

THE FIRST MICROFINANCE BANK LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2017

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of The First Microfinance Bank Limited, (FMFB) as at December 31, 2017 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of FMFB's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984, Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

We conduct our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) In our opinion, proper books of accounts have been kept by FMFB as required by the Companies Ordinance, 1984;
- b) in our opinion -
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the FMFB's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of FMFB;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan, in the manner so required and respectively give a true and fair view of the state of the FMFB's affairs as at December 31, 2017 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and





d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (xviii of 1980), was deducted by the FMFB and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The financial statements of FMFB for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on March 16, 2017.

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Chartered Accountants
Islamabad: March 15, 2018

Engagement partner: JehanZeb Amin

THE FIRST MICROFINANCEBANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2017

		2017	2016
	Note	----- Rupees '000-----	
ASSETS			
Cash and balances with SBP and NBP	7	1,204,886	840,523
Balances with other Banks/NBFIs/MFBs	8	2,638,550	2,111,977
Lending to Financial Institutions		-	-
Investments – net of provisions	9	5,934,139	4,627,558
Advances – net of provisions	10	14,394,668	8,183,228
Operating fixed assets	11	724,983	496,359
Other assets	12	1,001,745	584,933
Deferred tax asset	13	41,717	33,653
Total Assets		25,940,688	16,878,231
LIABILITIES			
Deposits and other accounts	14	20,887,192	12,237,466
Borrowings	15	-	297,820
Subordinated debt		-	-
Other liabilities	16	547,947	512,441
Deferred tax liabilities		-	-
Total Liabilities		21,435,139	13,047,727
NET ASSETS		4,505,549	3,830,504
REPRESENTED BY:			
Share capital	17	2,730,811	2,730,811
Share premium		620,690	620,690
Statutory & general reserves		326,723	189,569
Depositors' protection fund		92,696	55,014
Accumulated profit		735,345	231,578
		4,506,265	3,827,662
(Deficit)/ surplus on revaluation of assets	18	(716)	1,248
Deferred grants	19	-	1,594
Total Capital		4,505,549	3,830,504
MEMORANDUM / OFF-BALANCE SHEET ITEMS	20		

The annexed notes from 1 to 43 form an integral part of these financial statements.


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President / Chief Executive



Chairman



Director

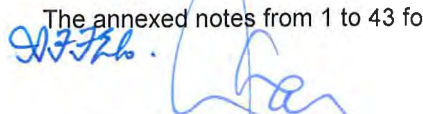


Director

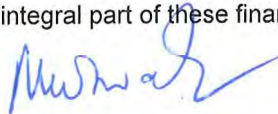
THE FIRST MICROFINANCEBANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017	2016
Note	----- Rupees '000-----	
Markup/Return/Interest Earned	21 3,719,299	2,480,263
Markup/Return/Interest Expensed	22 (856,648)	(580,886)
Net Markup/Interest Income	<u>2,862,651</u>	<u>1,899,377</u>
Provision against non - performing loans and advances	(113,461)	(31,624)
Recovery against written off advances	21,875	16,012
Provision for diminution in the value of investments	-	-
Bad debts written off directly	-	-
	<u>(91,586)</u>	<u>(15,612)</u>
Net Markup/ Interest Income after provisions	<u>2,771,065</u>	<u>1,883,765</u>
NON MARK-UP/ NON INTEREST INCOME		
Fee, commission and brokerage income	23 288,312	158,770
Dividend income	-	-
Amortization of deferred grant	24 1,594	1,182
Other income	25 12,279	10,609
Total nonmarkup/non interest income	<u>302,185</u>	<u>170,561</u>
	<u>3,073,250</u>	<u>2,054,326</u>
NON MARKUP/ NON INTEREST EXPENSES		
Administrative expenses	26 (2,061,717)	(1,559,937)
Grant related expenses	(1,594)	(1,182)
Other provisions/write offs	-	-
Other charges	27 (2,687)	(4,663)
Total non-markup/non interest expenses	<u>(2,065,998)</u>	<u>(1,565,782)</u>
	<u>1,007,252</u>	<u>488,544</u>
Extra ordinary/unusual items	-	-
PROFIT BEFORE TAXATION	<u>1,007,252</u>	<u>488,544</u>
Taxation - Current	28 (327,291)	(152,295)
- Prior years	(2,253)	(5,957)
- Deferred	8,064	(14,033)
	<u>(321,480)</u>	<u>(172,285)</u>
Profit after taxation	<u>685,772</u>	<u>316,259</u>
Accumulated profit brought forward	242,981	8,272
Profit before appropriation	<u>928,753</u>	<u>324,531</u>
APPROPRIATIONS:		
Transfer to:		
Statutory reserve	(137,154)	(63,252)
Capital reserve	-	-
Contribution to Depositors' Protection Fund:		
5% of Profit after tax	(34,289)	(15,813)
Interest on Investment	(3,393)	(2,485)
Revenue reserve	-	-
Dividend	-	-
	<u>(174,836)</u>	<u>(81,550)</u>
Accumulated profit carried forward	<u>753,917</u>	<u>242,981</u>
Earning per share (Rupee)	34 2.51	1.44

The annexed notes from 1 to 43 form an integral part of these financial statements.



 President / Chief Executive



 Chairman



 Director




 Director

**THE FIRST MICROFINANCEBANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017**

	2017	2016
Note	----- Rupees '000-----	-----
Profit after taxation	685,772	316,259
Other comprehensive income		
Other comprehensive income not to be reclassified to profit or loss account in subsequent periods :		
Actuarial loss on defined benefit obligation	29.4 (10,242)	(6,104)
Related tax impact	3,073	1,892
	(7,169)	(4,212)
Comprehensive income transferred to equity	<u><u>678,603</u></u>	<u><u>312,047</u></u>
Components of comprehensive income not reflected in equity		
Deficit on revaluation of available for sale investments	9.4 (1,964)	(24,767)
	<u><u>(1,964)</u></u>	<u><u>(24,767)</u></u>

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President / Chief Executive



Chairman



Director



Director

THE FIRST MICROFINANCEBANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Share Capital	Share premium account	Statutory & General Reserves	Depositors' Protection Fund	Accumulated Profit	Total
(Rupees '000)						
Balance as at January 1, 2016	1,351,501	-	126,317	36,716	1,081	1,515,615
137,931,035 shares, having face value of Rs. 10 each, issued during the year at a premium of Rs. 4.5 each	1,379,310	620,690	-	-	-	2,000,000
Total Comprehensive Income						
Profit for the year	-	-	-	-	316,259	316,259
Other comprehensive income/ (loss)	-	-	-	-	(4,212)	(4,212)
	-	-	-	-	312,047	312,047
Interest earned on investment of the Depositors' protection fund	-	-	-	2,485	(2,485)	-
Contribution for the year	-	-	63,252	15,813	(79,065)	-
Balance as at December 31, 2016	2,730,811	620,690	189,569	55,014	231,578	3,827,662
Total Comprehensive Income						
Profit for the year	-	-	-	-	685,772	685,772
Other comprehensive income/ (loss)	-	-	-	-	(7,169)	(7,169)
	-	-	-	-	678,603	678,603
Interest earned on investment of the Depositors' protection fund	-	-	-	3,393	(3,393)	-
Contribution for the year	-	-	137,154	34,289	(171,443)	-
Balance as at December 31, 2017	2,730,811	620,690	326,723	92,696	735,345	4,506,265

The annexed notes from 1 to 43 form an integral part of these financial statements.

Signature



President / Chief Executive



Chairman



Director



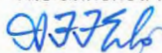
Director

**THE FIRST MICROFINANCEBANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017**

Note	2017	2016
	----- Rupees '000-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,007,252	488,544
Adjustments for non-cash charges		
Depreciation of property and equipment	115,950	93,766
Amortization of intangible assets	20,686	10,934
Provision against non performing loans and advances	113,461	31,624
Gain on disposal of operating fixed assets	(9,447)	(2,490)
Amortization of deferred grant	(1,594)	(1,182)
Gain on sale of investment	(3)	(18)
Revaluation loss/ (income) on held for trading investments	(33)	60
Amortization of discount on investments	(175,865)	(74,577)
Provision for gratuity	35,813	23,969
	<u>98,968</u>	<u>82,086</u>
	1,106,220	570,630
(Increase)/ decrease in operating assets		
Advances	(6,324,901)	(2,689,240)
Accrued interest on term deposit receipts	(163,612)	(176,216)
Other Assets (excluding advance taxation)	(384,991)	(117,883)
	<u>(6,873,504)</u>	<u>(2,983,339)</u>
Increase/ (decrease) in operating liabilities		
Deposits and other accounts	8,649,726	2,576,378
Borrowings from financial institutions	(297,820)	(347,756)
Other Liabilities (excluding gratuity)	31,281	178,287
	<u>8,383,187</u>	<u>2,406,909</u>
Cash inflows/ (outflow) from operations	2,615,903	(5,800)
Gratuity paid	(41,830)	(32,187)
Grants received - net of returned	-	-
Income tax paid	(356,186)	(87,605)
Net cash inflow/ (outflow) from operating activities	2,217,887	(125,592)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in held to maturity securities	(2,309,960)	(1,312,907)
Investment in available for sale securities	(3,324,558)	(2,476,962)
Investment in held for trading securities	-	(94,313)
Proceeds from sale/ redemption of held to maturity securities	1,774,410	2,357,070
Proceeds from sale/ redemption of available for sale securities	5,155,910	1,350,000
Proceeds from sale/ redemption of held for trading securities	6,720	94,331
Investments in operating fixed assets	(384,309)	(218,676)
Sale proceeds of property and equipment disposed	28,497	3,074
Net cash outflow from investing activities	946,710	(298,383)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	2,000,000
Net cash inflow from financing activities	-	2,000,000
Net increase/ (decrease) in cash and cash equivalents	3,164,597	1,576,025
Cash and cash equivalents at the beginning of the year	3,593,775	2,017,750
Cash and cash equivalents at the end of the year	<u>6,758,372</u>	<u>3,593,775</u>

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The annexed notes from 1 to 43 form an integral part of these financial statements.





