

	Note	2008	2007
		Rupees	Rupees
ASSETS			
Cash and balances with SBP and NBP	8	332,676,173	198,325,188
Balances with other banks/NBFIs/MFBs	9	777,283,849	527,512,129
Lending to a financial institution	10	-	72,959,550
Investments-net of provisions	11	549,214,503	545,684,356
Advances-net of provisions	12	2,067,750,648	1,193,609,274
Operating fixed assets	13	195,984,338	169,202,301
Other assets	14	171,343,259	99,869,596
Deferred tax asset	15	-	-
Total assets		4,094,252,770	2,807,162,394
LIABILITIES			
Deposits and other accounts	16	3,304,742,382	2,035,584,353
Borrowing	17	100,000,000	-
Subordinated debt		-	-
Other liabilities	18	120,631,812	94,220,171
Deferred tax liability		-	-
Total liabilities		3,525,374,194	2,129,804,524
NET ASSETS		568,878,576	677,357,870
REPRESENTED BY:			
Share capital	19	660,000,500	660,000,500
Statutory and general reserves		8,040,156	8,040,156
Depositors' protection fund		2,470,534	2,155,819
(Accumulated loss)/un-appropriated profit		(104,231,456)	2,361,763
		566,279,734	672,558,238
Deficit on revaluation of assets	20	(8,759,343)	(1,677,272)
Deferred grants	21	11,358,185	6,476,904
		568,878,576	677,357,870
MEMORANDUM / OFF-BALANCE SHEET ITEMS	22		

The annexed notes from 1 to 40 form an integral part of these financial statements.

**THE FIRST MICROFINANCEBANK LIMITED****PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008	2007
		Rupees	Rupees
Markup/return/interest earned	23	525,795,926	315,783,636
Markup/return/interest expensed	24	(165,468,186)	(99,877,564)
Net markup/interest income		360,327,740	215,906,072
Provision against non-performing loans and advances	12.3	30,071,719	20,423,135
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		30,071,719	20,423,135
Net markup/interest income after provisions		330,256,021	195,482,937
Non mark-up/non interest income			
Fee, commission and brokerage income	25	62,648,207	27,484,395
Dividend income		-	-
Grant income-net of related expenses	26	1,700,571	10,395,421
Gain on sale/redemption of securities		1,935,883	3,853,825
Unrealised gain on revaluation of held for trading securities-net		-	2,738,046
Other income		3,159,631	1,495,059
Total non-markup/non interest income		69,444,292	45,966,746
		399,700,313	241,449,683
Non mark-up/non interest expenses			
Administrative expenses	27	505,616,295	264,237,436
Other provisions/write offs		-	-
Other charges		-	-
Total non-markup/non interest expenses		(505,616,295)	(264,237,436)
		(105,915,982)	(22,787,753)
Extra ordinary/unusual items		-	-
Loss before taxation		(105,915,982)	(22,787,753)
Taxation -Current		-	1,737,506
-Prior years		677,237	1,365,502
-Deferred		-	1,898,058
	28	677,237	5,001,066
Loss after taxation		(106,593,219)	(27,788,819)
Unappropriated profit brought forward		2,361,763	30,150,582
(Loss)/profit before appropriations		(104,231,456)	2,361,763
Appropriations			
Transfer to			
Statutory reserve		-	-
Capital reserve		-	-
Contribution to depositors' protection fund		-	-
Revenue reserve		-	-
Dividend		-	-
		-	-
(Accumulated loss)/un-appropriated profit carried forward		(104,231,456)	2,361,763
Loss per share (Rupee)	31	(1.62)	(0.42)

The annexed notes from 1 to 40 form an integral part of these financial statements.

**THE FIRST MICROFINANCE BANK LIMITED****CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 Rupees	2007 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(105,915,982)	(22,787,753)
Adjustments for non-cash charges			
Depreciation	13.2	59,446,274	28,399,135
Amortization of intangible assets	13.3	821,974	698,635
Loss on disposal of fixed assets		1,148,518	-
Amortisation of deferred grant		(13,705,994)	(22,197,387)
Amortisation of premium on investments		2,119,891	312,340
Interest on treasury bills		(15,929,557)	(4,074,380)
Provision against non performing loans and advances		30,071,719	20,423,135
Provision for gratuity		8,306,000	2,969,000
Gain on sale/redemption of securities		(1,935,744)	(3,853,825)
		<u>70,343,081</u>	<u>22,676,653</u>
		(35,572,901)	(111,100)
(Increase)/decrease in operating assets			
Lending to financial institutions		72,959,550	(25,229,050)
Advances		(904,213,093)	(539,817,077)
Other assets (excluding advance taxation)		(67,428,058)	(18,592,255)
		<u>(898,681,601)</u>	<u>(583,638,382)</u>
Increase in operating liabilities			
Deposits and other accounts		1,269,158,029	1,111,008,943
Other liabilities (excluding current taxation)		21,356,887	48,251,010
		<u>1,290,514,916</u>	<u>1,159,259,953</u>
Cash inflows from operations		<u>356,260,414</u>	<u>575,510,471</u>
Gratuity paid		(2,969,000)	(2,464,000)
Income tax paid		(4,579,790)	(9,900,705)
Net cash inflow from operating activities		<u>348,711,624</u>	<u>563,145,766</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in available for sale securities		(500,771,214)	(309,033,707)
Net investment in held to maturity securities		(2,755,698)	-
Net investment in held for trading securities		-	(460,338,218)
Refund of principal on available of sale securities		9,000	-
Proceeds from sale/redemption of available for sale securities		343,000,000	-
Proceeds from sale/redemption of held to maturity securities		1,000,000	-
Proceeds from sale/redemption of held for trading securities		164,673,792	305,000,000
Investments in operating fixed assets		(88,908,803)	(136,212,792)
Sale proceeds of property and equipment disposed off		710,000	-
Net cash outflow from investing activities		<u>(83,042,923)</u>	<u>(600,584,717)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Grants received		18,454,004	18,821,857
Net increase/(decrease) in cash and cash equivalents		284,122,705	(18,617,094)
Cash and cash equivalents at the beginning of the year		725,837,317	744,454,411
Cash and cash equivalents at the end of the year	33	<u>1,009,960,022</u>	<u>725,837,317</u>

The annexed notes from 1 to 40 form an integral part of these financial statements.

**THE FIRST MICROFINANCEBANK LIMITED****STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008**

	SHARE CAPITAL	STATUTORY RESERVE	DEPOSITOR'S PROTECTION FUND	UNAPPROPRIATED PROFIT	TOTAL
	Rupees				
Balance at 01 January 2007	660,000,500	8,040,156	2,108,093	30,150,582	700,299,331
Loss for the year	-	-	-	(27,788,819)	(27,788,819)
Interest earned on investment of fund	-	-	47,726	-	47,726
Balance at 31 December 2007	660,000,500	8,040,156	2,155,819	2,361,763	672,558,238
Loss for the year	-	-	-	(106,593,219)	(106,593,219)
Interest earned on investment of fund	-	-	314,715	-	314,715
Balance at 31 December 2008	660,000,500	8,040,156	2,470,534	(104,231,456)	566,279,734

The annexed notes from 1 to 40 form an integral part of these financial statements.



