to maximize profits and earn enough income to ensure its financial strength and sustain its development activities.

PPAF's income rose from Rs. 2,794 million in the fiscal year 2012 to Rs. 2,896 million in 2013, increase of 4%. The service charges (profit) on loan to partner organizations increased by 3% due to impact of high rates. Income on investments and saving accounts increased by 12% due to enhanced level of



investments and reserves. During the year, grant of Rs 190 million was made available by Government of Pakistan and donor agencies for financing incremental expenses.

Loan (payable by PPAF) was carried at present value computed at market based interest rate. The difference between present value and loan proceed was recorded as deferred benefit which was recognized as income over loan period. Amortized income during the year was Rs 61 million (FY 2011-12 : Rs 33m).

The general and administrative expenses relate to the operations of PPAF. During the year Rs 508 million were spent on carrying out the general operations of the Company as against Rs 435 million during the preceding year, an increase of 17%. The main increases were in salaries/benefits, travel and vehicle running/maintenance expenses.

Fig 7: Financial results are summarized as follows:
(Rs. in million)

	2013	2012
Service charges on loans to partner organizations	1,252	1,213
Income on investments and saving accounts	1,392	1,269
Amortization of deferred income - grant fund	190	278
Amortization of deferred benefit of below market rate of interest on long term loan	61	33
Other income	-	1
Total income	2,896	2,794
General and administrative expenses	508	435
Seminars, workshops and trainings	38	41
Technical and other studies	103	100
Project and relief activities	108	472
Loan loss provision	33	223
Financial charges	153	148
Total expenditure	944	1,419
SURPLUS FOR THE YEAR	1,953	1,375

The salaries, wages and other benefits increased due to annual increments to existing employees to provide relief against higher cost of living and recognition of their work performance; as well as hiring of additional staff for managing expansion in core operations and new activities under different projects. Travel expense increased due to extensive appraisal and monitoring visits in view of high cumulative disbursements and enhanced activities. The increase in running/maintenance expenses were on account of high POL charges.

Seminar, workshops and training expenses of Rs 38 million (FY 2011-12 : Rs 41m) included Rs 16 million (FY 2011-12 : Rs 15m) spent on trainings and Rs 22 million (FY 2011-12 : Rs 26m) incurred on seminar and workshops. An amount of Rs 103 million (FY 2011-12 : Rs 100m) was incurred on technical/other studies while Rs 108 million (FY

2011-12 : Rs 472m) was spent on project and relief activities financed from PPAF own resources. The loan loss provision of Rs 33 million (FY 2011-12 : Rs 223m) was made against loans and interest receivable which were considered doubtful. The financial charges of Rs 153 million (FY 2011-12 : Rs 148 m) included commitment and service charges on long term loan and bank charges. Total expenditure decreased by 33% to Rs 944 million (FY 2011-12 : Rs 1,419m). Surplus for the year was Rs 1,953 million as against 1,375 million in FY 2011-12, indicating an increase of 42%.

Financing Agreements signed with the Government of Pakistan (GoP) required repayment of loan amounts alongwith service and commitments charges from PPAF on the stipulated rates each year. PPAF is current in all its repayments to GoP. During the year, Rs. 467.610 million (FY 2012: Rs. 288.613 m) was repaid on account of principal amount of loan and Rs 98.55 million (FY 2012 : Rs 116.094 m) as service/commitment charges to the GoP.

Over the years PPAF strived to attain operational and financial sustainability to provide support to activities vital in alleviating poverty. In this direction, PPAF strengthened its microcredit function through engagement of its reflows coming in the form of repayments from its partner organizations. During the year, out of total credit disbursements of Rs 11,589 million, an amount of Rs 9,763 million (84%) was disbursed from PPAF reflows/own resources.

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 is held in investments and interest earned thereon is used for grant based health, education, infrastructure, emergency and any other activity that falls within the overall strategic purview of PPAF objectives. As at June 30, 2013 the reserve increased by 28% to Rs 4,854 million as against Rs 3,804 million as at June 30, 2012. The interest income on the reserve rose to Rs. 754 million from Rs. 400 million during the year.

Total equity and reserves increased by 22% to Rs 10,858 million as at June 30, 2013 from Rs 8,905 million as at June 30, 2012. Total assets of the Company reached Rs. 31,656 million on June 30, 2013 against Rs 27,091 million as at June 30, 2012, an increase of 17%. Total receivables (loan/service charges) were Rs 13,300 million on June 30, 2013 as against Rs 13,434 million as at June 30, 2012. The debt equity ratio stood at 58:42 (FY 2011-12: 63:37).

Auditors:

The present Auditors M/s A. F. Ferguson and Company, Chartered Accountants, have completed their assignment for the financial year ended June 30, 2013 and shall retire at the conclusion of 17th Annual General Meeting. The Audit Committee considered and recommended their re-appointment for the financial year ending June 30, 2014. The Board also endorsed the recommendations of the Audit Committee.

Conclusion:

At the highest level, PPAF remained fully aligned with the broader national macro-economic and development framework of the Government of Pakistan, and at the lowest level it addressed the development needs of the union council - the lowest tier of administration in the country - which is PPAF's basic level of intervention. PPAF demonstrated solid competencies and continued to post good results and has shown strong capacities in helping the poor. The multi-sector operations of PPAF fostered improvements in lives of the poor thereby enhancing their social status. While the interventions continued to target the core strategic priorities the emphasis remained on delivering customized solutions tailored to address specific constraints of households and communities and at the same time, be culturally sensitive and contextually relevant. PPAF's performance in terms of its institutional development remained impressive. The previous track record showed PPAF as an institution striving to facilitate poor through cost effective and efficient delivery and secured trust and confidence of all stakeholders.

Acknowledgement:

The insightful determination, intensive participation and enduring commitment of the Board Members contributed significantly to the success of the Company. I would like to thank the Board members for their corporation, wisdom, support, able guidance and as well as the assistance and co-operation in benefit of the Company at all levels. I am confident that this relationship will go a long way to reap fruitful prosperity of the Company.

The Board also likes to appreciate inimitable guidance of the Members of the General Body for the betterment of the Company and also look forward to their continuous support. The Board would also like to praise the partner organizations and their communities for their commitment towards the success of the programme.

PPAF has been particularly fortunate to benefit from the extraordinary facilitation, support and autonomy extended to it by the Government of Pakistan. In the same manner, The institution has enjoyed the trust and confidence of our financing partners – the World Bank, International Fund for Agricultural Development, and Government of the Federal Republic of Germany (through KfW). We are grateful for their constructive engagement and proactive support. The Board looks forward to the persistent support of all the stakeholders in order to align the Company activities with its strategic vision. The Company continues to add to the stakeholders' value while being a socially responsible entity, dispensing its corporate roles and responsibilities.

We are proud of all the employees of the Company for their dedication and determination. With unmatched performance, devotion and participative leadership style, they made significant contribution towards the result achieved by the Company during the year.

We realize that the scale we have reached make us a significant factor not only on the development sector of Pakistan, but in the country's economy as well. The broad range of our impact brings a big responsibility as well. Accomplishment is not an end-result for us; it is an everlasting quest, one that will continue to have us reach for new horizons and surpass new milestones.

Islamabad
September 10, 2013

Hussain Dawood
Chairman

Strategic Framework

As an apex organization, the role of PPAF is to act as a wholesale intermediary and sector developer, while its partner organizations undertake implementation of projects at the retail level. PPAF's flexible and dynamic strategy strives for enhancing its impact to address the multi-dimensional issues of poverty with a view to achieving social and economic change. PPAF serves its target community by following an integrated approach through various interventions focused on social mobilization, micro-credit, infrastructure, health, education, livelihood enhancement and skills development.

Our organizational strategy focuses on following thematic areas:

- An emphasis on the MDGs
- Addressing spatial dimensions of poverty
- Addressing growth dimensions of poverty
- Reinforcing the writ of the State
- Inclusive and sustainable development
- Institutions of the poor

This strategic framework allows PPAF to focus its energies on specific target groups which are the poor and extremely poor rural and urban communities across Pakistan. We place special emphasis on social inclusion, especially on gender equity and the empowerment of women. We have identified our strategic drivers of change as being closely linked to the achievement of the following MDGs:

Goal 1: Eradicate extreme poverty and hunger

Goal 2: Achieve universal primary education

Goal 3: Promote gender equality and empower girls and women

Goal 4: Reduce child mortality

Goal 5: Improve maternal health

Goal 7: Ensure environmental sustainability

Our Approach & Implementation Strategy:

PPAF's vision includes particular core values which are the foundations of the way we work. These include a focus on democratic governance, voice and accountability and social inclusion. We believe that for our efforts to have a real impact these core values must be shared by our partner organizations, civil society organizations and other community based organizations. PPAF promotes a holistic approach to poverty alleviation, which is aligned closely with Pakistan's commitment to the MDGs. We place emphasis on integrated development programs that generate a broad and deep socio-economic impact at the community level. Our implementation approach thus involves a focus on each of the following areas:

- Integrated, multi-sectoral planning

- Provincial, regional strategies
- Preference for local indigenous partners
- Redefining POs as principals or associates
- Focus on union councils as the unit of PPAF interventions
- Quality of community institutions as the basis for resource allocation
- Ensuring rights-based and participatory development approaches

Based on re-evaluation of organizational strategy PPAF shifted its focus on the high priority districts across the country, using three key parameters: a) the human development index b) the level of food insecurity as measured by the UN and c) Government of Pakistan's own identification of the poorest districts in country. As a result, the attention was immediately drawn on the province of Balochistan along with FATA, which has the highest number of high priority districts.

Our implementation strategy is situated within the socio-political and physical landscape of Pakistan. We have developed integrated, multi-sectoral strategies for each province, and within provinces, to cluster areas together on the basis of physical, environmental, social and economic mapping. The focus of these strategies is on the following:

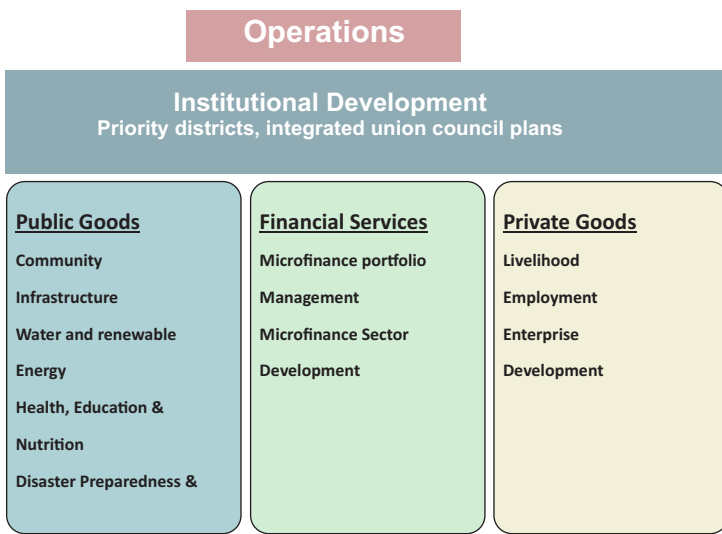
- a) Ultra-poor and vulnerable communities move out of acute poverty and have significantly improved human development levels.
- b) Increased access to financial services and strengthened linkages to provincial, national and international markets.
- c) Empowerment of local communities through the strengthening of effective and sustainable institutions for and of the poor which are based on a set of core values.
- d) To promote good governance and peace.
- e) To develop civic infrastructure in the agencies and create a diverse economic base and business environment that builds on local assets, skilled workforce, innovation and value added production.