President / Chief Executive



Chairman



Director



Director

THE FIRST MICROFINANCEBANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1 STATUS AND NATURE OF BUSINESS

The First MicroFinanceBank Limited (FMFB) was incorporated in the Islamic Republic of Pakistan on November 5, 2001 as a public limited company under the Companies Ordinance, 1984. The registered office of FMFB is at 16-17 Floor Habib Bank Tower, Blue Area, Islamabad, Pakistan. The FMFB received the certificate of commencement of business on February 14, 2002 and is licensed to operate nationwide. FMFB's principal business is to provide microfinance services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. FMFB has 186 (2016: 159) business locations comprising of 145 (2016: 120) branches/ Permanent Booths (PBs) and 41 (2016: 39) Pakistan Post Office (PPO) sub offices in operation.

2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the Banking Supervision Department (BSD) Circular Number 11 dated December 30, 2003 issued by the State Bank of Pakistan ("SBP").

3 STATEMENT OF COMPLIANCE

The Companies Act, 2017 was enacted on May 30, 2017 and SECP vide its circular 23 of 2017 dated October 4, 2017 has clarified that the companies whose financial year, closes on or before December 31, 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984.

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Micro Finance Institutions Ordinance, 2001, and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and SBP. Wherever, the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, or directives issued by the SECP and the SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Microfinance Institutions Ordinance, 2001, or the requirements of the said directives prevail.

These financial statements also comply with the disclosure guidelines for financial reporting by Microfinance Institutions which are voluntary norms recommended by the Consultative Group to Assist the Poor (CGAP) and the members of the Small Enterprise Education and Promotion Network (SEEP).

The SBP vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been measured in accordance with the Prudential Regulations (the Regulations) of the SBP and presented in accordance with the requirements of SBP BSD Circular No. 11 dated December 30, 2003. Further, the SECP vide its S.R.O No. 411 (I)/ 2008 dated April 28, 2008 has deferred the applicability of International Financial Reporting Standard (IFRS) 7 "Financial Instruments: Disclosures", which is applicable for annual periods beginning on or after July 01, 2009, till further orders.



4 BASIS OF MEASUREMENT

The financial statements are prepared under the historical cost convention except:

- Investments classified as held-for-trading and available-for-sale are measured at fair value.
- Net obligations in respect of defined benefit schemes are carried at their present values.

4.1 Functional and presentation currency

These financial statements are presented in Pakistan Rupees (PKR), which is FMFB's functional currency. All financial information presented in PKR has been rounded off to the nearest thousand PKR, unless otherwise stated.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury banks and balances with other banks.

5.2 Borrowing from/ lending to financial institutions

The Bank enters into transactions of reverse repos and repos at contracted rates for a specified period of time. These are recorded as under:

(a) Purchase under resale agreements (reverse repo)

Assets purchased under agreement to resell are not recognised in the financial statements as investments and the amount extended to the counterparty is included in lending to financial institutions. The difference between the purchase price and the contracted resale price is accrued on a time proportion basis over the period of the contract and recorded as income.

(b) Sale under repurchase agreement (repo)

Assets sold subject to a repurchase agreement are retained in the financial statements as investments and the liability to the counterparty is included in borrowings from financial institutions. The difference between the sale and the contracted repurchase price is accrued on a time proportion basis over the period of the contract and recorded as an expense.

5.3 Investment

All purchases and sales of investments are recognized using settlement date accounting. The settlement date is the date on which investments are delivered to the FMFB. All investments are derecognized when the right to receive economic benefits from the investments has expired or has been transferred and FMFB has transferred substantially all the risks and rewards of ownership.

All investments will be made in accordance with the investment policy of FMFB and shall be classified as under in accordance with the prudential regulations.

(a) Held for trading

These investments are held for a maximum period of 90 days and acquired principally for the purpose of generating profit from short-term fluctuations in price or dealer's margin. These are marked to market based on quoted market prices and the surplus/(deficit) arising from changes in the fair value of securities classified as held for trading is taken to profit and loss account. Unquoted securities are valued at cost less impairment, if any.

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(b) Held to maturity

Investments with a fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held to maturity. Subsequent to initial recognition at cost, these investments are measured at amortized cost, less provision for impairment in value, if any. Amortized cost is calculated using the effective interest rate method. Profit on held to maturity investments is recognized on a time proportion basis taking into account the effective yield on the investments.

Premium or discount on acquisition of held to maturity investments are amortized through the profit and loss account over the remaining period till maturity.

(c) Available-for-sale

These are investments which do not fall under the held for trading and held to maturity categories. Such investments are initially recognized at cost and subsequently measured at market value. The surplus arising on revaluation is kept in a separate account titled 'Surplus on Revaluation of assets' through statement of comprehensive income, which is taken to profit and loss account when realized upon disposal. Impairment in the value of these investments is provided by charging it to the profit and loss account.

5.4 Advances

Advances are stated net of specific and general provisions. The outstanding principal of the advances, payments against which are overdue for 30 days or more are classified as non-performing and divided into following four categories; Other Assets Especially Mentioned (OAEM); Substandard; Doubtful and Loss. The unrealized income/ profit/ markup/ service charges on non-performing advances is suspended and credited to interest suspense account. Specific provision against non-performing advances is made in accordance with the requirements of the Prudential Regulations issued by SBP.

(a) Other Assets Especially Mentioned:

These are advances in arrears (payments/ instalments overdue) for 30 days or more but less than 60 days.

(b) Substandard:

These are advances in arrears (payments/ instalments overdue) for 60 days or more but less than 90 days.

(c) Doubtful:

These are advances in arrears (payments/ instalments overdue) for 90 days or more but less than 180 days.

(d) Loss:

These are advances in arrears (payments/ instalments overdue) for 180 days or more.

In accordance with the requirements of the Regulations, FMFB maintains a specific provision for potential loan losses for all non-performing advances as follows:

(i) Other Assets Especially Mentioned Nil

(ii) Substandard 25% of outstanding principal net of cash collateral and gold collateral (ornaments and bullion) realizable without recourse to a court of law.

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- | | |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| (iii) Doubtful | 50% of outstanding principal net of cash collateral and gold collateral (ornaments and bullion) realizable without recourse to a court of law. |
| (iv) Loss | 100% of outstanding principal net of cash collateral and gold collateral (ornaments and bullion) realizable without recourse to a court of law. |

In addition to the above, a general provision is made equivalent to 1% (2016: 1%) of the net outstanding balance (advances net of specific provisions and loans secured against gold or other cash collateral with appropriate margin).

General and specific provisions are charged to the profit and loss account in the period in which they occur.

Non-performing advances are written off one month after the loan is classified as "Loss". However, FMFB continues its efforts for the recovery of the written off balances.

5.5 Operating Fixed Assets

(a) Capital work-in-progress

Capital work-in-progress is stated at cost less impairment losses, if any.

(b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged on the straight line method at rates specified in note 11.2 to the financial statements, so as to write off the cost of assets over their estimated useful lives. Full month's depreciation is charged in the month of addition, while no depreciation is charged in the month of deletion.

Subsequent costs are included in the assets carrying amount when it is probable that the future economic benefits associated with the item will flow to FMFB and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All the other repair and maintenance expenditure is recognized in profit and loss account as incurred.

Gain or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amounts of fixed asset. Gains are recognized within "other income" while losses are recognized in administrative expenses in the profit and loss account.

(c) Intangible assets

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to FMFB and that the cost of such asset can also be measured reliably. These are stated at cost less accumulated amortization and impairment losses, if any.

Intangible assets comprise of computer Core Banking System and software and related applications. Intangible assets are amortized over their estimated useful lives at the rates specified in note 11.3 to the financial statements. Subsequent expenditure is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is charged to the profit and loss account as incurred.

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5.6 Deposits

Deposits are initially recorded at the amount of proceeds received. Markup accrued on deposits, if any, is recognized separately as part of other liabilities and is charged to the profit and loss account over the deposit period.

5.7 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the profit or loss account except to the extent that it relates to items recognized directly in equity or below equity/ other comprehensive income in which case it is recognized in equity or below equity/ other comprehensive income.

Management periodically evaluates positions taken in tax returns, with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities. Instances where FMFB's view differs from the view taken by the income tax department at the assessment stage and where FMFB considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

(a) Current

Current tax is the tax due on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, taking into account tax credits, rebates and tax losses, if any, and any adjustment to tax payable in respect of previous years.

(b) Prior years

The charge for prior years represents adjustments to the tax charge for prior years, arising from assessments, changes in estimates, and retrospectively applied changes to law, made during the current year.

(c) Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated at the tax rates that are expected to be applicable to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted as at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

5.8 Staff retirement benefits

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of FMFB. The main features of the schemes operated by FMFB for its employees are as follows:

(a) Defined benefit plan

FMFB operates an approved defined benefit gratuity fund for all employees with a qualifying service period of five years. Eligible employees are entitled to one month's basic salary for each completed year of service upon retirement. Actuarial valuations are conducted by an independent actuary, annually using projected unit credit method related details of which are given in note 29 to the financial statements. The obligation at the balance sheet date is measured at the present value of the estimated future cash outflows. All contributions are charged to profit or loss for the year.