THE FIRST MICROFINANCEBANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1 STATUS AND NATURE OF BUSINESS

The First MicroFinanceBank Limited (the FMFB) was incorporated in The Islamic Republic of Pakistan on 5 November 2001 as a public limited company under the Companies Ordinance, 1984. The FMFB received the certificate of commencement of business on 14 February 2002. The 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. The FMFB has 156 business locations comprising of 89 branches/point of links and 68 Pakistan Post Office (PPO) - sub offices (2007: 80 business locations comprising of 80 branches/point of links and Nil PPO - sub offices) in operation with registered office at Evacuee Trust Complex, Aga Khan Road, Plot No. 4, Sector F-5/1, Islamabad, Pakistan and is licensed to operate nationwide.

2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the BSD circular number 11 dated 30 December 2003 issued by the State Bank of Pakistan (SBP).

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the 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 the State Bank of Pakistan (SBP). Wherever, the requirements of the Companies Ordinance, 1984, the Micro Finance Institutions Ordinance, 2001, or directives issued by the SECP and the SBP differ with the requirements of IFRSs the requirements of the Companies Ordinance, 1984, the Micro Finance Institution Ordinance, 2001, or the requirements of the said directives shall prevail.

These financial statements also comply with the Disclosure Guidelines for financial reporting by Microfinance Institutions which guidelines are voluntary norms recommended by a consultative group of international donors including 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 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for Banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

4 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except certain investments which are stated at fair value.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, at banks and short-term deposits.

5.2 Lending to/borrowing from financial institutions

Consideration for securities purchased under resale agreement (reverse repo) is included in lending to financial institutions. Conversely, securities sold under repurchase agreement (repo) are retained in the financial statements as investments and are liability for consideration received is included in borrowings from financial institutions. The difference between the sale and repurchase price is treated as mark-up/return earned or expensed, accordingly.



5.2.1 Investments

Investments of the FMFB are classified into the following categories:

a) Held-for-trading

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

b) Held-to-maturity

These are investments with fixed or determinable payments and fixed maturity and the FMFB has positive intent and ability to hold the investment till maturity. Held-to-maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment.

(c) Available-for-sale

These are investments which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets are initially recognized at cost and subsequently re-measured at fair value based on quoted bid prices.

Unrealized gains and losses arising from changes in the fair value of investments classified as available for sale are taken to surplus/ (deficit) on revaluation of assets account which is shown below the shareholders equity. When the investments are disposed off or impaired, the related accumulated fair value adjustments are included in the profit and loss.

Management determines the appropriate classification of its investments at the time of the purchase. All regular way purchases and sales of investments securities are recognized at trade date, which is the date that the FMFB commits to purchase or sell the assets.

5.4 Advances

These are stated net of provision for non-performing advances, if any. The outstanding principal of the advances, payments against which are overdue for 30 days or more are classified as non-performing and divided into three categories:

- (b) Substandard:** These are advances in arrears (payments/installments overdue) for 30 days or more but less than 90 days.
- (c) Doubtful:** These are advances in arrears (payments/installments overdue) for 90 days or more but less than 180 days.
- (d) Loss:** These are advances in arrears (payments/installments overdue) for 180 days or more.

The FMFB maintains specific provision for potential loan losses for all non-performing advances as follows:

Substandard	25% of outstanding principal net of cash collaterals
Doubtful	50% of outstanding principal net of cash collaterals
Loss	100% of outstanding principal net of cash collaterals

In addition, a general provision is made equivalent to 1.5% of the net outstanding balance (advances net of specific provisions) in accordance with the requirement of the directives of the SBP



THE FIRST MICROFINANCEBANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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

5.5 Operating fixed assets and depreciation

Capital work-in-progress

Capital work-in-progress is stated at cost.

Property and equipments

Tangible fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to income applying the straight line method to write off the cost of asset over its estimated useful life at rates specified in note 13.2. Full month's depreciation is charged in the month of addition while no depreciation is charged in the month of deletion.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements if any, are capitalized when it is probable that respective future economic benefits will flow to the FMFB.

An item of property and equipment is derecognized upon disposal when no future economic benefits are expected from its use or disposal. Gain and losses on disposal are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the profit and loss account.

Intangible assets

Intangible asset are capitalized only to the extent that the future economic benefits can be derived by the FMFB. Intangible assets are stated at cost less accumulated amortization. Amortization is charged to income applying the straight line method starting from the month of addition at the rates given in note 13.3.

Expenditure which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Impairment

The FMFB assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the FMFB makes an estimate of the assets recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment are recognized in the profit and loss account in the expense categories which are consistent with the function of the impaired asset.

5.6 Taxation Current Tax

Tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Provision for current taxation is computed on taxable income at the current tax rate after taking into account tax credits/rebates, if any.



Deferred Tax

Deferred tax is accounted for using the balance sheet liability method in respect of all significant temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the corresponding tax basis of such assets and liabilities. Deferred tax assets are recognized only to the extent it is probable that future taxable profit will be available against which the deductibles temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the year when asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and deducted to the extent that it is no longer probable that sufficient taxable profits will be available to allow all part of deferred income tax asset to be utilized. Unrecognized deductible temporary differences are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

5.7 Staff retirement benefits

The main features of the schemes operated by the FMFB for its employees are as follows:

Defined benefit plan

The FMFB operates an approved non-contributory defined benefit gratuity fund for all employees with a qualifying service period of 5 years. Eligible employees are entitled to one month's basic salary for each completed year of service upon retirement. Annual provision has been made on the basis of actuarial valuation to cover obligations under the scheme for all employees eligible to gratuity benefits.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceed 10% of the higher of the define benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Defined contribution plan

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

5.8 Statutory reserve

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

5.9 Provisions

A provision is recognized when, and only when, the FMFB has 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

5.10 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 FIRST MICROFINANCEBANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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.

Grants to be utilized for providing loans are shown as a liability. Other grants are recognized as income in the year of receipt.

5.11 Depositors protection fund

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

5.12 Revenue recognition

Income from investments

Return on investments is recognized on accrual basis, using the effective interest rate method. Dividend income is recognized when the FMFB's right to receive the dividend is established. Gain/loss on sale of investments included in income currently.

Markup/income on advances

Markup/income on advances is calculated using effective interest rate method at the FMFB's prevailing interest rates for the loan products. Markup/income on advances is collected with loan installments. Due but unpaid service charges/income are accrued on overdue advances for period up to 30 days. After 30 days, overdue advances are classified as non-performing and further accrual of unpaid service charges/income ceases. Accrued markup on non-performing advances are reversed and credited to suspense account.

Fee, commission and brokerage income

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

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.

5.13 Foreign currency transactions

The financial statements are presented in Pakistani Rupees, which is the FMFB's functional currency. Transactions in foreign currencies are translated into Rupees at exchange rate on the date of transaction. Assets and liabilities in foreign currencies are translated into Pak Rupees at the rate of exchange approximating those ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss account.

5.14 Related party transactions

Transactions between the FMFB and its related parties are carried out on arm's length basis using the comparable uncontrolled price method.

5.15 Financial instruments

Financial assets and financial liabilities are recognized when the FMFB becomes a party to the contractual provisions of the instrument and derecognized when the FMFB loses control of the contractual rights that comprise the financial asset and incase of financial liability when the obligation specified in the contract is discharged, cancelled or expires.



