



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) - Micro Finance Program** 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) - Micro Finance Program** 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

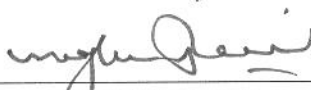
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**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
BALANCE SHEET
AS AT 31 DECEMBER 2012**

		2012	2011
	Notes	Rupees	
ASSETS			
Current assets			
Cash and bank balances	5	116,903,726	89,223,631
Short term investment	6	116,953,741	41,028,458
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		892,808,398	584,960,801
Non-current assets			
Operating fixed assets - tangible	10	14,127,155	13,380,437
Intangible assets	11	738,108	-
Security deposits	12	492,500	403,500
Total non-current assets		15,357,763	13,783,937
Total assets		908,166,161	598,744,738
LIABILITIES			
Current liabilities			
Creditors, accrued and other liabilities	13	1,439,573	1,487,021
Payable to social sector program		883,309	781,397
Current portion of long term loans	14	541,426,278	359,830,017
Total current liabilities		543,749,160	362,098,435
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		739,888,926	546,299,366
NET ASSETS		168,277,235	52,445,372
REPRESENTED BY :			
Endowment fund from Pakistan Poverty Alleviation Fund	16	74,000,000	-
General fund	17	92,066,517	50,234,654
Donated fund	18	1,000,000	1,000,000
Reserves	19	1,210,718	1,210,718
		168,277,235	52,445,372
CONTINGENCIES AND COMMITMENTS			
	21		

The annexed notes 1 to 30 form an integral part of these financial statements.


EXECUTIVE DIRECTOR

APSK


TREASURER

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

		2012	2011
Financial revenue	Notes	Rupees	
Service charges on micro credit loans		176,714,062	121,456,403
Loan processing fee		27,634,600	12,106,120
Total financial revenue		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	23,511,566	23,885,783
		122,271,263	75,662,844
Operational expenses			
Salaries, wages, stipends and other benefits		54,328,526	49,965,098
General and administrative expenses	22	27,283,242	22,721,355
Research Studies		2,150,000	1,420,467
Training expenses		1,470,221	1,477,541
		85,231,989	75,584,461
Surplus from operations		37,039,274	78,383
Other Income	23	1,677,778	5,232,807
Net operating surplus before grants		38,717,052	5,311,190
Deferred grants amortized /utilized:			
- relating to fixed assets		727,342	854,553
- relating to capacity building		2,387,469	2,835,308
		3,114,811	3,689,861
Net surplus for the year		41,831,863	9,001,051
Operational Self sufficiency (OSS) Ratio	24	120%	103%

The annexed notes 1 to 30 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 2012**

		2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES	Note	Rupees	
Net surplus for the year		41,831,863	9,001,051
Adjustments for non cash items :			
Depreciation	10	3,175,799	2,522,740
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	9	89,926,735	62,633,336
Provision against non-performing loans	7.2	15,662,230	19,152,126
		<u>105,797,575</u>	<u>80,618,341</u>
Operating surplus before working capital changes		147,629,438	89,619,392
(Increase) /decrease in:			
Advances, prepayments and other receivables		(3,970,742)	(1,937,755)
Micro credit loan portfolio		(215,933,707)	(108,956,599)
Security deposits		(89,000)	(78,000)
Increase/(decrease) in:			
Payable to social sector program		101,912	781,397
Creditors, accrued and other liabilities		(186,860)	(1,310,350)
		<u>(220,078,397)</u>	<u>(111,501,307)</u>
Operating deficit after working capital changes		(72,448,959)	(21,881,915)
Finance cost paid		(89,787,323)	(62,633,336)
Net cash used in operations		<u>(162,236,282)</u>	<u>(84,515,251)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net operating fixed assets expenditure		(4,808,247)	177,710
Net cash used in investing activities		<u>(4,808,247)</u>	<u>177,710</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Endowment fund from Pakistan Poverty Alleviation Fund		74,000,000	-
Creation of sustainability reserve for Social Sector program		-	(29,809,386)
Grant received /capitalized during the year:			
- relating to fixed assets		-	2,373,000
- relating to capacity building		3,541,069	3,396,660
Net proceeds from long term loans		193,108,838	96,946,569
Net cash from financing activities		<u>270,649,907</u>	<u>72,906,843</u>
Net change in cash and cash equivalents		103,605,378	(11,430,698)
Cash and cash equivalents at the beginning of year		130,252,089	141,682,787
Cash and cash equivalents at the end of year	26	<u>233,857,467</u>	<u>130,252,089</u>

The annexed notes 1 to 30 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 2012**

	Endowment Fund	General fund	Donated funds	Reserves	Total
	Rupees				
Balance as at 01 January 2011	-	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
Net surplus for the year	-	41,831,863	-	-	41,831,863
Endowment fund from PPAF	74,000,000	-	-	-	74,000,000
Balance as at 31 December 2012	74,000,000	92,066,517	1,000,000	1,210,718	168,277,235

The annexed notes 1 to 30 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 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 fixed 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.