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Actuarial gains and losses on staff retirement benefit plan are recognised immediately in other comprehensive income and past service cost is recognised in profit and loss account when they occur.

(b) Defined contribution plan

FMFB operates a defined contribution provident fund scheme for its eligible employees. Contributions are made by FMFB and its employees in accordance with rules of the fund.

5.9 Reserves

(a) Statutory reserve

FMFB is required to maintain a statutory reserve to which an appropriation equivalent to 20% of its annual profit after tax is made till such time the reserve fund equals the paid-up capital of FMFB and, thereafter, an appropriation of a sum not less than 5% of its annual profit after taxes in accordance with statutory requirements under the Microfinance Institutions Ordinance, 2001.

(b) Depositors' Protection Fund

FMFB contributes 5% of its annual profit after tax along with related income on investment (net of related tax) to the Depositors' Protection Fund, as required under the Microfinance Institutions Ordinance, 2001.

5.10 Provisions

A provision will be recognised when, and only when, FMFB will have a present obligation (legal or constructive) as a result of a past event, 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.

5.11 Grants

Income from grants is recognized according to the related terms and conditions. Income related to grants for the funding of projects and programs is recognized as the expenditure is incurred on projects and programs.

The grants which involve funding for fixed assets are deferred and amortized to the profit and loss account when the related fixed asset is depreciated/ amortized. Other grants are recognized as income in the year of receipt.

5.12 Foreign currency transactions

The financial statements are presented in Pakistan Rupee, which is FMFB's functional currency. Transactions in foreign currencies are translated into Pakistan Rupee at the exchange rate prevailing on the date of the transaction.

5.13 Operating leases

Operating lease rentals are recorded in the profit and loss account on a time proportion basis over the term of the lease arrangements.

5.14 Revenue recognition

(a) Markup/ interest income on advances

Markup/ interest income on advances is recognized on an accrual/ time proportion basis using the effective interest method at FMFB's prevailing interest rates for the respective loan products. Markup/ interest income on advances is collected with loan instalments along with additional service charge accrued due to late payment, if any. Markup/ interest income/ additional service charge is accrued till the date when advances become over due by 30 days. Markup/ interest income/additional service charge accrued on advances over due by 30 days or more is reversed and credited to suspense account. Subsequently, Markup/ interest income/ additional service charge recoverable on non-performing advances is recognized on receipt basis in accordance with the requirements of the Prudential Regulations.

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(b) Income from investments

Markup/ return on investments is recognized using the effective interest rate method. Where debt securities are purchased at a premium or discount, the related premium or discount is amortized through the profit and loss account over the remaining period of maturity.

(c) Dividend income

Dividend income is recognized when FMFB's right to receive the dividend is established.

(d) Fee, commission and brokerage income

Fee, commission and brokerage income is recognized when the related services are rendered.

(e) Income from lending to financial institutions

The income on reverse repo transactions arising from the difference between the sale and repurchase price is recognized using the effective yield method.

(f) Income from inter bank deposits

Income from inter bank deposits in saving accounts is recognized in the profit and loss account as it accrues using the effective interest method.

5.15 Financial instruments

Financial assets and liabilities are recognized when FMFB becomes a party to the contractual provisions of the instrument. These are derecognized when FMFB ceases to be the party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received, respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or historical cost, as the case may be.

(a) Financial assets

Financial assets are Cash and Balances with SBP and National Bank of Pakistan (NBP), Balances With Other Banks/NBFIs/MFBs, lending to financial institutions, investments, advances and other receivables. Advances are stated at their nominal value as reduced by appropriate provisions against non-performing advances, while other financial assets excluding investments are stated at cost. Investments classified as available for sale and held for trading are valued at year end prices and investments classified as held to maturity are stated at amortized cost.

(b) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangement entered into. Financial liabilities include deposit and other accounts, borrowings and other liabilities which are stated at their nominal value.

Any gain or loss on the recognition and de-recognition of the financial assets and liabilities is included in the profit and loss account for the period in which it arises.

5.16 Off-setting

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set off the recognized amount and FMFB intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

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5.17 Borrowing costs

Markup, interest and other charges on borrowings are charged to profit and loss account in the period in which they are incurred except to the extent that relate to qualifying assets in which case if these are directly attributable, then the amount is capitalized as a part of cost of qualifying assets.

5.18 Markup bearing borrowings

Mark-up bearing borrowings are recognized initially at cost being the fair value of consideration received, less attributable transaction costs. Subsequent to initial recognition, markup bearing borrowings are stated at original cost less subsequent repayments.

5.19 Standards, interpretations and amendments to approved accounting standards that are not yet effective

- (a) The following amendments and interpretations to published accounting standards were effective during the year and have been adopted by FMFB:

	Effective date (annual periods beginning on or after)
IFRS 12 Disclosure of interests in other entities (Amendments)	January 1, 2017
IAS 7 Statement of cashflows (Amendments)	January 1, 2017
IAS 12 Income taxes (Amendments)	January 1, 2017

The management considers that adoption of above amendments and interpretations had no material impact on the FMFB's financial statements other than in presentation/ disclosure.

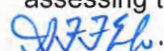
- (b) Following standard has been issued by the International Accounting Standards Board (IASB), which is yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of its applicability in Pakistan:

	Effective date (annual periods beginning on or after)
IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendments)	July 1, 2009
IFRS 14 Regulatory Deferral Accounts	January 1, 2016

- (c) Following standards and amendments to published accounting standards will be effective in future periods and have not been early adopted by FMFB.

	Effective date (annual periods beginning on or after)
IFRS 2 Share-based payment (Amendments)	January 1, 2018
IFRS 4 Insurance Contracts	January 1, 2018
IFRS 9 Financial Instruments	July 1, 2018
IFRS 15 Revenue from Contracts with Customers	July 1, 2018
IFRS 16 Leases	January 1, 2019
IFRS 17 Insurance Contracts	January 1, 2021
IAS 28 Investment in associates and joint ventures (Amendments)	January 1, 2019
IAS 39 Financial Instruments: Recognition and Measurement (Amendments)	January 1, 2018
IAS 40 Investment Property (Amendments)	January 1, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018

The management does not anticipate early adoption of above standards and amendments and is currently assessing the impact of adopting these standards.



6 SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan, requires management to make judgments/estimates and associated assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These judgments/estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the estimates about carrying value of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods. Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognized in the financial statements are as follows:

- (a) Classification of investments (note 5.3)
- (b) Provision against non - performing loans and advances (note 5.4)
- (c) Valuation and impairment of available for sale securities (note 5.3)
- (d) Valuation and useful life of operating fixed assets (note 5.5)
- (e) Taxation (note 5.7)
- (f) Present value of staff retirement benefits (note 5.8)
- (g) Provisions (note 5.10)



	Note	2017 ----- Rupees '000-----	2016
7 CASH AND BALANCES WITH SBP AND NBP			
Cash in hand		313,263	177,901
Balance with State Bank of Pakistan	7.1	652,606	445,277
Balance with National Bank of Pakistan in			
Current account		-	-
Deposit accounts	7.2	239,017	217,345
		<u>1,204,886</u>	<u>840,523</u>

7.1 This balance maintained in current accounts with SBP to meet the Cash Reserve Requirement (CRR).

7.2 These carry markup at the rate of 3% (2016: 4%) per annum.

	Note	2017 ----- Rupees '000-----	2016
8 BALANCES WITH OTHER BANKS/NBFIS/MFBS			
In Pakistan			
- on current accounts		99,566	75,783
- on deposit accounts	8.1, 8.2	1,538,984	736,194
- on term deposits accounts	8.3	1,000,000	1,300,000
		<u>2,638,550</u>	<u>2,111,977</u>

8.1 These carry markup at rates ranging between 3.75% to 7% (2016: 3.75% to 8%) per annum.

8.2 These include balances for an amount of Rs. 468,323 thousand (2016: Rs. 337,109 thousand), held with Habib Bank Limited, a related party.

8.3 These carry markup at rates ranging between 6.10% to 6.25% (2016: 6.45% to 6.75%) per annum.

	Note	2017 ----- Rupees '000-----	2016
9 INVESTMENTS - NET OF PROVISIONS			
Held to Maturity			
Federal Government securities			
Pakistan Investment Bonds	9.1	60,663	262,921
Market Treasury Bills	9.2	90,938	283,444
		151,601	546,365
Term Deposit Receipts (TDRs)	9.3	2,242,391	1,142,901
		<u>2,393,992</u>	<u>1,689,266</u>
Available for Sale			
Federal Government securities			
Pakistan Investment Bonds	9.1	117,343	218,358
Market Treasury Bills	9.2	2,928,323	2,419,603
		3,045,666	2,637,961
Held for Trading			
Federal Government securities			
Market Treasury Bills	9.2	495,197	299,083
		<u>495,197</u>	<u>299,083</u>
(Deficit)/ surplus on revaluation of available for sale investments	9.4	(716)	1,248
		<u>5,934,139</u>	<u>4,627,558</u>

9.1 These represent bonds with maturity of three to ten year and carry markup at the rates ranging between 7.0% to 12.0% (2016: 7.0% to 12.0%) per annum, payable on a semi-annual basis, with maturities falling due during 2018-2019. These also include a bond with three years maturity held for the purposes of Depositors' Protection Fund with a carrying amount of Rs. 10,110 thousand (2016: Rs. 13,163 thousand) and carry markup at the rate of 7.0% (2016: 7.0% and 9.6%) per annum respectively, with maturity falling due in 2019.