6 ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statement in conformity with approved accounting standards requires the use of certain criteria accounting estimates. It also requires management to exercise its judgement in the process of applying the FMFB's accounting policies. The estimates, judgements and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates, judgements and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The estimates, judgements and associates assumptions that have significant affect on the financial statements are as follows:

	Notes
Classification of investments	5.3 and 11
Useful lives of assets and methods of depreciation	5.5 and 13.2
Defined benefit plan	5.7 and 18.2

7 ACCOUNTING STANDARDS NOT YET EFFECTIVE

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards and interpretations:

Standard or Interpretation	Effective date (accounting Periods beginning on or after)
IAS-1 Presentation of Financial State	1 January 2009
IAS-23 Borrowing Costs (Revised)	1 January 2009
IAS-27 Consolidated and Separate Fir	1 January 2009
IAS-32 Financial Instruments: Present	1 January 2009
IFRS-2 Share Based Payment (Amenc	1 January 2009
IFRS-3 Business Combinatio	1 July 2009
IFRS-4 Insurance Contracts	1 January 2009
IFRS-7 Financial Instruments: Disclos	1 July 2008
IFRS-8 Operating Segments	1 January 2009
IFRIC 13 Customer Loyalty Programs	1 July 2008
IFRIC 15 Agreements for the Constructi	1 January 2009
IFRIC 16 Hedges of Net Investment in F	1 October 2008
IFRIC 17 Distributions of Non-cash Ass	1 July 2009
IFRIC 18 Transfers of Assets from Cust	1 July 2009

The FMFB expects that the adoption of the above standards and interpretations will have no material impact on the FMFB's financial statements in the period of initial application other than to the extent of certain changes or enhancements in the presentation and disclosures in the financial statements.

**THE FIRST MICROFINANCE BANK LIMITED**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Rupees	2007 Rupees
8 CASH AND BALANCES WITH SBP AND NBP			
Cash in hand-local currency		71,155,060	46,832,952
Balance with State Bank of Pakistan (SBP) in local currency	8.1	182,107,888	106,015,246
Balance with National Bank of Pakistan (NBP) in local currency			
Current account		65,000	2,000
Deposit accounts	8.2	79,348,225	45,474,990
		<u>332,676,173</u>	<u>198,325,188</u>

8.1 This represents balance maintained in current account with SBP to meet the requirement of maintaining a minimum balance equivalent to not less than 5% of the FMFB's time and demand liabilities in accordance with regulation No. 6A of the Prudential Regulations.

8.2 These carry mark up at the rate of 2.5% (2007:1.2%) per annum.

	Note	2008 Rupees	2007 Rupees
9 BALANCES WITH OTHER BANKS/NBFIs/MFBs			
In Pakistan			
on current accounts		4,263,108	14,236,899
on deposit accounts	9.1	773,020,741	513,275,230
		<u>777,283,849</u>	<u>527,512,129</u>

9.1 These include short term deposit receipts with a bank, aggregating to Rs. 100 million (2007: Rs. 150 million), carrying markup rate at the rate of 15% (2007: 9.7% to 11%) per annum, maturing on 14 January 2009. Other deposit accounts carry markup ranging between 5% and 12% (2007: 1.5% and 9%).

10 LENDING TO A FINANCIAL INSTITUTION

Repurchase agreement lendings (Reverse Repo)	10.1	-	72,959,550
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10.1 This represented Market Treasury Bills of Rs. 75,000,000 purchased under a resale agreement at the rate of 9.17% per annum and subsequently matured on 28 January 2008.

	Note	2008 Rupees	2007 Rupees
11 INVESTMENTS-net of provision			
Held for trading			
Mutual funds	11.1	-	160,000,000
Add: surplus on revaluation taken to profit and loss account		-	2,738,048
		-	<u>162,738,048</u>
Held to maturity - Federal Government security			
Pakistan Investment Bond	11.2	2,778,386	1,007,538
Available for sale			
Federal Government securities			
Market Treasury Bills	11.3	292,838,072	119,137,300
Pakistan Investment Bonds	11.4	74,881,073	74,582,335
Term Finance Certificates-listed	11.5	187,476,315	189,896,407
		555,195,460	383,616,042
Less: deficit on revaluation of available for sale investments	11.6	(8,759,343)	(1,677,272)
		<u>549,214,503</u>	<u>545,684,356</u>

11.1 Mutual funds

	2008	2007	2008	2007	2008	2007
Open ended mutual funds	No. of units		Market Value		Cost	
			-----Rupees-----			
JS-Income Fund	-	289,586	-	30,663,905	-	30,000,000
NAFA Cash Fund	-	2,433,469	-	25,579,652	-	25,000,000
Faysal Income & Growth Fund	-	242,037	-	25,595,410	-	25,000,000
Askari Income Fund	-	288,496	-	30,000,000	-	30,000,000
AMZ Plus Income Fund	-	480,753	-	50,899,081	-	50,000,000
			-	162,738,048	-	160,000,000

11.2 This represents ten year bond held for the purposes of the depositors' protection fund carrying markup at the rate of 11% (2007: 8%) per annum, payable on semi-annual basis, maturing in 2017.

11.3 These securities have original maturity period of three months, with yield ranging between 12.5% and 13.85% (2007:9.02% and 9.29%) per annum.

11.4 These represent three year bonds, carrying profit at the rate of 9.10 % (2007: 9.10%) per annum, payable on semi annual basis, maturing in 2009.

11.5 Term Finance Certificates-listed

	Credit rating	2008	2007	2008	2007	2008	2007
		No. of units		Market Value		Cost	
				-----Rupees-----			
Bank Al-Habib Limited - II	AA-	9,000	9,000	43,421,140	48,258,210	47,962,443	48,650,644
Orix Leasing Limited	AA+	12,000	12,000	60,858,000	61,500,000	60,958,652	61,340,000
Soneri Bank Limited	A+	5,000	5,000	25,117,390	26,166,550	25,592,727	26,229,000
United Bank Limited - III	AA	10,000	10,000	50,544,889	52,614,476	52,962,493	53,676,763
				179,941,419	188,539,236	187,476,315	189,896,407

11.5.1 All Term Finance Certificates are quoted and carry rate of return ranging between 15.4% and 17.17% (2007:11.67% and 12.45%) per annum and have maturity period upto 7 years (2007:8 years).

11.6 Particulars of deficit on revaluation of available for sale investments:

	Note	2008	2007
Opening balance		(1,677,272)	44,945
Transferred to equity		(7,082,071)	(1,722,217)
Closing balance	20	(8,759,343)	(1,677,272)

	Note	2008		2007	
		Number	Rupees	Number	Rupees
12 ADVANCES - net of provisions					
Considered good	12.1	165,457	2,084,387,459	97,508	1,196,457,681
Considered doubtful	12.2	2,734	27,015,345	3,886	25,101,573
		168,191	2,111,402,804	101,394	1,221,559,254
Less: Specific provision	12.3		12,163,568		9,773,189
General provision	12.3		31,488,588		18,176,791
			43,652,156		27,949,980
			2,067,750,648		1,193,609,274

12.1 Advances include Rs. Nil (2007: Rs. 50,001) secured against cash collaterals pledged/marked liened with the FMFB. All other advances are secured by personal guarantees.