Programme Framework:

PPAF programme/operations are clustered in three groups which cater the financial and nonfinancial needs of the poor:

- **Public Goods and Services**
Manage the portfolio of public investments including health, education, small scale water and infrastructure, disaster preparedness and management.
- **Financial Services**
Manage the lending function.

- **Livelihood Employment and Enterprise Development**
Manage livelihood, employment and enterprise development.



- Emergency response, disaster management and disaster risk reduction.

Financial Services Group facilitates delivery of targeted financial services to the poor, while simultaneously seeking to develop the sector nationally through building institutional capacities and introducing innovative solutions for continued growth. Keeping in with the dynamism of the sector, PPAF has successfully remodeled itself to remain at forefront in the promotion of microcredit sector through facilitating capital access within a carefully strategized institutional framework at the grassroots. To cater the ever growing demand for on-lending purposes, subsidized lending facility has been introduced as a special incentive to improve outreach in the least developed segments of society and districts. PPAF offers attractive terms to commercial sector entities for long term investments in the sector, promotes innovative models of outreach and delivery of financial services to the poor, builds capacities of promising new partners, and prepares current partners to excel in an increasingly competitive market.

Institutional Development/Social Mobilization

Community mobilization being the core of all interventions lies at the heart of all PPAF development initiatives. PPAF is model-neutral allowing the contextual variation across country and the type of processes its partners adopt for facilitating growth of community institutions. The community organizations provide the poor with an effective platform to voice demands, pool savings, plan investments and manage development projects, enabling them to take those crucial first steps on the long road to empowerment while on the wider economic landscape, provide linkages to extract maximum benefits from donor agencies, political representatives and government functionaries. Institutional development is a broad scale program engaging people's participation in achieving a specific development goal through self-reliant efforts. It takes into account the felt needs of the people, embraces the critical principle of community involvement, and seeks to empower individuals and groups for action.

Public Goods focuses on the following areas for better service delivery to the targeted ultra-poor and poor communities:

- Addressing the spatial dimension of poverty and overcoming the friction of space
- Seek inter sector/broader poverty outcomes.
- Catalyzing local intensity of investment through rural growth poles/centers strategic shift from small scale standalone infrastructure schemes to comprehensive union council solutions.
- Strategic revamp of health and education to add value.
- Promoting and mainstreaming renewable energy interventions.

Private Goods cover several initiatives including:

- Livelihood Enhancement and protection which support poor households through (i) asset provision; (ii) skill training; (iii) basic enterprise training; (iv) formation/ strengthening of community interest groups; and (v) provision of community livelihood fund for expansion and establishment of common facilities.
- Enterprise Development by graduating income generation and microenterprises through (i) PPAF's trade facilitation and enterprise promotion; (ii) assisting POs for value chain assessments and analysis for selected sectors and sub-sectors and finalization of economic development plans for village, union council and district (iii) designing and promoting business franchises/social enterprises.
- Employment Enhancement including support to women, youth, persons with disabilities through (i) building POs capacity to programme for decent work and worker's rights (ii) supporting innovative interventions e.g. vocational trainings, Naukari ya Karobar Centers with labour market analysis, certifying rural skills centers, trainings and placements, green jobs and support for environment.

Compliance/Results Framework:

PPAF is profound in delivering results to impact the lives of the poor in real terms. To ensure consistency and effectiveness of its interventions PPAF has developed a set of control mechanisms which provide guidance and allow PPAF to have an

effective control over the implementation process.

RESULT FRAMEWORK

Quality Assurance	Institutional Values	Financial Accountability
<ul style="list-style-type: none"> Monitoring, Evaluation and Research Environmental and Social Management & Compliance Integrated MIS 	<ul style="list-style-type: none"> Inclusion Participation Governance Transparency Sustainability 	<ul style="list-style-type: none"> Three levels of audit Transparency and disclosure Legal & operational compliance

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 partner organizations 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.

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.
- Corporate governance and risk frameworks compatible with best national and international practices.

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 partner organizations 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.

Best Corporate Practices:

PPAF ensures best practices of corporate governance by adopting a set of processes, custom and policies, to direct and control management activities with good business sense, objectivity, accountability and integrity. PPAF believes in openness and transparent reporting to the stakeholders to empower them in exercising their lawful rights.

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.

During FY 2012-2013 annual audited financial statements alongwith Directors' Report as well as quarterly and half yearly and nine monthly un-audited financial statements alongwith Management Reviews, were endorsed and circulated to 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 an accurate and timely manner

Corporate Governance:

PPAF enforced a well-defined corporate governance structure that works for the benefit for all the stakeholders by ensuring that the Company adheres to accepted ethical standards and best practices as well as to formal law.

The Company remained committed 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:**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 eleven Members including the Chairman and the Chief Executive Officer. Of these, three were nominated by the Government; seven 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

The Board is copiously aware of the colossal errands conferred on them for increasing efficiency of the Company and safeguarding its assets. 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 partner organizations; quarterly progress; annual work plans, targets and budgets; un-audited financial statements alongwith Management Reviews; audited financial statements alongwith Directors and Auditors Report

Meetings of the Board

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

During the year the Board held five meetings, agendas of which were circulated in a timely manner beforehand. Decisions made by the Board during the meetings were clearly stated in the minutes of the meetings maintained by the Company Secretary, which were duly circulated to all the Directors for endorsement and were approved in the following Board meetings. All meetings of the Board had the minimum quorum attendance as stipulated in the Articles of Association. The Chief Financial Officer/Company Secretary attended the meetings of the Board in the capacity of non-director without voting entitlements as required by the Code of Corporate Governance.

Appointment of Directors:

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

Change of Directors:

The Board places on record its appreciation for the valuable contributions made by the outgoing Directors Mr. Rafiud Deen Ahmad, Mr. Zubyr Soomro, Mr. Asif Qadir and Mr. Abdul Khaliq towards progress of the Company. The Board also welcomes the new Directors, Mr. Aijaz Ahmed Qureshi, Dr. M. Suleman Shaikh and Mr. Khizar Hayat Gondal. We look forward to working in partnership with them to benefit from their vision and valued experience which we are confident will go a long way in the future growth and prosperity of the Company.

Directors	Total No. of Meetings	*Meetings Attended
Mr. Hussain Dawood (Chairman)	5	5
Dr. Nuzhat Ahmed	5	3
Mr. Khizar Hayat Gondal	2	0
Mr. Iftikhar Ahmad Rao	4	0
Dr. Naved Hamid	5	0
Dr. Rajab Ali Memon	5	3
Dr. Aisha Ghaus Pasha	5	2
Mr. Aijaz Ahmed Qureshi	3	3
Dr. Suleman Shaikh	3	3
Mr. Qazi Azmat Isa (CEO-PPAF)	5	5

* Meeting held during the period concerned Directors were on the Board

Board Committees

Board Audit Committee:

The Committee 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 composition of the Audit Committee entails four non-executive members of the Board. The Chairman is an independent non-executive Director. The Chief Internal Auditor acts as Secretary of the Committee.

During the year, Committee reviewed and discussed assertions on system of internal controls, internal audit reports, risk management and audit process besides recommending for Board's approval, annual work plan of internal audit; appointment of external auditors; un-audited condensed interim financial statements alongwith Management Review; audited financial statements alongwith Auditors' and Directors' Reports of the company; and project specific audited financial statements as per donors requirements. The Committee held separate meetings with the Chief Financial Officer and the External Auditors to discuss issues of concern.

Board Compensation Committee:

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

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

During the year the Committee reviewed and recommended for Board's approval, annual increment for the employees; appointment of group heads; revised organogram and creation of new livelihood, enhancement and employment group. The Chief Executive Officer and other management employees were 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.

During the year, the Committee reviewed and recommended for Board's approval, revised pricing policy for the microfinance loan portfolio; per part exposure limits; new clauses of financing agreements for for-profit institutions.

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.

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

Human Resource:

PPAF's human resource management is prudently involved in performing the key responsibilities of investing continuously in its Human Capital. In addition, HR is also contributing effectively towards productivity and capacity enhancement of employees through a highly transparent and competitive recruitment process and then encouraging them to attain new levels of excellence through job enrichment and focused trainings.

Treasury Management

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. Treasury is responsible for implementing and ensuring compliance with the policies/framework established by the Board for the management of credit exposures. Treasury as a separate management function plays a key role to maintain liquidity and reduce the risk related to cash flow through regular monitoring of inflows and outflows. 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.

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:

Strategic Risks:

Strategic risk is the 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 well equipped strategic plan in hand which is developed on a five year basis and updated/revised on yearly basis.

Operational Risks:

Operational risk is the risk of loss resulting from inadequate or failed internal processes. These include the risks relating to people, systems, or external events and legal risks. By adopting an integrated approach, PPAF ensures that all operational risk management initiatives are sustainable processes aligned with the corporate strategy, and not unrelated tactical developments.

Financial Risks:

Financial Risks are divided in the following categories:

Credit risk:

Credit risk is the potential financial loss due to default of one or more debtors. Credit risk is the largest source of risk for the Company arising from

lending to partner organizations and treasury operations. PPAF manages the credit risk on loans by defining exposure limits to financing so as to maintain an adequately diversified portfolio with partner organizations. In this percept a performance based criteria has been adopted for selection of partner organizations. The risk is further controlled and managed by regularly monitoring the exposure limits of the partner organizations. The credit risk on investments and bank balances is managed through a framework of exposure limits based on the counterparty credit rating and size defined in the standards set by the Board of Directors.

Currency risk:

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

Interest / mark-up rate risk:

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

Liquidity risk:

Liquidity risk appears resulting from insufficient funds to meet cash flow as it falls due. PPAF's approach to manage liquidity risk is to ensure it will always hold sufficient liquid resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. PPAF maintains a prudential minimum level of liquidity based on the projected net cash requirements. The Company strikes a balance between generating adequate investment returns and holding securities that can be easily liquidated for cash if required. Moreover, the Company's financial position strongly supports its balanced approach

Risk Governance:

The roles and responsibilities related to risk management program are outlined in our risk governance structure.

Board of Directors:

Oversees the risk management process primarily through its committees:

- The Risk Oversight Committee reviews the effectiveness of overall risk management framework including risk policies, strategies, risk tolerance and risk appetite limits.
- The Audit Committee monitors the Company's risk management process quarterly, or more frequently if required, focusing primarily on financial and regulatory compliance risks.
- The 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.

Developing Linkages

PPAF believes that a concerted investment strategy that targets national and multi-national companies, international agencies and foreign donors can boost work being done within the integrated development framework. As part of this strategy, we are focusing on:

- Creating linkages with Corporate Social Responsibility units of local corporations and multinationals, bringing them into a shared vision of development in the country.
- Joint interventions with companies to co-finance particular projects that link in to expanding trade opportunities and value addition to traditional occupations (livestock, farming, etc.)
- Approach international trusts and foundations, and donor governments from across Europe, UK, Middle East and Asia, to raise funds and mobilize resources with a view to encouraging philanthropic investment for the Pakistan.

PPAF has agreed to support (through a co-financing arrangement with – British Asian Trust - BAT) the work of Pakistan Recovery Fund which is focused on post flood rehabilitation and reconstruction activities. At the 5th Anniversary Dinner of BAT held on Feb 11, 2013 at Windsor Castle, PPAF Team was introduced to His Royal Highness the Prince of Wales as the key partner of BAT and supporter of PRF.

