



DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION (DAMEN)

Financial Statements Microfinance Program

for the year ended December 31, 2014

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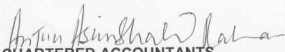
INDEPENDENT AUDITORS' REPORT TO THE GENERAL BODY

We have audited the annexed balance sheet of **Development Action for Mobilization and Emancipation (DAMEN) - Micro Finance Program** as at **December 31, 2011** and the related income and expenditure account, cash flow statement and statement of changes in fund together with the notes forming part thereof (here-in-after referred to as the "financial statements") for the year then ended.

It is the responsibility of the Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards as applicable in Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

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

In our opinion, the financial statements present fairly in all material respects the financial position of the **Development Action for Mobilization and Emancipation (DAMEN) - Micro Finance Program** as at **December 31, 2011** and of its surplus and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

**CHARTERED ACCOUNTANTS**Engagement Partner: Asim Iftikhar
Lahore

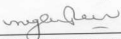
Dated: March 29, 2012



DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
BALANCE SHEET
AS AT 31 DECEMBER 2011

		2011	2010
	Notes	Rupees	
ASSETS			
Current assets			
Cash and bank balances	5	89,223,631	76,034,786
Short term investments	6	41,028,458	65,648,001
Micro credit loan portfolio	7	444,788,493	354,984,020
Advances, prepayments and other receivables	8	9,920,219	7,982,464
Total current assets		584,960,801	504,649,271
Non-current assets			
Operating fixed assets	9	13,380,437	16,080,887
Security deposits		403,500	325,500
Total non-current assets		13,783,937	16,406,387
Total assets		598,744,738	521,055,658
LIABILITIES			
Current liabilities			
Creditors, accrued and other liabilities	10	1,487,021	2,797,371
Payable to social sector program		781,397	-
Current portion of long term loans	11	359,830,017	368,315,021
Total current liabilities		362,098,435	371,112,392
Non-current liabilities			
Long term loans	11	180,512,173	75,080,600
Deferred grants	12	3,688,758	1,608,959
Total non-current liabilities		184,200,931	76,689,559
Total liabilities		546,299,366	447,801,951
NET ASSETS		52,445,372	73,253,707
REPRESENTED BY :			
General fund	14	50,234,654	71,042,989
Donated fund	15	1,000,000	1,000,000
Reserves	16	1,210,718	1,210,718
		52,445,372	73,253,707
CONTINGENCIES AND COMMITMENTS			
	17		

The annexed notes 1 to 25 form an integral part of these financial statements.


EXECUTIVE DIRECTOR


TREASURER



**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011**

		2011	2010
		Rupees	
Financial revenue			
Service charges on micro credit loans		121,456,403	136,462,434
Loan processing fees		12,106,120	10,890,280
Total financial revenue		133,562,523	147,352,714
Finance cost		62,633,336	57,283,432
Net financial margin		70,929,187	90,069,282
Provision against non-performing loans - net	7.2	19,152,126	32,842,895
Operating income after provision		51,777,061	57,226,387
Profit on investments and bank deposits		23,885,783	21,015,315
		75,662,844	78,241,702
Expenditure			
Salaries, wages, stipends and other benefits		49,965,098	42,375,305
General and administrative expenses	18	22,721,355	23,428,460
Product development project		1,420,467	1,108,000
Training expenses		1,477,541	1,202,763
		75,584,461	68,114,528
Surplus from operations		78,383	10,127,174
Other Income	13	5,232,807	652,147
Financial assistance to social sector program - net		-	4,325,403
Net operating surplus before grants		5,311,190	6,453,918
Deferred grants amortized /utilized during the period			
- relating to fixed assets		854,553	321,538
- relating to capacity building		2,835,308	-
		3,689,861	321,538
Net surplus for the year		9,001,051	6,775,456

The annexed notes 1 to 25 form an integral part of these financial statements.


