



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, 2013** 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, 2013** 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: *February 8, 2014*

Chartered Accountants

Member of Grant Thornton International Ltd

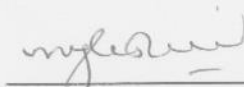
Offices in Karachi & Islamabad

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
BALANCE SHEET
AS AT 31 DECEMBER 2013**

		2013	2012
	Notes	Rupees	
ASSETS			
Current assets			
Cash and bank balances	5	154,469,316	116,903,726
Short term investment	6	149,600,000	116,953,741
Micro credit loan portfolio	7	713,003,146	645,059,970
Advances, prepayments and other receivables	8	21,275,231	13,890,961
Total current assets		1,038,347,693	892,808,398
Non-current assets			
Operating fixed assets - Tangible	10	12,791,112	14,127,155
Intangible assets	11	560,963	738,108
Security deposits	12	478,250	492,500
Total non-current assets		13,830,325	15,357,763
Total assets		1,052,178,018	908,166,161
LIABILITIES			
Current liabilities			
Creditors, accrued and other liabilities	13	2,131,538	1,439,573
Payable to social sector program		(108,311)	883,309
Short term loan	14	15,000,050	-
Current portion of long term loans	15	643,915,789	541,426,274
Total current liabilities		660,939,066	543,749,156
Non-current liabilities			
Long term loans	15	183,975,635	192,024,754
Deferred grant	16	2,454,663	4,115,016
Total non-current liabilities		186,430,298	196,139,770
Total liabilities		847,369,364	739,888,926
NET ASSETS		204,808,654	168,277,235
REPRESENTED BY :			
Endowment fund from Pakistan Poverty Alleviation Fund	17	106,000,000	74,000,000
General fund	18	97,597,936	92,066,517
Donated fund	19	-	1,000,000
Reserves	20	1,210,718	1,210,718
		204,808,654	168,277,235
CONTINGENCIES AND COMMITMENTS			
	22		

The annexed notes 1 to 32 form an integral part of these financial statements.

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EXECUTIVE DIRECTOR


TREASURER

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013**

		2013	2012
	Notes	Rupees	
Financial revenue			
Service charges on micro credit loans		229,217,656	176,714,062
Loan processing fee		30,393,750	27,634,600
Total financial revenue		259,611,406	204,348,662
Finance cost	9	91,522,092	89,926,735
Branchless banking charges		3,298,418	396,621
		94,820,510	90,323,356
Gross financial margin		164,790,896	114,025,306
Provision against non-performing loans - net	7.2	35,521,147	15,662,230
Net financial margin		129,269,749	98,363,076
Profit on investments and bank deposits	21	28,853,879	23,511,566
		158,123,628	121,874,642
Operational expenses			
Salaries, wages, stipends and other benefits		61,053,688	54,328,526
General and administrative expenses	23	32,366,135	26,886,621
Research Studies		1,676,820	2,150,000
Training expenses		1,620,421	1,470,221
		96,717,064	84,835,368
Surplus from operations		61,406,564	37,039,274
Other Income	24	1,446,430	1,677,778
Net operating surplus before grants		62,852,994	38,717,052
Deferred grants amortized /utilized:			
- relating to fixed assets		604,894	727,342
- relating to capacity building		2,073,531	2,387,469
		2,678,425	3,114,811
Net surplus for the year		65,531,419	41,831,863
Operational Self sufficiency (OSS) Ratio	25	128%	120%

The annexed notes 1 to 32 form an integral part of these financial statements.

