

THE FIRST MICROFINANCE BANK LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2011

	Note	2011	2010
		Rupees	Rupees
<u>ASSETS</u>			
Cash and Balances with SBP and NBP	6	355,511,274	292,158,613
Balances With Other Banks/NBFIs/MFBs	7	729,156,395	549,599,696
Lending to financial Institutions	8	245,941,500	97,543,801
Investments - Net Of Provisions	9	3,040,176,591	2,785,780,736
Advances - Net Of Provisions	10	2,169,034,204	2,221,769,813
Operating Fixed Assets	11	127,434,975	151,468,900
Other Assets	12	310,722,703	254,456,643
Deferred Tax Asset	13	-	-
Total Assets		6,977,977,642	6,352,778,202
<u>LIABILITIES</u>			
Deposits and other accounts	14	5,919,718,300	5,344,198,196
Borrowings		-	-
Subordinated Debt		-	-
Other Liabilities	15	267,411,587	255,845,194
Deferred Tax Liabilities		-	-
Total liabilities		6,187,129,887	5,600,043,390
Net Assets		790,847,755	752,734,812
<u>REPRESENTED BY:</u>			
Share Capital	16	1,111,500,800	990,000,750
Statutory and General Reserves		13,472,412	13,472,412
Depositors' Protection Fund		4,943,862	4,514,025
Accumulated Loss		(347,930,069)	(254,104,656)
		781,987,005	753,882,531
Surplus / (Deficit) on Revaluation of Assets	17	5,032,075	(9,330,917)
Deferred Grants	18	3,828,675	8,183,198
Total Capital		790,847,755	752,734,812
MEMORANDUM / OFF-BALANCE SHEET ITEMS	19		

The annexed notes from 1 to 38 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Rupees	2010 Rupees
Mark-up/Return/Interest Earned	20	1,157,045,785	1,146,752,583
Mark-up/Return/Interest Expensed	21	(502,256,829)	(487,056,565)
Net Mark-up/Interest Income		654,788,956	659,696,018
Provision against non-performing loans and advances	10.4	(222,383,296)	(224,433,417)
Recovery against written off advances	10.2	98,857,367	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(123,525,929)	(224,433,417)
Net Mark-up/Interest Income after provisions		531,263,027	435,262,601
NON MARK-UP/NON INTEREST INCOME			
Fee, Commission and Brokerage income	22	85,189,562	99,485,464
Dividend Income		-	-
Amortization of deferred capital grant	23	5,826,651	4,805,925
Other Income		9,825,288	7,430,542
Total non-markup/non interest income		100,841,501	111,721,931
		632,104,528	546,984,532
NON MARK-UP/NON INTEREST EXPENSES			
Administrative expenses	24	(710,340,738)	(690,517,091)
Depreciation - grant related assets	24	(5,826,651)	(4,805,925)
Reversals/ Other provisions and write offs		3,187,891	(8,588,506)
Other charges	25	-	(47,000)
Total non-markup/non interest expenses		(712,979,498)	(703,958,522)
		(80,874,970)	(156,973,990)
Extra ordinary/unusual items		-	-
Loss before taxation		(80,874,970)	(156,973,990)
Taxation -Current		(12,520,606)	(12,584,745)
-Prior years		-	-
-Deferred		-	-
	26	(12,520,606)	(12,584,745)
Loss after taxation		(93,395,576)	(169,558,735)
Unappropriated loss brought forward		(254,104,656)	(84,174,132)
Loss before appropriations		(347,500,232)	(253,732,867)
Appropriations - Transfers to:			
Statutory Reserve		-	-
Capital Reserve		-	-
Contribution to Depositors' Protection Fund		(429,837)	(371,789)
Revenue Reserve		-	-
Dividend		-	-
		(429,837)	(371,789)
Accumulated loss carried forward		(347,930,069)	(254,104,656)
Loss per share (Rupee)	31	(0.93)	(2.55)

The annexed notes from 1 to 38 form an integral part of these financial statements.