Advances includes 276 (2007: 201) number of staff loans, aggregating to Rs. 29,774,221 (2007: Rs. 22,306,478), carrying effective markup rate ranging between 3.8% and 4.8% per annum (2007: 3.8% and 4.8% per annum). Advances also include Rs. 6,807,717 (2007: Rs. 5,371,997) against Shubinak Project.

12.2 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	%	Provision required	Provision held
	Rupees		Rupees	Rupees
Sub-standard	13,910,544	25	3,477,636	3,477,636
Doubtful	8,837,739	50	4,418,870	4,418,870
Loss	4,267,062	100	4,267,062	4,267,062
Total	27,015,345		12,163,568	12,163,568

12.3 Particulars of provision against non performing advances

	2008			2007		
	Rupees			Rupees		
	Specific	General	Total	Specific	General	Total
Opening balance	9,773,189	18,176,791	27,949,980	2,426,191	10,267,228	12,693,419
Charge for the year	16,759,922	13,311,797	30,071,719	12,513,572	7,909,563	20,423,135
Amounts written off	(14,369,543)	-	(14,369,543)	(5,166,574)	-	(5,166,574)
	2,390,379	13,311,797	15,702,176	7,346,998	7,909,563	15,256,561
Closing balance	12,163,568	31,488,588	43,652,156	9,773,189	18,176,791	27,949,980

	Note	2008 Rupees	2007 Rupees
12.4 Particulars of write offs			
Directly charged to profit and loss account		-	-
Against provisions	12.4.1	<u>14,369,543</u>	<u>5,166,574</u>
		<u>14,369,543</u>	<u>5,166,574</u>

12.4.1 These represent non performing advances overdue for 180 days or more, written off in accordance with the FMFB policy as explained in note 5.4. Write offs includes Rs 170,000 (2007: Nil) written off against staff loans.

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

12.6 Portfolio quality report

The 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 of such 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 for 30 days or more. Loan payments are applied first to any interest due and then to installment of principal that is due but unpaid. The number of days of delay is based on the due date of the earliest loan installment that has not been fully paid. The FMFB does not charge late payment surcharge/penalty on overdue advances into principal.

Loans	2008		2007	
	Amount Rs	Portfolio at Risk	Amount Rs	Portfolio at Risk
Current and less than 30 days late	2,084,387,459	-	1,196,457,681	-
30-89 days late	13,910,544	0.66%	15,285,873	1.25%
90-179 days late	8,837,739	0.42%	7,727,960	0.63%
180 days or more late	4,267,062	0.20%	2,087,740	0.17%
	<u>2,111,402,804</u>	<u>1.28%</u>	<u>1,221,559,254</u>	<u>2.05%</u>

The FMFB does not allow rescheduling or restructuring of loans and during the year no loans were rescheduled or restructured.

In 2008, loans are disbursed in 5 loan products (2007: 5 loan products). Loans are disbursed relating to these 5 loan products with tenures ranging from 3 months to 3 years, in accordance with the needs of the borrowers. Loan repayments are scheduled on bullet / installment basis and recovered either fortnightly or monthly for loans upto 1 year tenure. Loans for tenures in excess of one year are mostly repaid in monthly or quarterly installments based on the product's repayment terms. Management estimates that the average term of its outstanding loan portfolio is about 8 months (2007: 7 months) based on weighted average tenure of loans outstanding as at balance sheet date.

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

12.7 Current recovery ratio

Current recovery ratios are calculated on a monthly basis for management reporting purposes. The numerator of this ratio is total cash payments of principal received during the reporting period. The denominator is the total loans falling due during the period along with the payments in arrears at the start of the period (net of amount written off). Penalty interest is not included in the numerator or the denominator of the ratio. Loan delinquency is measured using the Non Performing Loans (NPL) ratio.

Period	Current recovery ratio in %	
	2008	2007
1st Quarter	90.9	95.4
2nd Quarter	94.1	98.4
3rd Quarter	92.9	98.9
4th Quarter	97.2	99.4
	93.8	98.0

Annual loss rate (loans written off during the year divided by average loan portfolio outstanding) for the year comes to 0.81% (2007: 0.54%).

12.8 Portfolio by segment	Note	2008	2007
		Rupees	Rupees
Loan type			
Agri input		752,920,627	286,543,759
Live stock		252,508,305	82,579,543
Micro-enterprise		672,514,710	515,326,065
Others	12.8.1	433,459,162	337,109,887
		2,111,402,804	1,221,559,254
12.8.1	Include loans provided for construction, professional/technical services, warehouse etc.		
13 OPERATING FIXED ASSETS			
Capital work-in-progress	13.1	2,808,383	14,655,950
Property and equipment	13.2	190,930,230	151,478,652
Intangible assets	13.3	2,245,725	3,067,699
		195,984,338	169,202,301
13.1 Capital work-in-progress			
Civil works and furnishing		619,383	-
Advance for purchase of fixed assets		2,189,000	14,655,950
		2,808,383	14,655,950

13.2 Property and equipment

	Cost				Rate	Accumulated Depreciation				Written Down Value
	At 01 January	Additions	Disposals/ Write off	At 31 December		At 01 January	Charge for the year	On Disposals/ Write off	At 31 December	At 31 December
	-----Rupees-----				%	-----Rupees-----				
2008										
Free hold land	1,814,030	6,000,000	-	7,814,030	-	-	-	-	-	7,814,030
Lease hold improvements	91,315,123	20,231,906	(3,383,903)	108,163,126	25%	32,930,266	18,937,737	(1,882,350)	49,985,653	58,177,473
Furniture and fixtures	27,700,664	4,932,934	-	32,633,598	20%	8,428,185	5,115,662	-	13,543,847	19,089,751
Office equipment	35,320,373	13,498,081	-	48,818,454	25%	13,796,415	8,686,460	-	22,482,875	26,335,579
Computer equipment	55,646,816	29,382,468	-	85,029,284	33%	26,979,973	17,670,224	-	44,650,197	40,379,087
Vehicles	30,003,272	26,710,983	(918,605)	55,795,650	20%	8,186,787	9,036,191	(561,638)	16,661,340	39,134,310
	241,800,278	100,756,372	(4,302,508)	338,254,142		90,321,626	59,446,274	(2,443,988)	147,323,912	190,930,230
2007										
Free hold land	-	1,814,030	-	1,814,030	-	-	-	-	-	1,814,030
Lease hold improvements	38,313,183	56,207,210	(3,205,270)	91,315,123	25%	24,562,282	8,508,389	(140,405)	32,930,266	58,384,857
Furniture and fixtures	11,959,413	16,721,051	(979,800)	27,700,664	20%	5,514,864	3,097,858	(184,537)	8,428,185	19,272,479
Office equipment	19,278,212	17,704,036	(1,661,875)	35,320,373	25%	9,642,063	4,257,546	(103,194)	13,796,415	21,523,958
Computer equipment	32,050,587	25,173,189	(1,576,960)	55,646,816	33%	18,318,801	8,894,445	(233,273)	26,979,973	28,666,843
Vehicles	18,439,092	11,564,180	-	30,003,272	20%	4,545,890	3,640,897	-	8,186,787	21,816,485
	120,040,487	129,183,696	(7,423,905)	241,800,278		62,583,900	28,399,135	(661,409)	90,321,626	151,478,652

13.2.1 Property and equipment include fully depreciated items, still in use, having cost of Rs. 58,406,719 (2007: Rs. 50,933,284).