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EXECUTIVE DIRECTOR

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TREASURER

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

		2013	2012
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES	Note		
Net surplus for the year		65,531,419	41,831,863
Adjustments for non cash items :			
Depreciation	10	2,948,622	3,175,799
Amortization on intangible assets	11	177,145	147,622
Amortization of deferred grants:			
- relating to fixed assets	16.1	(604,894)	(727,342)
- relating to capacity building	16.2	(2,073,531)	(2,387,469)
Finance cost	9	91,522,092	89,926,735
Provision against non-performing loans	7.2	35,521,147	15,662,230
		<u>127,490,581</u>	<u>105,797,575</u>
Operating surplus before working capital changes		193,022,000	147,629,438
(Increase) / decrease in:			
Advances, prepayments and other receivables		(7,384,270)	(3,970,742)
Micro credit loan portfolio		(103,464,323)	(215,933,707)
Security deposits		14,250	(89,000)
Increase/(decrease) in:			
Payable to social sector program		(991,620)	101,912
Creditors, accrued and other liabilities		620,241	(186,860)
		<u>(111,205,722)</u>	<u>(220,078,397)</u>
Operating surplus / (deficit) after working capital changes		81,816,278	(72,448,959)
Finance cost paid		(91,450,368)	(89,787,323)
Net cash used in operations		<u>(9,634,090)</u>	<u>(162,236,282)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net operating fixed assets expenditure incurred		(1,612,579)	(4,808,247)
Net cash used in investing activities		<u>(1,612,579)</u>	<u>(4,808,247)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Endowment fund from Pakistan Poverty Alleviation Fund		32,000,000	74,000,000
Creation of sustainability reserve for Social Sector program		(55,000,000)	-
Transfer to General Fund-Social Sector programme		(6,000,000)	
Grant received /capitalized during the year			
- relating to capacity building		1,018,072	3,541,069
Net proceeds from running finance facility		15,000,050	
Net proceeds from long term loans		94,440,396	193,108,838
Net cash from financing activities		<u>81,458,518</u>	<u>270,649,907</u>
Net change in cash and cash equivalents		70,211,849	103,605,378
Cash and cash equivalents at the beginning of year		233,857,467	130,252,089
Cash and cash equivalents at the end of year	27	<u>304,069,316</u>	<u>233,857,467</u>

The annexed notes 1 to 32 form an integral part of these financial statements.

Signature

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EXECUTIVE DIRECTOR

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TREASURER


**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
STATEMENT OF CHANGES IN FUND
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Endowment Fund	General fund	Donated funds	Reserves	Total
	-----Rupees-----				
Balance as at 01 January 2012	74,000,000	50,234,654	1,000,000	1,210,718	126,445,372
Net surplus for the year	-	41,831,863	-	-	41,831,863
Transferred to social sector program reserves	-	-	-	-	-
Balance as at 31 December 2012	74,000,000	92,066,517	1,000,000	1,210,718	168,277,235
Donated Fund transferred to General Fund	-	1,000,000	(1,000,000)	-	-
Transferred to social sector program reserves	-	(55,000,000)	-	-	(55,000,000)
Transferred to social sector program General Fund	-	(6,000,000)	-	-	(6,000,000)
Endowment fund from PPAF	32,000,000	-	-	-	32,000,000
Net surplus for the year	-	65,531,419	-	-	65,531,419
Balance as at 31 December 2013	106,000,000	97,597,936	-	1,210,718	204,808,654

The annexed notes 1 to 32 form an integral part of these financial statements.

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Executive Director


Treasurer

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. STATUS AND NATURE OF THE BUSINESS

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

2 STATEMENT OF COMPLIANCE

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



DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

4.3 Borrowings

Loans and borrowings are initially recorded at proceeds received which is 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 installments. 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 recognized 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.

4.8 Loan Loss provision

The Loan Loss Provision shall be the higher of general and specific provisions.

4.8.1 General provision

General provision is made @5% (2012: 1.5%) of outstanding loan balances. This is inclusive of specific provision. Rate has been increased during the year keeping in view the requirements of lender.

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

4.8.2 Specific provision

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

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

4.9 Write-Off

All non-performing loans are written off after one month of classification as loss. However, the Society, continues its efforts for recovery of the written-off loans. Loans are classified as loss when installment are overdue for 181 days or more.

4.10 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.

4.11 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 amortized cost using the effective interest method.

4.12 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.

4.13 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.

4.14 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.



**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

4.15 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

4.16 Advances, prepayments and other receivables

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

4.17 Cost allocation

Common costs relating to financial and non-financial services is allocated in the ratio of 5% (2012: 2.5%) of direct social sector costs and the remaining portion to micro finance sector.

4.18 Functional and presentation currency

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

4.19 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 2013**

	Note	2013	2012
		Rupees	
5 CASH AND BANK BALANCES			
Cash in hand		29,960	143,477
Cash with banks:			
In current accounts - local currency		33,342,430	8,492,300
In deposit accounts			
- local currency	5.1	120,786,594	107,979,841
- foreign currency		310,332	288,108
		121,096,926	108,267,949
		154,469,316	116,903,726

5.1 These carry mark up rate ranging from 6 % to 8.50 % (2012: from 5 % to 10.5%).

6 SHORT TERM INVESTMENTS

Held to maturity

Term Deposit Receipts (TDRs)	6.1 & 6.2	149,600,000	55,953,741
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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 8.52 % to 9.90 % (2012: from 7.5 % to 12.71%).