Muslim Charity Fund (MCF), a representative body/network of UK based civil society institutions primarily engaged in emergency/humanitarian response and grass root development, signed a Memorandum of Understanding (MOU) with PPAF in February 2013 in London. The objective of the MoU is to assist each other in developing linkages with organizations in both countries (i.e., in UK, Europe and Pakistan) and raise awareness about the work that PPAF and MCF are doing in their different capacities.

PPAF joined hands with Telenor Pakistan and Tameer Microfinance Bank to provide financial services to poor and un-banked communities of Baluchistan, Sindh, Khyber Pakhtunkhwa, Skardu (GB), Punjab and Chirah (ICT). The project focuses on provision of financial services to selected communities by establishing easypaisa shops.

PPAF hosted the 8th Citi-PPAF Microentrepreneurship Awards ceremony in collaboration

with Citibank to help the poor and marginalized communities in becoming masters of their destiny through provision of inclusive microfinance services at their doorstep. Citibank and PPAF are working together for the economic growth and prosperity of the poor and disadvantaged households, who are generally excluded from the mainstream microfinance services.

Key Events/ Initiatives

Microcredit Summit Campaign and PPAF collaborated to launch the global initiative of Seal of Excellence for poverty outreach and transformation in Pakistan, which will recognize those microfinance institutions doing the most to help poor households lift themselves out of poverty and improve their lives. The accreditation of PPAF partners would result in a globally recognized stamp of quality assurance. It would ensure that the rights of microcredit borrowers are protected and the focus of microfinance institutions remains on impact.

PPAF participated in a seminar on “Self-Employment and Livelihoods for Women in South Asia” organized by Tarayana Foundation in Thimphu, Bhutan. The event focused on women access to land, marketing handicraft for sustainable rural livelihoods, use of appropriate technology for enhanced quality and better market access, use of data and statistics for better understanding of women's economic empowerment and other businesses proposed by members.

PPAF along with State Bank of Pakistan and Pakistan Microfinance Network attended the annual conference on “Building Inclusive Markets: Impact through Enterprise Solutions” arranged by Small Enterprise Education and Promotion (SEEP Network) in Washington. A special session was also arranged on microfinance in Pakistan and discussed the challenges and opportunities in the microfinance sector and praised the achievements of the microfinance sector, potential for growth and pledged government support for the coming years.

PPAF took part in an international conference captioned “Lessons from Indonesia Experience in Disaster Reduction and Preparedness” in Jakarta, Indonesia. Objectives of the conference were to share lessons and knowledge from Indonesian post – disaster experience, distil lessons that could be adapted and replicated in other settings globally and explore how these lessons can be operationalized in other post-disaster and fragile situations.

PPAF was invited to the Impact Investing Summit 2012, held under the aegis of Hanson Wade in Washington DC. The event was aimed at ensuring it as interactive as possible besides providing a networking and knowledge sharing opportunity to participants. It also provided a

unique platform to accelerate progress within organizations and across industries by creating exclusive business conference that brought together the world's smartest thinkers and doers on specific subjects.

PPAF launched the first-ever indexed and hybrid weather micro-insurance products to facilitate and compensate small farmers in Pakistan.

To mark the International Women day, PPAF conferred the Second Amtul Raqeeb Award posthumously to five lady teachers, a medical technician and a lady health visitor, who lost their lives in the line of duty.

PPAF launched its Disaster Management Strategy which focuses on ensuring disaster risk reduction a national priority, identify, assess and monitor disaster risks and enhance early warning, use knowledge, education and innovation to build a culture of safety and resilience at all levels, reduce underlying risk factors and strengthen disaster preparedness for effective response at all levels.

An Annual Retreat for PPAF personnel was arranged with the purpose of team building, learning lessons though peeping into the past and reviewing existing strategies aimed at the betterment of communities with futuristic vision. Comprising professional and support staff, Team PPAF spent the day carrying out a host of constructive activities by involving every member. The Team PPAF was inculcated problem-solving and team building spirit through different simple but fun-filled exercises.

PPAF organized an awareness campaign to emphasize the details about measles and preventive measures for its partner organizations, local support & village organizations, community organizations and its own officials. In this regard PPAF launched a comprehensive radio campaign in Sindhi and Thari languages to sensitize communities about the outbreak of measles and take preventive measures through Radio Pakistan. This radio campaign stresses about the importance of immunization of children, timely diagnosis and treatment of measles

Future Outlook

Having built scale track record and creditably over the last 13 years, as one of Pakistan's premier development institution, PPAF's next challenge is to define its future direction to best meet its goal of poverty alleviation while sustaining the autonomy and independence of the organization. To this end, PPAF will develop a plan (with the assistance reputable consultants) to meet its revamped vision and strategic aspirations indicating the value addition and contribution of existing business lines to the overall strategic goals with the possible expansion internationally as an avenue for growth. The plan would also (i) highlight the key risks and how can they be mitigated (ii) institutionalize a sustainable funding model to support the future strategy, identifying new source of funding likely to be available in the future and the competition that PPAF may face in attracting funding (iii) outline if PPAF continue to rely on and expand its relationship with traditional donors or should explore new funding models (iv) outline the organization of the future identifying the most efficient institutional structure while allowing for easier fund-raising in line with the new strategy (iv) define the overall size of the organization growing forward with a view of possible unbundling of PPAF as potentially a holding company overseeing various stand-alone, separate or specialized entities and (v) identify key performance indicators needed to track and monitor execution of the strategy and performance.

As the Financial Sector has evolved in Pakistan, and is exposed to a new array of opportunities and challenges, the vision of PPAF is commensurately evolving. PPAF sees the opportunity to spur a new era of financial inclusion where technological innovations, progressive operating environment, and the range of institutions operating in Pakistan is now matched with a resurgence in financial penetration and responsible growth of outreach, particularly in untapped markets. In order to achieve this vision, PPAF plans to create a modern, specialized, and innovative structure, which will be an exclusive special purpose vehicle for microfinance sector. In order to achieve this vision, services of international consultants have been hired to identify the optimal design and articulate the costs, benefits, risks, and transformation decisions.

PAKISTAN POVERTY ALLEVIATION FUND
FINANCIAL HIGHLIGHTS

	2013	2012	2011	2010	2009	2008
Outreach - Numbers (Cumulative)						
Partner Organizations	127	116	100	87	77	74
Districts	129	129	128	127	124	117
Loans ('000)	5,900	5,167	5,000	3,600	3,000	2,300
Water & Infrastructure Projects	28,528	26,933	25,500	21,000	18,500	17,000
Disbursements - Rs. in million						
Total disbursements	17,776	20,188	15,733	13,846	13,066	16,697
Microcredit/enterprise development loans	11,589	13,549	10,952	9,048	6,949	9,075
Grants - Core Operations	4,766	5,162	4,215	4,350	2,134	1,951
Grants - Project, Relief & Reconstruction Operations	1,421	1,477	566	448	3,983	5,671
Balance Sheet - Rs. in million						
Total assets	31,656	27,090	24,565	23,629	18,509	18,923
Micro credit/enterprise development loans receivable (Gross)	13,300	13,434	11,755	11,202	9,696	8,302
Investments - specific to endowment fund	1,000	1,000	1,000	1,000	1,000	1,000
investments-specific to projects	3,265	1,845	1,445	600	530	1,050
Investments- specific to grant fund	4,854	3,804	2,572	1,763	-	-
investments - specific to capital adequacy	1,995	2,015	2,351	2,240	-	-
investments - specific to lending activities	1,802	2,543	2,517	1,819	5,225	5,442
Equity and reserves	10,858	8,905	7,530	6,114	4,785	3,755
Long term loans	15,003	15,355	13,761	12,246	11,031	10,770
Operational Results - Rs. in million						
Total income	2,896	2,794	2,485	2,070	1,669	1,314
General and admin expenses	509	435	349	358	274	218
Surplus before provisions for loan loss	1,986	1,599	1,444	1,404	1,266	947
Surplus after provisions for loan loss	1,953	1,375	1,416	1,329	1,030	802
Financial Ratios - Percentage						
Surplus after provision for loan loss / total income	67%	49%	57%	64%	62%	61%
Return on equity	18%	15%	19%	22%	22%	21%
Return on assets	6%	5%	6%	6%	6%	4%
General and admin expenses / total disbursements	2.86%	2.15%	2.22%	2.59%	2.10%	1.31%
General and admin expenses / total income	18%	16%	14%	17%	16%	17%
Debt/equity	58 : 42	63 : 37	65 : 35	67 : 33	70 : 30	74 : 26
Current ratio	5 : 1	8 : 1	7 : 1	4 : 1	6 : 1	4 : 1

PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2013

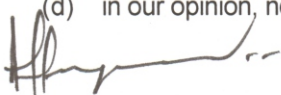
AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Poverty Alleviation Fund (the Company) as at June 30, 2013 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 Company's affairs as at June 30, 2013 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.



Chartered Accountants
Islamabad

Date: September 10, 2013

Engagement partner: M. Imtiaz Aslam

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan
Tel: +92 (51) 2273457-60/2870045-8; Fax: +92 (51) 2277924; < www.pwc.com/pk >

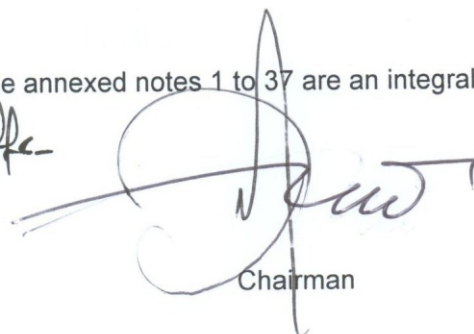
Karachi: State Life Building No. 1-C, I. I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan; Tel: +92 (21) 32426682-5/32426711-5; Fax: +92 (21) 32415007
Lahore: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Lahore-54660, Pakistan; Tel: +92 (42) 35715864-71; Fax: +92 (42) 35715872
Kabul: House No. 1, Street No. 3, Darulaman Road, Ayoub Khan Meina, Opposite Ayoub Khan Mosque, Kabul, Afghanistan; Tel: +93 (779) 315320, +93 (799) 315320

**PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET AS AT JUNE 30, 2013**

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		(Rupees in '000)	
NON CURRENT ASSETS			
Property, plant and equipment	5	78,710	77,350
Intangible assets	6	7,484	6,870
Long term investments	7	886,400	994,000
Long term loans to Partner Organizations	8	<u>3,851,229</u>	<u>2,191,796</u>
		4,823,823	3,270,016
CURRENT ASSETS			
Current maturity of long term investments	7	594,000	3,803,563
Current maturity of loans to Partner Organizations	8	8,579,876	10,360,561
Short term investments	9	11,435,995	6,409,902
Advances, deposits and other receivables	10	83,753	73,416
Profit/service charges receivable	11	848,434	767,994
Bank balances - specific to projects	12	5,196,814	2,263,402
Cash and bank balances	13	93,603	141,893
		26,832,475	23,820,731
		<u>31,656,298</u>	<u>27,090,747</u>
FUND AND RESERVES			
Endowment fund	14	1,000,000	1,000,000
Grant fund		4,853,675	3,803,563
Reserve for grant based activities		754,136	400,467
Accumulated surplus		<u>4,250,432</u>	<u>3,701,440</u>
		10,858,243	8,905,470
LONG TERM LOANS			
	15	13,173,002	13,575,482
DEFERRED BENEFIT OF BELOW MARKET RATE OF INTEREST ON LONG TERM LOAN			
	15.5.1	1,830,404	1,779,819
CURRENT LIABILITIES			
Deferred liabilities - grant fund	16	5,057,363	2,242,391
Deferred income - grant fund	17	5,856	12,113
Current portion of long term loans	15	615,431	467,610
Service charges payable	18	28,655	35,522
Accrued and other liabilities	19	87,344	72,340
		5,794,649	2,829,976
CONTINGENCIES AND COMMITMENTS			
	21	<u>31,656,298</u>	<u>27,090,747</u>

