



Grant Thornton

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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)** as at **December 31, 2012** 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 financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. 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 the 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)** as at **December 31, 2012** and of its surplus, its cash flows and changes in fund for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

CHARTERED ACCOUNTANTS

Engagement Partner: Imran Afzal

Lahore

Dated: January 31, 2013

Chartered Accountants

Member of Grant Thornton International Ltd

Offices in Karachi & Islamabad

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
BALANCE SHEET
AS AT 31 DECEMBER 2012

		2012	2011
	Notes	Rupees	
ASSETS			
Current assets			
Cash and bank balances	5	116,924,120	89,260,535
Short term investment	6	141,953,741	66,028,458
Micro credit loan portfolio	7	645,059,970	444,788,493
Advances, prepayments and other receivables	8	13,890,961	9,920,219
Total current assets		917,828,792	609,997,705
Non-current assets			
Operating fixed assets - tangible	10	22,326,067	22,023,623
Intangible assets	11	738,108	-
Security deposits	12	492,500	403,500
Total non-current assets		23,556,675	22,427,123
Total assets		941,385,467	632,424,828
LIABILITIES			
Current liabilities			
Creditors, accrued and other liabilities	13	1,439,573	1,487,021
Current portion of long term loans	14	541,426,278	359,830,017
Total current liabilities		542,865,851	361,317,038
Non-current liabilities			
Long term loans	14	192,024,750	180,512,173
Deferred grant	15	4,115,016	3,688,758
Total non-current liabilities		196,139,766	184,200,931
Total liabilities		739,005,617	545,517,969
NET ASSETS		202,379,850	86,906,859
REPRESENTED BY:			
Endowment fund from Pakistan Poverty Alleviation Fund	16	74,000,000	-
General funds	17	96,037,400	54,564,409
Donated fund	18	1,000,000	1,000,000
Reserves	19	31,342,450	31,342,450
		202,379,850	86,906,859
CONTINGENCIES AND COMMITMENTS			
	21		

The annexed notes 1 to 33 form an integral part of these financial statements.


EXECUTIVE DIRECTOR

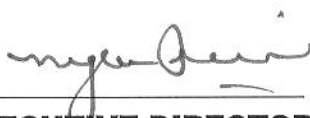

TREASURER



**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012**

		2012	2011
	Notes	Rupees	
Financial income			
Service charges on micro credit loans		176,714,062	121,456,403
Loan processing fee		27,634,600	12,106,120
Total financial income		204,348,662	133,562,523
Finance cost	9	89,926,735	62,633,336
Gross financial margin		114,421,927	70,929,187
Provision against non-performing loans - net	7.2	15,662,230	19,152,126
Net financial margin		98,759,697	51,777,061
Profit on investments and bank deposits	20	26,124,884	27,048,796
		124,884,581	78,825,857
Operational expenses			
General and administrative expenses			
-Micro finance program	22	26,683,242	22,721,355
-Social sector program	23	623,060	621,502
Salaries, wages, stipends and other benefits			
-Micro finance program		54,328,526	49,965,098
-Social sector program		1,303,317	991,392
Training expenses			
-Micro finance program		1,470,221	1,477,541
-Social sector program		19,528	39,658
Research studies expenses		2,150,000	1,420,467
Subsidy to home schools		731,285	415,470
Subsidy to health centres		895,000	738,050
		88,204,179	78,390,533
Surplus from operations		36,680,402	435,324
Other income	24	1,677,778	5,243,790
Deferred grants amortized /utilized:			
- relating to fixed assets	15.1	727,342	854,553
- relating to capacity building	15.2	2,387,469	2,835,308
		3,114,811	3,689,861
Net Surplus for the year		41,472,991	9,368,975
Operational Self sufficiency (OSS) Ratio	31	120%	104%

The annexed notes 1 to 33 form an integral part of these financial statements.