EXECUTIVE DIRECTOR

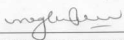

TREASURER



DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

		2011	2010
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES	Note		
Net surplus for the year		9,001,051	6,775,456
Adjustments for non cash items :			
Depreciation	9	2,522,740	3,021,751
Amortization of deferred grants:			
- relating to fixed assets	12.1	(854,553)	(21,538)
- relating to capacity building	12.2	(2,835,308)	-
Finance cost		62,633,336	57,283,432
Provision against non-performing loans	7.2	19,152,126	32,842,895
		80,618,341	93,126,540
		89,619,392	99,901,996
Operating surplus before working capital changes			
(Increase) /decrease in:			
Advances, prepayments and other receivables		(1,937,755)	4,723,793
Micro credit loan portfolio		(108,956,599)	15,275,713
Security deposits		(78,000)	(8,500)
Payable to social sector program		781,397	-
(Decrease) /increase in creditors, accrued and other liabilities		(1,310,350)	1,760,000
		(111,501,307)	21,751,006
Operating deficit after working capital changes		(21,881,915)	121,653,002
Financial charges paid		(62,633,336)	(57,283,432)
Net cash (used in) /generated from operations		(84,515,251)	64,369,570
CASH FLOWS FROM INVESTING ACTIVITIES			
Net operating fixed assets expenditure		177,710	(1,387,784)
CASH FLOWS FROM FINANCING ACTIVITIES			
Sustainability reserve for social sector program		(29,809,386)	-
Grants received /capitalized during the year			
- relating to fixed assets		2,373,000	(1,957,405)
- relating to capacity building		3,396,660	(594,658)
Net proceeds from long term loans		96,946,569	(14,519,814)
Net cash generated from /(used in) financing activities		72,906,843	(17,071,877)
(Decrease) /increase in cash and cash equivalents		(11,430,698)	45,909,909
Cash and cash equivalents at the beginning of year		141,682,787	95,772,878
Cash and cash equivalents at the end of year	20	130,252,089	141,682,787

The annexed notes 1 to 25 form an integral part of these financial statements.

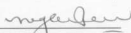

EXECUTIVE DIRECTOR


TREASURER

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
STATEMENT OF CHANGES IN FUND
FOR THE YEAR ENDED 31 DECEMBER 2011**

	General funds	Donated funds	Reserves	Total
	-----Rupees-----			
Balance as at 01 January 2010	64,267,533	1,000,000	1,210,718	66,478,251
Net surplus for the year	6,775,456	-	-	6,775,456
Balance as at 31 December 2010	71,042,989	1,000,000	1,210,718	73,253,707
Net surplus for the year	9,001,051	-	-	9,001,051
Transferred to social sector program reserves	(29,809,386)	-	-	(29,809,386)
Balance as at 31 December 2011	50,234,654	1,000,000	1,210,718	52,445,372

The annexed notes 1 to 25 form an integral part of these financial statements.


Executive Director




Treasurer

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. STATUS AND NATURE OF THE BUSINESS

- 1.1** Development Action for Mobilization and Emancipation (DAMEN) (the Society) was registered in May 1992 as a non profit organization under the Societies Registration Act XXI of 1860. DAMEN has 20 field offices within vicinity of Lahore, Kasur and Sheikhupura Districts.
- 1.2** The principal activity of DAMEN is to provide cost effective micro finance services to poor women in order to enhance their economic role. DAMEN is also taking part in financial and operational support for provision of primary education and basic health facilities through community based schools and health centers in rural areas in vicinity of Lahore, Kasur and Sheikhupura Districts. In addition to these functions, DAMEN also provides non financial services in the form of trainings both to its clients and staff.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the 'Financial Reporting Guidelines for NGOs/NPOs engaged in Microfinance' issued by Institute of Chartered Accountants of Pakistan (ICAP) and reporting framework advised by Pakistan Poverty

3. BASIS OF PREPARATION

These accounts have been prepared under the historical cost convention.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are set out below. These policies have been consistently applied to all years prescribed, unless otherwise stated.

4.1 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For purpose of cash flow statement, cash and cash equivalents include cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of change in value.

4.2 Operating fixed assets

Operating fixed assets except freehold land are stated at cost less accumulated depreciation and impairment loss. Freehold land is stated at cost less impairment loss.

Depreciation on all operating fixed assets is charged to income on straight-line method so as to write off the historical cost of assets over estimated useful life at rates specified in Note 9.