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

APC-


Chairman


Chief Executive Officer

**PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013**


	<u>Note</u>	<u>2013</u>	<u>2012</u>
		(Rupees in '000)	
INCOME			
Service charges on loans to Partner Organizations	22	1,252,014	1,212,646
Income on investments and saving accounts	23	1,392,164	1,268,696
Amortization of deferred income - grant fund	17	190,314	278,299
Amortization of deferred benefit of below market rate of interest on long term loan	15.5.1	61,487	33,334
Other income	24	410	656
		<u>2,896,389</u>	<u>2,793,631</u>
EXPENDITURE			
General and administrative expenses	25	508,426	435,486
Seminars, workshops and trainings	26	38,099	40,916
Technical and other studies	27	102,897	98,830
Project and relief activities	28	108,003	472,117
Provision against loans/service charges	29	33,021	223,457
Financial charges	30	153,170	147,756
		<u>943,616</u>	<u>1,418,562</u>
SURPLUS FOR THE YEAR		<u>1,952,773</u>	<u>1,375,069</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>1,952,773</u></u>	<u><u>1,375,069</u></u>

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

Alfa



Chairman



Chief Executive Officer

**PAKISTAN POVERTY ALLEVIATION FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013**

Note	2013	2012
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year	1,952,773	1,375,069
Adjustment for non cash items:		
Depreciation	29,456	25,183
Amortization of intangible assets	3,202	2,790
Amortization of deferred income - grant fund	(190,314)	(278,299)
Amortization of defined benefit of below market rate of interest on long term loan	(61,487)	(33,334)
Provision against loans/service charges	33,021	223,457
Loss on disposal of property, plant and equipment	-	(416)
Financial charges	153,170	147,756
	<u>(32,952)</u>	<u>87,137</u>
	1,919,821	1,462,206
Working capital changes		
(Increase) / decrease in current assets:		
Advances, deposits and other receivables	(10,337)	(1,157)
Profit/service charges receivable	(125,861)	(85,899)
Increase / (decrease) in current liabilities:		
Accrued and other liabilities	15,004	(23,345)
	<u>(121,194)</u>	<u>(110,401)</u>
Cash generated from operations	1,798,627	1,351,805
Disbursements to partner organizations:		
Loans	(10,168,655)	(13,149,241)
Grants	(6,079,123)	(6,437,611)
Recoveries of loans from partner organizations	10,302,307	11,471,021
Financial charges paid	(98,550)	(116,094)
	<u>(6,044,021)</u>	<u>(8,231,925)</u>
Cash flows from operating activities	(4,245,394)	(6,880,120)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments - net purchases	(1,708,930)	(1,322,782)
Capital expenditure incurred	(35,042)	(50,458)
Proceeds from disposal of propert, plant and equipment	410	998
Cash flows from investing activities	(1,743,562)	(1,372,242)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term loans - received	263,536	2,067,806
Long term loans - repaid	(467,610)	(288,613)
Deferred liabilities - grant fund receipts	8,894,095	5,853,259
Deferred income - grant fund receipts	184,057	258,985
Cash flows from financing activities	<u>8,874,078</u>	<u>7,891,437</u>
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	2,885,122	(360,925)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,405,295	2,766,220
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>5,290,417</u>	<u>2,405,295</u>
Cash and cash equivalents comprise of:		
Bank balances - specific to projects	12 5,196,814	2,263,402
Cash and bank balances	13 93,603	141,893
	<u>5,290,417</u>	<u>2,405,295</u>

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


Chairman

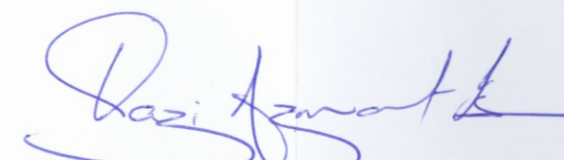

Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF CHANGES IN FUND AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2013

	Note	Endowment Fund	Grant fund	Reserve for grant based activities (Rupees in '000)	Accumulated Surplus	Total
Balance as at July 1, 2011		1,000,000	2,572,148	222,180	3,736,073	7,530,401
Total comprehensive income for the year						
Surplus for the year		-	-	-	1,375,069	1,375,069
Other comprehensive income		-	-	-	-	-
		-	-	-	1,375,069	1,375,069
Transfer from accumulated surplus to grant fund	4.8	-	1,231,415	-	(1,231,415)	-
Transfer from accumulated surplus to reserve for grant based activities	31	-	-	178,287	(178,287)	-
Balance as at June 30, 2012		<u>1,000,000</u>	<u>3,803,563</u>	<u>400,467</u>	<u>3,701,440</u>	<u>8,905,470</u>
Total comprehensive income for the year						
Surplus for the year		-	-	-	1,952,773	1,952,773
Other comprehensive income		-	-	-	-	-
		-	-	-	1,952,773	1,952,773
Transfer from accumulated surplus to grant fund	4.8	-	1,050,112	-	(1,050,112)	-
Transfer from accumulated surplus to reserve for grant based activities	31	-	-	353,669	(353,669)	-
Balance as at June 30, 2013		<u><u>1,000,000</u></u>	<u><u>4,853,675</u></u>	<u><u>754,136</u></u>	<u><u>4,250,432</u></u>	<u><u>10,858,243</u></u>

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


Chairman


Chief Executive Officer

PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. STATUS, BACKGROUND AND NATURE OF OPERATIONS

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

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

2. STATEMENT OF COMPLIANCE

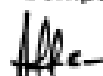
These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under 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 7	Financial instruments: Disclosures (Amendments)	January 1, 2013
IAS 1	Presentation of financial statements (Amendments)	January 1, 2013
IAS 16	Property, Plant and Equipment (Amendments)	January 1, 2013
IAS 19	Employee benefits (Amendments)	January 1, 2013
IAS 27	Separate Financial Statements (Revised)	January 1, 2013
IAS 28	Investments in Associates and Joint Venture (Revised)	January 1, 2013
IAS 32	Financial instruments: Presentation (Amendments)	January 1, 2013 & 2014
IAS 34	Interim Financial Reporting (Amendments)	January 1, 2013
IAS 36	Impairment of assets (Amendments)	January 1, 2014
IAS 39	Financial instruments: Recognition and measurement (Amendments)	January 1, 2014
IFRIC 20	Stripping costs in the production phase of a surface mine	January 1, 2013

The management anticipates that, except for the effects on the financial statements of amendments to IAS 19 "Employee Benefits", the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the Company's financial statements other than in presentation / disclosures.



The amendments to IAS 19 require immediate recognition of actuarial gains / losses in other comprehensive income in the period of initial recognition, this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. Following these changes unrecognised actuarial gains/losses will be recorded immediately in other comprehensive income.

Unrecognized actuarial losses at June 30, 2013 amount to Rs 13,763 thousand.

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:

		Effective date (annual periods beginning on or after)
IFRS 1	First-time adoption of International Financial Reporting standards	July 1, 2009
IFRS 9	Financial instruments	January 1, 2015
IFRS 10	Consolidated financial statements	January 1, 2013
IFRS 11	Joint arrangements	January 1, 2013
IFRS 12	Disclosure of interests in other entities	January 1, 2013
IFRS 13	Fair value measurement	January 1, 2013
IFRIC 21	Levies	January 1, 2014

The following interpretations issued by the IASB have been waived off by SECP effective January 16, 2012:

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.

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 area involving a higher degree of judgment or complexity or area where assumptions and estimates are significant to the financial statements is loan loss provision (note 8), staff gratuity scheme (note 20) and deferred benefit of below market rate of interest on long term loans (note 15.5.1)

App

4.2 Employee benefits

The Company operates the following staff retirement benefits plans:

- (i) The Company operates defined benefit gratuity fund for all eligible employees who complete the qualifying period of service. The fund is administered by trustees. Annual contribution to the gratuity fund is based on Actuarial valuation using projected unit credit method. All contributions are charged to income and expenditure account for the year. Actuarial gains/losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognized over the average remaining service life of the employees. The Actuarial valuation of the scheme was carried out as at June 30, 2013, related details of which are given in note 20 to the financial statements.
- (ii) The Company operates an approved contributory provident fund for all employees for which contributions of Rs 19,464 thousand (2012: Rs 4,768 thousand) are charged to income for the year.

4.3 Taxation

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

4.4 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 Deferred liabilities - grant fund

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

4.6 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 statement of income and expenditure.



4.7 Intangible assets

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

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

4.8 Investments

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

In order to safeguard against major default and provide sufficient capital adequacy, with effect from July 01, 2009, an amount of 15% (2012: 15%) of total loan receivable from Partner Organizations are held in investments. 35% of the surplus funds of the Company, in excess of above investments, are employed for lending activities (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 Organization shall be kept as disaster fund. The disaster fund has been aggregated in the grant fund in the financial statements.

4.9 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% (2012: 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.

4.10 Revenue recognition

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

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



4.11 Receipts - loans and grants

Receipts from the Government of Pakistan (GOP) on account of donors' (International Development Association (IDA) ,International Fund for Agricultural Development (IFAD) and German Financial Cooperation - kfw) projects are recorded on the basis of Financial Monitoring Reports and Statement of Expenses, raised on periodic basis, under relevant categories as specified in the Financing Schedules of the respective Financing Agreements.

4.12 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.

4.13 Borrowing costs

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

4.14 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 income currently.

4.15 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.



4.16 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.

4.17 Financial assets

4.17.1 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 partner organizations, Advances, deposits, prepayments and other receivables, Profit/service charges receivable and cash and bank balances.

(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.

(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.

Handwritten signature

4.17.2 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.

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

4.17.3 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.

4.18 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.