**THE FIRST MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011	2010
		<u>Rupees</u>	<u>Rupees</u>
Loss after taxation		(93,395,576)	(169,558,735)
Other comprehensive income		-	-
Comprehensive income - (loss) transferred to equity		<u>(93,395,576)</u>	<u>(169,558,735)</u>
Components of comprehensive income not reflected in equity			
Surplus / (deficit) on revaluation of investments	9.6	14,362,992	(71,099)
		<u>(79,032,584)</u>	<u>(169,629,834)</u>

The annexed notes from 1 to 38 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Rupees	2010 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(80,874,970)	(156,973,990)
Adjustments for non-cash charges			
Depreciation of property and equipment		53,374,433	60,020,808
Amortization of intangible assets		894,336	1,011,634
Gain on disposal of operating fixed assets		(2,003,933)	(2,176,718)
Loss on write off/disposal of property and equipment		226,011	5,949,172
Amortization of deferred grant		(5,826,651)	(9,425,544)
Income on investment in Government securities		(307,620,184)	(186,480,133)
Gain on sale of investment		(1,892,095)	-
Net amortization of premium on investments		1,281,126	1,436,438
Net amortization of discount on investments		(5,033,503)	-
Mark up on reverse repo transactions		(21,705,423)	(21,314,087)
Provision against non performing loans and advances		222,383,296	224,433,417
Reversals/ Other provisions and write offs		(3,187,891)	8,588,506
Provision for gratuity		16,568,585	11,175,000
		(52,541,893)	93,218,493
		(133,416,863)	(63,755,497)
(Increase)/Decrease in operating assets			
Lending to financial institutions		(148,397,699)	146,858,449
Advances		(166,459,796)	279,358,811
Other assets (excluding advance taxation)		(58,638,006)	(33,960,161)
		(373,495,501)	392,257,099
Increase in operating liabilities			
Deposits and other accounts		575,520,104	125,190,352
Other liabilities		13,172,808	(11,989,069)
		588,692,912	113,201,283
Cash inflows from operations			
		81,780,548	441,702,885
Gratuity paid		(18,175,000)	(7,130,000)
Income tax paid		(11,132,112)	(2,355,751)
Net cash inflow from operating activities		52,473,436	432,217,134
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in available for sale securities		(9,277,785,333)	(8,137,070,502)
Net investment in held for trading securities		(854,765,020)	-
Net investment in lending to financial institutions		(12,467,298,971)	(10,897,033,740)
Refund of principal on available for sale securities		26,261,960	20,032,080
Proceeds from sale/redemption of available for sale securities		9,308,461,547	7,292,100,000
Proceeds from sale/redemption of held for trading securities		871,125,938	-
Proceeds from lending to financial institutions		12,488,937,095	10,917,809,280
Investments in operating fixed assets		(31,149,595)	(41,088,204)
Sale proceeds of property and equipment disposed off		2,692,673	3,001,112
Net cash inflow / (outflow) from investing activities		66,480,294	(842,249,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds received against rights issue		121,500,050	330,000,250
Grants received		2,455,580	7,596,818
Net cash inflow from financing activities		123,955,630	337,597,068
Net increase / (decrease) in cash and cash equivalents		242,909,360	(72,435,772)
Cash and cash equivalents at the beginning of the year		841,758,309	914,194,081
Cash and cash equivalents at the end of the year	33	1,084,667,669	841,758,309

