



**DIRECTORS' REPORT
&
FINANCIAL STATEMENTS**
June 30, 2010

Pakistan Poverty Alleviation Fund



Company Information

Board of Directors:

Mr. Hussain Dawood
Chairman

Dr. Nuzhat Ahmad

Mr. Rafiud Deen Ahmad

Mr. Shahid Ahmad

Mr. Rana Assad Amin

Dr. Naved Hamid

Dr. Rajab Ali Memon

Dr. Aisha Ghaus Pasha

Mr. Asif Qadir

Mr. Zubyr Soomro

Mr. Kamal Hyat
Chief Executive/Managing Director

BOD Committees:

Board Compensation Committee:

Mr. Hussain Dawood
Chairman

Mr. Zubyr Soomro

Mr. Shahid Ahmad

Dr. Rajab Ali Memon

Dr. Aisha Ghaus Pasha

Audit Committee:

Mr. Rafiud Deen Ahmad
Chairman

Mr. Rana Assad Amin

Dr. Nuzhat Ahmad

Dr. Naved Hamid

Mr. Asif Qadir

Company Secretary: Mr. Iltifat Rasul Khan

Auditors: A. F. Ferguson & Company, Chartered Accountants

Legal Advisors: Azam Chaudhry Law Associates

Tax Advisors: A. F. Ferguson & Company, Chartered Accountants

Bankers: Allied Bank of Pakistan, Askari Commercial Bank Limited, Bank Al-Falah Limited, Citibank, Faysal Bank Limited, Habib Bank Limited, Hong Kong and Shanghai Banking Corporation Limited, National Bank of Pakistan, NDLC-IFIC Bank Limited, Royal Bank of Scotland, Silk Bank Limited, Standard Chartered Bank Limited

Registered Office: House No. 1, Street No. 20, Sector F-7/2, Islamabad, Pakistan.
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Fax: (+92-51) 2652246, Email: info@ppaf.org.pk
Website: www.ppaf.org.pk



Company Information

General Body:

Chairman:

Hussain Dawood

Chairman, The Dawood Group.

Members:

Mueen Afzal

Former Secretary General, Ministry of Finance, Government of Pakistan

Nuzhat Ahmad

Director, Applied Economic Research Center, University of Karachi

Rafiud Deen Ahmad

Consultant, Orr, Dignam & Co.

Shahid Ahmad

Additional Secretary, Economic Affairs Division, Government of Pakistan.

Rana Assad Amin

Additional Secretary, Ministry of Finance, Government of Pakistan.

Rashid Bajwa

Chief Executive Officer, National Rural Support Programme.

Nazrat Bashir

Additional Secretary, Ministry of Finance, Government of Pakistan.

Javed Burki

Former Civil Servant.

Naved Hamid

Director, Centre for Research in Economics & Business, Lahore School of Economics.

Ashraf Muhammad Hayat

Former Civil Servant.

Akmal Hussain

Managing Director, Sayyed Engineers Ltd.

Ahlullah Khan Kakarr

Former Civil Servant.

Shoaib Sultan Khan

Chairman, National Rural Support Programme.

Rajab Ali Memon

Educationist.

Nazar Memon

Director, National Rural Support Programme.

Hamayun Murad

Managing Director, Orix Leasing Pakistan Ltd.

Kaiser H Naseem

Manager, Pakistan Corporate Governance Project, International Finance Corporation.

Aisha Ghaus Pasha

Director Institute of Public Policy, Beaconhouse National University.

Asif Qadir

President Engro Polymer and Chemicals.

Aijaz Ahmed Qureshi

General Manager, Sindh Irrigation & Drainage Authority.

Fazlullah Qureshi

Former Member, National Electric Power Regulatory Authority.

Muhammad Ismail Qureshi

Federal Secretary, Ministry of Water and Power, Government of Pakistan.

Syed Ayub Qutub

Executive Director, Pakistan Institute of Environment Development & Research.

Sadiqa Salahuddin

Executive Director, Indus Resource Center.

M. Suleman Shaikh

Chairman, Thardeep Rural Development Programme.

Zubyr Soomro

Former Citibank Country Officer & Managing Director.

Jahangir Tareen

Former Federal Minister, Government of Pakistan.

Fareeha Zafar

Director, Society for the Advancement of Education.



PAKISTAN POVERTY ALLEVIATION FUND

DIRECTORS' REPORT

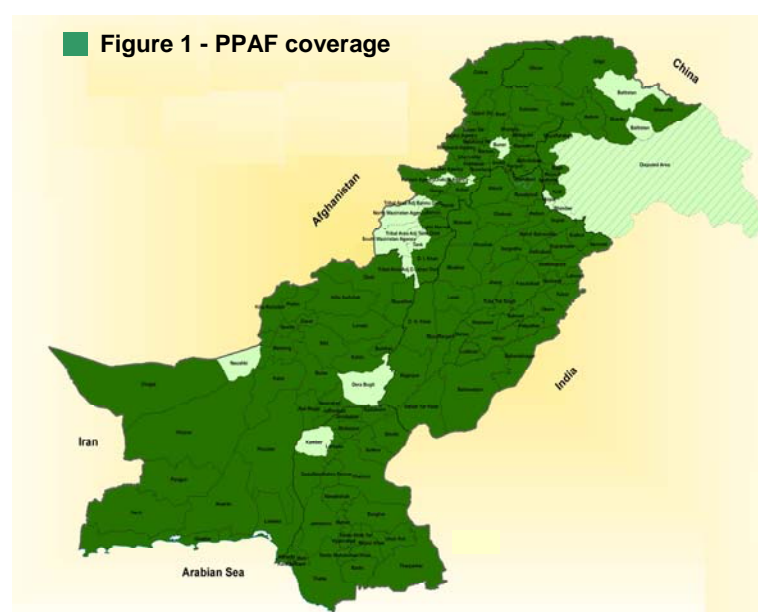
The Board of Directors of Pakistan Poverty Alleviation Fund (PPAF) is pleased to present the tenth Annual Report alongwith audited financial statements of the Company for the year ended June 30, 2010.

The year 2009-10 was yet another year of sustained progress as the Company made steady advancement in pursuit of its objectives of poverty alleviation. Despite national challenges of growth and development, Company's performance witnessed positive trends with results consolidating a strong financial position. PPAF interventions continued to make a qualitative difference in the lives of poor people across Pakistan. The needs of the poor were served by following an integrated approach focusing on social mobilization followed by credit, infrastructure, health, education, and skill development. This approach helped in addressing the many facets of poverty and worked towards reducing vulnerability, especially for women. In addition, it also contributed significantly in rebuilding lives, fostering resilience and restoring assets of those poor who had suffered from natural disasters. In areas of PPAF sponsored interventions, the poor have started reaping benefits of self-reliance and community driven development. They are experiencing increased opportunities for income generation, reduced dependence on external support and enhanced quality of life.

Over the last decade, PPAF has emerged as the largest initiative in the country for wholesaling development support to civil society organizations and is the lead agency for poverty reduction and grass root development. As an apex, it has positioned itself as a professional and credible institution with a strong and efficient corporate culture. The partner organizations perceive PPAF as a catalyst which has led to exponential growth in the microfinance sector, enabled a more integrated approach to rural development and allowed a long-term perspective to social mobilisation and community empowerment. PPAF has transformed them from a charity driven organization, dependent on donor financing, to the one with clear business plans for becoming

sustainable development partners. PPAF is thus helping to demonstrate how the double bottom line can be achieved for sustained poverty reduction effort. It has effectively enhanced retail capacity in the country where the poor have had very limited access to resources and has raised the standards of civil society sector to higher levels effectiveness in terms of social responsibility, financial discipline and institutional management.

PPAF uses its interventions as an opportunity to respond to government programmes and national priorities. This includes working with the internally displaced people resulting from the security operations in the border areas, strategic engagement with Government of Pakistan at various levels. PPAF is also engaged with Government in the national policy and institutional framework. It is a lead advisor to the Ministry of Finance in terms of the national microfinance strategy and has also worked pro-actively with the State Bank of Pakistan in drafting the Microfinance Ordinance and Prudential Regulations for Microfinance Banks. In addition, it is member of Special Committee/Task force of Planning Commission, partner of Earthquake Reconstruction and Rehabilitation Authority and Member of Poverty Reduction Strategy Paper. These linkages allow PPAF to effectively leverage its own resources and pursue convergence of programs at the community and household level.



By the end of June 2010, PPAF funding had been disbursed in urban and rural areas of 127 districts of the country (to about 200,000 community organizations / groups) through 87 partner organizations of which 12 were focusing exclusively on women. On cumulative basis, PPAF financed 3,600,000 microcredit loans, of which 1,700,000 were to women. 21,000 infrastructure projects were initiated

and 445,000 staff and community members were trained. In earthquake affected areas, PPAF

provided financing to 122,000 households to build earthquake resistant homes and, in addition, provided training to over 108,000 individuals in seismic construction and related skills.

PPAF financial and non-financial services are estimated to have, on a cumulative basis, benefited (directly or indirectly) over 23 million individuals from its credit programme and over 13 million individuals from infrastructure, health and education interventions, across the country. The benefits of PPAF interventions have been observed to be well distributed across all regions of the country.

Operational and Financial Overview:

During the year under review, the Company exhibited impressive growth. The operational results achieved during the year allowed the Company to maintain strong financial position which is a key to its sustainability. PPAF maintained steady progress in all aspects of its operations.

Fig 2 Disbursements - core operations

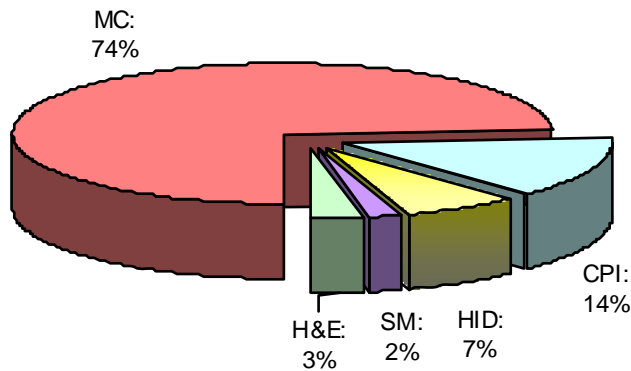
	Rs in million		%
	2010	2009	Variance
Credit and Enterprise Development	9,048	6,949	+ 30
Water and Infrastructure	1,800	979	+ 84
Capacity Building	463	370	+ 25
Social Mobilization	999	712	+ 40
Health and Education	1,088	73	+ 1390
Total	13,398	9,083	+ 48

Total disbursements for core operations during the year were Rs 13,398 million as compared to Rs. 9,083 million in FY 2009, indicating an increase of 48%. Disbursements of loan (microcredit and enterprise development facilities) were

Rs 9,048 million as compared to Rs 6,949 million; water and infrastructure were Rs 1,800 million as compared to Rs 979 million; capacity building were Rs 463 million against Rs 370 million; social mobilization were Rs 999 million as against Rs 712 million, and education and health were Rs 1,088 million as against Rs 73 million during the preceding year [fig. 2].

During the year disbursement for relief, rehabilitation and reconstruction operations in earthquake affected areas was Rs 448 million as against Rs 5,671 million in the preceding year.

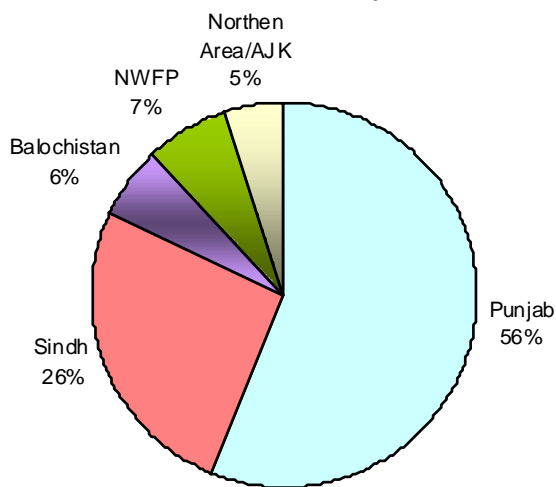
Figure 3
Share of funds disbursed – core operations



By the end of FY 2010, cumulative disbursements for core operations stood at Rs 56,442 million. Credit and enterprise development, the largest component of PPAF, accounted for 74% of cumulative disbursements followed by community physical infrastructure (14%); capacity building assistance (7%); health & education (3%); and social mobilization grants had a share of 2%

[fig. 3] In addition, cumulative disbursements for relief, rehabilitation and reconstruction activities were Rs 19,364 million.

Figure 4
Provincial distribution of funds – core operations



PPAF resources and funds have been deployed equitably across urban/rural settlements, provinces, regions and areas. About 56% of the resources have been deployed in Punjab; 26% in Sindh; 7% in NWFP; 6% Balochistan; and 5% in Northern Areas/AJK [fig. 4]

In line with the Subsidiary Financing Agreement executed between Government of Pakistan and PPAF in respect of World Bank financed First Project, the repayment of principal loan amount has commenced with effect from November 15, 2007. During the year under review, Rs 109.617 million was repaid to the Government of Pakistan.