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- 9.2 These represent securities with original maturity period of three months to one year and carry markup at the rates ranging between 5.91% to 7.04% (2016: 5.28% to 6.25%) per annum. These also include securities with original maturity period of six months to one year held for the purposes of Depositors' Protection Fund with a cumulative carrying amount of Rs. 90,938 thousand (2016: Rs. 61,284 thousand) and carry markup at the rates ranging between 5.96% to 6.04% (5.28% to 6.25%) per annum.
- 9.3 These represent TDRs with an original maturity of six months to one year carrying markup at rate ranging between 4.15% to 9.0% (2016: 6.45% to 12.0%) per annum, payable on maturity.

9.4 Particulars of surplus on revaluation of available for sale investments:	Note	2017	2016
		----- Rupees '000-----	
Opening balance		1,248	26,015
(loss) transferred to revaluation of assets account below equity		(1,964)	(24,767)
Closing balance	18	<u>(716)</u>	<u>1,248</u>

10 ADVANCES - NET OF PROVISIONS	Note	2017		2016	
		Number of loans outstanding (Number)	Amount of loans outstanding (Rupees '000)	Number of loans outstanding (Number)	Amount of loans outstanding (Rupees '000)
Considered good	10.1	301,407	14,459,682	218,357	8,215,053
Considered doubtful	10.2	3,791	95,284	2,721	58,873
		<u>305,198</u>	<u>14,554,966</u>	<u>221,078</u>	<u>8,273,926</u>
Less:					
Specific provision	10.3		22,103		14,049
General provision					
- Mandatory provision at the rate of 1%	10.3		137,866		75,187
- Additional provision			329		1,462
			<u>138,195</u>		<u>76,649</u>
			<u>160,298</u>		<u>90,698</u>
			<u>14,394,668</u>		<u>8,183,228</u>

- 10.1 These include advances for an aggregate amount of Rs. 499,667 thousand (2016: Rs. 669,906 thousand) secured against gold collaterals and cash deposits whereas the remaining advances except staff and key management personnel loans are secured by personal guarantee. Advances includes 635 (2016: 585) staff loans, aggregating to Rs. 246,722 thousand (2016: Rs. 71,222 thousand), carrying markup at the rates ranging between 3% to 5% per annum (2016: 3% to 5% per annum). These also include outstanding loans of the key management personnel for an aggregate amount of Rs. 9,356 thousand (2016: Rs. 11,040 thousand) carrying markup at the rates ranging between 3% to 5% per annum (2016: 3% to 5% per annum).

10.2 Particulars of non performing advances

Following is the detail of advances which have been placed under non-performing status in accordance with note 5.4.

Classification	Amount outstanding	Secured loan	Amount to be provided for	Required provision percentage	Provision required	Provision held
	----- (Rupees '000)-----				----- (Rupees '000)-----	
2017						
Other Assets Especially Mentioned	43,880	4,378	39,502	0%	-	-
Sub-standard	18,745	1,730	17,015	25%	4,254	4,254
Doubtful	26,067	2,845	23,222	50%	11,611	11,611
Loss	6,592	354	6,238	100%	6,238	6,238
Total	<u>95,284</u>	<u>9,307</u>	<u>85,977</u>		<u>22,103</u>	<u>22,103</u>
2016						
Other Assets Especially Mentioned	29,015	2,054	26,961	0%	-	-
Sub-standard	10,657	736	9,921	25%	2,480	2,480
Doubtful	14,163	824	13,339	50%	6,669	6,669
Loss	5,038	138	4,900	100%	4,900	4,900
Total	<u>58,873</u>	<u>3,752</u>	<u>55,121</u>		<u>14,049</u>	<u>14,049</u>

10.3 Particulars of provision against non performing advances

Note	2017			2016		
	Specific	General	Total	Specific	General	Total
	----- (Rupees '000)-----			----- (Rupees '000)-----		
Opening balance	14,049	76,649	90,698	31,785	82,346	114,131
Charge for the year	51,915	61,546	113,461	37,321	(5,697)	31,624
Less: Amounts written off	43,861	-	43,861	55,057	-	55,057
	<u>8,054</u>	<u>61,546</u>	<u>69,600</u>	<u>(17,736)</u>	<u>(5,697)</u>	<u>(23,433)</u>
Closing balance	<u>22,103</u>	<u>138,195</u>	<u>160,298</u>	<u>14,049</u>	<u>76,649</u>	<u>90,698</u>

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10.4 Particulars of write offs	Note	2017	2016
		----- Rupees '000-----	
Against provisions	10.4.1	<u>43,861</u>	<u>55,057</u>
		<u>43,861</u>	<u>55,057</u>

10.4.1 These represent non performing advances, overdue for 210 days or more, which are written-off in accordance with the policy of FMFB, as explained in note 5.4 to the financial statements.

10.4.2 There is no requirement for the borrowers to save and deposit any amount as a condition for the loan disbursement.

10.5 Portfolio quality report

FMFB'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 aggregated outstanding principal balance of such loan is divided by the aggregated outstanding principal balance of the gross loan portfolio before deducting allowance for non-performing advances. Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to additional markup/ interest due and then to instalment of principal that is due but unpaid. The number of days of delay is based on the due date of the earliest loan instalment that has not been fully paid.

Loans	2017	2017	2016	2016
	Amount (Rupees '000)	Portfolio at Risk %	Amount (Rupees '000)	Portfolio at Risk %
Current and less than 30 days late	14,459,682	-	8,215,053	-
30-59 days late	43,880	0.30%	29,015	0.35%
60-89 days late	18,745	0.13%	10,657	0.13%
90-179 days late	26,067	0.18%	14,163	0.17%
180 days or more late	6,592	0.05%	5,038	0.06%
	<u>14,554,966</u>	<u>0.66%</u>	<u>8,273,926</u>	<u>0.71%</u>

In 2017, 12 loan products (2016: 9 loan products) have been disbursed with tenures ranging from 3 months to 5 years (2016: 3 months to 3 years), in accordance with the needs of the borrowers. During the year house loan facility has been introduced for permanent staff only having maturity of up to 240 months (2016: Nil). Other staff loans includes general purpose and transport purpose have maturity up to 60 months (2016: 60 months). Loan repayments are scheduled on a bullet or instalment basis whereby principal, markup/ interest and service charges are recovered on an instalment basis and/ or on maturity as per the repayment schedule. Management estimates that the average term of its outstanding loan portfolio is 15.09 months (2016: 12.50 months) based on the remaining weighted average tenure of loans outstanding as at the balance sheet date.

Measures related to the classification of late payments are mentioned in note 5.4.

10.6 Current recovery ratio

Current recovery ratios are calculated on a monthly basis for management reporting purposes. The numerator of this ratio is cash received on account of principal during the reporting period (including prepayments and late payments). The denominator is total payments of principal amounts that fell due for the first time during the reporting period, as per the terms of the original loan contracts (regardless of any subsequent loan renegotiations). Loan delinquency is measured using the Non Performing Loans (NPL) ratio.

Period	Current recovery ratio in %	
	2017	2016
1st Quarter	107%	110%
2nd Quarter	107%	108%
3rd Quarter	106%	111%
4th Quarter	108%	105%
	<u>107%</u>	<u>109%</u>

The Annual Loss Rate (loans written off during the year divided by average loan portfolio outstanding) for the year is 0.38% (2016: 0.79%).

10.7 Portfolio by segment	Note	2017	2016
		----- Rupees '000-----	
Loan type			
Agri input		2,226,640	1,112,801
Live stock		5,140,400	2,826,787
Micro-enterprise		3,816,901	2,068,972
Others	10.7.1	<u>3,371,025</u>	<u>2,265,366</u>
		<u>14,554,966</u>	<u>8,273,926</u>

10.7.1 These include loans provided for general purposes.

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11 OPERATING FIXED ASSETS	Note	2017	2016
		----- Rupees '000-----	
Capital work-in-progress	11.1	62,725	33,616
Property and equipment	11.2	471,083	358,099
Intangible assets	11.3	191,175	104,644
		<u>724,983</u>	<u>496,359</u>
11.1 Capital work-in-progress			
Advances to suppliers and contractors		62,725	33,616
		<u>62,725</u>	<u>33,616</u>
11.1.1 Movement in the Capital work-in-progress is as follows:			
Opening balance		33,616	155,798
Additions during the year		140,303	50,355
Transfers to:			
- Property and equipment		(29,370)	(67,824)
- Intangible assets		(81,824)	(104,713)
		<u>(111,194)</u>	<u>(172,537)</u>
Closing balance		<u>62,725</u>	<u>33,616</u>