4.19 Cash and cash equivalents

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

APe-

5. PROPERTY, PLANT AND EQUIPMENT

	Furniture & Fixtures	Vehicles	Office Equipment	Computer equipment	Total
	----- Rupees in '000 -----				
At July 1, 2011					
Cost	14,935	66,583	42,238	53,289	177,045
Accumulated depreciation	(10,251)	(41,810)	(25,964)	(40,196)	(118,221)
Net book amount	<u>4,684</u>	<u>24,773</u>	<u>16,274</u>	<u>13,093</u>	<u>58,824</u>
Year ended June 30, 2012					
Opening net book amount	4,684	24,773	16,274	13,093	58,824
Additions	7,989	21,270	5,072	9,960	44,291
Disposals					
Cost	-	(2,388)	(311)	(690)	(3,389)
Accumulated Depreciation	-	2,146	109	552	2,807
	-	(242)	(202)	(138)	(582)
Depreciation charge	(1,883)	(9,674)	(6,057)	(7,569)	(25,183)
Closing net book amount	<u>10,790</u>	<u>36,127</u>	<u>15,087</u>	<u>15,346</u>	<u>77,350</u>
At June 30, 2012					
Cost	22,924	85,465	46,999	62,559	217,947
Accumulated depreciation	(12,134)	(49,338)	(31,912)	(47,213)	(140,597)
Net book amount	<u>10,790</u>	<u>36,127</u>	<u>15,087</u>	<u>15,346</u>	<u>77,350</u>
Year ended June 30, 2013					
Opening net book amount	10,790	36,127	15,087	15,346	77,350
Additions	987	19,916	1,294	9,029	31,226
Disposals					
Cost	(2,768)	-	(2,303)	(4,274)	(9,345)
Accumulated Depreciation	2,578	-	2,267	4,090	8,935
	(190)	-	(36)	(184)	(410)
Depreciation charge	(2,789)	(12,794)	(5,159)	(8,714)	(29,456)
Closing net book amount	<u>8,798</u>	<u>43,249</u>	<u>11,186</u>	<u>15,477</u>	<u>78,710</u>
At June 30, 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>
Annual rate of depreciation (%)	20	20	20	25	

Alfa

6. INTANGIBLE ASSETS

	Satellite Imageries	Computer Software	Total
	----- Rupees in '000 -----		
At July 1, 2011			
Cost	18,547	5,026	23,573
Accumulated amortization	(15,984)	(4,096)	(20,080)
Net book amount	<u>2,563</u>	<u>930</u>	<u>3,493</u>
Year ended June 30, 2012			
Opening net book amount	2,563	930	3,493
Additions	531	5,636	6,167
Amortization charge	(1,945)	(845)	(2,790)
Closing net book amount	<u>1,149</u>	<u>5,721</u>	<u>6,870</u>
At June 30, 2012			
Cost	19,078	10,662	29,740
Accumulated depreciation	(17,929)	(4,941)	(22,870)
Net book amount	<u>1,149</u>	<u>5,721</u>	<u>6,870</u>
Year ended June 30, 2013			
Opening net book amount	1,149	5,721	6,870
Additions	-	3,816	3,816
Amortization charge	(883)	(2,319)	(3,202)
Closing net book amount	<u>266</u>	<u>7,218</u>	<u>7,484</u>
At June 30, 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>
Annual rate of amortization (%)	25	25	

APC

	Note	2013	2012
(Rupees '000')			
7. LONG TERM INVESTMENTS - held to maturity			
Specific to Endowment fund			
Pakistan Investment Bonds (PIBs)	7.1	1,000,000	800,000
Specific to grant fund			
Pakistan Investment Bonds (PIBs)	7.2	236,400	-
Term Deposit Receipts (TDRs)	7.3	50,000	3,803,563
Specific to others			
Pakistan Investment Bonds (PIBs)	7.4	194,000	194,000
		<u>1,480,400</u>	<u>4,797,563</u>
Less: Long term investments maturing within next twelve months shown as current asset		<u>(594,000)</u>	<u>(3,803,563)</u>
		<u>886,400</u>	<u>994,000</u>

7.1 Represents investments in PIBs as follows:

Principal Rupees '000	Issue Date	Maturity Date	Coupon rate % per annum	Payment terms
400,000	29-04-2004	28-04-2014	8.00	Semi annually
400,000	22-07-2010	22-07-2020	12.00	Semi annually
200,000	18-08-2011	18-08-2021	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

7.3 These investments include Term Deposit Receipts of commercial banks at annual markup rate of 10.2% p.a. (June 2012: 10.00% to 14.00% p.a.)

7.4 Represents investments in PIBs as follows:

Principal Rupees '000	Issue Date	Maturity Date	Coupon rate % per annum	Payment terms
194,000	22-07-2010	22-07-2013	11.25	Semi annually

7.4.1 These funds are available for lending activities.

	Note	2013	2012
(Rupees in '000)			
8. LONG TERM LOANS TO PARTNER ORGANIZATIONS - secured			
Considered good		13,102,785	13,224,037
Considered doubtful		197,146	209,546
	8.1	<u>13,299,931</u>	<u>13,433,583</u>
Less: Loan loss provision	8.3	<u>(868,826)</u>	<u>(881,226)</u>
		12,431,105	12,552,357
Less: Amount receivable within next twelve months shown as current asset		<u>(8,579,876)</u>	<u>(10,360,561)</u>
		<u>3,851,229</u>	<u>2,191,796</u>

AP -

	2013	2012
	(Rupees in '000)	
8.1 Break up of loans to Partner Organizations:		
AGAHE	42,083	22,358
Al Mehran Rural Development and Welfare Organization	120,272	66,251
ASA Pakistan Limited	103,115	133,875
Asasah	197,146	209,546
Badbaan Enterprise Development Forum	21,353	11,716
Baidarie	57,321	34,630
BRAC Pakistan	573,360	751,300
Buksh Foundation	31,425	10,000
Bunyard Literacy Community Council	24,817	27,500
Centre for Women Cooperative Development	312,771	156,994
Chenab Development Foundation	-	10,500
Community Support Concern	328,545	244,194
Development Action for Mobilization and Emancipation	903,165	682,459
Dia Welfare Organization	61,275	16,750
Farmers Friend Organization	185,650	113,190
Ghazi Brotha Taraqiatee Idara	28,464	14,602
Jinnah Welfare Society	381,915	361,368
Karwan Community Development Organization	11,856	15,170
Kashf Foundation	2,330,000	2,749,750
Khajji Cooperative Society	11,420	7,920
Khushhali Bank	-	184,053
Khwendo Kor Women and Children Development Programme	10,938	3,490
Kiran Welfare Organization	100	1,500
Marvi Rural Development Organization	-	3,615
Mashal Development Organization	609	751
Mehran Education Society	39,900	23,000
Mojaz Foundation	130,160	54,680
Narowal Rural Development Programme	115,532	35,084
National Rural Support Programme	2,128,748	3,220,548
NRSP Microfinance Bank	1,500,000	1,350,000
Orangi Charitable Trust	91,600	324,300
Organization for Participatory Development	82,128	50,153
Orix Leasing Pakistan Limited	189,116	193,527
Poverty Eradication Network	1,827	2,777
Punjab Rural Support Programme	346,206	307,137
Rural Community Development Society	492,785	420,325
SAATH Development Society	34,792	43,797
Sarhad Rural Support Programme	17,000	10,000
Save The Poor	13,373	19,549
Sayya Foundation	11,300	8,980
Shadab Rural Development Organization	47,250	23,288
Shah Sachal Sami Welfare Association	46,825	16,333
Sindh Agricultural & Forestry Workers Coordinating Organization	487,953	365,123
Sindh Rural Support Organization	583,600	494,593
Sindh Rural Support Programme	-	200
Soon Valley Development Programme	96,725	41,675
Swabi Women Welfare Society	43,667	23,559
Thardeep Rural Development Programme	976,033	517,750
Villagers Development Organization	48,450	28,517
Women Social Organization	30,211	17,956
Young Pioneers Society	7,150	7,250
	<u>13,299,931</u>	<u>13,433,583</u>

APC-

8.2 The Company disbursed 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. During the year the loans were disbursed at a service charge ranging from 4.09% to 10.59% (2012: 8% to 14.25%). Effective April 1, 2013 rates for service charges are revised on the basis of classification of POs into "for-profit" and "not-for-profit" and further sub categories into geographical areas.

	2013			2012
	Specific	General	Total	Total
8.3 Movement of loan loss provision				
Opening balance	209,547	671,679	881,226	657,769
Provision/(reversal) during the year	(12,400)	-	(12,400)	223,457
Closing balance	<u>197,147</u>	<u>671,679</u>	<u>868,826</u>	<u>881,226</u>

	Note	2013	2012
		(Rupees in '000)	
8.4 Movement of loans to Partner Organizations			
Opening balance		13,433,583	11,755,363
Disbursements during the period		<u>10,168,655</u>	<u>13,149,241</u>
		23,602,238	24,904,604
Recoveries during the period		<u>(10,302,307)</u>	<u>(11,471,021)</u>
		13,299,931	13,433,583
Less: Loan loss provision		<u>(868,826)</u>	<u>(881,226)</u>
		<u>12,431,105</u>	<u>12,552,357</u>

9. SHORT TERM INVESTMENTS

Specific to projects	9.1	3,265,000	1,845,000
Specific to grant fund	9.2	4,567,275	-
Specific to others	9.3	<u>3,603,720</u>	<u>4,564,902</u>
		<u>11,435,995</u>	<u>6,409,902</u>

App-

- 9.1 These represent investments in term deposit receipts maturing within one year from the date of investment at annual markup rates ranging from 8.50% p.a. to 10.50% p.a. (2012: 10.50% p.a. to 11.76% p.a.). These funds were placed with commercial banks as cash collaterals for providing a partial guarantee to the Banks to facilitate lending to following Microfinance Institutions. These deposits include Rs 1,999,036 thousand (2012: Rs 1,845,000 thousand) invested out of funds received from IFAD in respect of Programme for Increasing Sustainable Microfinance (PRISM) activities.

Microfinance institutions	Investment amount		Running finance facility	
	2013	2012	2013	2012
	Rupees '000		Rupees '000	
Kashf Foundation	1,000,000	500,000	1,500,000	750,000
National Rural Support Programme	1,250,000	500,000	1,650,000	850,000
Orangi Charitable Trust	150,000	150,000	150,000	150,000
BRAC Pakistan	250,000	250,000	425,000	425,000
Sindh Agricultural & Forestry Workers Coordinating Organization	-	50,000	-	60,000
Asasah	50,000	50,000	50,000	55,000
Jinnah Welfare Society	40,000	20,000	60,000	22,000
Rural Community Development Society	125,000	25,000	188,000	28,000
Development Action for Mobilization and Emancipation	150,000	150,000	225,000	60,000
Community Support Concern	50,000	50,000	75,000	75,000
Thardeep Rural Development Program	100,000	100,000	150,000	150,000
Punjab Rural Support Program	100,000	-	150,000	-
Total	3,265,000	1,845,000	4,623,000	2,625,000

- 9.2 These funds are invested in term deposit receipts maturing within one year from the date of investment, at annual mark up rates ranging from 8.90% p.a. to 10.25% p.a. (2012: 11.24% p.a. to 14.00% p.a.).

9.3 Specific to others	Note	2013	2012
		(Rupees in '000)	
Term Deposit Receipts (TDR)	9.3.1	1,611,557	2,230,174
Government Treasury Bills	9.3.2	1,992,163	2,101,728
Pakistan Investment Bonds (PIBs)		-	233,000
	9.3.3	3,603,720	4,564,902

- 9.3.1 These funds are invested in term deposit receipts maturing within one year from the date of investment, at annual mark up rates ranging from 8.7% p.a. to 12.0% p.a. (2012: 11.24% p.a. to 14.00% p.a.).

- 9.3.2 These funds are invested in Government Treasury Bills maturing within one year from the date of investment, at annual mark up rates ranging from 8.92% p.a. to 9.44% p.a. (2012: 11.78% p.a. to 13.28% p.a.).



9.3.3 Specific to others include investments of Rs 1,994,989 thousand (2012: Rs 2,015,037 thousand) (equivalent to 15% (2012: 15%) of the loan receivable from Partner Organizations) to safeguard against any major default on loan receivable and provide capital adequacy; and Rs 1,608,731 thousand (2012: Rs 2,549,865 thousand) are available for lending activities.

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		(Rupees in '000)	
10. ADVANCES, DEPOSITS AND OTHER RECEIVABLES			
Loans and advances - considered good			
Employees/consultants	10.1	19,181	16,015
Suppliers		<u>2,673</u>	<u>1,832</u>
		21,854	17,847
Deposits		1,155	1,185
Income tax refundable		59,273	51,906
Other receivables - considered good		<u>1,471</u>	<u>2,478</u>
		<u>83,753</u>	<u>73,416</u>

10.1 This includes advance salary loans and car loans given to the employees of the Company, carrying annual mark up of 3% p.a. (2012: 3% p.a.) and 8% p.a. (2012: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly installments.