EXECUTIVE DIRECTOR

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TREASURER

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

		2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES	Note	Rupees	
Net surplus for the year		41,472,991	9,368,975
Adjustments for non cash items :			
Depreciation	10	3,620,073	2,973,116
Amortization on intangible assets	11	147,622	-
Amortization of deferred grants:			
- relating to fixed assets	15.1	(727,342)	(854,553)
- relating to capacity building	15.2	(2,387,469)	(2,835,308)
Finance cost	20	89,926,735	62,633,336
Provision against non-performing loans	7.2	15,662,230	19,152,126
		<u>106,241,849</u>	<u>81,068,717</u>
Operating surplus before working capital changes		147,714,840	90,437,692
Increase in:			
Advances, prepayments and other receivables		(3,970,742)	(1,937,756)
Micro credit loan portfolio		(215,933,707)	(108,956,599)
Security deposits		(89,000)	(78,000)
Decrease in creditors, accrued and other liabilities		(186,860)	(1,310,350)
		<u>(220,180,309)</u>	<u>(112,282,705)</u>
Operating deficit after working capital changes		(72,465,469)	(21,845,013)
Finance cost paid		(89,787,323)	(62,633,336)
Net cash used in operations		<u>(162,252,792)</u>	<u>(84,478,349)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net operating fixed assets expenditure		(4,808,247)	(4,631,674)
Net cash used in investing activities		<u>(4,808,247)</u>	<u>(4,631,674)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Grant received /capitalized during the year:			
- relating to fixed assets		-	2,373,000
- relating to capacity building		3,541,069	3,396,660
Endowment fund from Pakistan Poverty Alleviation Fund		74,000,000	-
Net proceeds from long term loans		193,108,838	96,946,569
Net cash from financing activities		<u>270,649,907</u>	<u>102,716,229</u>
Net change in cash and cash equivalents		103,588,868	13,606,206
Cash and cash equivalents at the beginning of year		155,288,993	141,682,787
Cash and cash equivalents at the end of year	26	<u>258,877,861</u>	<u>155,288,993</u>

The annexed notes 1 to 33 form an integral part of these financial statements.


EXECUTIVE DIRECTOR


TREASURER


DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Endowment Fund	General funds	Donated funds	Reserves	Total
	-----Rupees-----				
Balance as at 01 January 2011	-	75,004,820	1,000,000	1,533,064	77,537,884
Net surplus for the year	-	9,368,975	-	-	9,368,975
Sustainability Reserves - social sector program	-	(29,809,386)	-	29,809,386	-
Balance as at 31 December 2011	-	54,564,409	1,000,000	31,342,450	86,906,859
Net surplus for the year	-	41,472,991	-	-	41,472,991
Endowment fund from Pakistan Poverty Alleviation Fund	74,000,000	-	-	-	74,000,000
Balance as at 31 December 2012	74,000,000	96,037,400	1,000,000	31,342,450	202,379,850

The annexed notes 1 to 33 form an integral part of these financial statements.


Executive Director




Treasurer

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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 centres 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 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 (ICAP). These financial statements have also been in accordance with the 'Financial Reporting Guidelines for NGOs/NPOs engaged in Microfinance issued by Institute of Chartered Accountants of Pakistan (ICAP) and in case requirements differ, Accounting and Financial Reporting Standard for Medium-Sized Entities (MSEs) shall prevail.

3. BASIS OF PREPARATION

These accounts have been prepared under the historical cost convention using accrual basis of accounting except for the cash flow information.

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 assets

All operating assets except intangible asset

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

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 10.

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.

The assets' residual values and estimated useful lives are reviewed at least at each balance sheet date and impact on depreciation is adjusted, if significant.

Intangible asset

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the organization and that the cost of such asset can also be measured reliably. Cost of the intangible asset includes purchase cost and directly attributable expenses incidental to bring the asset for its intended use.

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged over the estimated useful life of the asset on a systematic basis by applying the straight line method from the month when such asset is available for use.

Useful lives of intangible assets are reviewed at each balance sheet date and impact on amortization is adjusted, if significant.

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

4.3 Borrowings

Loans and borrowings are initially recorded at proceeds received which are considered to be equal to its fair value. 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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalization. All other borrowing cost are recognized in income and expenditure account in the period in which they are incurred.

4.4 Income recognition

- Service charges and income on loan portfolio are accounted for on accrual basis and collected with loan instalments. These are calculated by using declining interest method at the rate of 0.90/day/1,000 Rupees on outstanding loan balance.
- Service charges on loan portfolio are accrued on late loans for up to 30 days. After 30 days, late loans are classified as non-performing and further accrual of service charges ceases.
- Documentation and loan processing fee collected from micro credit loan customer is recognized when received. The fee is charged at the rate of 3% of the loan amount .
- Income from health centre is recognized when services are rendered to the customers.
- Donations in kind are recognized at fair market value as and when donated items are received.
- Return on investments is recognized on accrual basis.
- Profit on bank deposits is recognised on accrual basis.
- 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.
- Grants related to acquisition of 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.

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/ Instalment over due	Percentage of outstanding principal
Other Assets Especially Mentioned (OAEM)	Loans in arrears (instalment overdue) for 30 days or more but less than 60 days.	-
Substandard	Loans in arrears (instalment overdue) for 61 days or more but less than 90 days.	25%
Doubtful	Loans in arrears (instalment overdue) for 91 days or more but less than 180 days	50%
Loss	Loans in arrears (instalment overdue) for 181 days or more.	100%

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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 instalment are overdue for 181 days or more.