11.2 Property and equipment	Cost				Rate per annum	Accumulated Depreciation				Net Book Value
	At January 01	Additions	Disposals/ Write offs	At December 31		At January 01	Charge for the year	On Disposals/ Write offs	At December 31	
	----- (Rupees '000)-----				%	----- (Rupees '000)-----				
2017										
Free hold land	7,814	-	-	7,814		-	-	-	-	7,814
Lease hold improvements	269,723	36,992	(1,284)	305,431	14%	134,398	27,569	(1,242)	160,725	144,706
Furniture and fixtures	82,034	29,225	(1,244)	110,015	20%	48,116	12,233	(1,223)	59,126	50,889
Office equipment	141,913	58,699	(4,687)	195,925	25%	77,381	29,030	(4,602)	101,809	94,116
Computer equipment	182,247	82,317	(1,992)	262,572	20% - 33%	114,296	32,961	(1,992)	145,265	117,307
Vehicles	149,116	40,751	(46,801)	143,066	20%	100,557	14,157	(27,899)	86,815	56,251
	<u>832,847</u>	<u>247,984</u>	<u>(56,008)</u>	<u>1,024,823</u>		<u>474,748</u>	<u>115,950</u>	<u>(36,958)</u>	<u>553,740</u>	<u>471,083</u>
2016										
Free hold land	7,814	-	-	7,814	-	-	-	-	-	7,814
Lease hold improvements	195,384	78,642	(4,303)	269,723	14%	119,731	18,549	(3,882)	134,398	135,325
Furniture and fixtures	64,046	19,951	(1,963)	82,034	20%	41,954	8,121	(1,959)	48,116	33,918
Office equipment	105,432	44,799	(8,318)	141,913	25%	65,649	19,963	(8,231)	77,381	64,532
Computer equipment	119,069	69,592	(6,414)	182,247	33%	92,173	28,465	(6,342)	114,296	67,951
Vehicles	131,876	20,577	(3,337)	149,116	20%	85,226	18,668	(3,337)	100,557	48,559
	<u>623,621</u>	<u>233,561</u>	<u>(24,335)</u>	<u>832,847</u>		<u>404,733</u>	<u>93,766</u>	<u>(23,751)</u>	<u>474,748</u>	<u>358,099</u>

11.2.1 Property and equipment includes fully depreciated items, still in use, having a cost of Rs. 343,187 thousand (2016: Rs. 309,021 thousand).

11.2.2 During the year the FMFB has changed the estimate for useful life of computer servers from three years to five years. This change in accounting estimate has been accounted for prospectively in this financial statements as per the requirements of International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had the estimate not been changed, the written down value of operating fixed assets and profit before tax would have been lower by Rs. 9,310 thousand and profit after tax would be lower by Rs. 6,517 thousand.

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11.2.3 Details of disposals of operating fixed assets

Particulars	Cost	Accumulated	Book value	Sale Proceeds	Mode of disposal	Particulars of buyers
		Depreciation				
		------(Rupees '000)-----				
Leasehold improvement-Gupis Branch	1,031	(1,031)	-	3	Auction	Quarban general store
Suzuki Cultus	1,017	(831)	186	544	As per policy	Ch.Ihsan Mehmood (Employee)
Suzuki Cultus	1,017	(831)	186	531	As per policy	Ghulam Shah (Employee)
Suzuki Cultus	1,027	(839)	188	550	As per policy	Muhammad Asad (Employee)
Suzuki Cultus	1,043	(678)	365	567	As per policy	Aziz Majeed (Employee)
Suzuki Cultus	1,069	(657)	412	620	As per policy	Kashif zafar (Employee)
Suzuki Cultus	1,044	(679)	365	617	As per policy	Khuram Gull Khan (Employee)
Suzuki Cultus	1,069	(657)	412	557	As per policy	Masood Malik (Employee)
Suzuki Cultus	1,069	(657)	412	640	As per policy	Nooruddin Badruddin (Employee)
Suzuki Cultus	1,034	(638)	396	512	As per policy	Rakhshanda (Employee)
Suzuki Cultus	1,069	(657)	412	592	As per policy	Shah Makeen (Employee)
Suzuki Cultus	1,034	(638)	396	553	As per policy	Usman Bhutta (Employee)
Suzuki Cultus	1,074	(662)	412	597	As per policy	Usman Manzoor (Employee)
Suzuki Cultus	1,095	(528)	567	619	As per policy	Ali Meher (Employee)
Suzuki Cultus	1,095	(528)	567	567	As per policy	Muhammad Zaheer (Employee)
Suzuki Cultus	1,082	(504)	578	628	As per policy	Nooruddin Dinal (Employee)
Suzuki Cultus	1,095	(528)	567	589	As per policy	Raza Abbas (Employee)
Suzuki Cultus	1,052	(245)	807	807	As per policy	Abdul Wakeel (Employee)
Suzuki Cultus	1,084	(361)	723	723	As per policy	Naveed ul Islam (Employee)
Suzuki Cultus	1,084	(361)	723	723	As per policy	Rizwan Maqsood (Employee)
Suzuki Cultus	1,079	(360)	719	719	As per policy	Salman Mehmood (Employee)
Suzuki Cultus	1,053	(211)	842	842	As per policy	Abdul Khaliq (Employee)
Suzuki Cultus	1,053	(211)	842	842	As per policy	Ahmed Farhan (Employee)
Honda City	1,792	(1,099)	693	1,061	As per policy	Nawroz Muhammad Ali (Employee)
Honda City	1,704	(596)	1,108	1,159	As per policy	Sadiq Shahbaz (Employee)
Toyota Corolla GLI	1,745	(1,512)	233	1,068	As per policy	Ali raza anjum (Employee)
Toyota Corolla GLI	1,809	(452)	1,357	1,357	As per policy	Zehra Khalikdina (Employee)
Toyota Corolla GLI	1,809	(332)	1,477	1,478	As per policy	Ayesha Baig (Employee)
Toyota Corolla XLI	1,544	(1,414)	130	957	As per policy	Omer Janjua (Employee)
Toyota Corolla XLI	1,607	(1,445)	162	919	As per policy	Adnan Zafar (Employee)
Toyota Corolla XLI	1,654	(689)	965	1,209	As per policy	Nadeem Iqbal (Employee)
Toyota Corolla XLI	1,673	(697)	976	1,199	As per policy	Wajahat Malik (Employee)
Honda Civic	2,123	(2,122)	1	206	As per policy	Amir Masood (CEO)
Suzuki Cultus	1,084	(361)	723	686	As per policy	Irum Sardar(Employee)
	42,913	(24,011)	18,902	25,241		
Other assets having original cost or book value less than Rs. 1 million or Rs. 250 thousand	13,095	(12,947)	148	3,256		
2017	56,008	(36,958)	19,050	28,497		
2016	24,335	(23,751)	584	3,074		

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	Cost				Rate per annum %	Accumulated Amortization				Value
	At January 01	Additions	Disposals	At December 31		At January 01	Charge for the year	On Disposals	At December 31	At December 31
	(Rupees '000)					(Rupees '000)				
11.3 Intangible assets										
2017										
Core banking system	104,713	81,824	-	186,537	10%	6,805	15,755	-	22,560	163,977
Computer softwares - note 11.3.1	28,117	25,393	-	53,510	20%	21,381	4,931	-	26,312	27,198
	<u>132,830</u>	<u>107,217</u>	<u>-</u>	<u>240,047</u>		<u>28,186</u>	<u>20,686</u>	<u>-</u>	<u>48,872</u>	<u>191,175</u>
2016										
Core banking system	-	104,713	-	104,713	10%	-	6,805	-	6,805	97,908
Computer softwares - note 11.3.1	25,533	2,584	-	28,117	20%	17,252	4,129	-	21,381	6,736
	<u>25,533</u>	<u>107,297</u>	<u>-</u>	<u>132,830</u>		<u>17,252</u>	<u>10,934</u>	<u>-</u>	<u>28,186</u>	<u>104,644</u>

11.3.1 These include Rs. 7,880 thousand (2016: Rs 7,880 thousand) related to grant related assets.

7,756 .

12 OTHER ASSETS	Note	2017 ----- Rupees '000-----	2016
Accrued markup on:			
- loans and advances		969,984	601,436
- non performing loans and advances transferred to suspense account		(173,574)	(155,206)
- investments and bank accounts		<u>14,572</u>	<u>26,880</u>
		<u>810,982</u>	<u>473,110</u>
Advances to employees		2,597	1,898
Deposits		4,133	2,301
Prepayments	12.1	81,148	55,848
Taxes - net of provision		29,280	2,639
Other receivables	12.2	70,657	46,680
Stationery stock		<u>2,948</u>	<u>2,457</u>
		<u>1,001,745</u>	<u>584,933</u>

12.1 This includes prepayment of rent for an amount of Rs. 14,496 thousand (2016: Rs. 13,454 thousand) to Habib Bank Limited, a related party.

12.2 These includes an amount due from related parties, Jubilee General/ Life Insurance of Rs. 2,617 thousand (2016: Rs. 10,591 thousand), Aga Khan Agency for Microfinance (AKAM) of Rs. 3,777 thousand (2016: Rs. 1,427 thousand), FMFB Afghanistan Rs. 412 thousand (2016: Rs. 501 thousand), FMFB Tajikistan of Rs. 54 thousand (2016: Rs. 127 thousand) and Habib Bank Limited Nil (2016: Rs. 3,648 thousand).