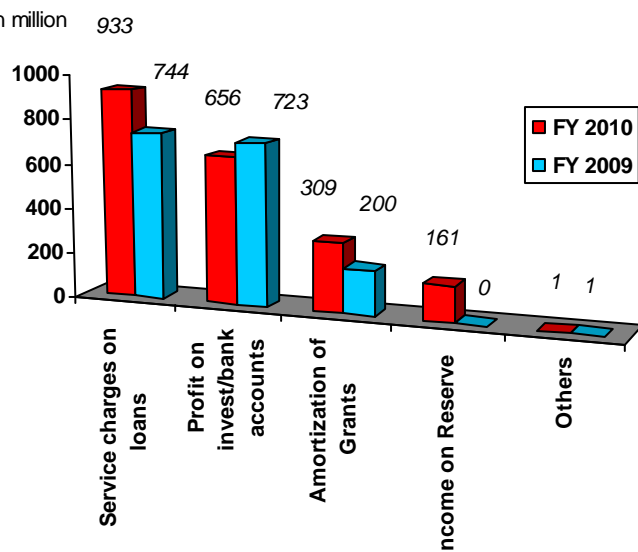
Having utilized the World Bank funds allocated for microcredit component under second project, PPAF is now meeting its obligations through its own reserves built up from repayments received from partner organizations. As of June 30, 2010, PPAF had disbursed Rs 29,320 million as loan from these resources.

Total assets of the Company on June 30, 2010 stood at Rs 23,629 million against Rs 18,509 million as at June 30, 2009. Amount of loans receivable from partner organizations as on June 30, 2010 were Rs 11,202 million as against Rs 9,696 million as at June 30, 2009. PPAF continued to maintain 100% recovery rate in respect of its lending operations.

In order to mitigate and manage risk as well as provide sufficient capital adequacy, with effect from July 01, 2009, an amount equivalent to 20% of total loan receivable from partner organizations are being held in investments. 35% of the surplus funds of the Company, in excess of these investments, are being held for lending activities (micro credit and enterprise development facility) and the balance 65% are held in investments, the income of which would be used for grant based health, education, infrastructure, emergency and any other activity that falls within the overall strategic purview of PPAF objectives.

The trend of consistent growth in income continued this year also. Total income generated during the year increased by 23% to Rs 2,061 million from Rs 1,669 million in FY 2009. The

Figure 5
Total Income
Rs. in million



service charges (profit) on loan to partner organizations increased by 29% due to high volume of amount of credit outstanding and introduction of market based rates for large partner organizations. Overall income on investments and saving accounts increased by 13% due to increase in level of investments and reserve. This includes net income of Rs 161 million that was generated on investments

specific to grant based activities. During the year, capacity building grant increased by 55% due to the availability of financing from Government of Pakistan and donor agencies for PPAF operational support [fig. 5].

In order to support enhanced operational activities, general and administrative expenses for the year increased by 31%. However, the ratio of general and administrative expenses to total

Financial results are summarized as follows:		
	(Rs in million)	
	2010	2009
Service charges (profit) on loans	934	745
Amortization of deferred grant	309	200
Income on investments/saving accounts	656	723
Income on grant fund	161	-
Other income	1	1
Total income	2,061	1,669
General and administrative expenses	358	274
Seminar, workshops and trainings	47	10
Consultancy charges	176	38
Loan loss provision	76	236
Financial charges	75	81
Total expenditure	732	639
Surplus for the year	1,329	1,030

income was 17% (2009 : 16%). The main increases were in salaries/benefits and travel expenses. 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. Local travel expense increased due to extensive appraisal and monitoring

visits in view of high cumulative disbursements and enhanced activities. Seminar, workshops and training expenses of Rs 47 million included Rs 2.31 million spent on the workshop to launch World Bank PPAF III project and Rs 15.84 million incurred on the event to mark ten years of PPAF operations. Total consultancy charges of Rs 176 million included Rs 118 million in respect of poverty scorecard survey that has been made mandatory by the donors for subsequent disbursement of funds for operational activities. The general loan loss provision was made at 5% of the gross outstanding balances of loans to partner organizations. In addition, specific provision for loan losses was also made against loans which were considered doubtful. The financial charges include commitment and service charges on long term loan and bank charges. Net surplus of Rs 1,329 million improved by 29% as compared to 2009 (Rs 1,030 million).

PPAF commemorated ten years of its operations in August 2009. The Chief Guest on the occasion, Mr. Shaukat Tarin, Minister of Finance, Revenue, Economic Affairs and Statistics, lauded the role of PPAF in poverty alleviation and paid rich tributes to its work. The Chairman and Members of PPAF General Body and Board of Directors as well as delegates from

multilateral, bilateral and private institutions; partner organizations; and representatives from leading civil society organizations, corporate and public sectors attended the events. The high points of the ceremony were a cultural exhibition and a thought provoking theatrical performance by representatives of community organizations highlighting the dynamics of poverty and social change.

The event was followed by the workshop to launch the third PPAF Project. Mr. Humayun Aziz Kurd, Minister for Livestock and Dairy Development inaugurated the workshop. The project involves total World Bank funding of US\$ 250 million (loan US\$ 33 million and grant US\$ 217 million) over a period of five years. The objective of the proposed project is to empower the poor with increased incomes, improved productive capacity and access to services to achieve sustainable livelihood.

Sectoral and Programme Overview:

PPAF is the largest provider of financial and technical assistance to the private sector development organizations all over Pakistan. Its core activities include debt financing for microcredit/enterprise development and grant financing for small scale infrastructure, water, health, education, training and social mobilization as well as for human and institutional capacity building for delivery of services. Apart from these core activities, PPAF works with communities suffering from natural calamities and disasters such as earthquakes, droughts, cyclones and floods and also responds to special needs of various groups of poor. There is an increased emphasis to ensure that livelihood services are designed to cater to the needs of sub-groups of poor through integrated approaches to infrastructure, social services and credit provision.

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 adopts a participatory development model with a holistic approach using social mobilization, skill development and capital accumulation as guiding principles. The model is community based and involves formation of groups at the grass roots. It focuses on social organization, creates awareness and builds capacity. Under the model, communities organize themselves for establishing new groups and also to consolidate existing ones. The approach is

demand driven based on projects identified by the communities. Responsibility for operations and maintenance also falls on these groups. PPAF selects partner organizations that have demonstrated commitment to community driven development. Potential partner organizations are required to undergo a rigorous selection process with both desk and field appraisals. Compliance with implementation plans and adherence to contractual obligations is mandatory. Partner organizations that meet PPAF's eligibility criteria have well established outreach programs and track records of poverty reduction.

One of the key challenges facing any poverty alleviation effort is the provision of financial services to poor households at the lower end of the poverty scale. In Pakistan, the challenge is met by PPAF which provides financial services at the grassroots/retail levels and invests in and capacitates civil society organizations to develop into effective providers of microfinance services in the country. These efforts have been so successful that Pakistan is now internationally recognized as the emerging market for microfinance ranked in the top quartile globally and has sustained healthy rates of growth and outreach. Repayments have been strong and portfolio quality has remained high. As the largest source of microfinance in the country, PPAF has been instrumental in driving the sector in Pakistan with a current market share of almost 40%. Its partner organizations account for bulk of the current retail outreach in the sector. PPAF has helped in building physical, financial and human capital. It continues to develop and implement innovative strategies to enable sustainable delivery of financial resources at the grassroots. Among the strategies are offering attractive terms to commercial sector entities for long term investments in the sector, promoting innovative models of outreach and delivery of financial services to the poor, building capacities of promising new partners, and preparing current partners to excel in an increasingly competitive market.

The water and infrastructure interventions have proven to be one of the most productive investments providing high economic returns. Interventions in sanitation and drinking water supply and communications sectors have improved the quality of life especially in the isolated rural communities. PPAF is now progressively moving towards a more holistic approach based on the simultaneous development of logically interlinked schemes in the same project area so as to address the many facets of poverty. The new initiatives are aimed at integrated development;

dissemination of low cost, appropriate, innovative and emerging technologies such as micro/mini-hydro projects, windmills and solar projects; and toward reducing poverty in drought areas through focus on mitigation and preparedness projects. For instance, the drought mitigation and preparedness program covers large drought affected/water deficient areas with each project spanning over one to three union councils and comprising approximately a hundred infrastructure sub-projects on the average. Similarly, the Sindh Coastal Areas Development program takes this integrated approach one step forward by complementing infrastructure interventions with appropriately sequenced interventions in healthcare, education, livelihood support and conditional cash transfers followed by provision of financial services. Additionally, Integrated Water Efficient Irrigation projects are implemented at the village level for better management of community water resources by combining three sequential interventions including sprinkler/drip irrigation, water channels, water course lining, and conduits. The poorest segments living in isolated tracts and backward rural areas are the main beneficiaries of PPAF's infrastructure interventions.

PPAF pursues an inclusive development strategy prioritizing community needs within an inclusive framework of community mobilization under which it seeks to mainstream the poor, vulnerable and the marginalized into the overall development process, sensitivity to suit the peculiarities of socio-cultural environment, terrain and type of intervention. Through effective social mobilization at the grassroots level, poor people have found a strong voice in affairs that directly concern them. Programs for special target groups of the vulnerable, destitute and disabled have rekindled hopes and recuperated lost energies that cannot be captured effectively by neatly crafted quantitative measure alone. Similarly, the degree of empowerment associated with greater decision making power at the household level for female clientele of PPAF loans cannot be captured merely through quantitative measures alone. Social mobilization has helped create peace and harmony among communities by promoting inclusion, equity, and accountability. These achievements have long term implications for meaningful change in the living standards at the grassroots.

PPAF continues to invest substantially in building capacities for sustainable service delivery through focused programs for participating communities and their organizations. These efforts are designed to remove supply and demand side constraints emanating from a lack of adequate

human and institutional absorption capacity at the grassroots. In addition to providing funds for meeting recurring and non recurring costs of delivery of civil society organizations, financial allocations are made for building human capital of participating communities and staff of partner organizations. Appropriately identified quality training to staff and beneficiary communities is provided covering a diverse set of interdisciplinary modules and formats.

PPAF's social sector development interventions (health and education) are part of an integrated and holistic poverty focused strategy for affecting meaningful change at the grassroots, which have expanded manifold over the last few years. While new facilities continue to be established in relatively less developed rural areas, many underperforming institutions have been revitalized in terms of staff and facilities following their adoption from the public sector. PPAF supported interventions prioritize strict quality control, long term sustainability and durable linkages with communities. Quality of service delivery is ensured through regular training, provision of modern technologies and a rigorous monitoring and feedback framework. The latter involves substantial community input through health and education management committees, which are mandated to function in a supervisory role and hold the administration of these institutions accountable to standards of service delivery.

Under PPAF III, a new component on sustainable livelihoods has been included to recognize the importance of relief and job creation in the current scenario. The approach under this component involves group level savings and internal lending; formation of Common Interest Groups that are supported by partner organizations to engage in a wider range of opportunities, through development of their existing livelihood activities and assets; value chain analysis to identify inefficiencies and knowledge gaps; and the provision of technical knowledge that can enhance their access and participation in local markets. The component also funds asset transfers to the poorest as well as grants to community organization and member common interest groups for livelihood specific activities. PPAF will use objective measures to target those poor and ultra poor that need assistance in increasing their incomes and productivity.

PPAF successfully completed its operations in the earthquake affected areas with distinction and a level of professionalism acknowledged by all stakeholders. The success has reinforced PPAF's stature as an efficient institution of emergency response for disadvantaged and isolated

communities. Although PPAF and its partners had prior experience of working in areas hit by natural calamities like droughts and floods, their human resources and institutional capacities had never been tested as seriously as in the aftermath of the October 2005 earthquake. Never before had civil society organizations accomplished a project so complex in scope in extremely difficult terrain and within a very tight timeframe. It turned out to be a unique learning experience, capacitating grassroots organizations and field staff with invaluable human and institutional skills in dealing with adverse circumstances.

In order to ensure that all PPAF supported interventions take place in a socially inclusive and environmental friendly manner, PPAF has in place an environmental and social management framework. A fully dedicated group of professionals is responsible for regular dissemination of the framework among all its partner organizations. The group is also responsible for ensuring compliance with stringent social and environmental safeguards by all partner organizations through regular monitoring and periodic environmental and social audits. Task of the group is facilitated by a specifically constituted PPAF Panel on Social and Environmental Management.

PPAF is developing linkages with private and corporate sector with the aim to work jointly for establishing social sector partnerships to fighting poverty in the country. By involving business and corporate sectors, PPAF plans to further increase its country wide activities through bilateral relationships. This would enable the poor to access, and benefit from wider private sector markets and opportunities for value addition.