Full month's depreciation is charged on additions while no depreciation is charged in the month of disposals during the year. Impairment loss or its reversal, if any, is charged to income. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

The gain or loss on disposal or retirement of an asset is recognized as an income or expense.

4.3 Borrowings

All borrowings are recorded when the proceeds are received. Finance cost is accounted for on accrual basis and is included in creditors, accrued and other liabilities to the extent of the amount payable as on balance sheet date.

4.4 Income recognition

- 4.4.1** Service charges and income on loan portfolio are accounted for on accrual basis and collected with loan installments. These are calculated by using declining interest method at the rate of 0.90/day/1,000 Rupees on outstanding loan balance.

- 4.4.2** Documentation and loan processing fee collected from micro credit loan customer is recognized on receipt basis. The fee is charged at the rate of 2% of the loan amount .

- 4.4.3** Income from health center is recognized on receipt basis.

- 4.4.4** Donations in kind are recognized at fair market value as and when donated items are received.

- 4.4.5** Return on investments is recognized on accrual basis.

- 4.4.6** Bad debts recovered are added to current year's income .

4.5 Recognition of grants

- Funds provided by donors to subsidize operating and administrative expenses are recognized as grant income as per term of agreement with donors.
- Funds utilized for acquiring fixed assets are taken to deferred grant and amortized over the useful life of the assets.
- Grants related to capacity building are taken to deferred grant and amortized as actual expenses incurred on account of capacity building.
- Grants utilized for financing of lending operations are recognized as donated funds.

4.6 Micro credit loan portfolio

These are stated net of provision for non-performing loans, if any. The outstanding principal of the loans, payments against which are overdue by over 30 days is classified as non-performing.

4.6.1 General provision

General provision is made @ 1.5 % of the net outstanding loan balances after netting of specific provision.

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

4.6.2 Specific provision

In addition to general provision, specific provision for potential loan losses is made for all non-performing loans as follows:

Category	Loans in arrears/ installment over due	Percentage of outstanding principal
Other Assets Especially Mentioned (OAEM)	Loans in arrears (installment overdue) for 30 days or more but less than 60 days.	-
Substandard	Loans in arrears (installment overdue) for 60 days or more but less than 90 days.	25%
Doubtful	Loans in arrears (installment overdue) for 90 days or more but less than 180 days	50%
Loss	Loans in arrears (installment overdue) for 180 days or more.	100%

4.6.3 Write-Off

All non-performing loans are written off after one month of classification as loss. However, the Society, continues its efforts for recovery of the written-off loans. Loans are classified as loss when installment are overdue for 180 days or more.

4.7 Foreign currency translations

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rate prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rates. All non monetary items are translated into rupees at exchange rates prevailing on the dates of transactions or on dates when fair values are determined. Exchange differences are included in income currently.

4.8 Short term investments (Held to maturity)

These are stated at amortized cost.

4.9 Employees retirement benefits

The Society operates a recognized provident fund for all its permanent employees. Equal monthly contributions are made to the fund both by the Society and the employees at the rate of 10 percent of the basic salary. Obligation for contributions to defined contribution plan is recognized as an expense in the profit and loss account as and when incurred.

4.10 Taxation

The Society's income is exempt from tax under the provisions of Income Tax Ordinance 2001, hence no provision has been made for the current and prior periods in these financial statements.

4.11 Provisions

Provisions are recognized when, and only when, the Society has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflected the current best

4.12 Financial Instruments

Financial assets and financial liabilities are recognized when the Society becomes a party to contractual provisions of the instrument and de-recognized when the Society loses control of contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired.

4.13 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if the Society has a legal enforceable right to setoff the recognized amounts and intends either to settle on net basis or realize the asset and settle the liabilities simultaneously.

4.14 Cost allocation

Common costs relating to financial and non-financial services is allocated in the ratio of 2.5% of direct social sector costs and the remaining portion to micro finance sector. DAMEN's financial sector is subsidizing the non financial sector for meeting the Program costs.