6.2 These include restricted TDRs amounting Rs. 116.6 Million (2012: Rs. 99 Million).
Loans and guarantee are secured against such investment. (Refer to note 15 and 22)

	Notes	2013			2012		
		Numbers	Rupees	PAR %age	Numbers	Rupees	PAR %age
7 MICRO CREDIT LOAN PORTFOLIO							
Considered good		34,332	738,625,116	98.41	33,940	651,948,195	98.14
Considered doubtful (non-performing)	7.1	853	11,904,511	1.59	1,125	12,332,547	1.86
		35,185	750,529,627	100.00	35,065	664,280,742	100.00
Less: Specific provision	7.2		5,208,088			5,455,543	
Less: General provision	7.2		32,318,393			13,765,229	
			37,526,481			19,220,772	
			713,003,146			645,059,970	

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DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

7.1 Particulars of non-performing loans

Micro credit loan portfolio includes Rs. 11,904,511 (2012: Rs. 12,332,547) which, as detailed below, have been placed under non-performing status:

Classification	2013			
	Amount	Percentage	Provision	Provision
	outstanding Rupees		required Rupees	held
OAEM	2,336,889	-	-	-
Sub-standard	2,129,025	25%	532,256	532,256
Doubtful	5,525,531	50%	2,762,766	2,762,766
Loss	1,913,066	100%	1,913,066	1,913,066
	<u>11,904,511</u>		<u>5,208,088</u>	<u>5,208,088</u>

Classification	2012			
	Amount	Percentage	Provision	Provision
	outstanding Rupees		required Rupees	held
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
	<u>12,332,547</u>		<u>5,455,543</u>	<u>5,455,543</u>

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

Notes	2013		
	Rupees		
	Specific	General	Total
Opening balance	5,455,543	13,765,229	19,220,772
Charge for the year	16,967,983	18,553,164	35,521,147
Amounts written off during the year	(17,215,438)	-	(17,215,438)
Closing balance	<u>5,208,088</u>	<u>32,318,393</u>	<u>37,526,481</u>

Notes	2012		
	Rupees		
	Specific	General	Total
Opening balance	3,810,090	10,715,410	14,525,500
Charge for the year	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>13,765,229</u>	<u>19,220,772</u>

	2013	2012
Rupees		
Against provision	<u>17,215,438</u>	<u>10,966,958</u>

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	480,840,853	433,503,823
Tailoring centre	76,248,407	71,847,289
Livestock	146,391,228	107,864,556
Handcraft and embroidery	47,049,139	51,065,074
	<u>750,529,627</u>	<u>664,280,742</u>

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
MICRO FINANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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.

	2013		2012	
	Rupees	Percentage	Rupees	Percentage
Loan portfolio				
Current and up to 30 days late	738,625,116	98.4%	651,948,195	98.1%
31 - 60 days late	2,336,889	0.3%	3,110,858	0.5%
61 - 90 days late	2,129,025	0.3%	1,743,985	0.3%
More than 90 days late	7,438,597	1.0%	7,477,704	1.1%
	<u>750,529,627</u>	<u>100%</u>	<u>664,280,742</u>	<u>100%</u>

The organization does not allow rescheduling or restructuring of loans.

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

2013	2012
Rupees	

7.6 Movement of loan portfolio

Opening balance as on 01 January	664,280,742	459,313,993
Disbursements made during the year	1,013,125,000	921,180,000
Recoveries made during the year	(909,660,677)	(705,246,293)
Loans written off during the year	(17,215,438)	(10,966,958)
Closing balance as on 31 December	<u>750,529,627</u>	<u>664,280,742</u>

8 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Accrued service charges on micro credit loans	12,411,286	10,060,858
Advances to staff	194,013	238,332
Advance tax	1,353,686	924,077
Advances for expenses	18,000	91,651
Accrued income on investments - TDRs	6,307,555	1,892,947
Prepaid insurance	259,873	107,561
Prepaid mark-up	-	-
Other receivables	730,818	575,535
	<u>21,275,231</u>	<u>13,890,961</u>