13.2.2 Details of fixed assets deleted with the original cost or book value in excess of Rs 1 million or Rs. 250,000 respectively; whichever is less:

Particulars	Cost	Book value	Sale Proceed	Mode of disposal	Particulars of purchaser/(Insurer)
	-----Rupees-----				
Vehicles	918,605	356,965	710,000	Damaged/theft	New Jubilee Insurance Company
Lease hold improvements	3,383,903	1,501,553	-	Damaged	

13.2.3 No fixed assets were sold to chief executive and directors of the FMFB.

	Cost				Rate	Accumulated Amortisation			Written Down Value	
	At 01 January	Additions	Disposal	At 31 December		At 01 January	Charge for the year	Disposal	At 31 December	At 31 December
	-----Rupees-----				%	-----Rupees-----				
13.3 Intangible assets										
2008										
Computer softwares	4,109,866	-	-	4,109,866	20%	1,042,167	821,974	-	1,864,141	2,245,725
2007										
Computer softwares	2,938,445	1,171,421	-	4,109,866	20%	343,532	698,635	-	1,042,167	3,067,699



	Note	2008 Rupees	2007 Rupees
14 OTHER ASSETS			
Accrued mark up on			
-loans and advances		98,610,693	46,133,235
-non performing loans and advances transferred to suspense account		(3,374,725)	(2,816,547)
-investments and bank accounts		12,594,630	9,321,485
		107,830,598	52,638,173
Advances to suppliers		6,200,367	4,474,058
Branch adjustment account		19,923,053	3,473,345
Deposits		3,629,562	2,627,562
Prepayments		14,640,946	14,437,670
Advance tax - net of provision		13,941,264	10,038,711
Grant receivable	14.1	837,754	694,702
Insurance claim receivable		832,210	7,722,268
Stationery stock		3,507,505	3,763,107
		171,343,259	99,869,596

14.1 This represents amount receivable, against expenses incurred by the FMFB from its funds, from International Labour Organisation, aggregating to Rs. 837,754 (2007: Rs. 662,841), and Financial Sector Strengthening Programme, aggregating to Rs Nil (2007: Rs 31,861).

15 DEFERRED TAX ASSET

Owing to the accumulated tax losses of the FMFB, as a matter of prudence, and due to exemption of tax as mentioned in note 28.1, deferred tax asset on estimated unused tax losses aggregating to Rs 93,963,219 (2007: Rs. 28,593,110) has not been recognized in these financial statements.

	2008		2007	
	Number	Rupees	Number	Rupees
16 DEPOSITS AND OTHER ACCOUNTS				
Time liabilities				
Term deposits	9,711	1,712,711,226	2,005	1,148,256,860
Demand liabilities				
PLS deposits	58,204	1,034,068,892	34,657	603,397,269
Current deposits	76,983	557,962,264	43,445	283,930,224
	135,187	1,592,031,156	78,102	887,327,493
	144,898	3,304,742,382	80,107	2,035,584,353

16.1 All above deposits represent voluntary savings of depositors.

	2008		2007	
	Number	Rupees	Number	Rupees
16.2 Particulars of deposits by ownership				
Individual depositors	139,517	2,270,916,398	77,090	1,119,602,588
Institutional depositors				
Corporations/firms	5,377	1,029,034,700	3,013	914,728,233
Banks and financial institutions	4	4,791,284	4	1,253,532
Total	144,898	3,304,742,382	80,107	2,035,584,353

17 BORROWING

This represents unsecured borrowing from a bank, for a period of three months, maturing on 29 January 2009, carrying mark up at the rate of 14.25% (2007:Nil) per annum.

	2008	2007
17.1 Quarterly average borrowing		
An analysis of monthly average borrowings for the four quarters is here under:		
1st Quarter	-	-
2nd Quarter	-	-
3rd Quarter	200,000,000	-
4th Quarter	166,666,667	-



	Note	2008 Rupees	2007 Rupees
18 OTHER LIABILITIES			
Payables to suppliers		10,568,464	34,002,177
Accrued markup on deposits and borrowings		45,468,655	29,565,130
Accrued liabilities		14,743,269	3,670,110
Revolving credit against Shubinak Project	18.1	9,895,836	10,083,043
Withholding tax payable		706,640	746,185
Retention money		3,348,047	4,921,371
Payable to defined benefit gratuity fund	18.2	8,306,000	2,969,000
Bills payable		27,594,901	8,263,155
		120,631,812	94,220,171
18.1 Revolving credit against Shubinak Project			
Balance at beginning of the year		10,083,043	18,440,070
Grant received during the year	18.1.1	-	1,000,000
Return earned on bank balances	18.1.1	24,661	11,114
Taken to profit and loss account	18.1.2	-	(9,368,141)
Loans written off		(211,868)	-
Balance at end of the year		9,895,836	10,083,043

18.1.1 This represents principal amount received from Aga Khan Rural Support Programme (AKRSP) for extending micro credit to women entrepreneurs under "Jafakash Aurat: Patti Development Program" of Shubinak Project. This also includes the return on related funds placed with banks.

18.1.2 This represented funds received from Citi Group Foundation through Aga Khan foundation, USA and has been taken to profit and loss account, as advised by the Citi Group Foundation, at the completion of the agreement term.

18.2 Payable to defined benefit gratuity fund

As mentioned in note 5.7, the FMFB operates approved defined benefit gratuity fund for all employees with a qualifying service period of 5 years. Actuarial valuation of the scheme was carried out as at 31 December 2008.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date were as follows:

	Note	2008 Rupees	2007 Rupees
Present value of defined benefit obligation		16,443,000	10,761,000
Fair value of plan assets		(8,754,000)	(8,315,000)
Actuarial gain not recognized		617,000	523,000
Transitional liability not recognized		-	-
		8,306,000	2,969,000
Amount charged to profit and loss account:			
Current service cost		8,025,000	2,615,000
Interest cost		1,076,000	833,000
Expected return on plan assets		(832,000)	(526,000)
Transitional liability to be recognized		37,000	47,000
	27	8,306,000	2,969,000
Movement in the liability recognized in the balance sheet:			
Opening net liability		2,969,000	2,464,000
Expense for the year		8,306,000	2,969,000
Paid to fund		(2,969,000)	(2,464,000)
Liability at end of the year		8,306,000	2,969,000

Projected unit credit method using the following significant assumptions was used for valuation of the scheme:

- Discount rate of 15 percent (2007: 10 percent) per annum
- Expected increase in salary levels of 13 percent (2007: 10 percent) per annum
- Expected return on plan assets of 15 percent (2007: 10 percent) per annum.