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

5	CASH AND BANK BALANCES	2011	2010
		Rupees	
	Cash in hand	46,452	225,994
	Cash with banks:		
	In current accounts - local currency	8,481,391	12,262,580
	In deposit accounts		
	- local currency	80,429,505	63,293,410
	- foreign currency	266,283	252,802
		80,695,788	63,546,212
		89,223,631	76,034,786
6	SHORT TERM INVESTMENTS		
		41,028,458	65,648,001

These represent investments in Term Deposit Receipts having a term ranging from 1 month to 1 year. These investments carry mark up at the rate ranging from 10.25% to 13%.

7	MICRO CREDIT LOAN PORTFOLIO	Notes	2011			2010		
			Numbers	Rupees	PAR %age	Numbers	Rupees	PAR %age
	Considered good		29,937	450,089,189	98	36,449	356,352,985	97
	Considered doubtful (non-performing)	7.1	1,099	9,224,804	2	1,606	12,471,636	3
			31,036	459,313,993	100	38,145	368,824,621	100
	Less: Specific provision	7.2		3,810,090			1,631,387	
	General provision	7.2		6,773,429			5,405,848	
	Special Provision	7.2		3,941,981			6,803,366	
				14,525,500			13,840,601	
				444,788,493			354,984,020	

Additional general provision represents the provision created in addition to Society's provisioning policy for catering to the unforeseen loan losses.

7.1 Particulars of non-performing loans

Micro credit loan portfolio includes Rs. 9,224,804 (2010: Rs. 12,471,636) which, as detailed below, have been placed under non-performing status:

Classification	Amount outstanding	Percentage	Provision required	Provision held
	Rupees		Rupees	
OAEM	2,133,548	-		
Sub-standard	1,134,979	25%	283,745	283,745
Doubtful	4,859,865	50%	2,429,933	2,429,933
Loss	1,096,412	100%	1,096,412	1,096,412
	9,224,804		3,810,090	3,810,090

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**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

7.2 Movement of provision against non-performing loan is as under:

Notes		2011			
		Rupees			
		Specific	General	Add. General	Total
		1,631,387	5,405,847	6,803,366	13,840,600
		17,784,544	1,367,582	-	19,152,126
		(15,605,841)	-	(2,861,385)	(18,467,226)
		3,810,090	6,773,429	3,941,981	14,525,500
		2010			
		Rupees			
		Specific	General	Add. General	Total
		13,462,889	6,138,619	-	19,601,508
		26,772,301	(732,772)	6,803,366	32,842,895
		(38,603,803)	-	-	(38,603,803)
		1,631,387	5,405,847	6,803,366	13,840,600
		2011		2010	
		Rupees		Rupees	
		18,467,226		38,603,803	

7.3 Particulars of amount written off

Against provision
This represents non performing loans overdue for more than 210 days.

7.4 Portfolio by segment

Loan type:		
Trade & Business	296,077,279	178,638,828
Tailoring Center	54,242,758	76,475,853
Livestock	68,475,203	67,869,392
Handicraft & Embroidery	40,518,753	45,840,547
	459,313,993	368,824,620

7.5 Portfolio quality report

The organization's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are over-due. For each class of loan, the aged portfolio-at-risk ratio is calculated by dividing the outstanding principal balance of such class by outstanding principal balance of the gross loan portfolio.

Loans are considered overdue if any payment has fallen due and remained unpaid for more than 30 days. The number of days of delay is based on the difference between reporting date (cut off date) and the calculation of fully paid installments subtracted from scheduled installments, multiply by the repayment cycle (30 days) and adding the resulting days in the date of disbursement of loan.

	2011		2010	
	Rupees	Percentage	Rupees	Percentage
Loan portfolio				
Current and up to 30 days late	401,459,668	95.0%	322,843,204	99.2%
31 - 60 days late	5,023,348	1.2%	587,639	0.2%
61 - 90 days late	4,412,619	1.0%	303,568	0.1%
More than 90 days late	11,808,501	2.8%	1,648,450	0.5%
	422,704,136	100%	325,382,861	100%

The organization does not allow rescheduling or restructuring of loans.

During the year, loans were disbursed relating to single project with tenures ranging from 12 months to 18 months, in accordance with needs of the borrowers. Loan repayments are scheduled on monthly installments based on repayment terms.