4.7 Foreign currency translations

All monetary assets and liabilities in foreign currencies are translated into Pak 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

Investments classified as held to maturity are recognized initially at fair value, plus attributable transaction costs. Subsequent to initial recognition these are measured at amortised cost using the effective interest method.

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 estimate.

4.12 Use of estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Society's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Society's financial statements or where judgments were exercised in application of accounting policies are below:

- Operating fixed assets - Tangible and intangible
- Micro credit loan portfolio
- Advances, prepayments and other receivables
- Creditors, accrued and other liabilities

4.13 Advances, prepayments, deposits and other receivables

Advances, prepayments and other receivables are carried at original cost less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off, when identified.

4.14 Creditors, accrued and other liabilities

These are recognized using the trade date accounting and are measured initially at cost.

4.15 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.

4.16 Related party transactions

Terms of transactions with related parties are determined using the comparable uncontrolled price method except for those transactions which in exceptional circumstances are specifically approved by the Board of Directors.

4.17 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Society's functional and presentation currency.

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

5	CASH AND BANK BALANCES	Note	2012	2011
			Rupees	
	Cash in hand		143,477	46,452
	Cash with banks:			
	In current accounts - local currency		8,512,694	8,518,295
	In deposit accounts:			
	- local currency		107,979,841	80,429,505
	- foreign currency		288,108	266,283
			108,267,949	80,695,788
			116,924,120	89,260,535

6 SHORT TERM INVESTMENT

Held to maturity

Term Deposit Receipts (TDRs)	6.1 & 6.2	141,953,741	66,028,458
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6.1 These represent investments in Term Deposit Receipts having a term ranging from 1 month to 1 year. These investments carry mark up rate ranging from 7.5 % to 12.71 % (2011: from 10.25% to 13%).

6.2 These include restricted TDRs amounting Rs. 99 Million (2011: Rs. 15 Million).

7	MICRO CREDIT LOAN PORTFOLIO	Notes	2012			2011		
			Numbers	Rupees	PAR %age	Numbers	Rupees	PAR %age
	Considered good		33,940	651,948,195	98.14	29,937	450,089,189	97.99
	Considered doubtful (non-performing)	7.1	1,125	12,332,547	1.86	1,099	9,224,804	2.01
			35,065	664,280,742	100.00	31,036	459,313,993	100.00
	Less: Specific provision	7.2		5,455,543			3,810,090	
	Less: General provision	7.2		9,823,248			6,773,429	
	Less: Additional general provision			3,941,981			3,941,981	
				19,220,772			14,525,500	
				645,059,970			444,788,493	

-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. 12,332,547 (2011: Rs. 9,224,804) which, as detailed below, have been placed under non-performing status:

Classification	2012			
	Amount outstanding	Percentage	Provision required	Provision held
	Rupees		Rupees	Rupees
OAEM	3,110,858	-	-	-
Sub-standard	1,743,985	25%	435,996	435,996
Doubtful	4,916,314	50%	2,458,157	2,458,157
Loss	2,561,390	100%	2,561,390	2,561,390
	12,332,547		5,455,543	5,455,543

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Classification	2011			
	Amount	Percentage	Provision	Provision
	outstanding Rupees		required Rupees	held 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
	<u>9,224,804</u>		<u>3,810,090</u>	<u>3,810,090</u>

7.2 Movement of provision against non performing loans is as under:

Notes	2012			
	Rupees			
	Specific	General	Add. General	Total
Opening balance	3,810,090	6,773,429	3,941,981	14,525,500
Charge for the period	12,612,411	3,049,819	-	15,662,230
Amounts written off during the year	(10,966,958)	-	-	(10,966,958)
Closing balance	<u>5,455,543</u>	<u>9,823,248</u>	<u>3,941,981</u>	<u>19,220,772</u>
	2011			
	Rupees			
	Specific	General	Add. General	Total
Opening balance	1,631,387	5,405,847	6,803,366	13,840,600
Charge for the period	17,784,544	1,367,582	-	19,152,126
Amounts written off during the year	(15,605,841)	-	(2,861,385)	(18,467,226)
Closing balance	<u>3,810,090</u>	<u>6,773,429</u>	<u>3,941,981</u>	<u>14,525,500</u>

7.3 Particulars of amount written off

Against provision

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

2012	2011
<u>10,966,958</u>	<u>18,467,226</u>

7.4 Portfolio by segment

Loan type:

Trade and business	433,503,823	296,077,279
Tailoring centre	71,847,289	54,242,758
Livestock	107,864,556	68,475,203
Handcraft and embroidery	51,065,074	40,518,753
	<u>664,280,742</u>	<u>459,313,993</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 instalments subtracted from scheduled instalments, multiply by the repayment cycle (30 days) and adding the resulting days in the date of disbursement of loan.