Comparison for five years:

	2008	2007	2006	2005	2004
Funded gratuity plan					
Present value of	16,443,000	10,761,000	8,326,000	5,079,000	3,271,000
-defined benefit obligation					
Fair value of plan assets	(8,754,000)	(8,315,000)	(5,257,000)	(4,223,000)	(2,592,000)
Deficit	7,689,000	2,446,000	3,069,000	856,000	679,000
Expense for the year	8,306,000	2,969,000	2,464,000	1,764,449	977,867

19 SHARE CAPITAL

Authorized capital

2008	2007	Note	2008	2007
Number of shares			Rupees	Rupees
100,000,000	100,000,000	Ordinary shares of Rs. 10 each	1,000,000,000	1,000,000,000
Issued, subscribed and paid-up capital				
Number of shares				
66,000,050	66,000,050	Ordinary shares of Rs. 10 each fully paid in cash	660,000,500	660,000,500

19.1 Share capital of the FMFB is held as under:

Related parties:				
Aga Khan Rural Support Programme (AKRSP)			300,000,000	300,000,000
Aga Khan Agency for Micro finance (AKAM)			200,000,000	200,000,000
International Finance Corporation (IFC)			160,000,000	160,000,000
Others			500	500
			660,000,500	660,000,500

20 DEFICIT ON REVALUATION OF ASSETS

Available-for-sale investments:				
Government securities			(1,224,448)	(320,102)
Term Finance Certificates			(7,534,895)	(1,357,170)
		11.6	(8,759,343)	(1,677,272)

21 DEFERRED GRANTS

Grant from Asian Development Bank (ADB)/SBP	21.1	16,500,000	16,500,000
Grant from United Nations Development Program (UNDP)	21.2	21,449,812	21,331,449
Grant from Financial Sector Strengthening Programme (FSSP)			
For institutional capacity building	21.3	-	4,500,810
For social products, connectivity and reengineering	21.4	10,857,758	-
		10,857,758	4,500,810
Grants from International labor organization (ILO)	21.5	5,915,161	1,873,811
Grants from Aga Khan Agency for Microfinance (AKAM-MI)	21.6	8,087,814	4,518,010
		62,810,545	48,724,080
Less: Amortisation:			
Balance at beginning of the year		42,247,176	29,417,930
Fully amortised		(4,500,810)	-
For the year	26	13,705,994	12,829,246
		51,452,360	42,247,176
		11,358,185	6,476,904



- 21.1** This represents grant for institutional support under the microfinance sector development program. The grant was availed for program related capital expenditure and was reimbursed by the SBP, on behalf of the ADB, upon submission of statement of expenditure.
- 21.2** This represents grant from the UNDP against aggregate limit of US \$ 358,000 under the Women Access to Capital and Technology (WACT) Program and is recognized as income, on a systematic basis, with the incurrence of related expenditure. During the year, an amount of Rs. Nil (2007: Rs. 8,426,823) was received from UNDP under WACT program. Grant has increased by Rs. 118,363 against bank profit on grant account.
- 21.3** This represents grant from the FSSP for building institutional capacity to address issues relating to poverty alleviation through microfinance available for utilization up to June 30, 2007. The grant was availed for program related expenditure and recognized as income, on a systematic basis, with the incurrence of related expenditure.
- 21.4** This represents grant from the FSSP for a) developing three social products namely Education, Housing and Health; b) iDirect connectivity solution for 50 locations and; c) reengineering of the FMFB delivery mechanism to achieve the optimal productivity of its branch staff.
- 21.5** This represents grant from the ILO for Business Development Services (BDS) and is recognized as income, on a systematic basis, with the incurrence of related expenditure. During the year, an amount of Rs. 3,831,372 (2007: Rs. 1, 873,811) was received from the ILO.
- 21.6** This represents grant from the Aga Khan Agency for Microfinance (AKAM) for developing a micro-insurance business in Pakistan against aggregate limit of USD 140,000. Grant received during the year is USD 53,332 (2007: USD 75,000). The grant can only be availed for program related expenditure and is recognized as income, on a systematic basis, with the incurrence of related expenditure.

22 MEMORANDUM / OFF-BALANCE SHEET ITEMS

22.1 Contingencies:

Return filed by the FMFB for tax year 2004 (financial year 2003) has been assessed under the self assessment scheme envisaged in section 120 of the Income Tax Ordinance 2001. While finalizing assessment for the said tax year, the Taxation Officer has issued notice u/s 122(5A) of the Income Tax Ordinance 2001, intending to disallow exemption of grant income of Rs. 976,289 and income tax deduction at source of Rs. 1,183,671 thus reducing income tax refund for the said year by Rs. 2,159,960. The FMFB has appealed before the Commissioner of Income Tax (Appeals), CIT (Appeals) has upheld Additional Commissioner order and the FMFB has decided to preferred appeal before Income Tax Appellate Tribunal, where matter is pending disposal. No provision has been made in the financial statements, as the management is confident about favorable outcome of the above matter.

	2008	2007
	Rupees	Rupees
22.2 Commitments:		
Capital commitments	-	3,764,989
Commitments in respect of repo transactions:		
- Resale	-	75,000,000
23 MARKUP/RETURN/INTEREST EARNED		
Mark up on advances	443,284,100	233,855,623
Income on investment in Government securities	23,091,808	11,292,978
Income from Term Finance Certificates	21,989,389	8,963,588
Mark up on reverse repo transactions	5,469,804	5,070,113
Markup on deposit accounts with treasury and other banks	31,960,825	56,601,334
	525,795,926	315,783,636
24 MARKUP/RETURN/INTEREST EXPENSED		
Deposits and other accounts	152,171,919	99,877,564
Borrowings	13,296,267	-
	165,468,186	99,877,564

	Note	2008 Rupees	2007 Rupees
25 FEE, COMMISSION AND BROKERAGE INCOME			
Fee	25.1	58,580,669	25,300,156
Commission		4,067,538	2,184,239
		<u>62,648,207</u>	<u>27,484,395</u>
25.1	This represents loan application/processing fee and life insurance premium received from borrowers.		
26 GRANT INCOME-net of related expenses			
Amortisation of revolving fund for micro credit		-	9,368,141
Amortisation of deferred grants	21	13,705,994	12,829,246
		<u>13,705,994</u>	<u>22,197,387</u>
Less: related expenses			
- Women Access to Capital and Technology (WACT) Program	26.1	(2,109,130)	(5,948,358)
- Financial Sector Strengthening Programme (FSSP)			-
For institutional capacity building	26.2	-	(2,992,447)
For social products, connectivity and reengineering	26.3	(2,986,600)	-
- Aga Khan Agency for Microfinance-Micro insurance Initiative(AKAM-MI)	26.4	(2,989,858)	(1,004,180)
- International Labor Organization (ILO)	26.5	(3,919,835)	(1,856,981)
		<u>(12,005,423)</u>	<u>(11,801,966)</u>
		<u>1,700,571</u>	<u>10,395,421</u>
26.1 Women Access to Capital and Technology (WACT) Program expenses			
Capacity building			
Training and networking		-	1,060,955
Capacity building of staff /entrepreneurs		-	126,825
		-	1,187,780
Research and policy		-	(46,580)
Marketing and advocacy		2,109,130	4,807,158
		<u>2,109,130</u>	<u>5,948,358</u>
26.2 FSSP expenses for institutional capacity building			
Microseed capital product		-	985,512
Development of SOPs		-	847,581
Fund product costing		-	750,200
Housing product		-	290,491
Staff training in data processing		-	93,963
Livestock product		-	24,700
		-	<u>2,992,447</u>
26.3 FSSP expenses for social products, connectivity and reengineering			
Social Products		752,259	-
Re-Engineering		2,234,341	-
		<u>2,986,600</u>	<u>-</u>
26.4 Aga Khan Agency for Microfinance-Micro insurance Initiative(AKAM MI) expenses			
Operational cost		2,870,213	776,203
Set up and training		68,950	214,069
Mobile vans		50,695	13,908
		<u>2,989,858</u>	<u>1,004,180</u>
26.5 International Labor Organization (ILO)			
Staff cost		2,153,817	916,870
Travel cost		606,722	17,311
Training of Trainers		409,821	-
Delivery of BDS		360,581	-
Marketing of BDS		242,501	33,715
Training Manuals		78,890	-
Project admin cost		49,700	-
Research and preparation		17,803	889,085
		<u>3,919,835</u>	<u>1,856,981</u>
26.6	There were no grants in kind received during the year.		