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		(Rupees in '000)	
11. PROFIT / SERVICE CHARGES RECEIVABLE			
Profit receivable on			
Endowment fund investments		35,356	26,784
Term deposit receipts / saving accounts		168,540	164,773
Short term investments specific to grant based activities		183,427	177,217
Project bank accounts/investments		<u>101,444</u>	<u>58,997</u>
		488,767	427,771
Service charge receivable on loans to Pos - net of provision for doubtful receivable of Rs 45,421 thousand (2012: Rs Nil)		<u>359,667</u>	<u>340,223</u>
		<u>848,434</u>	<u>767,994</u>

12. BANK BALANCES - SPECIFIC TO PROJECTS

Cash at banks - current accounts			
Specific to IDA III		4,671,659	1,492,802
Specific to IFAD - PRISM		1,062	109,913
Specific to Kfw - Livelihood and community infrastructure		1,999	41,992
Specific to Kfw - Renewable energy		18,180	-
Specific to Benazir Income Support Program (BISP)		80,037	92,310
Specific to CECP grant		-	21,167
		<u>4,772,937</u>	<u>1,758,184</u>
Cash at banks - deposit accounts			
Specific to USDA grant		<u>96,286</u>	<u>99,446</u>
Specific to Benazir Income Support Program (BISP)		<u>327,591</u>	<u>405,772</u>
		<u>423,877</u>	<u>505,218</u>
		<u>5,196,814</u>	<u>2,263,402</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.

APP

13. CASH AND BANK BALANCES	Note	2013	2012
		(Rupees in '000)	
Cash in hand		7	10
Cash at banks - current accounts		6,330	529
Cash at banks - deposit accounts	13.1	87,266	141,354
		93,596	141,883
		<u>93,603</u>	<u>141,893</u>

13.1 The balances in deposit accounts carry average mark up of 8 % p.a. (2012: 11 % p.a.).

The balances include Rs 21,167 thousand related to Committee Encouraging Corporate Philanthropy (CECP) project deposited in operational account on the closure of Citi Bank operations in Pakistan.

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.

15. LONG TERM LOANS - Unsecured	Note	2013	2012
		(Rupees in '000)	
Government of Pakistan - PPAF - I (IDA financing)	15.1	1,973,535	2,083,152
Government of Pakistan- PPAF - II (IDA financing)	15.2	8,056,206	8,414,199
Government of Pakistan - (IFAD financing-MIOP)	15.3	1,144,527	1,144,527
Government of Pakistan - (IFAD financing-PRISM)	15.4	1,999,036	1,885,000
Government of Pakistan- PPAF - III (IDA financing)	15.5	2,445,533	2,296,033
		<u>15,618,837</u>	<u>15,822,911</u>
Less: Amount payable within next twelve months shown as current liability		(615,431)	(467,610)
		<u>15,003,406</u>	<u>15,355,301</u>
Deferred benefit of below market rate of interest on Government of Pakistan - PPAF III (IDA financing)	15.5.1	(1,830,404)	(1,779,819)
		<u>13,173,002</u>	<u>13,575,482</u>

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

Opening balance	2,083,152	2,202,789
Amount repaid	(109,617)	(109,617)
Adjustment on finalization of repayment schedule with GOP - note 28	-	(10,020)
	<u>1,973,535</u>	<u>2,083,152</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 reimburseable 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>2013</u>	<u>2012</u>
	(Rupees in '000)	
15.2 Government of Pakistan- PPAF - II (IDA financing)		
Opening balance	8,414,199	8,313,889
Adjustment on finalization of repayment schedule with GOP - note 28	-	279,306
Amount repaid	<u>(357,993)</u>	<u>(178,996)</u>
	<u>8,056,206</u>	<u>8,414,199</u>

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

Under SFA dated March 24, 2004 executed between GOP and the Company, the GOP agreed to provide 56% of the amount as loan to the Company and the balance as grant on non reimbursable basis. The principal 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>2013</u>	<u>2012</u>
	(Rupees in '000)	
15.3 Government of Pakistan - (IFAD financing MIOP)		
Opening balance	1,144,527	1,137,540
Amount received	-	6,987
	<u>1,144,527</u>	<u>1,144,527</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>2013</u>	<u>2012</u>
	(Rupees in '000)	
15.4 Government of Pakistan - (IFAD financing - PRISM)		
Opening balance	1,885,000	1,279,000
Amount received	<u>114,036</u>	<u>606,000</u>
	<u>1,999,036</u>	<u>1,885,000</u>

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

Under Subsidiary Financing Agreement (SFA) dated January 12, 2008 executed between GOP and the Company, the GOP agreed to provide 65% of the amount as loan to the Company and the balance as grant on non reimbursable basis on account of capacity building. The principal 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.

	<u>Note</u>	<u>2013</u>	<u>2012</u>
		(Rupees in '000)	
15.5 Government of Pakistan- PPAF - III (IDA financing)			
Opening balance		2,296,033	1,110,500
Amount received		<u>149,500</u>	<u>1,185,533</u>
		2,445,533	2,296,033
Less: Deferred benefit of below market rate of interest on long term loan	15.5.1	<u>(1,830,404)</u>	<u>(1,779,819)</u>
		<u>615,129</u>	<u>516,214</u>

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

Under Subsidiary Loan Agreement (SLA) dated June 15, 2009 executed between GOP and the Company, the GOP agreed to provide 13% of the amount as loan to the Company and the balance as grant on non reimbursable basis. The principal 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>2013</u>	<u>2012</u>
	(Rupees in '000)	
Deferred benefit as at July 1	1,779,819	1,813,153
Additions during the year	112,072	-
Amortization during the year	<u>(61,487)</u>	<u>(33,334)</u>
Balance as at June 30	<u>1,830,404</u>	<u>1,779,819</u>

APC

	Note	2013	2012
(Rupees in '000)			
16. DEFERRED LIABILITIES - GRANT FUND			
Government of Pakistan - IDA III	16.2	4,567,598	1,392,948
US Agency for International Development (USAID)/Pakistan	16.3	115,984	115,984
Government of Pakistan - USDA	16.4	90,294	96,526
Government of Pakistan - IFAD (PRISM)	16.5	(82,284)	105,197
Government of Pakistan - KfW Renewable Energy	16.6	18,180	-
Government of Pakistan - KfW Livelihood	16.7	(150,130)	37,345
Committee Encouraging Corporate Philanthropy (CECP)	16.8	21,668	21,668
Benazir Income Support Program (BISP)	16.9	453,661	462,347
Others		22,392	10,376
		<u>5,057,363</u>	<u>2,242,391</u>

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

16.1 Movement during the year

	IDA III	USAID	USDA	IFAD PRISM	Kfw Renewable Energy	Kfw Livelihood	CECP	BISP	Others	Total
(Rupees in '000)										
Opening balance	1,392,948	115,984	96,526	105,197	-	37,345	21,668	462,347	10,376	2,242,391
Amount received during the year	6,786,443	-	3,438	380,860	51,660	348,196	-	1,304,152	19,346	8,894,095
	8,179,391	115,984	99,964	486,057	51,660	385,541	21,668	1,766,499	29,722	11,136,486
Less: Disbursements for										
Water and infrastructure	988,247	-	9,670	-	-	245,006	-	-	-	1,242,923
Social sector development	662,750	-	-	-	-	94,999	-	-	-	757,749
Capacity/Institutional building	86,193	-	-	568,341	33,480	45,389	-	-	-	733,403
Social mobilization	498,903	-	-	-	-	-	-	-	-	498,903
Livelihood enhancement and protection	1,277,164	-	-	-	-	150,277	-	-	-	1,427,441
Waseel-e-Haq Program	-	-	-	-	-	-	1,312,838	-	-	1,312,838
Micro credit access	98,536	-	-	-	-	-	-	-	-	98,536
Projects	-	-	-	-	-	-	-	-	7,330	7,330
16.10	<u>3,611,793</u>	<u>-</u>	<u>9,670</u>	<u>568,341</u>	<u>33,480</u>	<u>535,671</u>	<u>-</u>	<u>1,312,838</u>	<u>7,330</u>	<u>6,079,123</u>
	<u>4,567,598</u>	<u>115,984</u>	<u>90,294</u>	<u>(82,284)</u>	<u>18,180</u>	<u>(150,130)</u>	<u>21,668</u>	<u>453,661</u>	<u>22,392</u>	<u>5,057,363</u>

Alfa

16.2 Grants from 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 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 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 Government of Pakistan - IFAD (PRISM)

Programme Loan Agreement was signed between GoP and IFAD on November 22, 2007 and Subsidiary Financing Agreement between GoP and PPAF on January 12, 2008 for Programme for Increasing Sustainable Microfinance (PRISM). The project focuses on provision of microcredit to the poor on a self-sustaining basis and envisages developing access to banks/financial institutions for future growth and expansion.

16.6 Grants from Government of Pakistan - Kfw Renewable Energy

On June 22, 2012 PPAF and German Financial Cooperation - Kfw signed financing and project agreement under which Kfw has agreed to make available an amount of EUR 10 million to the Company 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 (North West Frontier Province-NWFP). The agreement will expire on June 30, 2015.

16.7 Grants from Government of Pakistan - Kfw Livelihood

On June 12, 2010 PPAF and German Financial Cooperation - Kfw signed loan, financing and project agreement under which Kfw has agreed to make available an amount of EUR 31,562,661 to the Company 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 (North West Frontier Province-NWFP). The agreement will expire on December 31, 2012.



16.8 Grants from Committee Encouraging Corporate Philanthropy (CECP)

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

16.9 Benazir Income Support Program (BISP)

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

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

Every beneficiary having successfully undergone enterprise and skill training 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 beneficiary.