13 DEFERRED TAX ASSET	Note	2017 ----- Rupees '000-----	2016
Deferred tax asset arising on account of deductible temporary differences on:			
Operating fixed asset		-	6,444
Provision against non-performing loans and advances		<u>48,089</u>	<u>27,209</u>
		<u>48,089</u>	<u>33,653</u>
Deferred tax asset arising on account of taxable temporary differences on:			
Operating fixed asset		<u>(6,372)</u>	-
		<u>41,717</u>	<u>33,653</u>

14 DEPOSITS AND OTHER ACCOUNTS	Note	2017 (Number)	2017 (Rupees '000)	2016 (Number)	2016 (Rupees '000)
Time liabilities					
Fixed Deposits		11,798	12,281,891	8,376	6,307,133
Demand liabilities					
Saving deposits		111,372	6,635,244	108,016	4,578,120
Current deposits		<u>594,937</u>	<u>1,970,057</u>	<u>341,818</u>	<u>1,352,213</u>
	14.1	<u>718,107</u>	<u>20,887,192</u>	<u>458,210</u>	<u>12,237,466</u>

14.1 These include balances due to related parties of Rs. 1,849,428 thousand (2016: Rs. 907,605 thousand).

14.2 Particulars of deposits by ownership	Note	2017 (Number)	2017 (Rupees '000)	2016 (Number)	2016 (Rupees '000)
Individual depositors		683,126	9,975,593	442,361	7,485,776
Institutional depositors					
a) Corporations/ Firms		34,488	7,680,570	15,556	2,275,036
b) Banks and financial institutions		<u>493</u>	<u>3,231,029</u>	<u>293</u>	<u>2,476,654</u>
		<u>718,107</u>	<u>20,887,192</u>	<u>458,210</u>	<u>12,237,466</u>

MFFB

	Note	2017 ----- Rupees '000-----	2016
15 BORROWINGS			
Borrowings under repurchase agreements		-	297,820
16 OTHER LIABILITIES			
Accrued markup on deposits	16.1	301,693	235,439
Bills payable		27,696	31,464
Branch adjustment account		1,374	11,682
Accrued liabilities	16.2	182,856	206,274
Withholding tax payable		11,459	11,886
Retention money		6,373	3,477
Payable to defined benefit gratuity fund	29.3	16,375	12,150
Payable to defined contribution provident fund		121	69
		<u>547,947</u>	<u>512,441</u>

16.1 These include accrued markup on deposits due with related parties of Rs. 23,655 thousand (2016: Rs. 9,972 thousand).

16.2 These include balance amount due with Aga Khan Agency for Microfinance (AKAM) of Rs. 5,121 thousand (2016: Rs. 11,898 thousand), a related party.

	Note	2017 ----- Rupees '000-----	2016									
17 SHARE CAPITAL												
17.1 Authorized Share Capital												
<table border="0"> <tr> <td style="text-align: center;">2017</td> <td style="text-align: center;">2016</td> <td></td> </tr> <tr> <td style="text-align: center;">(Number)</td> <td style="text-align: center;">(Number)</td> <td></td> </tr> <tr> <td style="text-align: right;"><u>350,000,000</u></td> <td style="text-align: right;"><u>350,000,000</u></td> <td>Ordinary shares of Rs. 10 each</td> </tr> </table>	2017	2016		(Number)	(Number)		<u>350,000,000</u>	<u>350,000,000</u>	Ordinary shares of Rs. 10 each		<u>3,500,000</u>	<u>3,500,000</u>
2017	2016											
(Number)	(Number)											
<u>350,000,000</u>	<u>350,000,000</u>	Ordinary shares of Rs. 10 each										
17.2 Issued, subscribed and paid-up capital												
<table border="0"> <tr> <td style="text-align: center;">2017</td> <td style="text-align: center;">2016</td> <td></td> </tr> <tr> <td style="text-align: center;">(Number)</td> <td style="text-align: center;">(Number)</td> <td></td> </tr> <tr> <td style="text-align: right;"><u>273,081,115</u></td> <td style="text-align: right;"><u>273,081,115</u></td> <td>Ordinary shares of Rs. 10 each fully paid in cash</td> </tr> </table>	2017	2016		(Number)	(Number)		<u>273,081,115</u>	<u>273,081,115</u>	Ordinary shares of Rs. 10 each fully paid in cash	17.3	<u>2,730,811</u>	<u>2,730,811</u>
2017	2016											
(Number)	(Number)											
<u>273,081,115</u>	<u>273,081,115</u>	Ordinary shares of Rs. 10 each fully paid in cash										
17.3 The pattern of holding in the issued share capital of FMFB is as follows:												
Habib Bank Limited (HBL)	17.3.1	1,379,310	1,379,310									
Aga Khan Agency for Microfinance (AKAM)		571,500	571,500									
Aga Khan Rural Support Programme (AKRSP)		300,000	300,000									
International Finance Corporation (IFC)	17.3.2	240,000	240,000									
Japan International Cooperation Agency (JICA)		240,000	240,000									
Others		1	1									
		<u>2,730,811</u>	<u>2,730,811</u>									

17.3.1 During the year 2016, a total of 137,931,035 shares, having face value of Rs. 10 each, were issued against cash consideration to HBL at a premium of Rs. 4.50 per share.

17.3.2 During the year IFC holding 24,000,000 (8.7%) shares of FMFB has exercised its put option vide notice to AKAM and AKRSP dated December 15, 2017 under the term of Put & Call Option agreement dated June 14, 2002. The put option is subject to obtaining applicable regulatory approvals.

Signature

	Note	2017 ----- Rupees '000-----	2016 ----- Rupees '000-----
18 (Deficit)/ surplus on Revaluation of Assets Available-for-sale investments:			
Government securities	9.4	<u>(716)</u>	<u>1,248</u>

	Note	2017 ----- Rupees '000-----		2016 ----- Rupees '000-----	
		SBP	Total	SBP	Total
		19 DEFERRED GRANTS	19.1		
Opening balance as at January 1		1,594	1,594	2,776	2,776
Grants received during the year		-	-	-	-
Expenses incurred during the year		-	-	-	-
Amortization during the year		754	754	1,182	1,182
Adjustment during the year		840	840	-	-
Income transferred to profit and loss account	24	1,594	1,594	1,182	1,182
Grant returned to the donor		-	-	-	-
Closing balance as at December 31		-	-	1,594	1,594
Cumulative grants received till December 31		<u>12,841</u>	<u>12,841</u>		

19.1 This represents grant under Financial Inclusion Program (FIP) designed to develop capacity of the Microfinance Industry to enhance potential for growth and depth in outreach by improving human resource quality, improving quality of services and increasing the services available to potential client. This grant is approved for purchasing, installing and implementation of Oracle Financial and Human Resource Information System (HRIS).

20 MEMORANDUM / OFF - BALANCE SHEET ITEMS

20.1 Contingencies:

There are no known material contingencies as at December 31, 2017 (2016: Nil).

20.2 Commitments:

There are no known material commitments as at December 31, 2017 (2016: Nil).

	Note	2017 ----- Rupees '000-----	2016 ----- Rupees '000-----
21 MARKUP/RETURN/INTEREST EARNED			
Markup on advances		3,294,661	2,058,631
Income on investment in Government securities		207,692	186,481
Income from Term Deposit Receipts (TDRs)		161,559	176,216
Markup on deposit accounts with treasury and other banks		55,387	58,935
		<u>3,719,299</u>	<u>2,480,263</u>
22 MARKUP/RETURN/INTEREST EXPENSED			
Deposits and other accounts		855,885	576,464
Borrowings	22.1	763	4,422
		<u>856,648</u>	<u>580,886</u>

22.1 This represents markup expense on repo transactions during the year.

AJZ

		2017	2016
	Note	----- Rupees '000-----	
23 FEE, COMMISSION AND BROKERAGE INCOME			
Fee		282,739	151,566
Commission		<u>5,573</u>	<u>7,204</u>
		<u><u>288,312</u></u>	<u><u>158,770</u></u>
24 AMORTIZATION OF DEFERRED GRANT			
Deferred grant income recognized in respect of :			
- Capital expenditure (amortization)	11.3.1	1,594	1,182
	19	<u>1,594</u>	<u>1,182</u>
25 OTHER INCOME			
Gain on disposal of operating fixed assets		9,447	2,490
Revaluation gain/ (loss) on held for trading investments		33	(60)
Gain on sale of investment		3	18
Others		<u>2,796</u>	<u>8,161</u>
		<u><u>12,279</u></u>	<u><u>10,609</u></u>
26 ADMINISTRATIVE EXPENSES			
Staff salaries and benefits		1,095,337	778,840
Contribution to defined contribution provident fund		41,040	32,741
Charge for defined benefit gratuity fund	29.4	35,813	23,969
Training and capacity building		21,544	32,620
Depreciation	11.2	115,950	93,766
Amortization of intangible assets	11.3	20,686	10,934
Travel and transportation		91,091	84,219
Rent, rates and taxes		141,239	92,983
Utilities		67,981	54,194
Printing, stationery and periodicals		37,072	36,764
Communications		52,330	38,161
Office security		85,142	61,909
Insurance		57,215	63,903
Repair and maintenance		25,765	30,702
Office supplies		33,376	23,831
Information technology supplies and software		63,584	34,805
Verification charges		13,849	15,582
Bank charges		21,250	14,912
Advertisement and business promotions		19,724	6,807
Legal and professional		12,077	21,723
Auditors' remuneration	26.1	3,737	2,377
Other expenses		<u>7,509</u>	<u>5,377</u>
		<u>2,063,311</u>	<u>1,561,119</u>
Less: Grant related expense	24	<u>(1,594)</u>	<u>(1,182)</u>
		<u><u>2,061,717</u></u>	<u><u>1,559,937</u></u>
26.1 Auditors' remuneration			
Audit fee		1,099	1,099
Fee for half yearly review		160	160
Group reporting, Special certifications and other assurance services		538	738
Tax services		1,320	-
Out of pocket expenses		<u>620</u>	<u>381</u>
		<u><u>3,737</u></u>	<u><u>2,377</u></u>
27 OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		2,242	1,392
Workers Welfare Fund (WWF)		445	3,271
		<u>2,687</u>	<u>4,663</u>

WJZ

	2017	2016
	----- Rupees '000-----	
28 TAXATION		
For the year		
Current	327,291	152,295
Deferred	(8,064)	14,033
For the prior years		
Current	2,253	5,957
Deferred	-	-
	<u>321,480</u>	<u>172,285</u>
28.1 Reconciliation of tax expense and accounting profit		
Accounting profit before tax	<u>1,007,252</u>	<u>488,544</u>
Tax at the applicable rate of 30% (2016: 31%)	302,176	151,449
Tax chargeable at lower rates	63	223
Unrealised gain/ (loss)	(10)	17
Benefit of gross loss	15,916	14,609
Permanent differences	672	432
Prior year	2,253	5,957
Education cess	523	290
Others	(113)	(692)
	<u>321,480</u>	<u>172,285</u>
29 DEFINED BENEFIT PLAN		
29.1 General description		

As mentioned in note 5.8, FMFB operates an approved defined benefit gratuity plan for all permanent employees with a qualifying service period of five years. Eligible employees are entitled to one month's basic salary for each completed year of service upon retirement. Actuarial valuations are conducted by an independent actuary, annually using projected unit credit method related details of which are given in note 29 to the financial statements. The obligation at the balance sheet date is measured at the present value of the estimated future cash outflows. All contributions are charged to profit or loss for the year.