9 FINANCE COST

Mark-up on long term loan:		
Pakistan Poverty Alleviation Fund (PPAF)	77,447,086	78,571,061
Habib Bank Limited (HBL)	12,339,750	11,355,674
Faysal Bank Limited (FBL)	1,730,961	-
	<u>91,517,797</u>	<u>89,926,735</u>
Mark-up on short term borrowings:		
Faysal Bank Limited (FBL)	4,295	-
	<u>91,522,092</u>	<u>89,926,735</u>

DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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FOR THE YEAR ENDED 31 DECEMBER 2013

10 OPERATING FIXED ASSETS

DESCRIPTION	COST			DEPRECIATION				BOOK VALUE AS AT December 31 2013	RATE %
	As at 01 January, 2013	of additions during the year	Adjustment for the year	As at 31 December, 2013	As at 01 January, 2013	On disposals /adjustments	Transferred to social sector program	Charge for the year	As at 31 December, 2013
Land	4,887,500	-	-	4,887,500	-	-	-	-	4,887,500
Vehicles	12,963,116	320,205	-	13,283,321	6,258,170	-	-	2,112,487	8,370,657
Computer equipment	6,166,709	711,549	(161,337)	6,716,921	5,565,123	(142,097)	-	471,448	5,894,474
Furniture and fittings	3,604,816	187,205	(166,820)	3,625,201	2,034,968	(110,817)	-	339,259	2,263,410
Office equipment	3,236,175	486,726	(137,815)	3,585,086	2,872,900	(119,952)	-	25,428	2,778,376
December - 2012	30,858,316	1,705,685	(465,972)	32,098,029	16,731,161	(372,866)	-	2,948,622	19,306,917

DESCRIPTION	COST			DEPRECIATION				BOOK VALUE AS AT December 31 2012	RATE %
	As at 01 January, 2012	Additions during the year	Transferred to social sector program	As at 31 December, 2012	As at 01 January, 2012	on 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
Computer equipment	5,882,251	284,458	-	6,166,709	5,170,677	-	-	394,446	5,565,123
Furniture and fittings	3,246,321	358,495	-	3,604,816	1,697,438	-	-	337,530	2,034,968
Office equipment	3,042,279	193,896	-	3,236,175	2,379,826	-	-	493,074	2,872,900
December - 2011	26,935,799	3,922,517	-	30,858,316	13,555,362	-	-	3,175,799	16,731,161

MSL

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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		2013	2012
	Notes	Rupees	
11 INTANGIBLE ASSETS			
Computer software licenses			
Opening balance	11.1	738,108	-
Additions during the year		-	885,730
		738,108	885,730
Less: amortization		(177,145)	(147,622)
Balance as on December 31		560,963	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 requirement. 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 field offices' buildings and internet connection.			
13 CREDITORS, ACCRUED AND OTHER LIABILITIES			
Accrued expenses		1,709,814	824,135
Mark-up accrued		71,724	139,412
DAMEN Relief Fund		-	1,026
Shore Bank International		-	150,000
Auditors' remuneration		350,000	325,000
		2,131,538	1,439,573
14 Short term borrowings			
Faysal Bank Limited - running finance	14.1	15,000,050	-
		15,000,050	-
14.1	- A Running Finance Facility has been obtained from Faysal Bank Limited with a limit of Rs. 16 Million. The facility is secured against cash deposits of Rs. 16 Million and Hypo charge on receivables of Rs. 2 Million. The funds of this facility are used to enhance existing Micro Finance Loan portfolio. The facility carries mark up @ 10.45%. The guarantee money for this facility is provided by PPAF. - This facility is also secured by cash guarantee in shape of TDRs amounting to Rs. 37 Million and hypothecation on receivables of clients amounting to Rs. 10.00 million.		
15 LONG TERM LOANS			
Pakistan Poverty Alleviation Fund (PPAF)	15.1	737,024,756	581,832,607
Faysal Bank Limited(FBL)	15.2	28,366,669	-
Habib Bank Limited (HBL)	15.3	62,499,999	151,618,421
		827,891,424	733,451,028
Less: Current maturity	15.1,15.2 & 15.3	(643,915,789)	(541,426,274)
Closing balance		183,975,635	192,024,754
15.1	Pakistan Poverty Alleviation Fund (PPAF)		
Opening balance		581,832,607	485,342,190
Additions during the year		585,000,000	430,000,000
		1,166,832,607	915,342,190
Repayments during the year		(429,807,851)	(333,509,583)
		737,024,756	581,832,607
Less: Current maturity		(566,615,794)	(429,807,852)
Closing balance	15.4	170,408,962	152,024,755