16.10 Break up of disbursements to POs

	IDA III	USDA	IFAD PRISM	KfW Renewable Energy	KfW Livelihood	BISP	Others	2013	2012
Disbursement to:	(Rupees in '000')								
Awami Development Organization	98,701	-	-	-	-	-	-	98,701	36,875
Agah	28,595	-	13,800	-	-	-	-	42,395	3,433
Aga Khan Education Support Programme	4,961	-	-	-	-	-	-	4,961	6,419
Aga Khan Health Support Programme	2,985	-	-	-	-	-	-	2,985	6,310
AKPBS-Water and Sanitation Extension Programme	35,311	-	-	-	-	-	-	35,311	31,441
Aga Khan Rural Support Programme	56,963	9,670	-	-	-	-	-	66,633	216,862
AL Mehran Rural Development and Welfare Organization	-	-	25,000	-	-	-	-	25,000	16,363
ASA Pakistan Ltd.	10,287	-	-	-	-	-	-	10,287	-
Awaz Foundation Pakistan - Centre for Development Services	10,249	-	-	-	-	-	-	10,249	16,150
AZAT Foundation	6,649	-	-	-	-	-	-	6,649	-
AHO	-	-	-	-	7,314	-	-	7,314	-
Baanhn Beli	37,623	-	-	-	-	-	-	37,623	27,240
Baidarie	3,307	-	17,200	-	-	-	-	20,507	9,496
Badbaan Enterprise Development Forum	4,926	-	-	-	-	-	-	4,926	10,172
Balochistan Environmental and Educational Journey	19,470	-	-	-	-	-	-	19,470	55,320
Buksh Foundation	-	-	-	-	-	-	-	-	3,509
Bunyard Literacy Community Council	15,538	-	-	-	-	-	-	15,538	2,801
Balochistan Rural Development Society	2,537	-	-	-	-	-	-	2,537	10,947
BRAC - Pakistan	59,840	-	-	-	-	-	-	59,840	64,903
Balochistan Rural Development & Research Society	28,423	-	-	-	-	-	-	28,423	42,106
Badin Rural Development Society	27,841	-	-	-	-	-	-	27,841	14,652
Balochistan Rural Support Programme	250,304	-	-	-	-	3,012	-	253,316	130,057
Chenab Development Foundation	42,896	-	-	-	-	-	-	42,896	72,265
Change in Education	15,040	-	-	-	18,056	-	-	33,096	22,527
Community Mobilisation and Development Organization	58,485	-	-	8,490	-	16,120	-	83,095	116,705
Community Support Concern	-	-	113,680	-	-	-	-	113,680	33,243
Community Support Foundation	8,748	-	-	-	-	-	-	8,748	4,000
Community Uplift Programme	62,772	-	-	-	29,007	-	-	91,779	33,513
Development Action for Mobilization and Emancipation	-	-	76,960	-	-	-	-	76,960	3,195
DEVCON An Association for Rural Development	3,346	-	-	-	-	-	-	3,346	2,391
Development in Literacy	5,619	-	-	-	-	-	-	5,619	14,817
Environment Protection Society	38,032	-	-	-	29,034	-	-	67,066	105,596
Farmers Development Organization	23,612	-	-	-	-	7,751	-	31,363	176,934
Family Educational Services Foundation	19,408	-	-	-	-	-	-	19,408	22,949
Farmers Friend Organization	13,689	-	25,000	-	-	-	-	38,689	9,316
Family Planning Association of Pakistan	3,558	-	-	-	-	-	-	3,558	79,474
Ghazi Brotha Taraqiatee Idara	1,686	-	-	-	30,528	-	-	32,214	1,563
Hazara Development and Advocacy Foundation	17,720	-	-	-	33,847	-	-	51,567	61,294
Health and Nutrition Development Society	53,250	-	-	-	-	-	6,143	59,393	95,036
Heartfile	5,690	-	-	-	8,329	-	-	14,019	34,309
Himalayan Wildlife Foundation	2,885	-	-	-	-	-	-	2,885	26,312
Indus Earth Trust	25,227	-	-	-	-	-	-	25,227	14,829
Indus Resource Centre	68,077	-	-	-	-	-	-	68,077	54,153
Idara Taleem O Agahi	2,810	-	-	-	-	-	-	2,810	-
Jinnah Welfare Society	-	-	100,000	-	-	-	-	100,000	43,145
Karwan Community Development Organization	4,958	-	-	-	-	-	-	4,958	5,196
Kashf Foundation	15,878	-	-	-	-	-	-	15,878	10,865
Khwendo Kor Women and Children Development Programme	10,445	-	-	-	-	-	-	10,445	2,284
Lead Foundation	13,638	-	-	-	-	-	-	13,638	-
Balances carried forward	1,221,979	9,670	371,640	8,490	156,115	26,883	6,143	1,800,920	1,750,967

	IDA III	USDA	IFAD PRISM	KfW Renewable Energy	KfW Livelihood	BISP	Other Funds	2013	2012
(Rupees in '000')									
Balances brought forward	1,221,979	9,670	371,640	8,490	156,115	26,883	6,143	1,800,920	1,750,967
Marafie Foundation	12,407	-	-	-	-	-	-	12,407	13,438
Mehran Education Society	-	-	800	-	-	-	-	800	7,845
Mountain and Glacier Protection Organization	29,109	-	-	-	29,891	-	-	59,000	6,894
Mountain Institute of Educational Development	46,626	-	-	-	15,430	-	-	62,056	53,310
Mojaz Foundation	27,893	-	25,000	-	-	-	-	52,893	12,264
Marvi Rural Development Organization	37,427	-	-	-	-	-	-	37,427	31,038
Narowal Rural Development Programme	-	-	25,000	-	-	-	-	25,000	13,862
National Rural Support Programme	561,237	-	3,353	8,050	56,077	-	-	628,717	1,477,752
Organization for Participatory Development	-	-	17,800	-	-	-	-	17,800	1,600
Poverty Eradication Initiative	38,411	-	-	-	-	-	-	38,411	23,004
Pakistan Foundation Fighting for Blindness	9,322	-	-	-	-	-	-	9,322	9,615
Participatory Integrated Development Society	60,084	-	-	-	-	-	-	60,084	87,111
Pakistan Microfinance Network	-	-	71,018	-	-	-	-	71,018	28,241
Punjab Rural Support Programme	40,630	-	1,200	-	-	-	-	41,830	26,826
Research Advocacy & Health Strengthening Alliance (Guarantee) Limited	8,866	-	-	-	-	-	-	8,866	11,412
Rural Community Development Society	45,458	-	-	-	-	-	1,187	46,645	142,774
Rural Development Project	-	-	-	-	8,779	-	-	8,779	30,877
Social Action Bureau for Assistance in Welfare and Organisation Network	68,095	-	-	9,670	38,980	-	-	116,745	26,599
Sindh Agricultural & Forestry Workers Coordinating Organization	259,642	-	-	-	-	10,720	-	270,362	204,470
Saik Development Foundation	32,049	-	-	-	55,428	-	-	87,477	26,466
South Asia Partnership Pakistan	108,517	-	-	-	-	-	-	108,517	83,588
Sarhad Rural Support Programme	369,054	-	-	7,270	50,724	-	-	427,048	357,697
Sayya Foundation	1,282	-	-	-	-	-	-	1,282	2,826
Society for Conservation and Protection of Environment	3,303	-	-	-	-	-	-	3,303	16,275
Society for Community Support for Primary Education Balochistan	20,850	-	-	-	-	-	-	20,850	1,597
Sustainable Development, Education, Rural Infrastructure, Veterinary Care & Environment	27,281	-	-	-	23,495	-	-	50,776	30,518
Society for Human Empowerment and Rural Development	820	-	-	-	-	-	-	820	8,000
Sindh Rural Support Programme	32,665	-	-	-	-	-	-	32,665	10,520
SOS Children's Village	2,390	-	-	-	-	-	-	2,390	41,544
Strengthening Participatory Organization	28,667	-	-	-	-	-	-	28,667	15,068
Shadab Rural Development Organization	1,655	-	-	-	-	-	-	1,655	9,134
Sindh Rural Support Organization	94,573	-	-	-	-	5,258	-	99,831	121,384
Sungi Development Foundation	55,559	-	-	-	-	-	-	55,559	21,696
Soon Valley Development Programme	3,726	-	31,808	-	-	-	-	35,534	6,629
Support With Working Solutions	17,578	-	14,900	-	80,970	-	-	113,448	87,730
SEHER	4,373	-	-	-	-	-	-	4,373	-
SPADO	-	-	-	-	10,289	-	-	10,289	-
Taraqee Foundation	25,026	-	-	-	-	-	-	25,026	263,774
Thardeep Rural Development Programme	267,973	-	2,906	-	-	-	-	270,879	229,709
Tehreek	4,956	-	-	-	-	-	-	4,956	-
Villagers Development Organization	5,674	-	-	-	-	-	-	5,674	10,354
Women Social Organisation	1,952	-	-	-	-	-	-	1,952	2,564
WESS	4,880	-	-	-	-	-	-	4,880	-
CGNP	-	-	-	-	3,656	-	-	3,656	-
MDF (Mamoona)	873	-	-	-	-	-	-	873	-
LFA	-	-	-	-	5,652	-	-	5,652	-
Payment to beneficiaries through BISP	-	-	-	-	-	613,026	-	613,026	914,560
Direct expenses on project activities	28,931	-	2,916	-	185	656,951	-	688,983	105,254
Others	-	-	-	-	-	-	-	-	110,825
	<u>3,611,793</u>	<u>9,670</u>	<u>568,341</u>	<u>33,480</u>	<u>535,671</u>	<u>1,312,838</u>	<u>7,330</u>	<u>6,079,123</u>	<u>6,437,611</u>

17. DEFERRED INCOME - GRANT FUND

	As at July 01, 2012	Amount Received	Expenditure from grant recognized as income	As at June 30, 2013
----- (Rupees in '000) -----				
Government of Pakistan (GoP)				
Capacity Building - IDA II	1,049	-	1,020	29
Capacity Building - IDA III	-	123,844	123,844	-
Capacity Building - IDA (RNR)	213	-	210	3
Capacity Building - IDA (Social mobilization)	4,622	-	2,550	2,072
Capacity Building - IDA (Disability)	1,710	-	1,154	556
Capacity Building - IFAD (MIOP)	776	-	259	517
Capacity Building - IFAD (PRISM)	-	35,946	35,946	-
Capacity Building - Kfw	486	24,267	23,791	962
Capacity Building - USDA	3,257	-	1,540	1,717
2013	<u>12,113</u>	<u>184,057</u>	<u>190,314</u>	<u>5,856</u>
2012	<u>31,427</u>	<u>258,985</u>	<u>278,299</u>	<u>12,113</u>

18. SERVICE CHARGES PAYABLE

These represent service charges payable to GOP at the rate of 0.75% p.a. (2012: 0.75% p.a.) on the principal amount of long term loan outstanding withdrawn from time to time.

	Note	2013	2012
(Rupees in '000)			
19. ACCRUED AND OTHER LIABILITIES			
Consultancy fee payable		5,990	2,967
Unamortized discount on purchase of Pakistan Investment Bonds	19.1	44,219	44,176
Accrued expenses and other liabilities		37,135	25,197
		<u>87,344</u>	<u>72,340</u>

19.1 Amortization of discount for the year amounts to Rs 5,757 thousand (2012: Rs 4,259 thousand).

	<u>2013</u>	<u>2012</u>
	(Rupees in '000)	
20. DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY FUND		
20.1 Reconciliation of payable to/(receivable from) Defined Benefit Plan		
Present value of defined benefit obligation	49,264	37,561
Fair value of plan assets	(25,411)	(26,124)
Net actuarial gains / (losses) not recognised	<u>(13,763)</u>	<u>(12,292)</u>
	<u>10,090</u>	<u>(855)</u>
20.2 Movement in net liability/(asset) recognised		
Opening net (asset)/liability	(855)	-
Expense for the year	13,816	8,824
Contribution for the year/benefits paid on behalf of the fund	<u>(2,871)</u>	<u>(9,679)</u>
Closing net (asset)/liability	<u>10,090</u>	<u>(855)</u>
20.3 Charge for the Defined Benefit Plan		
Current service cost	10,768	8,236
Interest cost	4,516	3,326
Expected return on plan assets	(3,175)	(3,159)
Actuarial (gain)/losses recognised	<u>1,707</u>	<u>421</u>
	<u>13,816</u>	<u>8,824</u>
20.4 Change in the present value of defined benefit obligation		
Opening defined benefit obligation	37,561	28,597
Current service cost	10,768	8,236
Interest cost	4,516	3,326
Benefits paid	(2,871)	(9,679)
Actuarial (gain)/loss on obligation	<u>(710)</u>	<u>7,081</u>
Closing defined benefit obligation	<u>49,264</u>	<u>37,561</u>
20.5 Changes in fair value of plan asset		
Opening fair value of plan assets	26,124	23,212
Expected return on plan assets	3,175	3,159
Contribution received/benefits paid by Company on behalf of the fund	2,871	9,679
Benefits paid	(2,871)	(9,679)
Actuarial loss on assets	<u>(3,888)</u>	<u>(247)</u>
Closing fair value of plan assets	<u>25,411</u>	<u>26,124</u>
20.6 The Projected Unit Credit Method using the following significant assumptions was used for the valuation of the scheme:		