Actuarial gains and losses on staff retirement benefit plan are recognised immediately in other comprehensive income and past service cost is recognised in profit and loss account when they occur.

29.2 Principal actuarial assumptions

The latest actuarial valuation of FMFB's defined benefit plan based on the Projected Unit Credit Method was carried out as at December 31, 2017. Actuarial gains/ (losses) arising during the year are recognized in Other Comprehensive Income (OCI) in accordance with IAS 19 (Revised 2011). The significant assumptions used in the valuation are as follows:

- Discount rate of 9.5% (2016: 9.5%) per annum.
- Expected increase in salary levels of 8.5% (2016: 8.5%) per annum.
- Expected return on plan assets of 9.5% (2016: 9.5%) per annum.

29.3 Fair value of plan assets and present value of obligation under the scheme at the balance sheet date were as follows:

		2017	2016
		----- Rupees '000-----	
Present value of defined benefit obligation	29.5	178,561	134,433
Fair value of plan assets	29.6	(162,186)	(122,283)
	29.4	<u>16,375</u>	<u>12,150</u>

29.4 Movement in the liability recognized in the balance sheet:

Opening net liability		12,150	14,263
Expense for the year	29.7	35,813	23,969
Contributions made to the fund		(41,830)	(32,187)
Actuarial loss		10,242	6,105
Liability at end of the year		<u>16,375</u>	<u>12,150</u>

AAFL

		2017	2016
	Note	----- Rupees '000-----	-----
29.5 Movement in the present value of defined benefit obligation:			
Present value of defined benefit obligation at beginning of the year		134,433	102,238
Current service cost		36,759	24,152
Interest cost		12,119	10,018
Benefits paid		(11,345)	(4,107)
Actuarial loss		6,595	2,132
Present value of defined benefit obligation at end of the year		<u>178,561</u>	<u>134,433</u>
29.6 Movement in the fair value of plan assets:			
Fair value of plan assets at beginning of the year		122,283	87,975
Interest income		13,065	10,201
Contributions made to the fund		41,830	32,187
Benefits paid		(11,345)	(4,107)
Actuarial loss		(3,647)	(3,973)
Fair value of plan assets at end of the year	29.9	<u>162,186</u>	<u>122,283</u>
29.7 Amount charged to defined benefit plan in the profit and loss account:			
Current service cost		36,759	24,152
Interest cost on obligation		12,119	10,018
Interest income on plan assets		(13,065)	(10,201)
	26	<u>35,813</u>	<u>23,969</u>
29.8 Actual return on plan assets:			
The actual return earned on plan assets		<u>9,418</u>	<u>6,229</u>
29.9 Plan assets consists of the following assets:			
Bank balances		60,400	76,688
Investments		101,786	45,596
		<u>162,186</u>	<u>122,284</u>

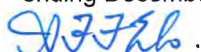
29.10 Sensitivity Analysis

Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligation under the various employee benefit scheme. The increase / (decrease) in the present value of defined benefit obligations (PVDBO) as a result of change in each assumption is summarized below :

	2017	2016
	----- Rupees '000-----	-----
Changes in PVDBO		
Increase in discount rate by 1%	(23,697)	(17,501)
Decrease in discount rate by 1%	28,921	21,342
Increase in future increment in salary by 1%	29,866	21,696
Decrease in future increment in salary by 1%	(24,801)	(18,062)
Increase in Withdrawal Rate by 10%	113	406
Decrease in Withdrawal Rate by 10%	(113)	(369)
Increase in Mortality Rate by 10%	(90)	(70)
Decrease in Mortality Rate by 10%	90	70

29.11 Expected contribution to the plan

Based on actuarial advice, the management estimates that the charge in respect of defined benefit plan for the year ending December 31, 2018 is Rs. 39,601 thousand.



30 NUMBER OF EMPLOYEES

		2017		
		Credit/ sales staff	Banking/ support staff	Total
Permanent		1,465	562	2,027
Contractual		4	37	41
Total		1,469	599	2,068
		2016		
		Credit/ sales staff	Banking/ support staff	Total
Permanent		1,259	247	1,506
Contractual		19	16	35
Total		1,278	263	1,541

30.1 Average number of employees during the year

2017	2016
1,821	1,423

31 EMPLOYEES PROVIDENT FUND TRUST

	Un-audited 2017	Audited 2016
	----- Rupees '000-----	
Size of the Fund -Total Assets	403,290	334,128
Cost of investments made	397,870	321,617
Percentage of investments made	99%	96%
Fair value of investments	403,011	327,380

Breakup of Investments is as follows:

	2017		2016	
	(Rupees '000)	%	(Rupees '000)	%
Pakistan Investment Bonds	1,095	0%	1,108	0%
Mutual Funds	7,562	2%	7,164	2%
Term Deposit Receipts	245,056	61%	125,595	38%
Balance with Banks	149,298	37%	193,513	60%
	403,011		327,380	

31.1 The figures for 2017 are based on the un-audited financial statements (2016: audited financial statements) of the Provident Fund. All the investments out of provident fund trust have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for that purpose.

32 NUMBER OF BRANCHES/PERMANENT BOOTHS

	2017	2016
At beginning of the year	120	109
Opened during the year	12	3
Upgraded during the year	13	8
At end of the year	145	120

33 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	President/ Chief Executive		Executives	
	2017	2016	2017	2016
	----- Rupees '000-----		----- Rupees '000-----	
Managerial remuneration	12,920	11,235	178,744	116,249
Contribution to provident fund	1,292	1,124	14,568	10,684
Rent and house maintenance	5,168	4,494	68,938	46,500
Utilities	1,292	1,124	17,235	11,624
Medical	1,292	393	16,987	4,075
Others	2,436	-	74,595	13,430
	24,400	18,370	371,067	202,562
Numbers	1	1	157	103

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- 33.1** Number of executives includes those who have worked partly or completely during the year and whose basic salary exceeds Rs. 500,000 (2016: Rs. 500,000) per year.
- 33.2** The President/ Chief Executive Officer and certain other executives are also provided with free use of FMFB's owned and maintained cars in accordance with their entitlement as per policy of FMFB.
- 33.3** No remuneration was paid to the directors of FMFB.

34 EARNING PER SHARE (RUPEE)	2017	2016
Profit after taxation - Rupees in '000'	<u>685,772</u>	<u>316,259</u>
Weighted average number of ordinary shares - Numbers in '000'	<u>273,081</u>	<u>219,944</u>
Earning per share - Rupee	<u>2.51</u>	<u>1.44</u>

34.1 There is no dilutive effect on the basic earning per share of FMFB.

35 RELATED PARTY TRANSACTIONS

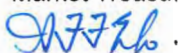
Related parties of FMFB comprise of its major shareholders, associates (including entities having directors in common with FMFB), directors, key management personnel which include CEO and Head of Departments (HOD's) and staff retirement funds.

Balances with related parties have been disclosed in the respective notes. Transaction with related parties, other than those disclosed in the elsewhere in the financial statements are summarized as follows:

	2017	2016
	----- Rupees '000-----	
Related parties by virtue of major shareholders		
Markup expense on deposits received and borrowings	22,993	10,872
Vehicle and offices' rentals expense	25,396	22,482
Profit received on deposits with related parties	5,653	6,437
Bank charges	205	185
Related parties by virtue of common directorship		
Markup expense on deposits received	21,486	5,863
Insurance expense	38,614	63,903
Meals and lodging expenses	1,487	404
Others		
Charge for defined contribution gratuity fund	35,813	23,969
Contribution to defined contribution provident fund	41,040	32,741
Remuneration of key management personnel	110,547	71,749
Markup expense on deposits of key management personnel	49	19
Proceeds from sale of vehicles to key management personnel	8,749	-

FMFB has not extended any microfinance services to members of management, directors or parties related to them.