8 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Accrued service charges on micro credit loans	6,999,924	5,433,020
Advances to staff	101,256	179,746
Advance tax	722,234	689,700
Advances for expenses	32,889	69,063
Accrued income on bank deposits and investments	1,391,678	1,258,880
Prepaid insurance	152,842	157,124
Prepaid markup	274,737	-
Other receivables	244,659	194,931
	9,920,219	7,982,464

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

9 OPERATING FIXED ASSETS

DESCRIPTION	2011				DEPRECIATION				BOOK VALUE AS AT December 31 2011	RATE %
	As at 01 January, 2011	of additions / (disposals) during the year	Transferred to social sector program	As at 31 December, 2011	As at 01 January, 2011	on adjustments	Transferred to social sector program	Charge for the year	As at 31 December, 2011	
Land	6,887,500	-	(2,000,000)	4,887,500	1,197,792	-	-	-	4,887,500	-
Building	3,656,121	-	(3,656,121)	-	5,912,400	(2,912,481)	(1,197,792)	1,327,592	4,307,421	5
Vehicles	8,923,563	3,894,828	-	9,877,448	-	-	-	-	5,570,027	20
Computer equipment	5,810,478	(2,940,943)	(50,980)	5,964,681	5,177,736	(467,288)	(21,725)	482,314	5,170,677	33
Furniture and fittings	3,301,788	(67,241)	-	3,246,321	1,429,856	(55,467)	-	323,049	1,697,438	10
Office equipment	4,506,906	(284,623)	(762,000)	2,959,449	3,288,045	(857,695)	(440,199)	389,875	2,979,826	20
December - 2011	33,086,356	(1,069,680)	(6,469,101)	26,555,799	17,005,469	(4,313,131)	(1,659,716)	2,822,740	13,555,362	13,386,437

DESCRIPTION	2010				DEPRECIATION				BOOK VALUE AS AT December 31 2010	RATE %
	As at 01 January, 2010	of additions / (disposals) during the year	Transferred to social sector program	As at 31 December, 2010	As at 01 January, 2010	on adjustments	Transferred to social sector program	Charge for the year	As at 31 December, 2010	
Land	6,887,500	-	-	6,887,500	-	-	-	-	6,887,500	-
Building	3,656,121	-	-	3,656,121	1,014,866	-	-	182,806	1,197,292	5
Vehicles	8,965,572	761,222	-	8,923,563	4,998,438	-	-	1,304,660	5,912,400	20
Computer equipment	5,720,589	(403,931)	-	5,810,478	4,628,245	-	-	(390,638)	5,177,376	33
Furniture and fittings	2,974,744	89,889	-	3,301,788	1,429,856	-	-	549,131	1,871,932	10
Office equipment	4,284,683	327,644	-	4,506,906	2,974,410	-	-	297,410	1,429,856	20
December - 2010	32,669,209	1,401,778	-	33,086,356	14,374,356	-	-	687,884	17,005,469	16,000,887
		(403,931)	-					(390,638)		