NAK

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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		2013	2012
	Note	Rupees	
15.2	Faysal Bank Limited(FBL)		
Opening balance		-	-
Additions during the year		37,000,000	-
		37,000,000	-
Repayments during the year		(8,633,331)	-
		28,366,669	-
Less: Current maturity		(14,799,996)	-
Closing balance	15.5	13,566,673	-
15.3	Habib Bank Limited		
Opening balance:			
HBL-PRISM-I		31,618,421	55,000,000
HBL-PRISM-II		120,000,000	-
		151,618,421	55,000,000
Additions during the year:			
HBL-PRISM-I		-	5,000,000
HBL-PRISM-II		45,000,000	120,000,000
		45,000,000	125,000,000
Repayments during the year:			
HBL-PRISM-I		(31,618,421)	(28,381,579)
HBL-PRISM-II		(102,500,001)	-
		(134,118,422)	(28,381,579)
Closing balance			
HBL-PRISM-I		-	31,618,421
HBL-PRISM-II		62,499,999	120,000,000
		62,499,999	151,618,421
Less: Current maturity:			
HBL-PRISM-I		-	(31,618,422)
HBL-PRISM-II		(62,499,999)	(80,000,000)
		(62,499,999)	(111,618,422)
Long term loan closing balance			
HBL-PRISM-I		-	-
HBL-PRISM-II		-	39,999,995
		-	39,999,995

15.4 During the year, mark-up rate for Phase VII of this loan was 10.76% uptill March 2013 and 6 months KIBOR with a floor of 8% from April 2013 (2012: 10.76%), the mark-up for Phase VIII was 13.24% uptill March 2013 and 6 months KIBOR with a floor of 8% from April 2013 (2012 : 13.24%) and the mark-up for Phase IX was 6 months KIBOR with a floor of 8% (2012: nil).

Principal and mark-up are payable on quarterly basis.

Loan loss provision at least 5% of outstanding loan portfolio (O.L.P) will be maintained.

Service charges would be paid on quarterly basis, whereas the principal repayments would be made for a period not exceeding five quarters after a grace period of one year, for each quarterly installment.

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
- a first charge on all assets/ capital items created out of PPAF financing agreement.

APAF

**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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- 15.5** Demand finance loan obtained from Faysal Bank Limited to enhance the existing Micro Credit Program of the institution under the PRISM Endowment fund programme of PPAF. The sanctioned limit is Rs. 47 million. This loan carries mark up @ 9.84 % per annum (p.a).
- Principal and mark-up are repayable in 30 monthly installments. Principal repayments started from June 2013.
 - Tenure of the facility is 2.5 years with nil grace period.
 - 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. 37 Million and hypothecation on receivables of client amounting to Rs. 10.00 Million;
 - DF-I of Rs. 37.00 Million has been disbursed against TDR amounting to Rs. 37.00 Million;
 - DF-II of Rs. 10.00 Million shall be disbursed as and when exposure is reduced down to Rs. 27.00 Million against DF-I of Rs. 37.00 Million and cushion is made available in existing security; and
 - Prior to the creation of any charge, mortgage, pledge or other encumbrance on the Society's assets, or effecting any change of management, the Society shall be obligated to obtain prior specific written approval from the Bank.
- 15.6** Demand finance loan obtained from Habib Bank Limited to enhance existing Micro Credit Program of the institution. The sanctioned limit is Rs. 60 million. This loan carries mark up @ 11.5% per annum.
- Principal and mark-up are repayable in 18 monthly installments. 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.
- 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 Micro finance Innovation and Outreach Program (MIOP) /Program for Increasing Sustainable Micro finance (PRISM).
- 15.7** 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. 120 million. This loan carries mark up @ 11.5% per annum.
- Principal and mark-up are repayable in 18 monthly installments. 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.
- This loan is secured against:
- Cash guarantee in shape of TDRs amounting to Rs. 110 Million of which Rs. 10 million is provided by DAMEN while remaining Rs. 100 million is provided by PPAF under their Micro finance Innovation and Outreach Program (MIOP) /Program for Increasing Sustainable Micro finance (PRISM).