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012		2011	
	Rupees	Percentage	Rupees	Percentage
Loan portfolio:				
Current and up to 30 days late	651,948,195	98.1%	450,089,189	98.0%
31 - 60 days late	3,110,858	0.5%	2,133,548	0.5%
61 - 90 days late	1,743,985	0.3%	1,134,979	0.2%
More than 90 days late	7,477,704	1.1%	5,956,277	1.3%
	664,280,742	100%	459,313,993	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 instalments based on repayment terms.

	2012	2011
	Rupees	Rupees
7.6 Movement of loan portfolio		
Opening balance as on 01 January	459,313,993	368,824,621
Disbursements made during the period	921,180,000	605,306,000
Recoveries made during the period	(705,246,293)	(496,349,402)
Loans written off during the period	(10,966,958)	(18,467,226)
Closing balance as on 31 December	664,280,742	459,313,993

8 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Accrued service charges on micro credit loans	10,060,858	6,999,924
Advances to staff	238,332	101,256
Advance tax	924,077	722,234
Advances for expenses	91,651	32,889
Accrued income on investments - TDRs	1,892,947	1,391,678
Prepaid insurance	107,561	152,842
Prepaid mark-up	-	274,737
Other receivables	575,535	244,659
	13,890,961	9,920,219

9 FINANCE COST

Mark-up on long term loan:		
Pakistan Poverty Alleviation Fund (PPAF)	78,571,061	61,262,788
Habib Bank Limited (HBL)	11,355,674	1,370,548
	89,926,735	62,633,336

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

10 OPERATING FIXED ASSETS

2012								
DESCRIPTION	COST		DEPRECIATION				BOOK VALUE AS AT December 31 2012	Rate %
	As at 01 January, 2012	Of additions during the year	As at 31 December, 2012	As at 01 January, 2012	On disposals /adjustments	Charge for the period		
-----Rupees-----								
Land	10,753,700	-	10,753,700	-	-	-	10,753,700	-
Building	3,656,121	-	3,656,121	1,380,599	-	182,806	1,563,405	5
Vehicles	11,019,186	3,085,668	14,104,854	5,129,538	-	2,049,097	7,178,635	20
Computer equipment	5,933,231	284,458	6,217,689	5,126,799	-	405,166	5,531,965	33
Furniture and fittings	3,246,321	358,495	3,604,816	1,697,432	-	337,530	2,034,962	10
Office equipment	3,804,279	193,896	3,998,175	3,054,847	-	645,474	3,700,321	20
December 31, 2012	38,412,838	3,922,517	42,335,355	16,389,215	-	3,620,073	20,009,288	

2011								
DESCRIPTION	COST		DEPRECIATION				BOOK VALUE AS AT December 31 2011	Rate % Rate
	As at 01 January, 2011	Of additions / (disposals) during the year	As at 31 December, 2011	As at 01 January, 2011	On disposals /adjustments	Charge for the period		
-----Rupees-----								
Land	10,753,700	-	10,753,700	-	-	-	10,753,700	-
Building	3,656,121	-	3,656,121	1,197,791	-	182,808	1,380,599	5
Vehicles	10,065,301	3,894,828 (2,940,943)	11,019,186	6,636,168	-	1,425,851	5,129,538	20
Computer equipment	5,810,478	672,471 (549,718)	5,933,231	5,177,380	(2,932,481)	499,137	5,126,799	33
Furniture and fittings	3,301,788	(55,467)	3,246,321	1,429,851	(549,718)	323,048	1,697,432	10
Office equipment	4,506,906	284,623 (987,250)	3,804,279	3,288,040	(55,467)	542,272	3,054,847	20
December 31, 2011	38,094,294	4,851,922	38,412,838	17,729,230	(4,313,131)	2,973,116	16,389,215	
	-	(4,533,378)	-	-	-	-	22,023,623	