The annexed notes from 1 to 38 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	SHARE CAPITAL	STATUTORY RESERVE	DEPOSITORS' PROTECTION FUND	ACCUMULATED LOSS	TOTAL
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance at 01 January 2010	660,000,500	13,472,412	4,142,236	(84,174,132)	593,441,016
Issue of share capital	330,000,250	-	-	-	330,000,250
Interest earned on investment of fund	-	-	371,789	(371,789)	-
Total comprehensive income - (loss)				(169,558,735)	(169,558,735)
Balance at 31 December 2010	990,000,750	13,472,412	4,514,025	(254,104,656)	753,882,531
Balance at 01 January 2011	990,000,750	13,472,412	4,514,025	(254,104,656)	753,882,531
Issue of share capital	121,500,050				121,500,050
Interest earned on investment of fund	-	-	429,837	(429,837)	-
Total comprehensive income - (loss)				(93,395,576)	(93,395,576)
Balance at 31 December 2011	1,111,500,800	13,472,412	4,943,862	(347,930,069)	781,987,005

The annexed notes from 1 to 38 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1 STATUS AND NATURE OF BUSINESS

The First Microfinance Bank 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. FMFB received the certificate of commencement of business on 14 February 2002. 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 130 business locations comprising of 80 branches/point of links and 50 Pakistan Post Office (PPO) - sub offices (2010: 147 business locations comprising of 83 branches/point of links and 64 PPO - sub offices) in operation with registered office at 16-17 Floor Habib Bank Tower, Blue Area, Islamabad, Pakistan and is licensed to operate nationwide.

2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the Banking Supervision Department (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 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 Institutions 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 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).

SBP vide BSD Circular Letter 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 and microfinance banks 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 SBP and presented in accordance with the requirements of SBP BSD circular number 11 dated 30 December 2003. Further, the SECP vide its S.R.O No. 411 (I)/ 2008 dated 28 April 2008 has deferred the applicability of International Financial Reporting Standard (IFRS) 7 "Financial Instruments", till further orders.

4 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost basis except that obligations under employee retirement benefit plan are measured at present value and investments available for sale are measured at fair value.

5 SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND POLICIES

5.1 Functional and presentation currency

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

5.2 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 relates to valuation and impairment of investments, advances, provision for income taxes, staff retirement benefits, determination of useful lives of depreciable assets and intangible assets and other provisions which are discussed in following paragraphs:

5.2.1 Impairment of investments

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Regulations issued by the SBP.

5.2.2 Advances

The FMFB reviews its micro credit loan portfolio to assess amount of non-performing advances and provision required there against on regular basis. While assessing this requirements, the Regulations of SBP are taken into consideration.

5.2.3 Operating fixed assets/intangible assets

Estimates of residual values and useful lives of operating fixed assets are reassessed annually and any change in estimate is taken into account in the determination of depreciation charge and impairment loss. Changes in estimates are accounted for over the estimated remaining economic life of the assets.

5.2.4 Employee benefits

Defined benefit plan is provided for eligible employees of the FMFB. For defined benefit, a deferred liability is recognized in the FMFB's financial statements. The calculation of defined benefit plan requires assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration, expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. The assumptions used may vary as they are determined by independent actuary. Calculations are sensitive to changes in the underlying adjustments.

5.2.5 Other provisions

Estimates of the amount of provisions recognized are based on current legal and constructive requirements. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, prices and conditions, and can take place many years in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

5.3 Significant accounting policies

5.3.1 Cash and cash equivalents

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

5.3.2 Lending to/borrowing from financial institutions

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with the accounting policies for investment securities. The counter party liability for consideration received is included in borrowings from financial institutions. The difference between sale and repurchase price is treated as mark-up/return/interest expense over the period of transaction. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized as investments in the balance sheet. Amounts paid under these agreements are included in lending to financial institutions. The difference between purchase and resale price is treated as markup/return/interest income over the period of transaction.

5.3.3 Investment

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

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 or 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 taken to profit and loss account. Unquoted securities are valued at cost less impairment, if any.

(b) Held to maturity

Investments with 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 taking into account 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 is amortized through profit and loss account over the remaining period till maturity.

(c) Available-for-sale

Investments which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available for sale. Available-for-sale investments are initially recognized at cost and subsequently measured at fair value. Profit on available-for-sale investments is recognized on a time proportion basis taking into account the effective yield on the investments.