PPAF in collaboration with Tetra Pak, Shakarganj Foods and National Rural Support Programme executed a pilot ‘School Milk Program’ under which some 6,000 poor school children were being provided milk on daily basis in more than 40 schools of district Rahimyar Khan (Punjab). The idea being to make milk available to school children free of cost on a daily basis with the aim of improving their mental and physical growth, enhance school enrollment and attendance as well as educational performance.

PPAF and Engro Foundation formed an alliance to complement each other’s efforts/activities and jointly fund a Rs. 250 million project for provision of water, basic infrastructure, education,

health and social sector services as identified by local stakeholders in districts Ghotki and Sukkur of Sindh province over a four year period commencing January 2010.

Risk Management Policies:

The Company uses a structured approach in identifying, assessing and controlling risks to support better decision making for effective and efficient use of resources. The Company has exposure to the following risks:

Credit risk:

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail to perform as contracted. The Company's credit risk is primarily attributable to loans to partner organizations; investments and bank balances. Credit risk on loans is controlled through extensive credit appraisals of partner organizations, assessing their credit-worthiness, requiring compulsory savings from borrowers and creating lien on the assets of partner organizations. The credit risk on investments and bank balances is limited because the counter parties are banks/financial institutions with high credit ratings; and Government of Pakistan.

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 except for financial assets of US\$ 3,878.

Interest / mark-up rate risk:

The interest/mark-up rate risk is the risk that the value of the financial instrument will fluctuate 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:

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to ensure availability of adequate amount of funding to meet the commitments. The Company

maintains flexibility in funding and follows an effective cash management and planning policy to ensure availability of adequate funds to meet its financial commitments in time. Moreover, the Company's financial position is satisfactory and it does not have any liquidity problems.

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.

Treasury Management:

The Company follows a pro-active approach of managing its cash and liquidity whereby cash inflows and outflows are projected on regular basis. Repayments of all long term and short term loans due in 2010 and/or onwards have been accounted for. Working capital requirements have been planned to be financed through internal cash generations. Excess cash is invested and the investment portfolio of the Company is fairly diversified. Investment of surplus funds are made after thorough financial evaluation. At present, the Company sees no immediate pressure on its short term and long term financing needs. There are sufficient reserves with the banks to meet any contingency in liquidity.

Reporting and Disclosure:

Transparency of information for stakeholders is a prime consideration. This means accuracy and reliability of financial and other reporting framework, effective internal control principles including risk management, planning and monitoring of Company operations and performance under direct and indirect supervision through delegated authorities.

The Management places high priority on true and fair presentation and timely issuance of periodic financial and non-financial information to regulatory authorities, donors and other stakeholders of the Company. In addition to preparing financial statements in line with statutory requirements, the Company also prepares separate financial statements for different donors' projects which are duly audited by its external auditors.

The annual audited financial statements alongwith Directors' Report as well as quarterly and half yearly un-audited financial statements alongwith Management Reviews are published and circulated to stakeholders. These statements are also made available on the Company website.

Board of Directors:

Structure of the Board

The present Board comprises of eleven Members including the Chairman and the Chief Executive/Managing Director of the Company with distinct responsibilities. The Chief Executive/Managing Director is the only Executive Member on the Board while all other Members including the Chairman represent the non-executive directorship of the Company. Of eleven Board Members, three were nominated by the Government; seven elected by the General Body; and the Chief Executive/Managing Director appointed by the Board.

Responsibilities of the Board

The Board acknowledges the significance of efficient discharge of duties imposed by corporate law and stands firmly committed in its objective to add value through effective participation and contribution towards achievement of Company's objectives. The Board further recognizes its responsibilities for protection and efficient utilization of Company resources for business objectives and compliance with laws and regulations at all levels. 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, the Code of Corporate Governance and other applicable regulations.

The Board has devised formal policies related to operational policies and procedures, procurement of goods and services; loan loss provisioning; loans and advances; investment of funds; delegation of financial powers; human resource management including performance evaluation of Management etc.

As part of its duties, the Board reviews and approves 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' Reports.

Meetings of the Board

The Board held five meetings during the year. The minutes of meetings were appropriately recorded and circulated within ten days thereof.

The quorum for meetings stipulated by the Articles of Association provides for four Directors. The Directors did not have any interest in contracts involving the Company.

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:

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 under the Articles of Association of the Company through a formal election process. However, no Member of the Board of Directors shall serve for more than two consecutive terms of three years each. Consent to act as Director is obtained from each Director prior to election. They are not involved in external audit or have had no relationship with the external auditors of the Company. The Members do not share any relationship other than that of fellow colleagues on the Board. Election of Directors was held on December 7, 2009 and seven Directors were elected unopposed, for a term of three years.

Change of Directors:

The Board places on record its appreciation for the valuable contributions made by the outgoing Directors, Mr. Mueen Afzal, Mr. Aijaz Ahmed Qureshi, Syed Ayub Qutub and Dr. Fareeha Zafar, towards progress of the Company. The Board also welcomes the new Directors, Mr. Shahid Ahmad, Dr. Nuzhat Ahmad, Dr. Rajab Ali Memon, Dr. Aisha Ghaus Pasha and Mr. Asif Qadir. 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.

Board Committees:

The Board places paramount importance on good governance that has always been viewed as the fundamental principle in enhancing the timeliness, accuracy, comprehensiveness and transparency of financial and non financial information. In order to follow best practices, the Board in January 2007, endorsed the code of corporate governance of listing regulations by constituting Audit and Human Resource committees.

Board Audit Committee:

The Committee comprises five non-executive members of the Board. The Chairman is an independent non-executive Director. The head of Internal Audit Unit acts as Secretary. The composition of the Committee changed after the election of Directors in December 2009.

The terms of reference of the Audit Committee have been drawn up by the Board in conformity with the code of corporate governance and the Board acts in accordance with the recommendations of the Committee on matters forming part of Committee responsibilities. The Committee assists the Board in overseeing Company's financial control, with particular emphasis on integrity of internal controls and financial reporting; qualification and independence of Company's external auditors; and performance of Company's internal and external auditors.

During the year, three meetings of the Committee were held. The Committee reviewed 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; annual work plans and budgets for different donors' projects; annual budget of the Company; policy for loan losses and write-off; 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 the requirements of the donors.

The Committee held separate meetings with the Chief Financial Officer and the External Auditors to discuss issues of concern. Minutes of meetings were drawn up expeditiously and circulated for the information and consideration of the Board in the immediately succeeding Board meeting.

Board Compensation Committee:

The Committee comprises five 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. The composition of the Committee changed after the election of Directors in December 2009.

The terms of reference of the Human Resource Committee have been approved by the Board. 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; ensure continuous development and skill enhancement of employees.

During the year under review, the Committee held three meetings. The Committee reviewed and recommended for Board's approval, employees benefit plans; good performance awards; annual increment for the employees; regularization of services of senior executives; promotion to senior management positions; revised organogram keeping in view expansion in operations; and revised vehicle maintenance policy.

The Chief Executive/Managing Director and other management employees were invited to attend meetings for discussion and suggestions. Minutes of meetings were drawn up expeditiously and circulated for the information and consideration of the Board in the immediately succeeding Board meeting.

Role and Responsibilities of the Chairman and Chief Executive:

The roles of the Chairman and the Chief Executive/Managing Director are segregated and they have distinct responsibilities. Chairman has responsibilities and powers vested in him by law and the Articles of Association of the Company, as well as duties assigned to him 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 Company Management is supervised by the Chief Executive/Managing Director 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/Managing Director 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.

Management:

The Company Management comprises heads of various functions who operate under the powers and limits delegated by the Chief Executive/Managing Director and the Board for ensuring seamless operations and achieving objectives under strategies adopted by the Board.

The Management ensures execution of business operations including adherence to cardinal principles, appraising and monitoring of partner organizations, recommending financing for partner organizations, preparation of annual budgets/work plans and monitoring progress thereof. Management is also responsible for implementation of internal control including segregation of duties, financial and accounting controls for accuracy and completeness of accounting records, authorization, recording and accurate processing of transactions, compliance with statutory and

other regulations and timely preparation of reliable financial and non-financial information for circulation to the stakeholders.

Future Outlook:

Going forward, PPAF plans to assign pivotal role to mobilization and capacity building of communities of least developed areas, laying the foundation for future expansion of poverty reduction activities. Many of these will go on to take microfinance loans or productive and social infrastructure from the PPAF, through the existing partner organization network, while others will federate into local institutions of the poor.

Based on needs of the target group, interventions will be made as integrated as possible, responding to identified priorities and the participatory spirit of the program will be maintained and social mobilisation will remain the primary activity. The interventions will be based on needs assessment as a continuous and participatory process. This need assessment will be fed to the PPAF system so that, as much as possible, an integrated approach to development is adhered to by bringing infrastructure, health and education, skills development and other such complimentary interventions to the livelihood grants. This integrated approach will facilitate improvement and sustainability in livelihoods interventions.

The legal and financing agreements for EUR 32 million KfW (Development Bank of Germany) Project for “Livelihood Support and Promotion of Small Community Infrastructure” were executed between Government of Pakistan, KfW and PPAF in June 2010. The four year project will be implemented in poor communities in the districts of Haripur, Swabi and Buner in Kyber-Pakhtunkhwa province. The purpose of the Project are (a) increased access to and sustainable utilization of social and economic infrastructure by the population of the project region, (b) increased employment and income opportunities, for the poor, (c) strengthening local civil society and enhanced participation of the population in the decision making at the local level. This is to contribute to the improvement of the general living conditions and quality of life of the poor population in the project region.

The Italian Government Mission appraised PPAF for EUR 40 million project on “Poverty Reduction through Development Activities” to be implemented in Balochistan, Khyber-Pakhtunkwa and Federally Administered Tribal Areas. The objective of the project is the provision of a social and productive infrastructure and establishment of an effective and sustainable social safety nets. The legal and financing agreements to be executed between GoP, Italian Government and PPAF are in the process of finalization.

PPAF envisages funding from USAID Pakistan for carrying out poverty reduction interventions that fall within its strategic framework. USAID Pakistan has shown interest to become partner of PPAF and as a pre-requisite for awarding contract, it engaged a leading firm of Chartered Accountants to carry out assessment of PPAF. The assessment concluded that PPAF capacities and procedures fully satisfy minimum requirements and are sufficient for USAID/Pakistan’s purposes. Overall assessment of PPAF was Low Risk. Since then USAID Pakistan and PPAF have held series of meetings and dialogues to explore the areas of collaboration.

Auditors:

The present auditors of the Company, Messers A. F. Ferguson and Company, Chartered Accountants, have completed their assignment for the financial year ended June 30, 2010 and shall retire at the conclusion of 14th Annual General Meeting. Being eligible, they offered themselves for re-appointment. The Audit Committee considered and recommended their re-appointment for the financial year ending June 30, 2011 and the Board also endorsed the recommendations of the Audit Committee.

Conclusion:

As a model of public private partnership, PPAF has been able to bring private sector efficiencies, corporate sector rigor, planning and managerial skills in support of public policy and the development sector. PPAF is focused on delivery of resources and services at the household level aimed at the poor and excluded. Today PPAF is one of the largest sources of pro-poor spending outside the Federal Budget and Public Sector Development Program. Several features of its design have ensured effectiveness of the PPAF. Major among these was creation of a

credible institution which enjoys support of all stakeholders and is a role model for an effective delivery mechanism at the grass root level. With the passage of time the identity of the organization has merged with dreams of the poor. Of equal importance have been successful transition of civil society organizations, who in partnership with the PPAF, are now major players on the development scene. A grant driven outlook has been replaced by a professional approach leading to an unprecedented increase in outreach and understanding of the fundamentals of sustainable development. Additionally, a climate which permitted a free and open debate has led to a strong relationship of trust with partner organizations and their communities. This in turn has paved the way for looking at development as a shared experience rather than diktat from the top.

Acknowledgement:

The success seen over the years is product of the Board's vision and commitment towards poverty alleviation. I would like to thank my fellow Directors for their contribution, assistance and commitment throughout the year. Their consistent effort and guidance in directing the Company's affairs contributed significantly in achieving healthy operational and financial results.

The Board is grateful for the trust and faith reposed by the Members of the General Body. Their support gives confidence and encouragement in achieving the targets and strategies formulated by the Board. The Board would also like to commend the partner organizations and their communities for excellent performance and ownership of the programmes that made possible to overcome the most difficult of challenges.

The growth of PPAF has been the result of sustained support received from all stakeholders. The Government of Pakistan ranks foremost for its exemplary facilitation and support, equally important was the role of the donor agencies, particularly the World Bank for its clear conceptual framework and result based monitoring missions. We take this opportunity to express our deep gratitude to Government of Pakistan and our donor agencies – World Bank, International Fund for Agricultural Development; U.S. Department of Agriculture; KfW Development Bank

(Germany); Committee Encouraging Corporate Philanthropy (USA); and U.S. Agency for International Development, for reposing their faith in our abilities to serve the poor in these challenging times and also express resolve that their confidence will be rewarded in the years to come.

We are proud of our employees who individually and collectively, through a well coordinated effort, contributed to the success and achievement of excellence during the year. We are confident of our employees' abilities and hard work to attain ambitious corporate objectives.

PPAF will no doubt continue to be a dynamic and agile institution fully aligned with the changing dynamics of poverty alleviation. We will endeavor to ensure that this growth momentum is sustained and expanded in the years ahead.

Islamabad
August 03, 2010



Hussain Dawood
Chairman

PAKISTAN POVERTY ALLEVIATION FUND

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2010**

A.F.Ferguson & Co.**Chartered Accountants**

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E-mail: ferguson@nayatel.pk

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Pakistan Poverty Alleviation Fund (the Company) as at June 30, 2010 and the related income and expenditure account, 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 income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, 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, 2010 and of the surplus, 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: August 3, 2010

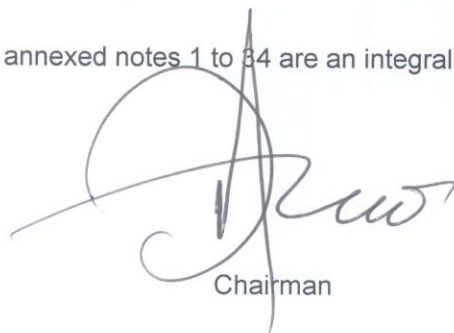
Engagement partner: Sohail M Khan

PAKISTAN POVERTY ALLEVIATION FUND
BALANCE SHEET AS AT JUNE 30, 2010

	Note	2010	2009
		(Rupees)	
FIXED ASSETS - TANGIBLE	5	64,972,215	54,380,063
INTANGIBLE ASSETS	6	7,723,804	10,167,986
LONG TERM INVESTMENTS	7	600,000,000	1,000,000,000
LONG TERM LOANS TO PARTNER ORGANIZATIONS	8	764,157,695	1,721,037,948
CURRENT ASSETS			
Current maturity of loans to Partner Organizations	8	9,807,922,669	7,419,925,938
Current maturity of long term investments	7	400,000,000	-
Short term investments-specific to projects	9	600,000,000	530,000,000
Short term investments-specific to grant fund	10	1,763,431,262	-
Short term investments-other	11	4,058,341,775	5,224,642,173
Advances, deposits, prepayments and other receivables	12	89,390,437	91,288,563
Profit/service charges receivable	13	410,936,898	451,863,074
Bank balances-specific to projects	14	5,013,641,706	1,959,485,918
Cash and bank balances	15	48,719,875	46,324,747
		22,192,384,622	15,723,530,413
		<u>23,629,238,336</u>	<u>18,509,116,410</u>
FUND AND RESERVES			
Endowment fund	16	1,000,000,000	1,000,000,000
Grant fund	4.7	1,763,431,262	-
Reserve for grant based activities	4.7	161,052,262	-
Accumulated surplus		3,189,977,882	3,785,356,163
		<u>6,114,461,406</u>	<u>4,785,356,163</u>
LONG TERM LOANS	17	12,246,272,031	11,030,865,907
CURRENT LIABILITIES			
Deferred liabilities - grant fund	18	5,040,205,728	2,451,222,148
Deferred income - grant fund	19	59,699,703	60,915,780
Current portion of long term loans	17	109,617,378	109,617,378
Service and commitment charges payable	20	39,210,528	62,496,823
Accrued and other liabilities	21	19,771,562	8,642,211
		5,268,504,899	2,692,894,340
CONTINGENCIES AND COMMITMENTS	23	<u>23,629,238,336</u>	<u>18,509,116,410</u>

The annexed notes 1 to 34 are an integral part of these financial statements.

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Chairman


Chief Executive/ Managing Director

**PAKISTAN POVERTY ALLEVIATION FUND
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
		(Rupees)	
INCOME			
Service charges on loans to Partner Organizations	24	933,370,633	744,434,556
Amortization of deferred income - grant fund	19	309,216,434	199,743,670
Income on investments and saving accounts	25	656,312,742	723,183,285
Income on grant fund - net	26	161,052,262	-
Other income	27	<u>829,003</u>	<u>1,320,838</u>
		2,060,781,074	1,668,682,349
EXPENDITURE			
General and administrative expenses	28	<u>358,379,078</u>	<u>274,094,234</u>
Seminars, workshops and trainings	29	<u>46,991,391</u>	<u>10,465,823</u>
Consultancy charges	30	<u>175,957,920</u>	<u>37,512,708</u>
Loan loss provision	8	<u>75,321,920</u>	<u>235,731,884</u>
Financial charges	31	<u>75,025,522</u>	<u>80,600,531</u>
		<u>731,675,831</u>	<u>638,405,180</u>
SURPLUS FOR THE YEAR		<u>1,329,105,243</u>	<u>1,030,277,169</u>

The annexed notes 1 to 34 are an integral part of these financial statements.

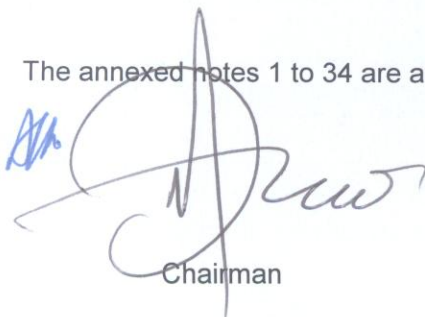

Chairman

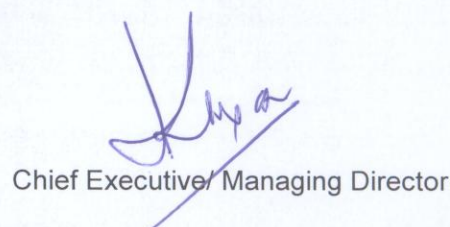

Chief Executive/ Managing Director

PAKISTAN POVERTY ALLEVIATION FUND
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	Note	2010	2009
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		1,329,105,243	1,030,277,169
Adjustment for non cash items:			
Depreciation		25,501,823	21,566,925
Amortization of intangible assets		5,727,163	4,797,536
Amortization of deferred income		(309,216,434)	(199,743,670)
Loan loss provision		75,321,920	235,731,884
Gain on sale of fixed assets		(340,000)	-
Financial charges		75,025,522	80,600,531
		(127,980,006)	142,953,206
		1,201,125,237	1,173,230,375
Working capital changes			
(Increase) / decrease in current assets:			
Advances, deposits, prepayments and other receivables		1,898,126	(22,935,222)
Profit/service charges receivables		40,926,176	(189,362,978)
Increase / (decrease) in current liabilities:			
Accrued and other liabilities		11,129,351	4,841,000
		53,953,653	(207,457,200)
Cash generated from operations		1,255,078,890	965,773,175
Disbursements to partner organizations:			
Loans		(9,048,466,351)	(6,948,866,920)
Grants		(4,798,394,323)	(6,116,562,924)
Recoveries of loans from partner organizations		7,542,027,953	5,554,971,762
Financial charges paid		(98,311,817)	(78,500,692)
		(6,403,144,538)	(7,588,958,774)
Cash flows from operating activities		(5,148,065,648)	(6,623,185,599)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net purchases/(encashments)		(667,130,864)	737,141,992
Capital expenditure incurred		(40,098,484)	(28,356,164)
Proceeds from disposal of fixed assets		1,061,528	472,000
Cash flows from investing activities		(706,167,820)	709,257,828
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term loans - received		1,325,023,502	370,588,422
Long term loans - repaid		(109,617,378)	(109,617,378)
Deferred liabilities - grant fund receipts		7,387,377,903	4,317,371,141
Deferred income - grant fund receipts		308,000,357	286,952,056
Cash flows from financing activities		8,910,784,384	4,865,294,241
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,056,550,916	(1,048,633,530)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,005,810,665	3,054,444,195
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14&15	5,062,361,581	2,005,810,665

The annexed notes 1 to 34 are an integral part of these financial statements.

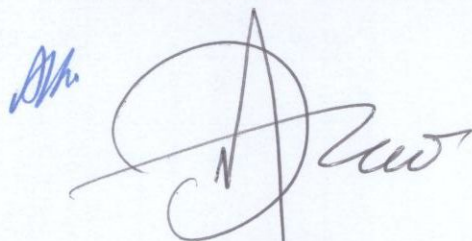

Chairman



Chief Executive/ Managing Director

PAKISTAN POVERTY ALLEVIATION FUND
STATEMENT OF CHANGES IN FUND AND RESERVES
FOR THE YEAR ENDED JUNE 30, 2010

	Note	Endowment Fund	Grant fund	Reserve for grant based activities (Rupees)	Accumulated Surplus	Total
Balance as at June 30, 2008		1,000,000,000			2,755,078,994	3,755,078,994
Surplus for the year					1,030,277,169	1,030,277,169
Balance as at June 30, 2009		1,000,000,000	-	-	3,785,356,163	4,785,356,163
Surplus for the year					1,329,105,243	1,329,105,243
Transfer from accumulated surplus to grant fund	4.7		1,763,431,262		(1,763,431,262)	-
Transfer from accumulated surplus to reserve for grant based activities	26			161,052,262	(161,052,262)	-
Balance as at June 30, 2010		<u>1,000,000,000</u>	<u>1,763,431,262</u>	<u>161,052,262</u>	<u>3,189,977,882</u>	<u>6,114,461,406</u>

The annexed notes 1 to 34 are an integral part of these financial statements.


Chairman


Chief Executive/ Managing Director

PAKISTAN POVERTY ALLEVIATION FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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 approved accounting standards, as applicable in Pakistan. Approved accounting standards comprise of Accounting and Financial Reporting Standard for Medium-Sized Entities (MSEs) issued by the Institute of Chartered Accountants of Pakistan and 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. BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of historical cost convention except for the revaluation of certain financial instruments held in foreign currency at the exchange rate prevailing on the balance sheet date and employees benefit obligation as per actuarial valuation.

The preparation of financial statements in conformity with the approved accounting standards require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent 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 recognised 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) and staff gratuity scheme (note 22).



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Employee benefits

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, 2010, related details of which are given in note 22 to the financial statements.

4.2 Taxation

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

4.3 Provisions

Provisions are recognized when the Company has a present 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.

4.4 Deferred liabilities - grant fund

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

4.5 Fixed assets - tangible

Fixed assets 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.

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 fixed assets is included in current year's statement of income and expenditure.

4.6 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.

4.7 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 20% 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 (microcredit and enterprise development facility) and the balance 65% are held in investments, 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.

4.8 Loans to Partner Organisations

These are stated net of provision for loan losses.

General provision for loan losses at the rate of 5% (2009: 5%) of the gross outstanding balances of loans to POs is made at the year end.

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.

4.9 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.

4.10 Revenue recognition

Income is recognized on accrual basis except grants and donations that are recorded on receipt 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 - micro-credit loans and grants

Receipts from Government of Pakistan (GOP) on account of International Development Association (IDA) and International Fund for Agricultural Development (IFAD) projects are recorded on the basis of Financial Monitoring Reports, raised on quarterly basis, under relevant categories of micro-credit loan fund, community physical infrastructure (CPI) grant fund, social sector development grant fund, emergency relief, housing reconstruction and community building, revitalization of communities/ rehabilitation of CPI schemes and capacity building grant fund as specified in the Financing Schedules of the respective Financing Agreements.

Receipts from Government of Pakistan (GOP) on account of KfW Development Bank (KfW) projects are recorded on the basis of Statement of Expenditures (SOEs), raised on quarterly basis, under relevant categories of housing reconstruction and community building, revitalization of communities/ rehabilitation of CPI schemes and capacity building grant fund as specified in the Financing Schedule of the respective Financing Agreement.

Receipts from Government of Pakistan (GOP) on account of United States Department of Agriculture (USDA) projects are recorded on the basis of requests by the Company, on annual basis, under relevant category of CPI grant fund and capacity building grant fund as specified in the agreed plan of action.

Receipts from Government of Pakistan (GOP) on account of micro credit and enterprise development facility (EDF) are recorded as loans. Grants specific to POs and PPAF are recognized as deferred liability and deferred income respectively.

Grants from USAID/Pakistan on account of EDF and capacity building are recorded on the basis of advance request raised on monthly basis. Receipts of EDF and grants specific to POs are recorded as deferred liability and grants specific to PPAF are recognized as deferred income.

Grants from Committee Encouraging Corporate Philanthropy (CECP) on account of reconstruction and refurbishment of education and health facilities affected by earthquake are recorded on the basis of advance request raised on quarterly basis. Receipts of grants specific to POs are recognized as deferred liability, whereas, grants specific to PPAF are recognized as deferred income.

4.12 Borrowing costs

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

4.13 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. The 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, except exchange differences related to disbursements against Special Drawing Rights (SDR) for micro credit loan, community physical infrastructure grant, social sector development, emergency relief, housing reconstruction and community building, revitalization of communities/ rehabilitation of CPI schemes, social mobilization, disability and capacity building grant which are included in their respective balances.

4.14 Financial instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. 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.

4.15 Offsetting

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



5. FIXED ASSETS - tangible

	Cost			Annual rate of depreciation	Depreciation			Book value as at June 30, 2010	Book value as at June 30, 2009
	As at July 01, 2009	Additions/ (Deletions)	As at June 30, 2010		As at July 01, 2009	Charge for the year / (On deletions)	As at June 30, 2010		
	(Rupees)				(Rupees)			(Rupees)	(Rupees)
Furniture and fixtures	10,046,025	3,176,380	13,222,405	20	6,689,811	1,814,521	8,504,332	4,718,073	3,356,214
Vehicles	51,763,260	10,783,700 (1,991,500)	60,555,460	20	29,528,585	10,141,726 (1,361,300)	38,309,011	22,246,449	22,234,675
Office equipment	26,704,072	14,898,402	41,602,474	20	14,897,188	5,212,107	20,109,295	21,493,179	11,806,884
Computer equipment	43,768,037	7,957,021 (724,610)	51,000,448	25	26,785,747	8,333,469 (633,282)	34,485,934	16,514,514	16,982,290
2010	132,281,394	36,815,503 (2,716,110)	166,380,787		77,901,331	25,501,823 (1,994,582)	101,408,572	64,972,215	54,380,063
2009	109,518,657	23,352,737 (590,000)	132,281,394		56,452,406	21,566,925 (118,000)	77,901,331	54,380,063	

6. INTANGIBLE ASSETS

	Cost			Annual rate of amortisation	Amortisation			Book value as at June 30, 2010	Book value as at June 30, 2009
	As at July 01, 2009	Additions	As at June 30, 2010		As at July 01, 2009	Charge for the year	As at June 30, 2010		
	(Rupees)				(Rupees)			(Rupees)	(Rupees)
Satellite imageries	15,545,449	3,002,127	18,547,576	25	6,994,517	4,636,894	11,631,411	6,916,165	8,550,932
Other softwares	4,295,738	280,854	4,576,592	25	2,678,684	1,090,269	3,768,953	807,639	1,617,054
2010	19,841,187	3,282,981	23,124,168		9,673,201	5,727,163	15,400,364	7,723,804	10,167,986
2009	14,837,760	5,003,427	19,841,187		4,875,665	4,797,536	9,673,201	10,167,986	

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	Note	2010	2009
		(Rupees)	
7. LONG TERM INVESTMENTS - held to maturity			
Pakistan Investment Bonds (PIBs)	7.1	1,000,000,000	1,000,000,000
Less: PIBs maturing within next twelve months shown as current asset		(400,000,000)	-
		<u>600,000,000</u>	<u>1,000,000,000</u>

7.1 Represents investments in PIBs as follows:

Principal (Rupees)	Issue Date	Maturity Date	Profit rate % per annum	Payment terms
200 million	30-12-2000	30-12-2010	14.00	Semi annually
200 million	19-05-2006	19-05-2011	9.30	Semi annually
200 million	22-08-2001	22-08-2011	13.00	Semi annually
400 million	29-04-2004	29-04-2014	8.00	Semi annually
			2010	2009
			(Rupees)	

8. LOANS TO PARTNER ORGANIZATIONS - secured, considered good

National Rural Support Programme	4,293,386,563	3,562,630,808
Punjab Rural Support Programme	339,870,720	253,913,980
Kashf Foundation	2,351,649,999	2,514,249,999
Sarhad Rural Support Programme	15,333,333	85,333,333
Thardeep Rural Development Programme	398,155,000	463,500,000
Development Action for Mobilization and Emancipation	609,474,166	473,700,325
Sindh Agricultural & Forestry Workers Coordinating Organization	206,663,266	222,618,832
Sindh Rural Support Programme	200,000	475,000
Jinnah Welfare Society	218,717,850	139,336,230
Centre for Women Cooperative Development	254,361,242	258,284,020
Rural Community Development Society	221,386,668	181,802,469
Young Pioneers Society	8,250,000	10,250,000
Women Social Organization	10,516,000	4,520,000
Anjuman-e- Falah-o-Behbood	-	352,500
Community Support Concern	244,452,862	284,152,581
Poverty Eradication Network	2,787,000	2,800,000
Baanhn Beli	-	1,200,000
Bunyard Literacy Community Council	13,250,000	3,590,000
Indus Resource Centre	6,456,999	12,885,697
Network Leasing Corporation Limited	59,125,000	85,625,000
Organization for Participatory Development	75,121,667	74,512,500
Swabi Women Welfare Society	8,437,498	11,749,998
Orangi Charitable Trust	273,392,641	180,575,000
Community Development Concern	-	245,000
Karwan Community Development Organization	5,575,000	4,510,000
Kiran Welfare Organization	2,350,001	6,025,001
Narowal Rural Development Programme	26,061,250	18,833,333
Soon Valley Development Programme	10,060,000	6,110,000
Asasah	359,775,000	258,784,818
Baidarie	5,412,334	2,206,045
Orix Leasing Pakistan Limited	158,650,047	181,883,631
Save The Poor	22,666,667	9,747,466
Marvi Rural Development Organization	18,596,151	10,521,153
Sindh Rural Support Organization	188,030,000	85,617,225
BRAC Pakistan	715,202,000	259,863,000
Farmers Friend Organization	20,667,189	9,862,847
Khajji Cooperative Society	9,500,000	1,576,168
Balances continued - carried forward	11,153,534,113	9,683,843,959

Note	2010	2009
	(Rupees)	
Balances continued - brought forward	11,153,534,113	9,683,843,959
Al Mehran Rural Development and Welfare Organization	25,259,077	-
Balochistan Rural Development & Research Society	1,207,500	427,500
Buksh Foundation	2,800,000	7,000,000
Mojaz Foundation	12,710,000	3,980,000
Badbaan Enterprise Development Forum	600,000	500,000
Khwendo Kor Women and Children Development Programme	645,834	-
Villagers Development Organization	1,408,333	-
SAATH Development Society	3,675,000	-
Mashal Development Organization	350,000	-
8.1	11,202,189,857	9,695,751,459
Less: Loan loss provision	8.2 (630,109,493)	(554,787,573)
	10,572,080,364	9,140,963,886
Less: Amount receivable within next twelve months shown as current asset	(9,807,922,669)	(7,419,925,938)
	764,157,695	1,721,037,948

- 8.1 The Company disbursed Micro-credit loans and Enterprise Development Facility (EDF) to POs under respective Financing Agreements at a service charge of six percent per annum (6% p.a.) and eight percent per annum (8% p.a.). The later rate is effective on all the financing agreements executed after March 31, 2006. 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 to three years under the respective financing agreements signed between the Company and the POs.

With effect from January 01, 2008, the Partner Organizations, in respect of all lending facilities (credit), defined as large (POs which are approved annual credit disbursements by PPAF of Rs 500 million and above or POs having PPAF credit outstanding of Rs 500 million and above, at any given point in time) will be charged annual markup rate (service charge) equal to 10% or KIBOR (Karachi Interbank Offered Rate) prevailing on first working day of January (applicable on Financing Agreements executed between January 01, to June 30) and first working day of July (applicable on Financing Agreements executed between July 01, to December 31) each year, the KIBOR of one year will be applicable. The proposed markup rate (service charge) will be applicable to all lending facilities with large POs signed on or after January 01, 2008. However, after May 06, 2009 all lending facilities (credit) will be charged annual markup rate (service charge) upto 2% below the relevant KIBOR prevailing on last working day prior to the execution of Financing Agreements. The KIBOR will correspond with agreement period i.e. for one year Financing Agreement, KIBOR of one year will be applicable.

	2010	2009
	(Rupees)	
8.2 Movement of loan loss provision		
Opening balance	554,787,573	319,055,689
Provision during the year	75,321,920	235,731,884
	630,109,493	554,787,573
8.3 Movement of loans to Partner Organizations		
Opening balance	9,695,751,459	8,301,856,301
Disbursements during the period	9,048,466,351	6,948,866,920
	18,744,217,810	15,250,723,221
Recoveries during the period	(7,542,027,953)	(5,554,971,762)
	11,202,189,857	9,695,751,459
Less: Loan loss provision	(630,109,493)	(554,787,573)
	10,572,080,364	9,140,963,886

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	Note	2010	2009
		(Rupees)	
9. SHORT TERM INVESTMENTS - specific to projects			
Term deposit receipts - PRISM	9.1	600,000,000	-
Term deposit receipts - USDA	9.2	-	530,000,000
		<u>600,000,000</u>	<u>530,000,000</u>

9.1 These represents investments in respect of Programme for Increasing Sustainable Microfinance (PRISM) activities, maturing within one year from the date of investment at annual markup rates ranging from 10.50% p.a. to 11.50% p.a. As agreed in the Subsidiary Financing Agreement, these funds are placed with commercial banks as cash collaterals for providing a partial guarantee to the Banks to facilitate lending to following Microfinance Institutions:

Microfinance institutions	Investment amount	Running finance facility amount
Kashf Foundation	250 million	350 million
National Rural Support Programme	250 million	350 million
Sindh Agricultural & Forestry Workers Coordinating Organization	50 million	60 million
Asasah	50 million	55 million

9.2 These represent investments in respect of United States Department for Agriculture (USDA) project activities, maturing with in one year from the date of investment at annual mark up rates of 10.50% p.a to 12% p.a.

10. SHORT TERM INVESTMENTS - specific to grant fund

These investments include term deposit receipts of various commercial and investment banks, maturing within one year from the date of investment at annual markup rates ranging from 11.10% p.a. to 12.04% p.a.

11. SHORT TERM INVESTMENTS - other

These represent investments of Rs 2,240,437,971 (equivalent to 20% of the loan receivable from Partner Organizations) to safeguard against major default and provide capital adequacy and Rs 1,817,903,804 as funds available for lending activities. These funds are invested in term deposit receipts of various commercial banks, maturing within one year from the date of investment, at annual mark up rates ranging from 10.70% p.a to 12.40% p.a (June 2009: 11.00% p.a.to 15.40% p.a.).

	Note	2010	2009
		(Rupees)	
12. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Loans and advances - considered good			
Employees	12.1	3,390,947	1,869,528
Suppliers		<u>3,165,720</u>	<u>254,183</u>
		6,556,667	2,123,711
Deposits		2,200,400	2,070,400
Prepayments		28,998,989	37,582,229
Income tax refundable		49,384,426	49,384,426
Other receivables - considered good		<u>2,249,955</u>	<u>127,797</u>
		<u>89,390,437</u>	<u>91,288,563</u>

12.1 This include advance salary loans and car loans given to the employees of the Company, carrying annual mark up of 3% p.a. (2009: 3% p.a.) and 8% p.a (2009: 8% p.a.) respectively. The principal amount is repayable in 18 equal monthly installments.

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	2010	2009
	(Rupees)	
13. PROFIT / SERVICE CHARGES RECEIVABLE		
Profit receivable on		
Pakistan Investment Bonds (PIBs)	16,737,534	16,737,534
Term deposit receipts / saving accounts	74,750,080	257,066,120
Short term investments specific to grant based activities	67,956,021	-
Project bank accounts / investments	25,228,767	5,100,685
	184,672,402	278,904,339
Service charge receivable on loans to POs	226,264,496	172,958,735
	410,936,898	451,863,074
14. BANK BALANCES - SPECIFIC TO PROJECTS		
Cash at banks - current accounts		
Specific to IDA II	2,154,794,650	1,400,003,901
Specific to IDA III	2,280,293,514	-
Specific to IDA Disability Project	-	212,312,453
Specific to IFAD-MIOP	61,591,831	2,577,628
Specific to IFAD-REACH	-	99,540,804
Specific to IFAD-PRISM	232,279,785	133,561,734
Specific to Kfw	-	3,508,935
Specific to CECF grant	74,329,170	105,379,479
	4,803,288,950	1,956,884,934
Cash at banks - deposit accounts		
Specific to USDA grant	210,330,754	2,580,373
Specific to CECF	22,002	20,611
	210,352,756	2,600,984
	5,013,641,706	1,959,485,918
15. CASH AND BANK BALANCES		
Cash in hand		
in head office	3,363	40,237
in centers	-	100,000
in field coordination offices	85,000	113,110
	88,363	253,347
Cash at banks - current accounts	26,692,700	14,947,783
Cash at banks - deposit accounts	21,938,812	31,123,617
	48,631,512	46,071,400
	48,719,875	46,324,747

The balances in deposit accounts carry average mark up of 6.50 % p.a. (2009: 5.00% p.a.). These include foreign currency balances aggregating to US\$ 3,878 (2009: US\$ 3,878).

	2010	2009
	(Rupees)	
16. ENDOWMENT FUND		
PPAF - I	500,000,000	500,000,000
PPAF - II	500,000,000	500,000,000
	1,000,000,000	1,000,000,000

16.1 This represents the amounts paid by GOP for endowment fund under the Subsidiary Financing Agreements (SFAs) as detailed in Note 17.1 and 17.2. Under the SFA, the fund is to be invested in the government schemes / bonds and income generated therefrom shall be utilized for revenue and capital expenditure of the Company.