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

		2012	2011
	Note	Rupees	
11 INTANGIBLE ASSETS			
Computer software licenses			
Opening balance		-	-
Additions during the period		885,730	-
		885,730	-
Less: Amortization		147,622	-
Balance as on December 31, 2012	11.1	738,108	-
11.1	Licensed Software were acquired in 2012 from Microsoft Corporation at a cost of Rs. 885,730 (US \$ 9,744), to comply with the legal requirements. As per terms of agreement with the vendor, the software will be updated annually at a nominal fee. These licenses do not have a finite useful life. Due to rapid developments in the IT sector, the management has decided to amortize their cost over a period of five years, using the straight line method.		
12 SECURITY DEPOSITS			
This represents security deposits against rent of branch office buildings and internet connection.			
13 CREDITORS, ACCRUED AND OTHER LIABILITIES			
Accrued expenses		824,135	984,009
Mark-up accrued		139,412	51,986
DAMEN Relief Fund		1,026	1,026
Shore Bank International		150,000	150,000
Auditors' remuneration		325,000	300,000
		1,439,573	1,487,021
14 LONG TERM LOANS			
Pakistan Poverty Alleviation Fund (PPAF)	14.1	581,832,607	485,342,190
Habib Bank Limited (HBL)	14.2	151,618,421	55,000,000
		733,451,028	540,342,190
Less: current maturity	14.1 & 14.2	541,426,278	359,830,017
Closing balance		192,024,750	180,512,173
14.1 Pakistan Poverty Alleviation Fund (PPAF)			
Opening balance		485,342,190	443,395,621
Additions during the year		430,000,000	540,000,000
		915,342,190	983,395,621
Repayments during the year		(333,509,583)	(498,053,431)
		581,832,607	485,342,190
Less: current maturity		(429,807,852)	(333,509,584)
Closing balance	14.3	152,024,755	151,832,606

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

		2012	2011
Note		Rupees	
14.2	Habib Bank Limited		
	Opening balance:		
	HBL-PRISM-I	14.4 55,000,000	-
	HBL-PRISM-II	14.5 -	-
	Additions during the year:		
	HBL-PRISM-I	5,000,000	55,000,000
	HBL-PRISM-II	120,000,000	-
		<u>180,000,000</u>	<u>55,000,000</u>
	Repayments during the year:		
	HBL-PRISM-I	(28,381,579)	-
	HBL-PRISM-II	-	-
		<u>151,618,421</u>	<u>55,000,000</u>
	Less: current maturity:		
	HBL-PRISM-I	(31,618,422)	(26,320,433)
	HBL-PRISM-II	(80,000,004)	-
	Closing balance	<u>39,999,995</u>	<u>28,679,567</u>

14.3 During the year, mark-up rate for Phase VII of this loan remained 10.76% (2011: 10.76%) and the mark-up for Phase VIII remained 13.24% (2011 : 13.24%).

Principal and mark-up are payable on quarterly basis.

This loan is secured against:

- 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 of PPAF financing agreement.

14.4 A demand finance loan 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 @ 10% per annum (1% p.a. over deposit rate of 9% p.a).

-Principal and mark-up are repayable in 18 monthly instalments. Principal repayments started from April 2012 after a grace period of 6 months.

-Tenure of the facility is 2 years.

-Mark-up is repayable on monthly basis in arrears.

-Minimum spread of 1% to be maintained at all times over and above the deposit rate.

This loan is secured against:

-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 @ 9% per annum.

14.5 A demand finance loan has been obtained from Habib Bank Limited to enhance the existing Micro Credit Program of the institution. The sanctioned limit is Rs. 165 million. This loan carries mark up @ 11.5% per annum (1% p.a. over deposit rate of 10.50% p.a).

-Principal and mark-up are repayable in 18 monthly instalments. Principal repayments to start from January 2013 after a grace period of 6 months.

-Tenure of the facility is 2 years.

-Mark-up is repayable on monthly basis in arrears.

-Minimum spread of 1% to be maintained at all times over and above the deposit rate.

This loan is secured against:

-Cash guarantee in shape of TDRs for Rs. 120 Million of which Rs. 10 million is provided by DAMEN and the remaining Rs. 110 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.



DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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14.6 Quarterly Movements in long term loans

2012				
	1st quarter	2nd quarter	3rd quarter	4th quarter
	Rupees			
Opening Balance:				
PPAF	485,342,190	542,458,897	589,344,486	534,608,252
HBL-PRISM-I	55,000,000	55,000,000	51,239,266	41,636,018
HBL-PRISM-II	-	-	40,000,000	120,000,000
	540,342,190	597,458,897	680,583,752	696,244,270
Additions:				
PPAF	164,000,000	140,000,000	16,000,000	110,000,000
HBL-PRISM-I	-	5,000,000	-	-
HBL-PRISM-II	-	40,000,000	80,000,000	-
	164,000,000	185,000,000	96,000,000	110,000,000
Repayments:				
PPAF	106,883,293	93,114,411	70,736,234	62,775,646
HBL-PRISM-I	-	8,760,734	9,603,248	10,017,596
HBL-PRISM-II	-	-	-	-
	106,883,293	101,875,145	80,339,482	72,793,242
Closing balance:				
PPAF	542,458,897	589,344,486	534,608,252	581,832,606
HBL-PRISM-I	55,000,000	51,239,266	41,636,018	31,618,422
HBL-PRISM-II	-	40,000,000	120,000,000	120,000,000
	597,458,897	680,583,752	696,244,270	733,451,028
2011				
	1st quarter	2nd quarter	3rd quarter	4th quarter
	Rupees			
Opening Balance:				
PPAF	443,395,621	456,842,488	466,678,670	448,140,058
HBL-PRISM-I	-	-	-	20,000,000
	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-I	-	-	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-I	-	-	-	-
	126,553,133	130,163,818	123,538,612	117,797,868
Closing balance:				
PPAF	456,842,488	466,678,670	448,140,058	485,342,190
HBL-PRISM-I	-	-	20,000,000	55,000,000
	456,842,488	466,678,670	468,140,058	540,342,190
			2012	2011
Notes	Rupees			