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.

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION**MICRO FINANCE PROGRAM****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2012****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.
- Profit on bank deposits is recognised on accrual basis.
- Donations in kind are recognized at fair market value as and when donated items are received.
- Return on investments is recognized on accrual basis.
- Bad debts recovered are added to current year's income.

4.5 Functional and presentation currency

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

4.6 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.

4.7 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.

4.7.1 General provision

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

4.7.2 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 (OAEEM)	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%

4.7.3 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.

4.8 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.

4.9 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.

4.10 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.

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION

MICRO FINANCE PROGRAM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

4.11 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.

4.12 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.

4.13 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

4.14 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.

4.15 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.

4.18 Creditors, accrued and other liabilities

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

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

	2012	2011
	Rupees	
5 CASH AND BANK BALANCES		
Cash in hand	143,477	46,452
Cash with banks:		
In current accounts - local currency	8,492,300	8,481,391
In deposit accounts		
- local currency	107,979,841	80,429,505
- foreign currency	288,108	266,283
	108,267,949	80,695,788
	116,903,726	89,223,631

6 SHORT TERM INVESTMENTS

Held to maturity

Term Deposit Receipts (TDRs)	6.1	116,953,741	41,028,458
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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 11.10 % (2011: from 10.25% to 13%).

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

Notes	2012			2011		
	Numbers	Rupees	PAR %age	Numbers	Rupees	PAR %age
7 MICRO CREDIT LOAN PORTFOLIO						
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	1,099	9,224,804	2.01
		35,065	664,280,742		31,036	459,313,993
			100.00			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

Classification	2011			
	Amount outstanding	Percentage	Provision required	Provision held
	Rupees		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

MSK

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

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	7.3	(10,966,958)	-	-	(10,966,958)
Closing balance		5,455,543	9,823,248	3,941,981	19,220,772

	Notes	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	7.3	(15,605,841)	-	(2,861,385)	(18,467,226)
Closing balance		3,810,090	6,773,429	3,941,981	14,525,500

	2012	2011
	Rupees	
	10,966,958	18,467,226

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 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
	664,280,742	459,313,993

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.

	2012		2011	
	Rupees	Percentage	Rupees	Percentage
Loan portfolio				
Current and up to 30 days late	651,948,195	98.1%	401,459,668	95.0%
31 - 60 days late	3,110,858	0.5%	5,023,348	1.2%
61 - 90 days late	1,743,985	0.3%	4,412,619	1.0%
More than 90 days late	7,477,704	1.1%	11,808,501	2.8%
	664,280,742	100%	422,704,136	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.

MBR

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

	2012	2011
	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	<u>664,280,742</u>	<u>459,313,993</u>
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
	<u>13,890,961</u>	<u>9,920,219</u>
9 FINANCE COST		
Mark-up on long term loan:		
Pakistan Poverty Alleviation Fund (PPAF)	78,571,061	61,262,788
Habib Bank Limited (HBL)	<u>11,355,674</u>	<u>1,370,548</u>
	<u>89,926,735</u>	<u>62,633,336</u>

HSR

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

10 OPERATING FIXED ASSETS

DESCRIPTION	COST			DEPRECIATION					BOOK VALUE AS AT December 31 2012	RATE %	
	As at 01 January, 2012	of additions during the year	Transferred to social sector program	As at 31 December, 2012	As at 01 January, 2012	On disposals /adjustments	Transferred to social sector program	Charge for the year			As at 31 December, 2012
Land	4,887,500	-	-	4,887,500	-	-	-	-	-	4,887,500	-
Vehicles	9,877,448	3,085,668	-	12,963,116	4,307,421	-	-	1,950,749	6,258,170	6,704,946	20
Computer equipment	5,964,681	284,458	-	6,249,139	5,170,677	-	-	394,446	5,565,123	684,016	33
Furniture and fittings	3,246,321	358,495	-	3,604,816	1,697,438	-	-	337,530	2,034,968	1,569,848	10
Office equipment	2,959,849	193,896	-	3,153,745	2,379,826	-	-	493,074	2,872,900	280,845	20
December - 2012	26,935,799	3,922,517	-	30,858,316	13,555,362	-	-	3,175,799	16,731,161	14,127,155	

2011											
DESCRIPTION	COST			DEPRECIATION				BOOK VALUE AS AT December 31 2011	RATE %		
	As at 01 January, 2011	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	-	-	-	-	4,887,500	-	
Building	3,651,121	-	(3,651,121)	-	1,197,792	-	(1,197,792)	-	-	5	
Vehicles	8,923,563	3,894,828 (2,940,943)	-	9,877,448	5,912,400	(2,932,481)	-	1,327,502	4,307,421	20	
Computer equipment	5,810,478	672,471 (467,288)	(50,980)	5,964,681	5,177,376	(467,288)	(21,725)	482,314	5,170,677	33	
Furniture and fittings	3,301,788	(55,467)	-	3,246,321	1,429,856	(55,467)	-	323,049	1,697,438	10	
Office equipment	4,506,906	284,623 (1,069,680)	(762,000)	2,959,849	3,288,045	(857,895)	(440,199)	389,875	2,379,826	20	
December - 2011	33,081,356	4,851,922 (4,533,378)	(6,464,101)	26,935,799	17,005,469	(4,313,131)	(1,659,716)	2,522,740	13,555,362	13,380,437	