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Notes	2011	2010
		Rupees	
10 CREDITORS, ACCRUED AND OTHER LIABILITIES			
Accrued expenses		984,009	872,976
Markup accrued		51,986	-
DAMEN Relief Fund		1,026	646,226
Shore bank international		150,000	1,000,000
Auditors' remuneration		300,000	250,000
Bank overdrafts		-	28,169
		<u>1,487,021</u>	<u>2,797,371</u>
11 LONG TERM LOANS			
Pakistan Poverty Alleviation Fund (PPAF)		485,342,190	443,395,621
Habib Bank Limited (HBL)	11.1 & 11.2	<u>55,000,000</u>	-
		540,342,190	443,395,621
Less: Current maturity	11.1 & 11.2	<u>359,830,017</u>	<u>368,315,021</u>
Closing balance		<u>180,512,173</u>	<u>75,080,600</u>
11.1 Pakistan Poverty Alleviation Fund			
Opening balance		443,395,621	457,915,435
Additions during the year		<u>540,000,000</u>	<u>475,000,000</u>
		983,395,621	932,915,435
		<u>498,053,431</u>	<u>489,519,814</u>
Repayments during the year		<u>485,342,190</u>	<u>443,395,621</u>
		<u>(333,509,584)</u>	<u>(368,315,021)</u>
Less: Current maturity		<u>151,832,606</u>	<u>75,080,600</u>
Closing balance			
11.2 Habib Bank Limited			
Opening balance		-	-
Additions during the year		<u>55,000,000</u>	-
		<u>55,000,000</u>	-
Repayments during the year		<u>-</u>	-
		<u>55,000,000</u>	-
Less: Current maturity		<u>(26,320,433)</u>	-
Closing balance		<u>28,679,567</u>	-
11.3	<p>From January 2011 to June 2011 phase VI of this loan carried mark up at the rate of 8% (2010: 8%). During the year, mark-up rate for Phase VII of this loan remained 10.76% (2010: 10.76%) and the mark-up for Phase VIII remained 13.24% (2010 : NIL).</p> <p>Principal and mark-up are payable on quarterly basis.</p> <p>This loan is secured against:</p> <ul style="list-style-type: none"> - a first charge on micro credit sub loans created/financed from the proceeds of the loan. - the promissory note executed by the Board Of Directors to pay on order the full amount of financing together with service charges. - a first charge on all assets/capital items created out off PPAF financing agreement. 		
11.4	<p>A term finance loan has been obtained from Habib Bank Limited to enhance the existing Micro Credit Program of the institution. The sanctioned limit is Rs. 60 million This loan carries mark up @ 11.5% per annum.</p> <p>-Principal and mark-up are repayable in 18 monthly installments. Principal repayments to start from April 2012 after a grace period of 6 months.</p> <p>This loan is secured against:</p>		

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-cash guarantee in shape of TDRs for Rs. 55 Million of which Rs. 15 million is provided by DAMEN and the remaining Rs. 40 million is provided by PPAF under their Micro finance Innovation and Outreach Program (MIOP) /Program for Increasing Sustainable Micro finance (PRISM). The TDRs carry mark up @ 10.5% per annum.

11.5 Quarterly Movements in long term loans

	2011			
	1st quarter	2nd quarter	3rd quarter	4th quarter
	Rupees			
Opening Balance				
PPAF	443,395,621	456,842,488	466,678,670	468,140,058
HBL-PRISM	-	-	-	-
	443,395,621	456,842,488	466,678,670	468,140,058
Additions				
PPAF	140,000,000	140,000,000	105,000,000	155,000,000
HBL-PRISM	-	-	20,000,000	35,000,000
	140,000,000	140,000,000	125,000,000	190,000,000
Repayments				
PPAF	126,553,133	130,163,818	123,538,612	117,797,868
HBL-PRISM	-	-	-	-
	126,553,133	130,163,818	123,538,612	117,797,868
Closing balance	456,842,488	466,678,670	468,140,058	540,342,190

	2010			
	1st quarter	2nd quarter	3rd quarter	4th quarter
	Rupees			
Opening Balance	457,915,435	508,475,166	483,304,411	451,477,146
Additions	150,000,000	100,999,000	110,001,000	114,000,000
Repayments	99,440,269	126,169,755	141,828,265	122,081,525
Closing balance	508,475,166	483,304,411	451,477,146	443,395,621

12 DEFERRED GRANTS

Grants related to fixed assets
Grants related to capacity building

Notes	2011	2010
	Rupees	
12.1	2,827,406	1,308,959
12.2	861,352	300,000
	3,688,758	1,608,959

12.1 Grants related to fixed assets

Opening balance
Funds received /capitalized during the period
Less: Amortization

1,308,959	4,182,560
2,373,000	(2,552,063)
3,681,959	1,630,497
(854,553)	(321,538)
2,827,406	1,308,959