MAK

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

		2013			
		1st quarter	2nd quarter	3rd quarter	4th quarter
		Rupees			
Opening Balance					
PPAF		581,832,607	596,165,219	786,734,275	842,041,038
HBL-PRISM-I		31,618,421	21,332,240	10,792,819	-
HBL-PRISM-II		120,000,000	99,999,999	80,000,000	95,999,999
FBL-PRISM-III		-	-	35,766,667	32,066,668
FBL-PRISM-IV					
		733,451,028	717,497,458	913,293,761	970,107,705
Additions					
PPAF		108,000,000	307,000,000	160,000,000	10,000,000
HBL-PRISM-I		-	-	-	-
HBL-PRISM-II		-	-	45,000,000	-
FBL-PRISM-III		-	37,000,000	-	-
FBL-PRISM-IV		-	-	-	16,000,000
		108,000,000	344,000,000	205,000,000	26,000,000
Repayments					
PPAF		(93,667,388)	(116,430,944)	(104,693,237)	(115,016,283)
HBL-PRISM-I		(10,286,181)	(10,539,421)	(10,792,819)	-
HBL-PRISM-II		(20,000,001)	(19,999,999)	(29,000,001)	(33,500,001)
FBL-PRISM-III		-	(1,233,333)	(3,699,999)	(3,700,000)
FBL-PRISM-IV		-	-	-	-
		(123,953,570)	(148,203,697)	(148,186,056)	(152,216,284)
Closing balance					
PPAF		596,165,219	786,734,275	842,041,038	737,024,755
HBL-PRISM-I		21,332,240	10,792,819	-	-
HBL-PRISM-II		99,999,999	80,000,000	95,999,999	62,499,998
FBL-PRISM-III		-	35,766,667	32,066,668	28,366,668
FBL-PRISM-IV		-	-	-	16,000,000
		717,497,458	913,293,761	970,107,705	843,891,421
		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

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**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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		2013	2012
	Notes	Rupees	
16 DEFERRED GRANT			
Grants related to fixed assets	16.1	1,495,170	2,100,064
Grants related to capacity building	16.2	959,493	2,014,952
		<u>2,454,663</u>	<u>4,115,016</u>
16.1 Grant related to fixed assets			
Opening balance		2,100,064	2,827,406
Funds received /capitalized during the year		-	-
		<u>2,100,064</u>	<u>2,827,406</u>
Less: amortization		<u>(604,894)</u>	<u>(727,342)</u>
		<u>1,495,170</u>	<u>2,100,064</u>
16.2 Grant related to capacity building			
Opening balance		2,014,952	300,000
Funds received/receivable during the year from:			
Pakistan Poverty Alleviation Fund (PPAF)		184,186	3,396,660
Pakistan Microfinance Network (PMN)		833,886	-
		<u>1,018,072</u>	<u>3,396,660</u>
Less: amortization		<u>(2,073,531)</u>	<u>(1,381,708)</u>
		<u>959,493</u>	<u>2,014,952</u>
17 ENDOWMENT FUND			
Opening balance		74,000,000	-
Funds received from Pakistan Poverty Alleviation Fund (PPAF)		32,000,000	74,000,000
Closing Balance	17.1	<u>106,000,000</u>	<u>74,000,000</u>
17.1	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 while 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.		
18 GENERAL FUND			
Opening balance		92,066,517	50,234,654
Surplus for the year		65,531,419	41,831,863
Transfer of donated funds into general fund		1,000,000	-
Transferred to General Fund- social sector program		(6,000,000)	-
Transferred to Sustainability Reserves - social sector program		<u>(55,000,000)</u>	<u>-</u>
		<u>97,597,936</u>	<u>92,066,517</u>
19 DONATED FUNDS			
This represents funds received from Trust for Voluntary Organizations against financing of lending operations.			
Opening balance		-	-
Transferred to General fund - micro finance program		1,000,000	-
		<u>1,000,000</u>	<u>-</u>