**THE FIRST MICROFINANCEBANK LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	2008 Rupees	2007 Rupees
27	ADMINISTRATIVE EXPENSES		
	Staff salaries and benefits	226,580,200	121,448,976
	Contribution to defined contribution provident fund	10,009,105	5,873,599
	Contribution to defined benefit gratuity fund	18.2 8,306,000	2,969,000
	Depreciation	13.2 59,446,274	28,399,135
	Travel and transportation	37,841,236	21,247,369
	Rent, rates and taxes	37,685,640	22,678,564
	Utilities	23,582,367	9,917,696
	Printing, stationery and periodicals	17,099,303	7,094,320
	Communications	15,763,329	8,738,730
	Office security	12,652,006	5,867,836
	Repair and maintenance	14,200,958	6,527,707
	Office supplies	9,737,635	4,899,971
	Training and capacity building	5,899,198	7,708,090
	Advertisement and business promotions	5,373,968	1,792,127
	Professional services	4,039,746	2,651,532
	Pakistan Post operating expenses	3,968,604	1,227,460
	IT supplies and software	3,466,483	643,096
	Insurance	2,946,773	1,478,279
	Loss on disposal of fixed assets	1,148,518	-
	Auditors' remuneration	27.1 962,700	916,520
	Amortisation of intangible assets	13.3 821,974	698,635
	Other expenses	4,084,278	1,458,794
		505,616,295	264,237,436
27.1	Auditors' remuneration		
	Audit fee	682,500	650,000
	Fee for half yearly review	100,000	100,000
	Out of pocket expenses	180,200	166,520
		962,700	916,520
28	TAXATION		
28.1	The income of the FMFB is exempt from tax for a period of five years starting from 01 July 2007 under clause 66 (XVIII) of Part 1 of second schedule of the Income Tax Ordinance, 2001, subject to the condition that the FMFB shall not distribute its profits to its shareholders and that profits are utilized for microfinance services. The management expects that the exemption would be extended for a similar term. Since section 113 "minimum tax on income of certain persons" of the Income Tax Ordinance, 2001 has been withdrawn during the year, therefore no provision for taxation is made in the current year.		
28.2	No numeric tax rate reconciliation is given as the FMFB is exempt from tax.		

**29 NUMBER OF EMPLOYEES**

		2008		
		Credit/sales	Banking/support	Total
Permanent		694	194	888
Contractual		36	651	687
	Total	730	845	1,575
		2007		
Permanent		639	104	743
Contractual		12	290	302
	Total	651	394	1,045

		Note	2008	2007
30 NUMBER OF BRANCHES / POINT OF LINK UNITS				
At beginning of the year			80	44
Opened during the year			9	36
At close of the year		30.1	89	80

30.1 The FMFB has 85 branches, 4 point of link units and 68 PPO-sub offices as at 31 December 2008 (2007: 76 branches, 4 point of link units and Nil PPO-sub offices).

		2008	2007
31 LOSS PER SHARE (RUPEE)			
Loss after taxation	Rupees	(106,593,219)	(27,788,819)
Weighted average number of ordinary shares	Number	66,000,050	66,000,050
Loss per share	Rupee	(1.62)	(0.42)

31.1 There is no dilutive effect on the basic earnings/loss per share of the FMFB.

32 RELATED PARTY TRANSACTIONS

FMFB's related parties comprise of major shareholders, directors and entities over which the directors are able to exercise significant influence, staff retirement fund and key executives. The details of transactions with related parties are as follows:

Note	2008	2007
Rupees		
Balances with related parties		
Balances with other banks/NBFIs/MFBs	339,905,310	174,173,024
Other assets	339,369	432,988
Deposits and other accounts	144,421,409	286,848,119
Accrued mark-up on deposits received from related parties	4,698,902	7,478,745
Other liabilities	1,830,000	1,830,000
Transactions during the year		
Profit received on deposit with related parties	1,527,962	426,996
Mark up expense on deposits received from related parties	16,363,899	7,756,189
Cost charged by associated undertaking for use of vehicle	1,830,000	1,830,000
Contribution to defined contribution provident fund	10,009,105	5,873,599
Contribution to defined contribution gratuity fund	8,306,000	2,969,000

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

33 CASH AND CASH EQUIVALENTS

Cash and balances with SBP and NBP	8	332,676,173	198,325,188
Balances with other banks/NBFIs/MFBs	9	777,283,849	527,512,129
Borrowing	17	(100,000,000)	-
		1,009,960,022	725,837,317


THE FIRST MICROFINANCEBANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

	Effective yield/ interest rate	Interest/mark up bearing				Non interest/mark up bearing				Total
		Upto one year	One to five years	Over five years	Sub total	Upto one year	One to five years	Over five years	Sub total	2007
	%	Rupees								
31 December 2007										
Financial assets										
Cash and balances with SBP and NBP	1.2	45,476,990	-	-	45,476,990	152,848,198	-	-	152,848,198	198,325,188
Balances with other banks/NBFIs/MFBs	0.1-11	513,275,230	-	-	513,275,230	14,236,899	-	-	14,236,899	527,512,129
Lending to a financial institution	9.17	72,959,550	-	-	72,959,550	-	-	-	-	72,959,550
Investments	9.1-12.45	119,851,138	74,555,934	188,539,236	382,946,308	162,738,048	-	-	162,738,048	545,684,356
Advances	3.8 -35.07	1,055,334,366	138,274,908	-	1,193,609,274	-	-	-	-	1,193,609,274
Other assets		-	-	-	-	64,818,250	-	-	64,818,250	64,818,250
Rupees		<u>1,806,897,274</u>	<u>212,830,842</u>	<u>188,539,236</u>	<u>2,208,267,352</u>	<u>394,641,395</u>	<u>-</u>	<u>-</u>	<u>394,641,395</u>	<u>2,602,908,747</u>
Financial liabilities										
Deposits and other accounts	3.0-10.75	1,516,206,750	235,447,379	-	1,751,654,129	283,930,224	-	-	283,930,224	2,035,584,353
Other liabilities		-	-	-	-	69,753,712	23,720,274	-	93,473,986	93,473,986
Rupees		<u>1,516,206,750</u>	<u>235,447,379</u>	<u>-</u>	<u>1,751,654,129</u>	<u>353,683,936</u>	<u>23,720,274</u>	<u>-</u>	<u>377,404,210</u>	<u>2,129,058,339</u>
Off balance sheet financial instruments:										
Capital commitments		-	-	-	-	3,764,989	-	-	3,764,989	3,764,989
Commitments in respect of reverse repo transactions	9.17	75,000,000	-	-	75,000,000	-	-	-	-	75,000,000



34.1 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. The FMFB's credit risk is primarily attributable to its advances and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The 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 Prudential Regulations. Maximum amount of financial assets which are subject to credit risk amount to Rs 3,224,805,619 (2007: Rs. 2,213,515,001).