12.2 Grants related to capacity building

Opening balance
Funds received during the period
Less: Amortization

300,000	-
3,396,660	300,000
3,696,660	300,000
(2,835,308)	-
861,352	300,000

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	Notes	2011	2010
		Rupees	
13 OTHER INCOME			
Gain of disposal of operating fixed assets		1,989,144	197,691
Bad debts (written off) recovered		1,365,490	527,654
Facilitation charges		98,000	20,000
Profit commission on insurance		1,780,173	-
		<u>5,232,807</u>	<u>745,345</u>
14 GENERAL FUND - Micro finance program			
Opening balance		71,042,989	64,267,533
Surplus for the year		9,001,051	6,775,456
Transferred to Sustainability Reserves - social sector program		(29,809,386)	-
		<u>50,234,654</u>	<u>71,042,989</u>
15 DONATED FUNDS			
This represents funds received from Trust for Voluntary Organizations against financing of lending operations.			
16 RESERVES - Micro finance program			
Bonus reserves		1,063,968	1,063,968
Bad debt reserves		146,750	146,750
		<u>1,210,718</u>	<u>1,210,718</u>
17 CONTINGENCIES AND COMMITMENTS			
Contingencies as on balance sheet date were Rs. Nil (2010: Rs. Nil)			
Capital commitments as on balance sheet date were Rs. Nil (2010: Rs. Nil)			
18 GENERAL AND ADMINISTRATIVE EXPENSES			
Rent, rates and taxes		2,015,855	1,928,049
Electricity, water and gas		1,475,835	1,383,623
Repair and maintenance		2,076,544	1,837,819
Vehicle running and maintenance		2,726,933	2,504,125
Communications		1,334,968	1,137,108
Legal and professional		1,256,435	644,002
Stamp papers		864,996	1,081,213
Fee and subscription		133,979	258,363
Printing and stationary		1,073,954	1,367,229
Office supplies		1,408,432	1,368,250
Traveling and conveyance		1,484,093	1,570,717
Bank charges		1,027,954	1,566,385
Auditors' remuneration		300,000	250,000
Insurance		2,402,849	2,548,066
Depreciation		2,522,740	3,021,751
Networking & linkages /institutional assessments		610,954	259,312
Other expenses		59,474	926,948
		<u>22,775,995</u>	<u>23,652,960</u>
Less: Common costs allocated to social sector program		54,614	224,500
		<u>22,721,381</u>	<u>23,428,460</u>

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19 TAXATION

The Society is a "Non-profit Organization" as defined under Section 2(36) of Income Tax Ordinance, 2001 and holds an exemption certificate from income tax under Section 58(3) of Part I of Second Schedule to the said Ordinance to the Federal Board of Revenue.

20 CASH AND CASH EQUIVALENTS

Cash and bank balances
Short term investments

	2011	2010
Notes	Rupees	
5	89,223,631	76,034,786
6	41,028,458	65,648,001
	<u>130,252,089</u>	<u>141,682,787</u>

21 NUMBER OF EMPLOYEES

The Society employed 74 loan officers (2010: 78) and 131 other employees (2010: 104) as at the year end.

22.1 Financial risk management objectives

The Society's activities expose it to a verity of financial risks including effect of credit and liquidity risk associated with various financial assets and liabilities respectively.

The Society finances its operations through donated funds, borrowings and management of working capital.

Taken as a whole, risk arising from Society's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

a) Credit risk

Credit risk is the risk that a party to the financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Society's credit risk is primarily attributable to its advances and its balances at banks. The risk on liquid funds is limited as the counter parties are banks with high credit ratings. The Society has effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained.

b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly due to balance in foreign currency.

c) Interest rate risk

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in market interest rate. The Society borrow funds at fixed rates and thus it is not exposed to the interest rate risk, in respect of borrowings.

d) Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in raising funds to meet its net funding requirement. The Society manages such risk by having adequate credit lines in place and maintaining sufficient liquidity at field office level to meet anticipated funding requirements.

23 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include key management personnel.

Related parties comprise directors, their close family members and their company. The Society has a policy whereby all transactions with related parties are entered into arm's length basis. Transactions with related parties during the year are Nil (2010: Nil)

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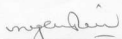
24 GENERAL

24.1 Figures have been rounded off to the nearest rupee.

24.2 Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison. However, no significant rearrangements have been made in these financial statements.

25 DATE OF AUTHORIZATION

These financial statements were approved and authorized by the board of directors
for issue on 29-03-12



EXECUTIVE DIRECTOR



TREASURER