	<u>2013</u>	<u>2012</u>
Valuation discount rate	11.5% per annum	12.5% per annum
Salary increase rate	11.5% per annum	12.5% per annum
Expected return on plan assets	9.5% per annum	12.5% per annum

20.7 Amounts for current and previous four annual periods are as follows:

	2013	2012	2011	2010	2009
	Rupees in '000				
Defined benefit obligation	49,264	37,561	28,597	37,697	25,233
Plan assets	(25,411)	(26,124)	(23,212)	(28,049)	(11,364)
Deficit	<u>23,853</u>	<u>11,437</u>	<u>5,385</u>	<u>9,648</u>	<u>13,869</u>
Experience adjustments on plan liabilities	<u>(710)</u>	<u>7,081</u>	<u>4,619</u>	<u>1,792</u>	<u>4,504</u>
Experience adjustments on plan assets	<u>3,888</u>	<u>247</u>	<u>1,195</u>	<u>910</u>	<u>172</u>

APF

	<u>2013</u>	<u>2012</u>
	(Rupees in '000)	
21. CONTINGENCIES AND COMMITMENTS		
Contingencies		
Guarantees to the banks against lending to Microfinance institutions as given in note 9	<u>3,265,000</u>	<u>1,845,000</u>
Commitments		
Aggregate commitments under Financing Agreements with Partner Organizations for:		
Loans	8,774,506	12,256,433
Grants		
Community physical infrastructure	3,989,090	1,693,230
Capacity building	750,689	578,201
Social sector development	1,909,213	2,211,889
Social mobilization	693,689	748,928
Livelihood enhancement and protection	2,254,902	1,651,853
	<u>9,597,583</u>	<u>6,884,101</u>
	<u>18,372,089</u>	<u>19,140,534</u>

22. SERVICE CHARGES ON LOANS TO PARTNER ORGANIZATIONS

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

	<u>2013</u>	<u>2012</u>
	(Rupees in '000)	
23. INCOME ON INVESTMENTS AND SAVING ACCOUNTS		
Profit on investments		
Specific to Endowment Fund	105,092	107,121
Specific to projects	230,177	158,036
Specific to grant fund	461,672	379,762
Specific to others and saving accounts	595,223	623,777
	<u>1,392,164</u>	<u>1,268,696</u>

24. OTHER INCOME

Gain on sale of fixed assets	-	416
Markup on loans to employees	232	119
Others	178	121
	<u>410</u>	<u>656</u>



	Note	2013	2012
(Rupees in '000)			
25. GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries, wages and other benefits	25.1 & 25.3	304,772	236,401
Rent, rates and taxes		26,400	31,042
Repairs and maintenance		9,303	9,595
Traveling, lodging and conveyance		58,627	51,569
Communication		3,852	3,878
Printing and stationery		4,954	4,616
Insurance		11,161	8,778
Vehicles running and maintenance		28,397	24,293
Utilities		4,658	4,085
Legal and professional charges		3,930	2,551
Auditor's remuneration	25.4	4,640	4,740
Advertisement		1,951	2,736
Media projection		3,300	6,749
Newspapers, books and periodicals		894	765
Depreciation		29,456	25,183
Amortization		3,202	2,790
Security services		2,691	1,949
Office shifting and related expenses		-	8,095
Others		6,238	5,671
		<u>508,426</u>	<u>435,486</u>

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

Managerial remuneration	16,157	13,464
Contribution to Staff Provident Fund	2,081	459
	<u>18,238</u>	<u>13,923</u>

In addition, the Chief Executive Officer is provided medical insurance, car, 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 33,280 thousand (2012 : Rs 13,591 thousand) in respect of employees' retirement benefits.

	2013	2012
(Rupees in '000)		
25.4 Auditor's remuneration		
Statutory and projects' audit	1,500	1,395
Audit of POs	2,900	2,635
Tax services	240	710
	<u>4,640</u>	<u>4,740</u>

25.5 General and administration expenses include Rs 76,903 thousand (2012: Rs 115,208 thousand) incurred on different programme activities as disclosed in note 17.



	<u>2013</u>	<u>2012</u>
	(Rupees in '000)	
26. SEMINARS, WORKSHOPS AND TRAININGS		
Training	16,261	15,040
Seminar and workshops	<u>21,838</u>	<u>25,876</u>
	<u>38,099</u>	<u>40,916</u>

Seminars, workshops and training expenses include Rs 16,945 thousand (2012: Rs 4,922 thousand) incurred on different programme activities as disclosed in note 17.

	<u>2013</u>	<u>2012</u>
	(Rupees in '000)	
27. TECHNICAL AND OTHER STUDIES		
Poverty score card	-	41,618
General	<u>102,897</u>	<u>57,212</u>
	<u>102,897</u>	<u>98,830</u>

Technical and other studies include Rs 96,466 thousand (2012: Rs 158,159 thousand including Rs 69,868 thousand related to prior years) incurred on different programme activities as disclosed in note 17.

	<u>2013</u>	<u>2012</u>
	(Rupees in '000)	
28. PROJECT AND RELIEF ACTIVITIES		
Flood relief	89,319	202,831
Project and other activities	18,684	-
Project activities for PPAF II	-	279,306
Project activities for PPAF I	-	(10,020)
	<u>108,003</u>	<u>472,117</u>

29. PROVISION AGAINST LOANS/SERVICE CHARGES

Provision/(reversal) against loans to POs	(12,400)	223,457
Provision against service charges receivable	<u>45,421</u>	<u>-</u>
	<u>33,021</u>	<u>223,457</u>

30. FINANCIAL CHARGES

On long term loans	90,952	112,123
Imputed interest on below market rate long term loan	61,487	33,334
Bank charges	731	2,299
	<u>153,170</u>	<u>147,756</u>

31. TRANSFER FROM ACCUMULATED SURPLUS TO RESERVE FOR GRANT BASED ACTIVITIES

Income earned during the period on grant fund investments	461,672	379,762
Contribution from individual donor	-	1,356
Less: expenditure on project and relief activities		
Flood relief	<u>108,003</u>	<u>202,831</u>
	<u>353,669</u>	<u>178,287</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.

Alfa-

33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

33.1 Financial assets and liabilities

	2013			2012		
	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	594,000	-	594,000	3,803,563	-	3,803,563
Current maturity of loans to Partner Organizations	-	8,579,876	8,579,876	-	10,360,561	10,360,561
Short term investments	11,435,995	-	11,435,995	6,409,902	-	6,409,902
Advances, deposits and other receivables	-	21,807	21,807	-	19,678	19,678
Profit/service charges receivable	-	848,434	848,434	-	767,994	767,994
Bank balances - specific to projects	-	5,196,814	5,196,814	-	2,263,402	2,263,402
Cash and bank balances	-	93,603	93,603	-	141,893	141,893
Maturity after one year						
Long term investments	886,400	-	886,400	994,000	-	994,000
Long term loans to Partner Organizations	-	3,851,229	3,851,229	-	2,191,796	2,191,796
	<u>12,916,395</u>	<u>18,591,763</u>	<u>31,508,158</u>	<u>11,207,465</u>	<u>15,745,324</u>	<u>26,952,789</u>
Financial Liabilities:						
		Other financial liabilities			Other financial liabilities	
Maturity upto one year						
Deferred liabilities - grant fund	-	5,057,363	5,057,363	-	2,242,391	2,242,391
Current portion of long term loans	-	615,431	615,431	-	467,610	467,610
Service and commitment charges payable	-	28,655	28,655	-	35,522	35,522
Accrued and other liabilities	-	87,344	87,344	-	72,340	72,340
Maturity after one year but before five years						
Long term loans	-	5,232,382	5,232,382	-	2,309,120	2,309,120
Maturity after five years						
Long term loans	-	9,771,024	9,771,024	-	13,046,181	13,046,181
	-	<u>20,792,199</u>	<u>20,792,199</u>	-	<u>18,173,164</u>	<u>18,173,164</u>
Off balance sheet items:						
Commitments	-	18,372,089	18,372,089	-	19,140,534	19,140,534

Aff

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	Short term rating	2013 Balance Rs in '000	2012 Balance Rs in '000
Investments				
Counterparties with external credit rating				
	PACRA	A1+	4,151,660	2,810,090
	JCR-VIS	A-1+	5,022,572	4,859,450
	PACRA	A1	1,500,000	500,000
	JCR-VIS	A-2	250,000	703,198
Securities issued/supported by Government of Pakistan				
		-	1,992,163	2,334,728
			<u>12,916,395</u>	<u>11,207,466</u>
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	136,823	39,260
	JCR-VIS	A-1+	5,130,948	2,250,105
	Moody's	P-1	663	628
	PACRA	A1	5,368	44
	JCR-VIS	A-2	16,604	45
	Standard & Poors	A-1	-	114,156
	PACRA	A2	-	1,047
Balance with National Saving Centre				
		-	11	-
			<u>5,290,417</u>	<u>2,405,285</u>
Loans to Partner Organizations				
Counterparties with external credit rating				
	JCR-VIS	A-3	1,425,000	1,282,500
Counterparties without external credit rating				
		*	10,808,959	11,010,311
		**	197,146	259,546
			<u>12,431,105</u>	<u>12,552,357</u>
Profit/service charges receivable				
Counterparties with external credit rating				
	PACRA	A1+	176,561	110,564
	JCR-VIS	A-1+	251,002	189,827
	PACRA	A1	30,367	62,904
	JCR-VIS	A-2	9,062	37,692
	JCR-VIS	A-3	19,998	-
Securities issued/supported by Government of Pakistan				
			21,777	
Counterparties without external credit rating				
		*	339,667	367,007
			<u>848,434</u>	<u>767,994</u>

* Counterparties with no defaults in the past.

** Counterparty overdue for more than 365 days.

APR

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 13.30 billion (2012: Rs 13.43 billion) (including loans to three major POs of Rs 5.96 billion; 2012: two major POs of Rs 5.97 billion). The Company controls the credit risk through credit appraisals, assessing the credit-worthiness of POs and creating charge on the assets of POs. The credit risk on investments and bank balances is limited because the counter parties are banks and Government of Pakistan.

b) 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 26,824,374 thousand (2012: Rs 24,016,637 thousand) and financial liabilities include balances of Rs 15,618,837 thousand (2012: Rs 15,822,911 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 112,055 thousand (2012: Rs 81,937 thousand) higher/lower.



(iii) Other price risk

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

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

d) 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. CONTIBUTORY PROVIDENT FUND

Details of provident fund are as follows:

	<u>2013</u>		<u>2012</u>	
	(Rupees in '000)			
a) Size of the fund (total assets)	40,506		9,536	
Cost of investments made	35,000		-	
Fair value of investments made	35,000		-	
	%		%	
Percentage of investments made	86		-	
	<u>2013</u>		<u>2012</u>	
	(Rupees in '000)	%	(Rupees in '000)	%
b) Breakup of investments - at cost				
National Saving Scheme	<u>35,000</u>	<u>100</u>	<u>-</u>	<u>-</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.				

36. NUMBER OF EMPLOYEES

Total number of employees at the end of the year were 218 (2012: 223). Average number of employees during the year were 218 (2012: 207).

APC

37. DATE OF AUTHORISATION

These financial statements were authorized for issue by the Board of Directors of the Company on 10 SEP 2013.

A small, handwritten signature in blue ink, possibly reading "Alfa".A large, stylized handwritten signature in blue ink, consisting of a large loop followed by several strokes.

Chairman

A large, stylized handwritten signature in blue ink, with a prominent loop at the beginning.

Chief Executive Officer