34.2 Liquidity risk:

Liquidity risk is the risk that the FMFB will encounter difficulty in raising funds to meet its net funding requirements. The 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.

34.3 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. The FMFB's interest rate exposure stems mainly from investing activity. This risk is managed by regular review of investment portfolio of government securities.

34.4 Fair value of financial instruments:

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair value.

34.5 Capital management

Capital requirements applicable to the FMFB are set out under Microfinance Institution Ordinance, 2001. These requirements are put in place to ensure sufficient solvency margins. The FMFB manages its capital requirement by assessing its capital structure against required capital level on regular basis. Currently the FMFB has a paid up capital of Rs.660,000,500. The minimum paid up capital requirement applicable to the FMFB is Rs. 500,000,000. The FMFB has maintained capital adequacy ratio in accordance with regulation No. 4 of Prudential Regulations which states that the Bank shall maintain capital equivalent to atleast 15% of its risk-weighted assets.



35 MATURITIES OF ASSETS AND LIABILITIES

	Total 2008	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
Rupees					
31 December 2008					
Assets					
Interest/mark up earning					
Cash and balances with SBP and NBP	79,348,225	79,348,225	-	-	-
Balances with other banks/NBFIs/MFBs	773,020,741	773,020,741	-	-	-
Lending to financial institution	-	-	-	-	-
Investments	549,214,503	-	366,458,110	-	182,756,393
Advances	2,067,750,648	171,117,440	1,018,876,320	717,886,085	159,870,803
Non-Interest/mark up earning					
Cash balances with SBP and NBP	253,327,948	253,327,948	-	-	-
Balances with other banks/NBFIs/MFBs	4,263,108	4,263,108	-	-	-
Investments	-	-	-	-	-
Other assets	171,343,259	141,414,223	11,658,528	1,133,147	17,137,361
Operating fixed assets	195,984,338	-	-	-	195,984,338
Deferred tax asset	-	-	-	-	-
	4,094,252,770	1,422,491,685	1,396,992,958	719,019,232	555,748,895
Liabilities					
Interest/mark up bearing					
Deposits and other accounts	2,746,780,118	1,295,626,544	580,477,995	470,696,097	399,979,482
Borrowings	100,000,000	100,000,000	-	-	-
Non-Interest/mark up bearing					
Deposits and other accounts	557,962,264	557,962,264	-	-	-
Other liabilities	120,631,812	76,708,926	20,209,453	7,008,716	16,704,717
	3,525,374,194	2,030,297,734	600,687,448	477,704,813	416,684,199
Net assets	568,878,576	(607,806,049)	796,305,510	241,314,419	139,064,696
<i>Represented by :</i>					
Share capital	660,000,500				
Statutory and general reserves	8,040,156				
Depositors' protection fund	2,470,534				
Accumulated loss	(104,231,456)				
Deficit on revaluation of assets	(8,759,343)				
Deferred grant	11,358,185				
	568,878,576				

**THE FIRST MICROFINANCEBANK LIMITED**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

	Total 2007	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years
	Rupees				
31 December 2007					
Assets					
Interest/mark up earning					
Cash and balances with SBP and NBP	45,476,990	45,476,990	-	-	-
Balances with other banks/NBFIs/MFBs	513,275,230	463,275,230	50,000,000	-	-
Lending to financial institution	72,959,550	72,959,550	-	-	-
Investments	382,946,308	1,007,538	-	118,843,600	263,095,170
Advances	1,193,609,274	137,302,150	546,658,780	371,373,436	138,274,908
Non-Interest/mark up earning					
Cash balances with SBP and NBP	152,848,198	152,848,198	-	-	-
Balances with other banks/NBFIs/MFBs	14,236,899	14,236,899	-	-	-
Investments	162,738,048	162,738,048	-	-	-
Other assets	99,869,596	43,879,012	27,149,135	11,776,217	17,065,232
Operating fixed assets	169,202,301	-	-	-	169,202,301
Deferred tax asset	-	-	-	-	-
	<u>2,807,162,394</u>	<u>1,093,723,615</u>	<u>623,807,915</u>	<u>501,993,253</u>	<u>587,637,611</u>
Liabilities					
Interest/mark up bearing					
Deposits and other accounts	1,751,654,129	912,042,859	534,079,317	70,084,574	235,447,379
Non-Interest/mark up bearing					
Deposits and other accounts	283,930,224	283,930,224	-	-	-
Other liabilities	94,220,171	54,638,528	14,010,192	1,851,177	23,720,274
	<u>2,129,804,524</u>	<u>1,250,611,611</u>	<u>548,089,509</u>	<u>71,935,751</u>	<u>259,167,653</u>
Net assets	<u>677,357,870</u>	<u>(156,887,996)</u>	<u>75,718,406</u>	<u>430,057,502</u>	<u>328,469,958</u>
<i>Represented by :</i>					
Share capital	660,000,500				
Statutory and general reserves	8,040,156				
Depositors' protection fund	2,155,819				
Unappropriated profit	2,361,763				
Deficit on revaluation of assets	(1,677,272)				
Deferred grant	6,476,904				
	<u>677,357,870</u>				



36 REMUNERATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Executives	
	2008 Rupees	2007 Rupees	2008 Rupees	2007 Rupees
Managerial remuneration	1,000,008	1,000,008	24,428,597	14,825,828
Contribution to provident fund	99,996	99,996	2,132,308	1,460,109
Rent and house maintenance	300,000	300,000	9,469,185	5,385,625
Utilities	99,996	99,996	2,442,846	1,482,570
Medical	99,996	99,996	486,979	620,633
Others	-	-	3,411,590	499,273
	<u>1,599,996</u>	<u>1,599,996</u>	<u>42,371,505</u>	<u>24,274,038</u>
Number	<u>1</u>	<u>1</u>	<u>38</u>	<u>22</u>

36.1 The President/Chief Executive Officer and certain other executives are also provided with free use of the FMFB owned and maintained cars in accordance with their entitlement as per rules of the FMFB. No remuneration was paid to the directors of the FMFB.

	2008 Rupees	2007 Rupees
37 OPERATIONAL/NON-OPERATIONAL INCOME		
Profit before taxation comprises of:		
Operational loss	(107,616,553)	(33,183,174)
Grant income-net of expenses	1,700,571	10,395,421
	<u>(105,915,982)</u>	<u>(22,787,753)</u>

38 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of the FMFB on March 07, 2009.

39 CORRESPONDING FIGURES

Following corresponding figure has been reclassified for the purposes of better presentation:

From	To	Rupees
Revolving fund for micro credit	Other liabilities-Revolving credit -against Shubinak Project	10,083,043
Depositors' protection fund	Equity	2,155,819

40 GENERAL

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

40.2 Account captions as prescribed by BSD Circular No 11 dated 30 December 2003 issued by the SBP, (in respect of forms of financial statements for Microfinance Banks/Institutions) where there are no amounts have not been reproduced in these financial statements except for in the balance sheet and profit and loss account.