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17. LONG TERM LOANS - Unsecured	Note	2010	2009
		(Rupees)	
Government of Pakistan - PPAF - I (IDA financing)	17.1	2,234,166,588	2,343,783,966
Government of Pakistan- PPAF - II (IDA financing)	17.2	8,321,429,227	8,321,429,227
Government of Pakistan - (IFAD financing-MIOP)	17.3	813,980,000	281,910,990
Government of Pakistan - (IFAD financing-PRISM)	17.4	609,174,649	83,741,724
Government of Pakistan- PPAF - III (IDA financing)	17.5	267,521,567	-
		<u>12,246,272,031</u>	<u>11,030,865,907</u>
17.1 Government of Pakistan - PPAF - I (IDA financing)			
Opening balance		2,453,401,344	2,563,018,722
Amount repaid		<u>(109,617,378)</u>	<u>(109,617,378)</u>
		2,343,783,966	2,453,401,344
Amount payable within next twelve months shown as current liability		<u>(109,617,378)</u>	<u>(109,617,378)</u>
		<u>2,234,166,588</u>	<u>2,343,783,966</u>

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

Under Subsidiary Financing Agreement (SFA) dated August 18, 1999 executed between GOP and the Company, 50% of the amount was disbursed as loan to the Company and the balance as grant on non reimbursable basis. The principal loan amount of the project is repayable in Pak Rupees 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 two point zero eight three percent (2.083%) of such principal amounts and each installment thereafter shall be equal to four point one six seven percent (4.167%) of such principal amount.

Under the SFA the company has committed to pay 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.

17.2 Government of Pakistan- PPAF - II (IDA financing)	2010	2009
	(Rupees)	
Opening balance	8,321,429,227	8,197,837,189
Amount received	-	123,592,038
	<u>8,321,429,227</u>	<u>8,321,429,227</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 loan amount of the project is repayable in Pak Rupees 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 two point zero eight three percent (2.083%) of such principal amounts and each installment thereafter shall be equal to four point one six seven percent (4.167%) of such principal amount.

Under the SFA the company has committed to pay 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.

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	2010	2009
	(Rupees)	
17.3 Government of Pakistan - (IFAD financing MIOP)		
Opening balance	281,910,990	118,656,330
Amount received	532,069,010	163,254,660
	<u>813,980,000</u>	<u>281,910,990</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 building. The principal loan amount of the project is repayable in Pak Rupees 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.

Under the SLGA, the Company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time. The service charge is payable on June 01 and December 01 each year.

	2010	2009
	(Rupees)	
17.4 Government of Pakistan - (IFAD financing PRISM)		
Opening balance	83,741,724	-
Amount received	525,432,925	83,741,724
	<u>609,174,649</u>	<u>83,741,724</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 loan amount of the project is repayable in Pak Rupees 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.

Under the SFA, the Company has committed to pay a service charge of 0.75 % per annum on the principal amount of loan withdrawn and outstanding from time to time. The service charge is payable on June 01 and December 01 each year.

	2010	2009
	(Rupees)	
17.5 Government of Pakistan- PPAF - III (IDA financing)		
Amount received	<u>267,521,567</u>	<u>-</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.

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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 loan amount of the project is repayable in Pak Rupees 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 two point zero eight three percent (2.083%) of such principal amounts and each installment thereafter shall be equal to four point one six seven percent (4.167%) of such principal amount.

Under the SLA the company has committed to pay 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 loan not withdrawn from time to time as of June 30 of each year, but not to exceed the rate of 0.50% per annum. The service and commitment charges are payable on June 15 and December 15 each year.

	Note	2010	2009
		(Rupees)	
18. DEFERRED LIABILITIES - GRANT FUND			
Government of Pakistan - IDA	18.1	2,085,857,191	1,539,410,346
Government of Pakistan - IDA III	18.2	2,278,885,827	-
US Agency for International Development/Pakistan	18.3	115,984,115	115,984,115
Government of Pakistan - USDA	18.4	206,226,457	552,702,419
Government of Pakistan - KfW	18.5	-	3,508,935
Government of Pakistan - IFAD (MIOP)	18.6	61,294,380	(14,986,003)
Government of Pakistan - IFAD (REACH)	18.7	-	99,540,804
Government of Pakistan - IFAD (PRISM)	18.8	217,126,810	45,444,080
Committee Encouraging Corporate Philanthropy (CECP)	18.9	74,830,948	109,617,452
		<u>5,040,205,728</u>	<u>2,451,222,148</u>

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

	Note	2010	2009
		(Rupees)	
18.1 Grants from Government of Pakistan - IDA			
Opening balance		1,539,410,346	2,151,989,364
Amount received		<u>4,037,510,753</u>	<u>3,733,391,858</u>
		5,576,921,099	5,885,381,222
Less: Disbursements for			
Community physical infrastructure		1,400,000	370,020,894
Social sector development		18,097,320	72,883,739
Capacity building - POs		143,984,672	319,980,987
Emergency relief		-	34,310,000
Rehabilitation & reconstruction	18.1.1	-	2,745,729,872
Social mobilization project	18.1.2	3,137,118,276	711,911,865
Disability project		190,463,640	91,133,519
		<u>3,491,063,908</u>	<u>4,345,970,876</u>
		<u>2,085,857,191</u>	<u>1,539,410,346</u>

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	2010	2009
	(Rupees)	
Disbursements to POs		
Aga Khan Rural Support Programme	37,260	25,986,036
AKPBS-Water and Sanitation Extension Programme	112,007,438	20,668,819
AL Mehran Rural Development and Welfare Organization	2,593,900	-
Anjuman-e- Falah-o-Behbood	-	318,790
Asasah	-	30,025,440
Awaz Foundation Pakistan - Centre for Development Services	23,696,906	-
AZAT Foundation	7,374,820	-
Baanhn Beli	17,198,000	7,344,325
Badin Rural Development Society	68,784,697	5,280,268
Baidarie	-	4,812,745
Balochistan Environmental and Educational Journey	68,547,404	13,998,994
Balochistan Rural Development & Research Society	88,954,343	9,096,345
Balochistan Rural Support Programme	174,016,284	61,810,780
BRAC - Pakistan	-	51,241,780
Bunad Literacy Community Council	2,430,734	1,379,860
Centre for Women Cooperative Development	527,050	12,262,858
Community Development Concern	2,316,300	331,400
Community Mobilisation and Development Organization	113,729,054	13,153,858
Community Support Concern	4,625,600	3,861,310
Community Uplift Programme	76,612,141	6,745,105
Development Action for Mobilization and Emancipation	1,810,360	772,264
Disability devices to POs	77,642,835	-
Family Planning Association of Pakistan	57,009,209	5,272,124
Farmers Development Organization	63,246,707	-
Farmers Friend Organization	8,280	5,863,350
Hazara Development and Advocacy Foundation	-	15,196,604
Health and Nutrition Development Society	109,719,569	667,874
Human Development Foundation	-	3,200,000
Indus Earth Trust	(432,000)	1,812,395
Indus Resource Centre	47,480,380	15,644,365
Islamic Relief	(56,002,118)	343,205,486
Jinnah Welfare Society	-	6,017,680
Karwan Community Development Organization	817,181	1,107,736
Kashf Foundation	-	4,458,336
Khwendo Kor Women and Children Development Programme	41,961,160	-
Kiran Welfare Organization	2,247,700	2,188,944
Marvi Rural Development Organization	12,415	12,584,035
Mountain and Glacier Protection Organization	-	8,404,044
Mountain Institute of Educational Development	22,181,150	-
Narowal Rural Development Programme	-	5,090,353
National Rural Support Programme	286,415,200	1,515,899,907
Omar Asghar Khan Development Foundation	-	109,630,838
Orangi Charitable Trust	-	8,114,327
Organization for Participatory Development	144,351	4,281,756
Orix Leasing Pakistan Limited	-	3,921,288
Participatory Integrated Development Society	130,965,861	15,239,447
Poverty Eradication Network	-	590,318
Punjab Rural Support Programme	150,185,490	90,607,800
Rural Community Development Society	-	36,544,188
Salik Development Foundation	62,606,700	-
Sarhad Rural Support Programme	543,084,768	1,405,762,047
Save The Poor	2,272,285	4,201,659
Seminars, workshops and media projection	89,979,019	20,539,614
Sindh Agricultural & Forestry Workers Coordinating Organization	259,665,858	61,227,255
Disbursements continued - carried forward	2,656,474,291	3,976,364,747

	2010	2009
	(Rupees)	
Disbursements continued - brought forward	2,656,474,291	3,976,364,747
Sindh Rural Support Organization	158,518,498	81,602,131
Sindh Rural Support Programme	30,796,030	626,972
Social Action Bureau for Assistance in Welfare and Organisation Network	-	75,465
Society for Conservation and Protection of Environment	23,364,657	299,376
Society for Human Empowerment and Rural Development	-	1,430,000
Soon Valley Development Programme	-	569,884
SOS Children's Village	968,820	17,732,552
South Asia Partnership Pakistan	96,908,544	16,000,000
Strengthening Participatory Organization	99,365,544	1,988,600
Sungi Development Foundation	4,216,007	145,918,066
Swabi Women Welfare Society	90,561,461	-
Taraqee Foundation	125,604,366	3,188,395
Thardeep Rural Development Programme	203,835,690	81,020,033
Village Friends Organization	-	7,099,198
Women Social Organisation	-	2,807,750
Women Welfare Organization Poonch	450,000	6,158,754
Young Pioneers Society	-	3,088,953
	<u>3,491,063,908</u>	<u>4,345,970,876</u>

- 18.1.1 Agreement amending the DCA was signed between IDA and GOP on December 06, 2005, in respect of Grants for Emergency Relief and Rehabilitation & Reconstruction. As per the agreement, IDA agreed to reallocate a sum of SDR 3.53 million for activities responding to the Emergency by the earthquake as disclosed in note 17.1.4 to these financial statements, and to make available to GOP an additional sum of SDR of 68.90 million under Phase II to GOP.

Second agreement amending the DCA was signed between IDA and GOP on May 02, 2007, in respect of Grants for Rehabilitation & Reconstruction. As per agreement IDA agreed to make available to GOP an additional sum of SDR of 91.80 million under Phase II to GOP.

The GOP will utilize these amounts through the Company to support the relief, reconstruction and rehabilitation of communities affected by the earthquake which occurred on October 8, 2005.

Under agreements amending the SFAs dated May 03, 2006 and June 22, 2007 executed between GOP and the Company, the GOP agreed to provide SDR 68.90 million and SDR 91.80 million respectively to the Company as grants on non reimbursable basis.

	2010	2009
	(Rupees)	
18.1.2 Disbursements for social mobilization project include		
Social Mobilization	965,168,920	711,911,865
Community Physical Infrastructure	1,257,186,010	-
Social Sector Development	914,763,346	-
	<u>3,137,118,276</u>	<u>711,911,865</u>

On December 07, 2007 GOP signed a financing agreement with IDA under which IDA agreed to extend an amount equivalent to 49 million SDRs as additional financing for the Second Poverty Alleviation Fund project to support participatory development through social mobilization.

The project includes mobilization of about one million rural poor house holds into more than fifty thousand multi functional and sustainable community organizations in rural areas of poorest districts in Pakistan, mobilization of existing community organizations to form federations at union council level and to form local support organizations and provision of training to approximately two hundred and fifty thousand people on management of community organizations and federations to achieve long term sustainability. The GOP & IDA through amendment in the Financing Agreement included the components of Small Scale Infrastructure Projects (SSIP) and Social Sector Development Projects (SSDP-Health & Education) under this project.

On January 04, 2008 GOP signed subsidiary financing agreement with PPAF under which GOP agreed to extend an amount equivalent to 49 million Special Drawing Rights to PPAF as grant on non reimbursable basis.