36 CASH AND CASH EQUIVALENTS	Note	2017	2016
		----- Rupees '000-----	
Cash and Balances with SBP and NBP	7	1,204,886	840,523
Balances With Other Banks/NBFIs/MFBs	8	2,638,550	2,111,977
Market Treasury bills (having tenure of three months or less)		2,914,936	641,275
		<u>6,758,372</u>	<u>3,593,775</u>



37 FINANCIAL INSTRUMENTS (based on contractual obligation)

	Effective yield/ interest rate	Interest/ mark-up bearing				Non interest/ mark-up bearing			Total
		Up to one year	One to five years	Over five years	Sub total	Up to one year	One to five years	Sub total	2017
	%	(Rupees '000)				(Rupees '000)			
December 31, 2017									
Financial assets									
Cash and Balances with SBP and NBP	3.0	239,017	-	-	239,017	965,869	-	965,869	1,204,886
Balances With Other Banks/NBFIs/MFBs	3.75 - 7.0	2,538,984	-	-	2,538,984	99,566	-	99,566	2,638,550
Investments	5.91 - 12.0	5,778,186	155,953	-	5,934,139	-	-	-	5,934,139
Advances	4.0 - 35.9	9,681,828	4,525,481	187,359	14,394,668	-	-	-	14,394,668
Other Assets		-	-	-	-	794,586	93,783	888,369	888,369
		<u>18,238,015</u>	<u>4,681,434</u>	<u>187,359</u>	<u>23,106,808</u>	<u>1,860,021</u>	<u>93,783</u>	<u>1,953,804</u>	<u>25,060,612</u>
Financial liabilities									
Deposits and other accounts	3.0 - 13.0	14,301,836	4,615,299	-	18,917,135	1,970,057	-	1,970,057	20,887,192
Borrowings		-	-	-	-	-	-	-	-
Other Liabilities		-	-	-	-	407,689	127,425	535,114	535,114
		<u>14,301,836</u>	<u>4,615,299</u>	<u>-</u>	<u>18,917,135</u>	<u>2,377,746</u>	<u>127,425</u>	<u>2,505,171</u>	<u>21,422,306</u>
December 31, 2016									
Financial assets									
Cash and Balances with SBP and NBP	4.0	217,345	-	-	217,345	623,178	-	623,178	840,523
Balances With Other Banks/NBFIs/MFBs	3.75 - 8.0	2,036,194	-	-	2,036,194	75,783	-	75,783	2,111,977
Investments	5.28 - 12.0	4,448,336	179,222	-	4,627,558	-	-	-	4,627,558
Advances	4.0 - 38.4	6,844,462	1,338,766	-	8,183,228	-	-	-	8,183,228
Other Assets		-	-	-	-	521,688	2,301	523,989	523,989
		<u>13,546,337</u>	<u>1,517,988</u>	<u>-</u>	<u>15,064,325</u>	<u>1,220,649</u>	<u>2,301</u>	<u>1,222,950</u>	<u>16,287,275</u>
Financial liabilities									
Deposits and other accounts	3.0 - 13.0	10,171,738	713,515	-	10,885,253	1,352,213	-	1,352,213	12,237,466
Borrowings	6.25	297,820	-	-	297,820	-	-	-	297,820
Other Liabilities		-	-	-	-	455,457	33,416	488,873	488,873
		<u>10,469,558</u>	<u>713,515</u>	<u>-</u>	<u>11,183,073</u>	<u>1,807,670</u>	<u>33,416</u>	<u>1,841,086</u>	<u>13,024,159</u>

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37.1 Concentration of credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. FMFB's credit risk is primarily attributable to its advances, lending to financial institutions and balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. FMFB has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained as required by the Prudential Regulations issued by SBP. Maximum amount of financial assets which are subject to credit risk amount to Rs. 19,519,724 thousand (2016: Rs. 11,234,427 thousand).

37.2 Liquidity risk:

Liquidity risk is the risk that FMFB will encounter difficulty in raising funds to meet its net funding requirements. FMFB attempts to manage this risk by having adequate credit lines in place and maintaining sufficient liquidity at branch level to meet anticipated funding requirements.

37.3 Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rate. FMFB's interest rate exposure stems mainly from investing activities. This risk is managed by regular review of held-for-trading portfolio of government securities.

37.4 Fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by FMFB. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

FMFB uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Fair value of available for sale and held for trading investments has been calculated based on market yields obtained from Mutual Funds Association of Pakistan (MUFAP) at year end. These investments are categorized in Level 2 category as per IFRS 13.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair value except for Held to Maturity investments which are recorded at amortized cost.

37.5 Capital management

The paid-up capital of FMFB is Rs. 2,730,811 thousand (2016: Rs. 2,730,811 thousand) which meets minimum paid-up capital (free of losses) requirement of Rs. 1,000,000 thousand (2016: Rs. 1,000,000 thousand) as specified in the Microfinance Institutions Ordinance, 2001. The Bank has Capital Adequacy Ratio (CAR) of 26.5% (2016: 40.0%) of its risk-weighted assets which is in compliance with the requirements of Prudential Regulations to maintain CAR of 15% of risk-weighted assets.

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38 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES

	Total	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
	(Rupees '000)	(Rupees '000)	(Rupees '000)	(Rupees '000)	(Rupees '000)
December 31, 2017					
Assets					
Interest/ markup earning					
Cash and Balances with SBP and NBP	239,017	239,017	-	-	-
Balances With Other Banks/NBFIs/MFBs	2,538,984	1,538,984	1,000,000	-	-
Investments	5,934,139	1,154,418	4,441,920	181,848	155,953
Advances	14,394,668	141,752	2,838,594	6,701,482	4,712,840
Non-Interest/ markup earning					
Cash and Balances with SBP and NBP	965,869	965,869	-	-	-
Balances With Other Banks/NBFIs/MFBs	99,566	99,566	-	-	-
Other Assets	1,001,745	134,199	414,009	359,754	93,783
Deferred Tax	41,717	-	-	-	41,717
Operating Fixed Assets	724,983	-	-	-	724,983
	25,940,688	4,273,805	8,694,523	7,243,084	5,729,276
Liabilities					
Interest/ markup bearing					
Large time deposits above Rs. 100,000	11,939,833	1,777,421	2,482,277	3,273,781	4,406,354
Deposits and other accounts	6,977,302	6,653,592	71,959	42,806	208,945
Borrowings	-	-	-	-	-
Non-Interest/ markup bearing					
Deposits and other accounts	1,970,057	1,970,057	-	-	-
Other Liabilities	547,947	299,838	63,737	56,947	127,425
	21,435,139	10,700,908	2,617,973	3,373,534	4,742,724
Net assets	4,505,549	(6,427,103)	6,076,550	3,869,550	986,552
Represented by :					
Share Capital	2,730,811				
Share premium	620,690				
Statutory & general reserves	326,723				
Depositors' protection fund	92,696				
Accumulated profit	735,345				
Surplus on revaluation of assets	(716)				
Deferred grant	-				
	4,505,549				

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38 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES

	Total (Rupees '000)	Up to one month (Rupees '000)	Over one month up to six months (Rupees '000)	Over six months up to one year (Rupees '000)	Over one year (Rupees '000)
December 31, 2016					
Assets					
Interest/ markup earning					
Cash and Balances with SBP and NBP	217,345	217,345	-	-	-
Balances With Other Banks/NBFIs/MFBs	2,036,194	736,194	1,300,000	-	-
Investments	4,627,558	1,823,224	1,781,268	843,844	179,222
Advances	8,183,228	155,683	1,820,448	3,974,178	2,232,919
Non-Interest/ markup earning					
Cash and Balances with SBP and NBP	623,178	623,178	-	-	-
Balances With Other Banks/NBFIs/MFBs	75,783	75,783	-	-	-
Other Assets	584,933	447,643	46,192	88,983	2,115
Deferred Tax	33,653	-	-	-	33,653
Operating Fixed Assets	496,359	-	-	-	496,359
	16,878,231	4,079,050	4,947,908	4,907,005	2,944,268
Liabilities					
Interest/ markup bearing					
Large time deposits above Rs. 100,000	6,134,930	1,462,268	2,059,410	1,920,363	692,889
Deposits and other accounts	4,750,323	4,599,317	73,322	57,058	20,626
Borrowings	297,820	297,820	-	-	-
Non-Interest/ markup bearing					
Deposits and other accounts	1,352,213	1,352,213	-	-	-
Other Liabilities	512,441	324,150	83,642	71,233	33,416
	13,047,727	8,035,768	2,216,374	2,048,654	746,931
	3,830,504	(3,956,718)	2,731,534	2,858,351	2,197,337
Net assets					
Represented by :					
Share Capital	2,730,811				
Share premium	620,690				
Statutory & General Reserves	189,569				
Depositors protection fund	55,014				
Accumulated profit	231,578				
Surplus on revaluation of assets	1,248				
Deferred grant	1,594				
	3,830,504				

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	2017 (Rupees '000)	2016 (Rupees '000)
39 OPERATIONAL/NON-OPERATIONAL PROFIT		
Profit before taxation comprises of:		
Operational profit	1,005,658	487,362
Grant income	<u>1,594</u>	<u>1,182</u>
	<u><u>1,007,252</u></u>	<u><u>488,544</u></u>

40 RECLASSIFICATION

The corresponding figures as at December 31, 2016 have been reclassified for more appropriate presentation. These reclassifications have no effect on previously reported net income or shareholders' equity. The effect on presentation of the balance sheet as at December 31, 2016 is summarized below:

From	To	(Rupees '000)
Investments – net of provisions	Balances with other Banks/NBFIs/MFBs	1,300,000
Investments – net of provisions	Other assets	4,145
Taxation - Current (WWF)	Other charges (WWF)	(3,271)

41 CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, where necessary, for more appropriate presentation.

42 GENERAL

Figures have been rounded off to the nearest thousand rupee unless otherwise stated.


43 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the FMFB in their meeting held on 15 MAR 2018.

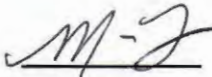
Signature



 President / Chief Executive



 Chairman



 Director



 Director