15 DEFERRED GRANT

Grant related to fixed assets
Grant related to capacity building

15.1	2,100,064	2,827,406
15.2	2,014,952	861,352
	4,115,016	3,688,758

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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		2012	2011
	Notes	Rupees	
15.1 Grant related to fixed assets			
Opening balance		2,827,406	1,308,959
Funds received /capitalized during the period		-	2,373,000
		2,827,406	3,681,959
Less: amortization		(727,342)	(854,553)
		2,100,064	2,827,406
15.2 Grant related to capacity building			
Opening balance		861,352	300,000
Funds received during the period from:			
Pakistan Poverty Alleviation Fund (PPAF)		2,960,000	3,396,660
Pakistan Microfinance Network (PMN)		581,069	-
		3,541,069	3,396,660
Less: amortization		(2,387,469)	(2,835,308)
		2,014,952	861,352
16 ENDOWMENT FUND			
Pakistan Poverty Alleviation Fund (PPAF)	16.1	74,000,000	-
16.1			
To strengthen the financial position of DAMEN as a Micro Finance Institution, an Endowment Fund has been created by Pakistan Poverty Alleviation Fund (PPAF) under their PRISM program. The terms and conditions associated with the Endowment Fund will remain applicable till three years from the date of receipt of the funds. As per these terms, 50 % of the funds could be used as guarantee money for obtaining secured loans from commercial banks and the remaining 50% could be deposited with commercial banks having AA rating, with competitive terms and conditions. The income from the investment may be utilized either for operational expenses or increasing the loan portfolio.			
17 GENERAL FUND			
Opening balance		54,564,409	75,004,820
Surplus for the period	17.1	41,472,991	9,368,975
Transferred to Sustainability Reserves - social sector program	17.2	-	(29,809,386)
		96,037,400	54,564,409
17.1 SURPLUS FOR THE PERIOD			
Surplus - Micro finance program		41,831,863	9,001,051
Deficit - Social sector program		(358,872)	367,924
		41,472,991	9,368,975
17.2 TRANSFERRED TO SUSTAINABILITY RESERVES - Social Sector Program			
Sustainability reserve created by transferring:			
-operating fixed assets		-	4,809,386
-investments		-	25,000,000
		-	29,809,386
18 DONATED FUNDS			
This represents funds received from Trust for Voluntary Organizations against financing of lending operations.			

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012	2011
		Rupees	
19 RESERVES			
Social sector program	19.1	30,131,732	30,131,732
Micro finance program	19.2	1,210,718	1,210,718
		<u>31,342,450</u>	<u>31,342,450</u>
19.1 RESERVES - Social sector program			
Health centre - Shahpur		37,185	37,185
Health centre - Chung		15,761	15,761
Education services		269,400	269,400
Sustainability reserve-social sector program	17.2	29,809,386	29,809,386
		<u>30,131,732</u>	<u>30,131,732</u>
19.2 RESERVES - Micro finance program			
Bonus reserves		1,063,968	1,063,968
Bad debts reserves		146,750	146,750
		<u>1,210,718</u>	<u>1,210,718</u>
20 PROFIT ON INVESTMENTS AND BANK DEPOSITS			
Profit on Investments - TDRs		9,355,275	7,410,926
Profit on bank deposits		16,769,609	19,637,870
		<u>26,124,884</u>	<u>27,048,796</u>
21 CONTINGENCIES AND COMMITMENTS			
There were no contingencies and commitments to report at the year end. (2011: Rs. Nil)			
22 GENERAL AND ADMINISTRATIVE EXPENSES - Micro Finance Program			
Rent, rates and taxes		2,135,481	2,015,855
Electricity, water and gas		1,746,728	1,475,835
Repair and maintenance		2,205,070	2,076,518
Vehicle running and maintenance		3,419,032	2,726,933
Communications		1,363,114	1,334,968
Legal and professional charges		735,830	963,654
Stamp papers		916,097	864,996
Fee and subscription		285,713	133,979
Printing and stationary		1,307,141	1,073,954
Office supplies		1,625,205	1,408,432
Traveling and conveyance		2,178,860	1,484,093
Bank charges		1,502,440	1,027,954
Auditors' remuneration		325,000	300,000
Insurance		2,488,345	2,402,849
Depreciation		3,175,799	2,522,740
Amortisation on intangible assets		147,622	-
Networking and linkages /institutional assessments		366,173	610,954
E-CIB charges		575,237	292,781
Other expenses		258,083	59,474
		<u>26,756,970</u>	<u>22,775,969</u>
Less: Common costs allocated to social sector program	23.1	73,728	54,614
		<u>26,683,242</u>	<u>22,721,355</u>

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

		2012	2011
		Rupees	
23	GENERAL AND ADMINISTRATIVE EXPENSES - Social Sector Program		
	Depreciation	444,274	450,377
	Vehicles running expense	105,058	116,511
	Common costs	73,728	54,614
	23.1	623,060	621,502
23.1	Calculation of common costs		
	Subsidy to home schools	731,285	415,470
	Subsidy to health centres	895,000	738,050
	Staff salaries	1,303,317	991,392
	Trainings	19,528	39,658
		2,949,130	2,184,570
	Allocated @ 2.5% of direct social sector costs	73,728	54,614
24	OTHER INCOME		
	Financial income		
	Bed debts (written off) recovered	1,593,978	1,365,490
	Profit commission on insurance	-	1,780,173
		1,593,978	3,145,663
	Non-financial income		
	Gain on disposal of operating fixed assets	-	1,989,144
	Facilitation charges	-	98,000
	Income from health centres	-	10,983
	Other Income	83,800	-
		83,800	2,098,127
		1,677,778	5,243,790
25	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 Federal Board of Revenue (FBR) under Clause 58(3) of Part I of Second Schedule to the said Ordinance 2001.		
26	CASH AND CASH EQUIVALENTS		
	Cash and bank balances	5 116,924,120	89,260,535
	Short term investments	6 141,953,741	66,028,458
		258,877,861	155,288,993
27	REMUNERATION OF KEY MANAGEMENT PERSONNEL	Executive Director	Executive Director
	Basic pay	901,920	819,204
	House allowance	360,768	327,684
	Utilities allowance	90,192	81,912
	Medical allowance	12,000	12,000
	POL allowance	87,120	79,200
		1,452,000	1,320,000
28	NUMBER OF EMPLOYEES		
	The Society employed 80 loan officers (2011: 74) and 117 other employees (2011: 131) as at the year end.		

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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FOR THE YEAR ENDED 31 DECEMBER 2012

29 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 (2011: Nil).

30 SEGMENT INFORMATION

30.1 Income and expenditure account for the year ended December 31, 2012

	Financial services	Non - financial services	Total
Rupees			
Financial Income			
Service charges on micro credit loans	176,714,062	-	176,714,062
Loan processing fee	27,634,600	-	27,634,600
Total financial income	204,348,662	-	204,348,662
Finance cost	89,926,735	-	89,926,735
Gross financial margin	114,421,927	-	114,421,927
Provision against non-performing loans - net	15,662,230	-	15,662,230
Net financial margin	98,759,697	-	98,759,697
Profit on investments and bank deposits	23,511,566	2,613,318	26,124,884
	122,271,263	2,613,318	124,884,581
Operational expenses			
General and administrative expenses	26,683,242	623,060	27,306,302
Salaries, wages, stipends and other benefits	54,328,526	1,303,317	55,631,843
Training expenses	1,470,221	19,528	1,489,749
Research studies expenses	2,150,000	-	2,150,000
Subsidy to home schools	-	731,285	731,285
Subsidy to health centres	-	895,000	895,000
	84,631,989	3,572,190	88,204,179
Surplus from operations	37,639,274	(958,872)	36,680,402
Other income	1,677,778	-	1,677,778
Deferred grants amortized /utilized			
- relating to fixed assets	727,342	-	727,342
- relating to capacity building	2,387,469	-	2,387,469
	3,114,811	-	3,114,811
Net surplus /(deficit) for the year	42,431,863	(958,872)	41,472,991

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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FOR THE YEAR ENDED 31 DECEMBER 2012

30.2 Income and expenditure account for the year ended December 31, 2011

	Financial services	Non - financial services	Total
	Rupees		
Financial income			
Service charges on micro credit loans	121,456,403	-	121,456,403
Loan processing fee	12,106,120	-	12,106,120
Total financial income	133,562,523	-	133,562,523
Finance cost	62,633,336	-	62,633,336
Gross financial margin	70,929,187	-	70,929,187
Provision against non-performing loans - net	19,152,126	-	19,152,126
Net financial margin	51,777,061	-	51,777,061
Profit on investments and bank deposits	23,885,783	3,163,013	27,048,796
	75,662,844	3,163,013	78,825,857
Operational expenses			
General and administrative expenses	22,721,355	621,502	23,342,857
Salaries, wages, stipends and other benefits	49,965,098	991,392	50,956,490
Training expenses	1,477,541	39,658	1,517,199
Research studies expenses	1,420,467	-	1,420,467
Subsidy to home schools	-	415,470	415,470
Subsidy to health centres	-	738,050	738,050
	75,584,461	2,806,072	78,390,533
Surplus from operations	78,383	356,941	435,324
Other income	5,232,807	10,983	5,243,790
Deferred grants amortized /utilized			
- relating to fixed assets	854,553	-	854,553
- relating to capacity building	2,835,308	-	2,835,308
	3,689,861	-	3,689,861
Net surplus for the year	9,001,051	367,924	9,368,975

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

30.3 Balance sheet as on December 31, 2012

	Financial services	Non - financial services	Total
Rupees			
ASSETS			
Current assets			
Cash and bank balances	116,620,417	303,703	116,924,120
Short term investment	116,953,741	25,000,000	141,953,741
Micro credit loan portfolio	645,059,970	-	645,059,970
Advances, prepayments and other receivables	13,890,961	-	13,890,961
Total current assets	892,525,089	25,303,703	917,828,792
Non-current assets			
Operating fixed assets - tangible	14,127,155	8,198,912	22,326,067
Intangible assets	738,108	-	738,108
Security deposits	492,500	-	492,500
Total non-current assets	15,357,763	8,198,912	23,556,675
Total assets	907,882,852	33,502,615	941,385,467
LIABILITIES			
Current liabilities			
Creditors, accrued and other liabilities	1,439,573	-	1,439,573
Current portion of long term loans	541,426,278	-	541,426,278
Total current liabilities	542,865,851	-	542,865,851
Non-current liabilities			
Long term loans	192,024,750	-	192,024,750
Deferred grant	4,115,016	-	4,115,016
Total non-current liabilities	196,139,766	-	196,139,766
Total liabilities	739,005,617	-	739,005,617
NET ASSETS	168,877,235	33,502,615	202,379,850
REPRESENTED BY:			
Endowment fund from Pakistan Poverty Alleviation Fund (PPAF)	74,000,000	-	74,000,000
General fund	92,666,517	3,370,883	96,037,400
Donated fund	1,000,000	-	1,000,000
Reserves	1,210,718	30,131,732	31,342,450
	168,877,235	33,502,615	202,379,850

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

30.4 Balance sheet as on December 31, 2011

	Financial services	Non - financial services	Total
Rupees			
ASSETS			
Current assets			
Cash and bank balances	88,442,234	818,301	89,260,535
Short term investment	41,028,458	25,000,000	66,028,458
Micro credit loan portfolio	444,788,493	-	444,788,493
Advances, prepayments and other receivables	9,920,219	-	9,920,219
Total current assets	584,179,404	25,818,301	609,997,705
Non-current assets			
Operating fixed assets - tangible	13,380,437	8,643,186	22,023,623
Security deposits	403,500	-	403,500
Total non-current assets	13,783,937	8,643,186	22,427,123
Total assets	597,963,341	34,461,487	632,424,828
LIABILITIES			
Current liabilities			
Creditors, accrued and other liabilities	1,487,021	-	1,487,021
Current portion of long term loans	359,830,017	-	359,830,017
Total current liabilities	361,317,038	-	361,317,038
Non-current liabilities			
Long term loans	180,512,173	-	180,512,173
Deferred grant	3,688,758	-	3,688,758
Total non-current liabilities	184,200,931	-	184,200,931
Total liabilities	545,517,969	-	545,517,969
NET ASSETS	52,445,372	34,461,487	86,906,859
REPRESENTED BY:			
General fund	50,234,654	4,329,755	54,564,409
Donated fund	1,000,000	-	1,000,000
Reserves	1,210,718	30,131,732	31,342,450
	52,445,372	34,461,487	86,906,859
CONTINGENCIES AND COMMITMENTS			

KASU

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

31 OPERATIONAL SELF SUFFICIENCY (OSS) RATIO

	2012	2011
	Rupees	
Total financial income	204,348,662	133,562,523
Profit on investments and bank deposits	26,124,884	27,048,796
Other income	1,677,778	5,243,790
Total income	232,151,324	165,855,109
Finance cost	89,926,735	62,633,336
Provision against non-performing loans - net	15,662,230	19,152,126
Operational expenses	88,204,179	78,390,533
Total expenditure	193,793,144	160,175,995
Operational Self Sufficiency (OSS) ratio	120%	104%

32 GENERAL

Figures have been rounded off to the nearest rupee.

33 DATE OF AUTHORIZATION

These financial statements have been approved by the General Body and authorised for issue on 31-01-, 2013.


EXECUTIVE DIRECTOR




TREASURER