18.2	Grants from Government of Pakistan - IDA III	Note	2010	2009
			(Rupees)	
	Amount received		2,734,571,810	-
	Less: Disbursements			
	Social mobilization		34,748,310	-
	Institutional building		74,908,511	-
	Livelihood enhancement and protection		4,891,919	-
	Health and education		155,681,808	-
	Water and infrastructure		185,455,435	-
			455,685,983	
			2,278,885,827	-
	Disbursements to POs			
	Aga Khan Rural Support Programme		61,119,659	-
	AKPBS-Water and Sanitation Extension Programme		30,387,334	-
	Baidarie		913,488	-
	BRAC - Pakistan		5,846,750	-
	Bunad Literacy Community Council		1,578,936	-
	Community Support Concern		430,000	-
	Development in Literacy		1,769,700	-
	Direct expenses by PPAF on seminars, workshops and trainings		384,280	-
	Environment Protection Society		5,072,805	-
	Family Planning Association of Pakistan		24,354,200	-
	Farmers Development Organization		2,719,296	-
	Farmers Friend Organization		125,291	-
	Hazara Development and Advocacy Foundation		42,257,308	-
	Health and Nutrition Development Society		2,897,700	-
	Human Resource Development Society		3,880,675	-
	Indus Resource Centre		22,325,042	-
	Karwan Community Development Organization		3,677,500	-
	Khwendo Kor Women and Children Development Programme		826,308	-
	Marvi Rural Development Organization		13,139,070	-
	Mashal Development Organization		3,556,208	-
	Mountain Institute of Educational Development		17,689,023	-
	Narowal Rural Development Programme		9,689,650	-
	National Rural Support Programme		51,415,898	-
	Rural Community Development Society		37,858,801	-
	Salik Development Foundation		22,101,000	-
	Sarhad Rural Support Programme		1,464,703	-
	Save The Poor		838,733	-
	Sindh Rural Support Organization		22,568,255	-
	Society for Human Empowerment and Rural Development		1,317,000	-
	Soon Valley Development Programme		5,883,158	-
	SOS Children's Village		18,964,424	-
	Swabi Women Welfare Society		37,412,538	-
	Women Social Organisation		1,131,250	-
	Young Pioneers Society		90,000	-
			455,685,983	-
18.3	Grants from USAID/Pakistan			
	Capacity building - POs	18.3.1	-	-
	Enterprise development loans	18.3.2	115,984,115	115,984,115
			115,984,115	115,984,115

		2010	2009
		(Rupees)	
18.3.1	Capacity building - POs		
	Opening balance	-	(1,479,621)
	Amount received	-	1,479,621
		-	-
18.3.2	Enterprise development loans		
	Opening balance	115,984,115	127,585,729
	Amount transferred to deferred income	-	(1,479,621)
	Amount transferred to capacity building - POs	-	(10,176,856)
		115,984,115	115,929,252
	Service charges earned	-	54,863
		115,984,115	115,984,115
18.3.2.1	The closing balance of the USAID grant represents amounts for disbursement to POs for EDF and service charges earned on outstanding loan. These funds cannot be used by PPAF for its operational and capital expenses till the expiry of the term of the agreement.		
18.3.2.2	PPAF signed a cooperative agreement with the U.S. Agency for International Development Mission to Pakistan (USAID/Pakistan). The period of this agreement was of four years, starting from the date of award i.e. September 30, 2003 through September 30, 2007. The total programme size was US\$ 7,098,621 of which USAID/Pakistan contribution was US\$ 6,320,000 and PPAF share was agreed to be US\$ 778,621. The funds committed under this agreement were disbursed as loans to POs under EDF and as capacity building grant for PPAF and for POs. EDF was given to the POs in order to enable them to give loans of larger amounts (from Rs 30,000 to Rs 100,000) to their borrowers who have successfully completed two loan cycles. According to the agreement, PPAF created a revolving fund from the repayments and service charges earned on EDF loans and bank account.		
18.4	Grants from Government of Pakistan - USDA	2010	2009
		(Rupees)	
	Opening balance	552,702,419	1,117,938,769
	Amount transferred to deferred income	(41,648,179)	(19,145,427)
	Profit on project bank account	51,171,073	63,382,172
		562,225,313	1,162,175,514
	Less: Disbursements to POs		
	Aga Khan Rural Support Programme	90,595,248	221,882,183
	AKPBS-Water and Sanitation Extension Programme	6,467,621	6,351,657
	Badin Rural Development Society	7,500,000	-
	Balochistan Environmental and Educational Journey	7,600,550	1,899,450
	Balochistan Rural Development & Research Society	-	2,038,000
	Balochistan Rural Support Programme	25,267,429	21,626,083
	Community Mobilisation and Development Organization	19,998,811	6,030,908
	Direct expenses by PPAF on seminar	51,425	-
	Ghazi Brotha Taraqiati Idara	13,790,322	3,928,845
	Health and Nutrition Development Society	2,716,618	2,234,698
	Human Resource Development Society	-	40,616,286
	Indus Earth Trust	22,694,912	24,343,773
	National Rural Support Programme	14,011,782	11,953,818
	Participatory Integrated Development Society	17,265,132	14,249,870
	Rural Community Development Society	-	16,968,000
	Sarhad Rural Support Programme	11,892,000	-
	Sindh Agricultural & Forestry Workers Coordinating Organization	1,815,303	8,677,774
	Sindh Rural Support Organisation	-	16,023,326
	Sindh Rural Support Program	1,679,067	2,820,933
	Social Action Bureau for Assistance in Welfare and Organizational Networking	3,896,498	23,133,566
	Society for Conservation and Protection of Environment	2,147,752	2,350,717
	Soon Valley Development Programme	22,312,739	7,797,008
	Disbursements continued - carried forward	271,703,209	434,926,895

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	2010	2009
	(Rupees)	
Disbursements continued - brought forward	271,703,209	434,926,895
South Asia Partnership Pakistan	892,238	60,339,737
Strengthening Participatory Organization	3,274,572	3,725,428
Taraqee Foundation	37,343,126	64,071,168
Thardeep Rural Development Programme	41,671,578	33,909,000
Village Friends Organization	1,114,133	12,500,867
	355,998,856	609,473,095
	206,226,457	552,702,419

- 18.4.1 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 has agreed to provide 37,800 metric tons of soybean oil to GOP. The GOP has authorized Trading Corporation of Pakistan to receive and monetize the commodity. The plan of operation of this Agreement is to use the sale proceeds to finance PPAF on non reimbursable basis. The total programme size is Rs 1,518 million, out of which Rs 400 million have been received during the year 2004-05, Rs 240 million during the year 2005-06 and Rs 878 million during 2006-07. PPAF will use these funds to implement long-term poverty reduction programmes, including: small-scale infrastructure programmes; sustainable agriculture development programmes; and establishment of a National Drought Mitigation Center (NDMC) in cooperation with the NDMC at Nebraska USA, as part of the long-term plan to mitigate the drought. Funding in respect of NDMC is recognised as deferred income in note 19.

	Note	2010	2009
		(Rupees)	
18.5 Grants from Government of Pakistan - KfW			
Housing reconstruction and community buildings	18.5.1	-	(39,933,690)
Revitalization of affected communities / rehabilitation of CPI schemes	18.5.2	-	43,442,625
		-	3,508,935
18.5.1 Housing reconstruction and community buildings			
Opening balance		(39,933,690)	58,918,857
Amount received		-	190,172,453
Amount transferred from revitalization of affected communities / rehabilitation of CPI schemes		39,933,690	-
		-	249,091,310
Less: Disbursements to PO			
Sarhad Rural Support Programme		-	289,025,000
		-	(39,933,690)
18.5.2 Revitalization of affected communities / rehabilitation			
Opening balance		43,442,625	48,274,043
Amount received		-	82,446,756
Amount transferred to housing reconstruction and community buildings		(39,933,690)	-
		3,508,935	130,720,799
Less: Disbursements to PO			
Sarhad Rural Support Programme		3,508,935	87,278,174
		-	43,442,625

- 18.5.3 On June 09, 2006 the Government of Pakistan and KfW Development Bank (KfW) signed a programme agreement under which KfW has extended a financial contribution of EURO 14 million as non reimbursable grant for reconstruction of rural housing and related infrastructure of communities in union councils Jabori and Sachan Kalan of North West Frontier Province (NWFP) affected by the earthquake occurred on October 08, 2005. The allocated amount will cover the grants to affected communities for (a) reconstruction of housing (b) rehabilitation of community infrastructure (c) costs of trainings for the affected communities and staff of the POs (d) operating costs and cost of equipments to POs engaged in these activities. The period of this agreement is of three years, starting from the date of signing i.e. June 09, 2006 through June 08, 2009. Under SFA dated September 25, 2006 executed between GoP and PPAF, GOP agreed to provide EURO 14 million to the company as grant on non reimbursable basis.

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18.6	Grants from Government of Pakistan - IFAD (MIOP)	Note	2010	2009
			(Rupees)	
	Opening balance		(14,986,003)	8,863,170
	Amount received		313,227,460	25,871,697
			298,241,457	34,734,867
	Less: Disbursements to POs			
	AGAHEE		1,880,250	-
	AKPBS-Water and Sanitation Extension Programme		2,128,764	3,851,402
	AL Mehran Rural Development and Welfare Organization		6,050,891	608,006
	Badbaan Enterprise Development Forum		582,888	1,310,748
	Badin Rural Development Society		2,812,835	4,748,288
	Balochistan Rural Development & Research Society		3,231,480	895,400
	BRAC - Pakistan		72,619,630	-
	Buksh Foundation		2,147,128	2,085,750
	Bunyard Literacy Community Council		200,000	-
	Centre for Women Cooperative Development		31,051,469	517,410
	Community Support Concern		9,134,255	11,789,123
	Direct expenses by PPAF on seminars, workshops and trainings		1,017,962	-
	Farmers Friend Organization		4,278,271	-
	Indus Earth Trust		(156,540)	4,007,179
	Jinnah Welfare Society		6,530,756	-
	Karwan Community Development Organization		1,129,850	-
	Khajji Cooperative Society		2,113,330	502,539
	Marvi Rural Development Organization		794,126	-
	Mashal Development Organization		496,100	-
	Mojaz Foundation		3,875,503	4,250,234
	National Rural Support Programme		826,500	6,160,460
	Orangi Charitable Trust		40,110,957	285,851
	Rural Community Development Society		7,240,005	-
	Saath Development Society		2,956,750	-
	Sarhad Rural Support Programme		5,918,400	3,609,000
	Save The Poor		805,750	-
	Sindh Agricultural & Forestry Workers Coordinating Organization		24,216,017	5,099,480
	Villagers Development Organization		2,853,750	-
	Women Social Organisation		100,000	-
			236,947,077	49,720,870
			61,294,380	(14,986,003)
18.7	Grants from Government of Pakistan - IFAD (REACH)			
	Housing reconstruction and community buildings	18.7.1	-	108,438,552
	Revitalization of affected communities / livestock	18.7.2	-	(8,897,748)
			-	99,540,804
18.7.1	Housing reconstruction and community buildings			
	Opening balance		108,438,552	456,088,552
	Amount received		143,628,959	-
	Amount transferred to revitalization of affected communities / livestock		(143,197,581)	-
			108,869,930	456,088,552
	Less: Disbursements to PO			
	Sarhad Rural Support Programme		108,869,930	347,650,000
			-	108,438,552

18.7.2	Revitalization of affected communities / livestock	2010	2009
		(Rupees)	
	Opening balance	(8,897,748)	489,574
	Amount transferred to deferred income	(21,280,508)	-
	Amount transferred from housing reconstruction and community buildings	143,197,581	-
		113,019,325	489,574
	Less: Disbursements to POs		
	National Rural support Programme	87,370,000	-
	Sarhad Rural Support Programme	25,649,325	9,387,322
		113,019,325	9,387,322
		-	(8,897,748)

- 18.7.3 On June 14, 2006 the Government of Pakistan and International Fund for Agricultural Development (IFAD) signed a Project Loan Agreement under which IFAD has extended a financial contribution of Special Drawing Rights (SDRs) 18.350 million under the project "Restoration of Earthquake Affected Communities and Households" (REACH). The allocated amount will cover the grants to affected communities for (a) reconstruction of housing (b) rehabilitation of community infrastructure (c) grants for livestock (d) costs of trainings for the affected communities and staff of the POs (e) operating costs and cost of equipments to POs engaged in these activities. The period of this agreement is of three years from the effective date i.e. August 01, 2006.

Under SFA dated September 19, 2006 executed between GoP and PPAF, GOP agreed to provide SDR 18.350 million to the company as grant on non reimbursable basis.

18.8	Grants from Government of Pakistan - IFAD (PRISM)	2010	2009
		(Rupees)	
	Opening balance	45,444,080	-
	Amount received	173,932,730	45,444,080
		219,376,810	45,444,080
	Less: Disbursements to PO		
	Kashf Foundation	2,250,000	-
		217,126,810	45,444,080

18.9 Grants from Committee Encouraging Corporate Philanthropy

Opening balance	109,617,452	281,745,494
Amount received	-	193,355,114
Foreign exchange translation differences - Net	-	12,574,431
Amount transferred to deferred income	(3,736,195)	-
	105,881,257	487,675,039
Less: Disbursements to POs		
Community Uplift Programme	19,243,237	112,467,156
Mountain and Glacier Protection Organization	1,913,523	146,570,164
National Rural Support Programme	9,893,549	119,020,267
	31,050,309	378,057,587
	74,830,948	109,617,452

- 18.9.1 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 over a period of three years commencing from October 1, 2006 to September 30, 2009 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.

The CECP, through grant agreement amendment, allowed disbursement of funds for operation and maintenance of facilities till December 31, 2010.