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

		2012	2011
Notes		Rupees	
11	INTANGIBLE ASSETS		
	Computer software licenses		
	Opening balance	11.1 -	-
	Additions during the period	885,730	-
		885,730	-
	Less: Amortization	147,622	-
	Balance as on December 31, 2012	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
	DAMJEN 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		
	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
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		2012	2011
	Notes	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		<u>120,000,000</u>	<u>-</u>
		180,000,000	55,000,000
Repayments during the year:			
HBL-PRISM-I		(28,381,579)	-
HBL-PRISM-II		<u>-</u>	<u>-</u>
		151,618,421	55,000,000
Less: current maturity:			
HBL-PRISM-I		(31,618,422)	(26,320,433)
HBL-PRISM-II		<u>(80,000,004)</u>	<u>-</u>
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.

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**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
LIBL-PRISM-I	55,000,000	55,000,000	51,239,266	41,636,018
LIBL-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
LIBL-PRISM-I	-	5,000,000	-	-
LIBL-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
LIBL-PRISM-I	-	8,760,734	9,603,248	10,017,596
LIBL-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
LIBL-PRISM-I	55,000,000	51,239,266	41,636,018	31,618,422
LIBL-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
LIBL-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
LIBL-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
LIBL-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
LIBL-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

Grants related to fixed assets
Grants 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)	(2,535,308)
	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 & the remaining 50% could be deposited with commercial banks rated AA, with competitive terms & conditions. The income from the investment may be utilized either for operational expenses or increasing the loan portfolio.		
17 GENERAL FUND - Micro finance program		
Opening balance	50,234,654	71,042,989
Surplus for the year	41,831,863	9,001,051
Transferred to Sustainability Reserves - social sector program	-	(29,809,386)
	92,066,517	50,234,654
18 DONATED FUNDS		
This represents funds received from Trust for Voluntary Organizations against financing of lending operations.		
19 RESERVES - Micro finance program		
Bonus reserves	1,063,968	1,063,968
Bad debt reserves	146,750	146,750
	1,210,718	1,210,718
20 PROFIT ON INVESTMENTS AND BANK DEPOSITS		
Profit on Investments - TDRs	6,741,957	4,247,913
Profit on bank deposits	16,769,609	19,637,870
	23,511,566	23,885,783
21 CONTINGENCIES AND COMMITMENTS		
There were no contingencies and commitments to report at the year end. (2011: Rs. Nil)		

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**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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	2012	2011
Notes	Rupees	
22 GENERAL AND ADMINISTRATIVE EXPENSES		
Rent, rates and taxes	2,735,481	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>27,356,970</u>	<u>22,775,969</u>
Less: Common costs allocated to social sector program	<u>73,728</u>	<u>54,614</u>
	<u>27,283,242</u>	<u>22,721,355</u>
23 OTHER INCOME		
Financial income		
Bad debts (written off) recovered	1,593,978	1,365,490
Profit commission on insurance	-	1,780,173
	<u>1,593,978</u>	<u>3,145,663</u>
Non-financial income		
Gain on disposal of operating fixed assets	-	1,989,144
Facilitation charges	-	98,000
Other income	83,800	-
	<u>83,800</u>	<u>2,087,144</u>
	<u>1,677,778</u>	<u>5,232,807</u>
24 Operational Self Sufficiency (OSS) Ratio		
Total financial income	204,348,662	133,562,523
Profit on investments and bank deposits	23,511,566	23,885,783
Other income	1,677,778	5,232,807
Total income	<u>229,538,006</u>	<u>162,681,113</u>
Finance cost	89,926,735	62,633,336
Provision against non-performing loans - net	15,662,230	19,152,126
Administrative expenses	85,231,989	75,584,461
Total expenditure	<u>190,820,954</u>	<u>157,369,923</u>
Operational Self Sufficiency (OSS) Ratio	<u>120%</u>	<u>103%</u>

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**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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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

		2012	2011
	Notes	Rupees	
Cash and bank balances	5	116,903,726	89,223,631
Short term investments	6	116,953,741	41,028,458
		<u>233,857,467</u>	<u>130,252,089</u>

27 NUMBER OF EMPLOYEES

The Society employed 80 loan officers (2011: 74) and 107 other employees (2011: 119) as at the year end.

28 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, their companies and programs run by the Society. 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 as follows:

DAMEN - Social Sector Program			
Payable		883,309	781,397
Rent expense		600,000	-

29 GENERAL

Figures have been rounded off to the nearest rupee.

30 DATE OF AUTHORIZATION

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


EXECUTIVE DIRECTOR


TREASURER