The surplus/(deficit) arising on revaluation of available for sale investments is kept in "Surplus/(deficit) on revaluation of assets" and is shown in the balance sheet below equity. The surplus/(deficit) arising on these investments is taken to profit and loss account, when actually realized upon disposal.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

5.3.4 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 following four categories:

(a) Other Assets Especially Mentioned:

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

(b) Substandard:

These are advances in arrears (payments/installments overdue) for 60 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.

In accordance with the requirements of the Regulations, the FMFB maintains 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 collaterals
(iii) Doubtful	50% of outstanding principal net of cash collaterals
(iv) Loss	100% of outstanding principal net of cash collaterals

In addition to above, a general provision is made equivalent to 1% (2010: 1.5%) of the net outstanding balance (advances net of specific provisions).

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, the FMFB continues its efforts for recovery of the written off balances.

The SBP amended the Prudential Regulation No. 12 for microfinance banks vide AC&MFD Circular Letter No. 01 of 2011 dated 16 September 2011 in relation to the general provision requirements thereby provision is now made at 1% instead of previous requirement of 1.5%. This change has been applied prospectively as required under International Accounting Standard IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had there been no change in the estimate, the loss for the year after taxation would have been higher by Rs. 11,964,820 with the corresponding increase in the accumulated loss of the FMFB.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

5.3.5 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 and the costs of dismantling and removing the items and restoring the site on which they are located, if any.

Depreciation is charged on the straight line method at rate 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 future economic benefits associated with the item will flow to the FMFB and the cost of the item can be measured reliably. Carrying amount of the replaced part is derecognized. All other repair and maintenance are charged to income during the period.

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 recognised 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 the 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 software and related applications. Intangible assets are amortized over their estimated useful lives at rate 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 recognized in profit and loss account as incurred.

5.3.6 Deposits

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

5.3.7 Taxation

Income tax expense/income comprises current and deferred tax. Income tax expense/income is recognized in profit or loss 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.

The FMFB takes into account the current income tax law and decisions taken by appellate authorities. Instances where the 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.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

5.3.7 Taxation (continued)

(a) Current

Current tax is the tax payable 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) Deferred

Deferred tax is accounted for on all major taxable temporary differences between the carrying amounts of assets for financial reporting purposes and their taxation base. 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. At each balance sheet date the FMFB reassesses the carrying and the unrecognized amount of deferred tax assets.

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

Deferred tax, on revaluation of investments, if any, is recognized as an adjustment to surplus/(deficit) arising on such revaluation.

5.3.8 Staff retirement benefits

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

(a) 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 at the end of the previous reporting year exceed 10% of the higher of the present value of defined 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.

(b) Defined contribution plan

The 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.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

5.3.9 Reserves

(a) Statutory reserve

The 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 the FMFB and, thereafter, an appropriation of a sum not less than 5% of its annual profit after taxes is made in accordance with statutory requirements under the Microfinance Institutions Ordinance, 2001.

(b) 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

5.3.10 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.

5.3.11 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. Other grants are recognized as income in the year of receipt.

5.3.12 Foreign currency transactions

The financial statements are presented in Pakistan Rupees, which is the FMFB's functional currency. Transactions in foreign currencies are translated into Pakistan Rupees at exchange rate on the date of transaction. All monetary assets and liabilities in foreign currencies are translated into Pakistan 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.

5.3.13 Operating leases

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

5.3.14 Revenue recognition

(a) Markup/income on advances

Markup/Income/Return/Service Charge on advances is recognized on accrual/time proportion basis 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 income recognition of unpaid service charges/income ceases. Further, accrued markup on non-performing advances are reversed and credited to suspense account. Subsequently, mark-up recoverable on non-performing advances is recognized on a receipt basis in accordance with the requirements of the Regulations.

(b) