



DEVELOPMENT ACTION FOR MOBILIZATION AND  
EMANCIPATION  
(MICRO FINANCE PROGRAM)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008

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#### AUDITORS' REPORT TO THE GENERAL BODY

We have audited the annexed balance sheet of the **Development Action for Mobilization and Emancipation - Microfinance Program (Program)** as at **31 December 2008**, and the related income and expenditure account and cash flow statement 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 management of the program 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 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 statement. 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 - Microfinance Program (Program)** as at **31 December 2008** and of its surplus and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Lahore: 11 April 2009

  
Chartered Accountants

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION - MICROFINANCE PROGRAM  
BALANCE SHEET AS AT 31 DECEMBER 2008

ASSETS	Notes	2008 Rupees	2007 Rupees
<b>Current assets</b>			
Cash and bank balances	5	71,654,262	72,354,322
Short term investments	6	40,801,370	15,000,000
Micro credit loan portfolio	7	317,924,465	242,642,647
Advances, prepayments and other receivables	8	6,662,775	6,102,240
<b>Total current assets</b>		<b>437,042,872</b>	<b>336,099,209</b>
<b>Non-current assets</b>			
Operating fixed assets	9	16,993,026	13,607,094
Security deposits		315,000	287,000
<b>Total non-current assets</b>		<b>17,308,026</b>	<b>13,894,094</b>
<b>Total assets</b>		<b>454,350,898</b>	<b>349,993,303</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Creditors, accrued and other liabilities	10	809,956	3,815,262
Current portion of long term loans	11	286,902,817	265,726,255
<b>Total current liabilities</b>		<b>287,712,773</b>	<b>269,541,517</b>
<b>Non-current liabilities</b>			
Long term loans	11	106,776,666	30,908,475
Deferred grants	12	2,956,076	9,507,103
<b>Total non-current liabilities</b>		<b>109,732,742</b>	<b>40,415,578</b>
<b>Total liabilities</b>		<b>397,445,515</b>	<b>309,957,095</b>
<b>NET ASSETS</b>		<b>56,905,383</b>	<b>40,036,208</b>
<b>REPRESENTED BY :</b>			
General fund		54,694,665	37,825,490
Donated fund	13	1,000,000	1,000,000
Reserves		1,210,718	1,210,718
		<b>56,905,383</b>	<b>40,036,208</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	14		

The annexed notes from 1 to 19 form an integral part of these financial statements.

  
EXECUTIVE DIRECTOR

  
TREASURER

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION - MICROFINANCE PROGRAM  
 INCOME AND EXPENDITURE ACCOUNT  
 FOR THE YEAR ENDED 31 DECEMBER 2008

		2008	2007
Operating Income	Notes	Rupees	Rupees
Service charges on micro credit loans		79,475,256	65,446,859
Loan processing fees		8,968,480	7,572,460
Profit on bank deposits and investments		8,430,647	5,364,873
		96,874,383	78,384,192
Financial charges		29,345,858	18,634,377
Net financial margin		67,528,525	59,749,815
Provision against non-performing loans - net	7.2	1,421,007	5,023,731
Operating income after provision		66,107,518	54,726,084
<b>Expenditure</b>			
Salaries, wages, stipends and other benefits		36,131,432	32,092,954
General and administrative expenses	15	16,308,045	14,936,622
Training expenses		2,420,650	1,426,740
		54,860,127	48,456,316
Net operating surplus		11,247,391	6,269,768
Financial assistance to social sector program - net		5,077,785	12,571,852
Net operating surplus/ (deficit) before grants		6,169,606	(6,302,084)
Deferred grants amortized / utilized during the year			
- relating to fixed assets	12.1	909,577	707,800
- relating to capacity building	12.2	9,789,992	21,776,470
		10,699,569	22,484,270
<b>Net surplus for the year</b>		<b>16,869,175</b>	<b>16,182,186</b>

The annexed notes from 1 to 19 form an integral part of these financial statements.

  
 EXECUTIVE DIRECTOR

  
 TREASURER

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION - MICROFINANCE PROGRAM  
 CASH FLOW STATEMENT  
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	2008 Rupees	2007 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net surplus for the year		16,869,175	16,182,186
Adjustment for non cash items :			
Depreciation	9	2,998,388	2,806,811
Amortization of deferred grants:			
- relating to fixed assets	12.1	(909,577)	(707,800)
- relating to capacity building	12.2	(9,789,992)	(21,776,470)
Financial charges		29,345,858	19,350,444
Provision against non-performing loans - net	7.2	1,421,007	5,023,731
		<u>23,065,684</u>	<u>4,696,716</u>
Operating surplus before working capital changes		39,934,859	20,878,902
(Increase) / decrease in :			
Advances, prepayments and other receivables		(560,535)	(2,705,442)
Micro credit loan portfolio		(76,702,825)	(85,224,079)
Security deposits		(28,000)	15,000
(Decrease) / increase in creditors, accrued and other liabilities		(587,006)	638,754
		<u>(77,878,366)</u>	<u>(87,275,767)</u>
Operating deficit after working capital changes		(37,943,507)	(66,396,865)
Financial charges paid		(31,764,158)	(16,932,141)
Net cash used in operations		<u>(69,707,665)</u>	<u>(83,329,006)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash used in investing activities- (Fixed capital expenditure)		(6,384,320)	(3,867,506)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Grants received during the year			
- relating to fixed assets		241,500	2,503,900
- relating to capacity building		3,907,042	18,845,981
Net proceeds from long term loans		97,044,753	90,395,666
Net cash flows from financing activities		<u>101,193,295</u>	<u>111,745,547</u>
Increase in cash and cash equivalents		25,101,310	24,549,035
Cash and cash equivalents at the beginning of the year		<u>87,354,322</u>	<u>62,805,287</u>
Cash and cash equivalents at the end of the year		<u>112,455,632</u>	<u>87,354,322</u>

The annexed notes from 1 to 19 form an integral part of these financial statements.

  
 EXECUTIVE DIRECTOR

  
 TREASURER

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION - MICROFINANCE PROGRAM  
 STATEMENT OF CHANGES IN FUND  
 FOR THE YEAR ENDED 31 DECEMBER 2008

	General Funds	Donated Funds	Reserves	Total
	-----Rupees-----			
Balance as at 01 January 2007	21,643,304	1,000,000	1,210,718	23,854,022
Transfer from income and expenditure account	16,182,186	-	-	16,182,186
Balance as at 31 December 2007	37,825,490	1,000,000	1,210,718	40,036,208
Transfer from income and expenditure account	16,869,175	-	-	16,869,175
Balance as at 31 December 2008	<u>54,694,665</u>	<u>1,000,000</u>	<u>1,210,718</u>	<u>56,905,383</u>

The annexed notes from 1 to 19 form an integral part of these financial statements.

  
 EXECUTIVE DIRECTOR

  
 TREASURER

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION-MICROFINANCE PROGRAM  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008

**1. STATUS AND NATURE OF THE BUSINESS**

- 1.1 Development Action For Mobilization and Emancipation (DAMEN) 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 Sheikhpura District.
- 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 Sheikhpura District. 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 approved accounting standards as applicable in Pakistan and reporting framework advised by Pakistan Poverty Alleviation Fund (

**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 amounts of cash and which are subject to an insignificant risk of change in value and short term borrowings.

**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 charges are accounted for on accrual basis and are included in creditors and accrued and other liabilities to the extent of the amount payable as on balance sheet date.

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**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 and considered as other income.
- 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.

**4.5 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

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 advances, 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 @ 2 % of the net outstanding loan balances after netting of specific provision.

**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 out standing principal
Other Assets Especially Mentioned (OAEM)	Loans in arrears (installment overdue) for 30 days or more but less than 90 days.	-
Substandard:	Loans in arrears (installment overdue) for 90 days or more but less than 180 days.	20%
Doubtful:	Loans in arrears (installment overdue) for 180 days or more but less than 365 days	50%
Loss:	Loans in arrears (installment overdue) for 365 days or more.	100%

#### **4.6.3 Write-Off**

All non-performing loans are written off after 365 days from the expiry of loan term. However, the Society, continues its efforts for recovery of the written-off loans.

#### **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 dates of transactions or on dates when fair values are determined.

Exchange difference are included in income currently.

#### **4.8 Short term investments**

These are stated at 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 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 reflect the current best estimate.

#### **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 on proportionate basis according to share percentage of program's direct cost to total cost. DAMEN is subsidizing the non financial sector for meeting the programme costs.

## DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION - MICROFINANCE PROGRAM

5. CASH AND BANK BALANCES	Notes	2008 Rupees	2007 Rupees
Cash in hand		29,335	168,422
Cash with banks			
In current accounts - local currency		49,969,769	36,163,766
In deposit account			
- local currency		21,423,317	35,822,299
- foreign currency		231,841	199,835
		<u>21,655,158</u>	<u>36,022,134</u>
		<u>71,654,262</u>	<u>72,354,322</u>
<b>6. SHORT TERM INVESTMENTS</b>			
Term deposits	(6.1)	40,801,370	15,000,000
		<u>40,801,370</u>	<u>15,000,000</u>

6.1 This represents the term deposit receipts (TDRs) which earn profit at the rate of 9-13 % per annum (2007: 9%).

7. MICRO CREDIT LOAN PORTFOLIO	Note	2008		2007	
		Numbers	Rupees	Numbers	Rupees
Considered good		36,417	322,843,204	31,592	245,240,843
Considered doubtful (non-performing) (7.1)		480	2,539,657	1,031	5,187,392
		<u>36,897</u>	<u>325,382,861</u>	<u>32,623</u>	<u>250,428,235</u>
Less: Specific provision	(7.2)		970,142		2,833,696
General provision	(7.2)		6,488,254		4,951,892
			<u>7,458,396</u>		<u>7,785,588</u>
			<u>317,924,465</u>		<u>242,642,647</u>

All the loans are secured by way of social guarantees.

#### 7.1 Particulars of non-performing loans

Micro credit loan portfolio includes Rs. 2,539,657 (2007: Rs. 5,187,392) which, as detailed below, have been placed under non-performing status:

Classification	Amount outstanding	Percentage	Provision required	Provision held
	Rupees		Rupees	
OAEM	891,207	-	-	-
Sub-standard	551,080	20%	110,216	110,216
Doubtful	474,888	50%	237,444	237,444
Loss	622,482	100%	622,482	622,482
	<u>2,539,657</u>		<u>970,142</u>	<u>970,142</u>

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

	Note	2008		
		Rupees		
		Specific	General	Total
Opening balance		2,833,696	4,951,892	7,785,588
(Reversal)/Charge for the year		(115,355)	1,536,362	1,421,007
Amounts written off	(7.3)	(1,748,199)	-	(1,748,199)
Closing balance		<u>970,142</u>	<u>6,488,254</u>	<u>7,458,396</u>
				2007
				Rupees
				Total
Opening balance		3,574,473	3,315,150	6,889,623
(Reversal)/Charge for the year		3,386,989	1,636,742	5,023,731
Amounts written off	(7.3)	(4,127,766)	-	(4,127,766)
Closing balance		<u>2,833,696</u>	<u>4,951,892</u>	<u>7,785,588</u>

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION - MICROFINANCE PROGRAM**

<b>7.3 Particulars of amount written off</b>	<b>2008</b>	<b>2007</b>
	<b>Rupees</b>	<b>Rupees</b>
Against provision	<u>1,748,199</u>	<u>4,127,766</u>

This represents non performing loans overdue for more than 365 days.

**7.4 Portfolio by segment**

Loan type:		
Trade & Business	156,402,221	116,157,140
Tailoring Center	65,144,353	52,536,069
Livestock	52,416,852	36,747,633
Handcraft & Embroidery	51,419,435	44,987,393
	<u>325,382,861</u>	<u>250,428,235</u>

**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.

Loan portfolio	2008		2007	
	Rupees	Percentage	Rupees	Percentage
Current and up to 30 days late	322,843,204	99.2%	245,240,843	97.9%
31 - 60 days late	587,639	0.2%	474,323	0.2%
61 - 90 days late	303,568	0.1%	336,775	0.1%
More than 90 days late	1,648,450	0.5%	4,376,294	1.7%
	<u>325,382,861</u>	<u>100%</u>	<u>250,428,235</u>	<u>100%</u>

The organization does not allow rescheduling or restructuring of loans. During the year, no loans were rescheduled or restructured.

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

**7.6 Current Recovery Ratio**

Current recovery ratios are calculated and reported on monthly basis. The numerator of this ratio is total cash payments of principal received during the reporting period. The denominator is the total loans falling due during the period along with the payments in arrears at the start of the period. Penalty interest is not included in the numerator or the denominator of the ratio. Loan delinquency is measured using the Non Performing Loans ratio.

Period	Current recovery ratio in %age	
	2008	2007
1st Quarter	100	88
2nd Quarter	99	91
3rd Quarter	97	97
4th Quarter	100	97
For the year	<u>99</u>	<u>93</u>

Annual loss rate (Loans written off during the year divided by average loan portfolio outstanding) comes to 0.66% (2007: 1.03%) for the year.

**8. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**

	<b>2008</b>	<b>2007</b>
	<b>Rupees</b>	<b>Rupees</b>
Accrued service charges on micro credit loans	5,019,728	4,778,898
Advances to staff	963	-
Advance tax	610,102	608,582
Accrued income on bank deposits and investments	598,301	566,305
Prepayments	322,671	3,000
Other receivables	111,010	145,455
	<u>6,662,775</u>	<u>6,102,240</u>

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION - MICROFINANCE PROGRAM

9. OPERATING FIXED ASSETS

DESCRIPTION	2008						DEPRECIATION Rate %
	COST			DEPRECIATION			
	As at 01 January 2008	Additions during the year	As at 31 December 2008	As at 01 January 2008	For the year	As at 31 December 2008	
Land	2,000,000	4,887,500	6,887,500	-	-	6,887,500	-
Building	3,656,121	-	3,656,121	649,374	182,806	2,823,941	5
Vehicles	5,939,518	-	5,939,518	2,735,244	954,040	2,250,234	20
Computer equipment	4,167,857	498,836	4,666,693	3,141,030	827,378	698,285	33
Furniture and fixture	2,683,897	135,100	2,818,997	571,421	275,571	1,972,005	10
Office equipment	3,325,264	862,884	4,188,148	1,068,494	758,593	2,361,061	20
	<u>21,772,657</u>	<u>6,384,320</u>	<u>28,156,977</u>	<u>8,165,563</u>	<u>2,998,388</u>	<u>11,163,951</u>	<u>16,993,026</u>

9.1 Addition in land is in process of transfer of title deed in society's name.

DESCRIPTION	2007				DEPRECIATION			BOOK VALUE AS AT 31 DECEMBER 2007	Rate %
	COST		As at 31 December 2007		As at 01 January 2007	For the year	As at 31 December 2007		
	As at 01 January 2007	Additions during the year							
Land	2,000,000	-	2,000,000	-	-	-	2,000,000	-	
Building	3,179,761	476,360	3,656,121	476,964	172,410	649,374	3,006,747	5	
Vehicles	4,809,483	1,130,035	5,939,518	1,752,646	982,598	2,735,244	3,204,274	20	
Computer equipment	4,022,282	145,575	4,167,857	2,073,851	1,067,179	3,141,030	1,026,827	33	
Furniture and fixture	1,936,461	747,436	2,683,897	349,068	222,353	571,421	2,112,476	10	
Office equipment	1,957,164	1,368,100	3,325,264	706,223	362,271	1,068,494	2,256,770	20	
	<u>17,905,151</u>	<u>3,867,506</u>	<u>21,772,657</u>	<u>5,358,752</u>	<u>2,806,811</u>	<u>8,165,563</u>	<u>13,607,094</u>		

-----Rupees-----

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION - MICROFINANCE PROGRAM

	Note	2008 Rupees	2007 Rupees
<b>10. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>			
Creditors		3,000	491,530
Accrued expenses		797,821	876,061
Financial charges payable		-	2,418,300
Withholding tax deducted at source		9,135	29,371
		<u>809,956</u>	<u>3,815,262</u>
<b>11. LONG TERM LOANS</b>			
Opening balance		296,634,730	206,239,064
Additions during the year		466,640,000	359,415,000
		<u>763,274,730</u>	<u>565,654,064</u>
Repayments during the year		369,595,247	269,019,334
		<u>393,679,483</u>	<u>296,634,730</u>
Less: Current maturity		286,902,817	265,726,255
Closing balance		<u>106,776,666</u>	<u>30,908,475</u>

11.1 These loans have been obtained from "Pakistan Poverty Alleviation Fund" (PPAF) at annual service charge of 8% (2007: 6% -8%) per annum. These are used for on-lending to micro credit loans to clients. The loan is secured against micro credit sub loans created/ financed from the proceeds of the loans. PPAF maintains a first charge on all sub loans, assets and capital items created out of PPAF financing agreement for capacity building until full repayment of principal, service charges and other monies due and payable to PPAF.

11.2 The quarterly balances of loans outstanding at each quarter end are as follows:

	1st quarter	2nd quarter	3rd quarter	4th quarter
<b>2008</b>	----- Rupees -----			
Opening balance	296,634,730	301,350,319	302,869,423	306,947,531
Additions	89,175,000	89,910,000	100,000,000	187,555,000
Repayments	84,459,411	88,390,896	95,921,892	100,823,048
Closing balance	<u>301,350,319</u>	<u>302,869,423</u>	<u>306,947,531</u>	<u>393,679,483</u>
<b>2007</b>	<u>211,403,209</u>	<u>232,719,019</u>	<u>251,056,871</u>	<u>296,634,730</u>

**12. DEFERRED GRANTS**

Grants related to fixed assets	(12.1)	3,648,303	3,642,748
Capacity building grants	(12.2)	(1,393,710)	4,489,240
Grants related to fixed assets (un-utilized)		701,483	1,375,115
		<u>2,956,076</u>	<u>9,507,103</u>

**12.1 Grants related to fixed assets**

Opening balance	3,642,748	3,221,763
Funds capitalized during the year	915,132	1,128,785
	<u>4,557,880</u>	<u>4,350,548</u>
Less: Amortization	909,577	707,800
	<u>3,648,303</u>	<u>3,642,748</u>

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12.2 Capacity building grants	Note	2008 Rupees	2007 Rupees
Opening balance		4,489,240	7,419,729
Grants received during the year		3,907,042	18,845,981
		<u>8,396,282</u>	<u>26,265,710</u>
Less: Grants utilized during the year		9,789,992	21,776,470
		<u>(1,393,710)</u>	<u>4,489,240</u>

13. DONATED FUND

This represents funds received from Trust for Voluntary Organization against financing of lending operations

14. CONTINGENCIES AND COMMITMENTS

Contingencies as on balance sheet date were Rs. Nil (2007: Rs. Nil).

Capital commitments as on balance sheet date were Rs. Nil (2007: Rs. Nil).

15. GENERAL AND ADMINISTRATIVE EXPENSES

Rent, rates and taxes		1,636,826	1,505,282
Electricity, water and gas		1,296,814	1,061,090
Repair and maintenance		1,521,207	1,024,418
Vehicles running and maintenance		1,749,887	1,419,291
Communications		994,179	852,691
Legal and professional		554,503	215,611
Fee and Subscription		202,758	98,175
Printing and stationary		1,205,181	1,013,974
Office supplies		1,006,844	909,620
Traveling and conveyance		1,180,374	1,049,822
Bank charges		523,055	716,067
Audit fee		191,250	148,750
Insurance		1,244,651	2,109,859
Depreciation	(9)	2,998,388	2,806,811
Other expenses		2,128	5,158
		<u>16,308,045</u>	<u>14,936,619</u>

16. TAXATION

The society is a "Non-profit Organization" as defined under section 2(36) of the 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 (FBR).

17. NUMBER OF EMPLOYEES

The Society employed 98 loan officers (2007: 99) and 102 other employees (2007: 99) as at the year

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18. FINANCIAL INSTRUMENTS

	Interest / mark-up bearing		Non interest / mark-up bearing		Total	
	Maturity upto one year but less than five years		Maturity after one year but less than five years		Total	
	2008	2007	2008	2007	2008	2007
<b>Financial assets</b>						
Long term deposits	-	-	315,000	287,000	315,000	287,000
Micro credit loan portfolio	317,924,465	242,642,647	-	-	317,924,465	242,642,647
Advances and other receivables	-	-	5,730,002	5,490,658	5,730,002	5,490,658
Cash and Bank Balances	62,456,528	51,022,134	49,999,104	36,332,188	112,455,632	87,354,322
<b>Total financial assets</b>	<b>380,380,993</b>	<b>293,664,781</b>	<b>55,729,106</b>	<b>41,822,846</b>	<b>436,425,099</b>	<b>335,774,627</b>
<b>Financial liabilities</b>						
Long term loans	286,902,817	265,726,255	106,776,666	30,908,475	393,679,483	296,634,730
Creditors, accrued and other liabilities	-	-	809,956	3,815,262	809,956	3,815,262
<b>Total financial liabilities</b>	<b>286,902,817</b>	<b>265,726,255</b>	<b>106,776,666</b>	<b>30,908,475</b>	<b>394,489,439</b>	<b>300,449,992</b>

( R u p e s )

The effective interest/ mark up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

### 18.1 Financial risk management Objectives

The society's activities expose it to a variety 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. Therefore, the society is not exposed to any such risk.

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.

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.

### 19. GENERAL

Figures have been rounded off to the nearest rupee.

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

  
\_\_\_\_\_  
EXECUTIVE DIRECTOR

  
\_\_\_\_\_  
TREASURER