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**DEVELOPMENT ACTION FOR MOBILIZATION AND EMANCIPATION
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NOTES TO THE FINANCIAL STATEMENTS
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		2013	2012
	Notes	Rupees	
20 RESERVES			
Bonus reserves		1,063,968	1,063,968
Bad debt reserves		146,750	146,750
		<u>1,210,718</u>	<u>1,210,718</u>
21 PROFIT ON INVESTMENTS AND BANK DEPOSITS			
Profit on Investments - TDRs		13,288,966	6,741,957
Profit on bank deposits		15,564,913	16,769,609
		<u>28,853,879</u>	<u>23,511,566</u>
22 CONTINGENCIES AND COMMITMENTS			
22.1	Guarantee given by the Faysal Bank Limited on behalf of the Society in favour of Pakistan State Oil (PSO) outstanding as at the balance sheet date amounts to Rs. 600,000/- (2012 : Nil). This guarantee is secured against lien over term deposits of Rs. 0.60 Million.		
22.2	Commitments as on balance sheet date amounting to Rs. Nil (2012: Nil)		
23 GENERAL AND ADMINISTRATIVE EXPENSES			
Rent, rates and taxes		3,783,820	2,735,481
Electricity, water and gas		1,927,199	1,746,728
Repair and maintenance		2,664,781	2,205,070
Vehicle running and maintenance		3,627,970	3,419,032
Communications		1,560,656	1,363,114
Legal and professional charges		293,325	735,830
Stamp papers		1,098,523	916,097
Fee and subscription		245,500	285,713
Printing and stationery		1,592,658	1,307,141
Office supplies		2,081,246	1,625,205
Traveling and conveyance		2,336,166	2,178,860
Bank charges		1,197,447	1,105,819
Auditors' remuneration		350,000	325,000
Insurance		4,325,604	2,488,345
Depreciation		2,948,622	3,175,799
Amortization on intangible assets		177,145	147,622
Networking and linkages /institutional assessments		908,989	366,173
E-CIB Charges		681,447	575,237
Cable TV advertisement		126,650	-
Other expenses		591,425	258,083
		<u>32,519,173</u>	<u>26,960,349</u>
Less: Common costs allocated to social sector program		153,038	73,728
		<u>32,366,135</u>	<u>26,886,621</u>
24 OTHER INCOME			
Financial income			
Bad debts (written off) recovered		1,309,246	1,593,978
		<u>1,309,246</u>	<u>1,593,978</u>
Non-financial income			
Gain on disposal of operating fixed assets		27,063	-
Staff advances		18,259	-
Other income		91,862	83,800
		<u>137,184</u>	<u>83,800</u>
		<u>1,446,430</u>	<u>1,677,778</u>

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NOTES TO THE FINANCIAL STATEMENTS
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		2013	2012
	Notes	Rupees	
25 Operational Self Sufficiency (OSS) Ratio			
Total financial income		259,611,406	204,348,662
Profit on investments and bank deposits		28,853,879	23,511,566
Other income		1,446,430	1,677,778
Total income		289,911,715	229,538,006
Finance cost and branchless banking charges		94,820,510	90,323,356
Provision against non-performing loans - net		35,521,147	15,662,230
Administrative expenses		96,717,064	84,835,368
Total expenditure		227,058,721	190,820,954
Operational Self Sufficiency (OSS) Ratio		128%	120%
26 TAXATION			
The Society is a "Non-profit Organization" as defined under Section 2(36) of Income Tax Ordinance, 2001 and holds an exemption certificate from income tax under Section 58(3) of Part I of Second Schedule to the said Ordinance.			
27 CASH AND CASH EQUIVALENTS			
Cash and bank balances	5	154,469,316	116,903,726
Short term investments	6	149,600,000	116,953,741
		304,069,316	233,857,467
28 REMUNERATION OF KEY MANAGEMENT PERSONNEL		Executive Director	Executive Director
Basic pay		1,041,600	901,920
House allowance		416,640	360,768
Utilities allowance		104,160	90,192
Medical allowance		12,000	12,000
POL allowance		96,000	87,120
		1,670,400	1,452,000
29 NUMBER OF EMPLOYEES			
The Micro finance sector employed 80 loan officers (2012: 80) and 104 other employees (2012: 107) as at the year end.			
30 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. Transactions with related parties during the year are as follows:			
DAMEN - Social Sector Program			
(Payable) / receivable		(108,311)	883,309
Rent expense		1,260,000	600,000
31 GENERAL			
- Figures have been rounded off to the nearest rupee.			
- Corresponding figures have been rearranged/reclassified for better presentation.			
32 DATE OF AUTHORIZATION			

These financial statements have been approved by the Board of Directors and authorized for issue on February 8, 2014

[Signature]

[Signature]
EXECUTIVE DIRECTOR

[Signature]
TREASURER