19. DEFERRED INCOME - GRANT FUND

	As at July 01, 2009	Amount Received	Utilization against expenditure recognized as income	As at June 30, 2010
	(Rupees)			
Government of Pakistan (GoP)				
Capacity Building - IDA	19,219,594	4,222,125	10,360,791	13,080,928
Capacity Building - IDA III	-	29,608,189	29,608,189	-
Capacity Building - IDA (RNR)	16,890,855	8,440,125	12,519,997	12,810,983
Capacity Building - IDA (Social mobilization)	3,495,885	155,546,578	151,037,081	8,005,382
Capacity Building - IDA (Disability)	2,358,369	21,512,989	19,107,620	4,763,738
Capacity Building - IFAD (MIOP)	(2,823,242)	16,486,802	13,316,957	346,603
Capacity Building - IFAD (REACH)	-	21,280,508	21,280,508	-
Capacity Building - IFAD (PRISM)	4,375,930	5,517,276	3,914,880	5,978,326
Capacity Building - USDA	9,189,171	41,648,179	44,286,523	6,550,827
	52,706,562	304,262,771	305,432,546	51,536,787
Capacity building - USAID/Pakistan	8,209,218	-	47,693	8,161,525
Capacity building - CECF	-	3,737,586	3,736,195	1,391
2010	60,915,780	308,000,357	309,216,434	59,699,703
2009	(26,292,607)	286,952,057	199,743,670	60,915,780

20. SERVICE AND COMMITMENT CHARGES PAYABLE

	Note	2010	2009
		(Rupees)	
Service charges payable	20.1	36,299,771	62,403,852
Commitment charges payable	20.2	2,910,757	92,971
		39,210,528	62,496,823

20.1 These represent service charges payable to GOP at the rate of 0.75% per annum (2009: 0.75% per annum) on the principal amount of long term loan outstanding withdrawn from time to time.

20.2 These represent commitment charges payable to GOP at the rate to be set by the Association as of June 30 of each year, but not to exceed 0.50 % per annum (2009: 0.10% to 0.20% per annum) on the principal amount of long term loan not withdrawn from time to time.

21. ACCRUED AND OTHER LIABILITIES

	2010	2009
	(Rupees)	
Accrued expenses	19,614,882	8,570,942
Other liabilities	156,680	71,269
	19,771,562	8,642,211

22. DETAILS OF ACTUARIAL VALUATION OF STAFF GRATUITY SCHEME

22.1 Reconciliation of payable to/(receivable from) Defined Benefit Plan

Present value of defined benefit obligation	37,697,395	25,232,750
Fair value of plan assets	(28,049,224)	(17,654,858)
Unrecognised transitional liability	-	-
Unrecognised actuarial gains / (losses)	(9,648,171)	(7,577,892)
Closing balance	-	-

	2010	2009
	(Rupees)	
22.2 Movement in net liability/(asset) recognised		
Opening net liability	-	-
Expense for the year	(11,736,994)	6,290,774
Contribution for the year	11,736,994	(6,290,774)
Closing net liability	-	-
22.3 (Prepaid cost)/charge for the Defined Benefit Plan		
Current service cost	9,719,526	5,564,930
Interest cost	3,857,321	1,585,218
Expected return on plan assets	(2,471,680)	(1,255,416)
Transitional liability not yet recognized	-	249,736
Net actuarial loss recognised	631,827	146,306
	11,736,994	6,290,774

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

	2010	2009
Valuation discount rate	14% per annum	14% per annum
Salary increase rate	14% per annum	14% per annum
Expected return on plan assets	14% per annum	14% per annum
	2010	2009
	(Rupees)	

23. CONTINGENCIES AND COMMITMENTS

Aggregate commitments under Financing Agreements with

Partner Organisations for;

Loans	9,701,857,420	4,824,000,000
Grants		
Rehabilitation and reconstruction	-	157,480,529
Community physical infrastructure	762,206,919	94,344,492
Capacity building	552,144,433	316,012,384
Social sector development	901,761,164	92,255,246
Social mobilization	515,806,695	1,202,746,275
Livelihood enhancement and protection	667,456,500	-
	3,399,375,711	1,862,838,926
	13,101,233,131	6,686,838,926

24. SERVICE CHARGES ON LOANS TO PARTNER ORGANISATIONS

These represent service charges on loans to POs under respective Financing Agreements at rates given in note 8.1.

	2010	2009
	(Rupees)	
25. INCOME ON INVESTMENTS AND SAVING ACCOUNTS		
Profit on long term investments (Pakistan Investment Bonds)	104,600,000	104,530,547
Profit on term deposit receipts/saving accounts	551,712,742	618,652,738
	656,312,742	723,183,285

25.1 Profit/markup rates are disclosed in the respective notes to these financial statements.

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	Note	2010	2009
		(Rupees)	
26. INCOME ON GRANT FUND - net			
Income earned during the period	26.1	170,303,347	-
Less: Disbursements			
National Rural Support Program - School Milk Project		7,250,907	-
Relief for Internally Displaced Persons		2,000,178	-
		9,251,085	-
		161,052,262	-

26.1 Represents profit/ mark up earned on Grant Fund.

27. OTHER INCOME

Income from training	460,145	1,120,000
Gain on sale of fixed assets	340,000	-
Markup on loans to employees	27,158	4,742
Others	1,700	196,096
	829,003	1,320,838

28. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries, wages and other benefits	28.1	188,125,765	137,211,191
Rent		27,544,744	24,185,077
Repairs and maintenance		7,063,913	6,610,159
Traveling, lodging and conveyance		58,255,888	42,930,167
Communication		3,335,865	2,789,362
Printing and stationery		6,336,522	5,174,923
Insurance		1,994,903	2,263,623
Vehicles running and maintenance		13,539,617	8,202,782
Utilities		3,272,402	2,637,249
Legal and professional charges		3,248,500	2,494,600
Auditor's remuneration	28.3	3,146,000	2,860,000
Advertisement		2,876,925	3,437,230
Media projection		2,626,084	1,464,605
Newspapers, books and periodicals		485,334	701,825
Depreciation		25,501,823	21,566,925
Amortization		5,727,163	4,797,536
Security services		1,997,158	1,667,000
Others		3,300,472	3,099,980
	28.4	358,379,078	274,094,234

28.1 The aggregate amounts charged in respect of remuneration of Chief Executive/Managing Director were as follows:

Managerial remuneration	10,974,018	8,601,600
Other allowances	120,000	120,000
	11,094,018	8,721,600

In addition, the Chief Executive/Managing Director is provided with accommodation, car, medical insurance and gratuity.

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

	2010	2009
	(Rupees)	
28.3 Auditor's remuneration		
Statutory and projects' audit	1,150,000	1,045,000
Audit of POs	1,996,000	1,815,000
	<u>3,146,000</u>	<u>2,860,000</u>

28.4 General and administration expenses include Rs 155,838,157 (2009: Rs 166,269,061) incurred on different programme activities as disclosed in note 19.

	2010	2009
	(Rupees)	
29. SEMINARS, WORKSHOPS AND TRAININGS		
Training	14,667,484	6,030,935
Seminar and workshops	16,484,495	4,434,888
PPAF ten years events	15,839,412	-
	<u>46,991,391</u>	<u>10,465,823</u>

Seminars, workshops and training expenses include Rs 12,069,804 (2009: Rs 5,435,095) incurred on different programme activities as disclosed in note 19.

	2010	2009
	(Rupees)	
30. CONSULTANCY CHARGES		
Poverty score card	118,450,461	-
Reconstruction & rehabilitation	9,647,164	4,257,585
General	47,860,295	33,255,123
	<u>175,957,920</u>	<u>37,512,708</u>

Consultancy charges include Rs 141,308,473 (2009: Rs 28,039,514) incurred on different programme activities as disclosed in note 19.

	2010	2009
	(Rupees)	
31. FINANCIAL CHARGES		
On long term loans	73,967,738	79,914,140
Bank charges	1,057,784	686,391
	<u>75,025,522</u>	<u>80,600,531</u>

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32. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

32.1 Financial assets and liabilities

		June 30, 2010			June 30, 2009		
	Note	Interest Bearing	Non-interest Bearing	Total	Interest Bearing	Non-interest Bearing	Total
		(Rupees)					
Financial Assets:							
Maturity upto one year							
Current maturity of loans to Partner Organisations	8	9,807,922,669		9,807,922,669	7,419,925,938		7,419,925,938
Current maturity of long term investments	7	400,000,000		400,000,000	-		-
Short term investments - specific to projects	9	600,000,000		600,000,000	530,000,000		530,000,000
Short term investments-specific to grant fund	10	1,763,431,262		1,763,431,262	-		-
Short term investments-others	11	4,058,341,775		4,058,341,775	5,224,642,173		5,224,642,173
Advances, deposits and other receivables	12	3,390,947	4,450,355	7,841,302	1,869,528	2,198,197	4,067,725
Profit/service charges receivable	13		410,936,898	410,936,898		451,863,074	451,863,074
Bank balances - specific to projects	14	210,352,756	4,803,288,950	5,013,641,706	2,600,984	1,956,884,934	1,959,485,918
Cash and bank balances	15	21,938,812	26,781,063	48,719,875	31,123,617	15,201,130	46,324,747
Maturity after one year but before five years							
Long term investments	7	600,000,000		600,000,000	1,000,000,000		1,000,000,000
Loans to Partner Organizations	8	764,157,695		764,157,695	1,721,037,948		1,721,037,948
		18,229,535,916	5,245,457,266	23,474,993,182	15,931,200,188	2,426,147,335	18,357,347,523
Financial Liabilities:							
Maturity upto one year							
Deferred liabilities - grant fund	18		5,040,205,728	5,040,205,728		2,451,222,148	2,451,222,148
Current portion of long term loans	17	109,617,378		109,617,378	109,617,378		109,617,378
Service and commitment charges payable	20		39,210,528	39,210,528		62,496,823	62,496,823
Accrued and other liabilities	21		19,771,562	19,771,562		8,642,211	8,642,211
Maturity after one year but before five years							
Long term loans	17	1,952,555,916		1,952,555,916	1,424,213,403		1,424,213,403
Maturity after five years							
Long term loans	17	10,293,716,115		10,293,716,115	9,606,652,504		9,606,652,504
		12,355,889,409	5,099,187,818	17,455,077,227	11,140,483,285	2,522,361,182	13,662,844,467
Off balance sheet items:							
Commitments	23	9,701,857,420	3,399,375,711	13,101,233,131	4,824,000,000	1,862,838,926	6,686,838,926

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32.2 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	2010 Balance Rs	2009 Balance Rs
Investments				
Counterparties with external credit rating				
	PACRA	A1+	2,876,868,550	2,473,084,383
	JCR-VIS	A-1+	1,475,463,916	1,280,070,119
	Moody's	P-1	869,137,281	974,278,182
	PACRA	A2	250,000,000	-
	JCR-VIS	A-3	950,303,290	1,027,209,489
Securities issued/supported by Government of Pakistan				
		-	1,000,000,000	1,000,000,000
			<u>7,421,773,037</u>	<u>6,754,642,173</u>
Bank balances				
Counterparties with external credit rating				
	PACRA	A1+	20,719,432	30,044,833
	JCR-VIS	A-1+	4,959,684,353	1,869,151,012
	Moody's	P-1	80,646,306	106,350,475
	PACRA	A1	43,949	-
	PACRA	A2	10,000	-
	JCR-VIS	A-3	1,158,180	-
Balance with National Saving Centre				
		-	10,998	10,998
			<u>5,062,273,218</u>	<u>2,005,557,318</u>
Loans to Partner Organizations				
Counterparties without external credit rating				
		*	<u>10,572,080,364</u>	<u>9,140,963,886</u>
Profit/service charges receivable				
Counterparties with external credit rating				
	PACRA	A 1+	60,833,701	174,932,307
	JCR-VIS	A-1+	29,399,820	22,668,083
	Moody's	P-1	36,707,914	44,944,809
	PACRA	A2	24,811,644	-
	JCR-VIS	A-3	16,181,789	19,621,606
Counterparties without external credit rating				
		*	243,002,030	189,696,269
			<u>410,936,898</u>	<u>451,863,074</u>

* Counterparties with no defaults in the past.

32.3 Risk management policies

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 organisations, investments and bank balances. The Company is exposed to credit related losses in the event of non-performance by Partner Organisations of micro-credit loans to the extent of Rs 10.80 billion (2009: Rs 9.31 billion) (including loans to two major POs of Rs 6.77 billion (2009: Rs 6.19 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) 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 except for financial assets of US\$ 3,878 (2009: US\$ 3,878).

c) Interest / mark-up rate risk

The interest bearing financial assets and liabilities are at fixed interest rates.

d) Liquidity risk

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

e) 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 amortised cost.

33. NUMBER OF EMPLOYEES

The Company had 204 employees as at June 30, 2010 (June 30, 2009: 197).

34. DATE OF AUTHORISATION

These financial statements have been authorised for issue by the Board of Directors of the Company on 03 AUG 2010.


Chairman

Chief Executive / Managing Director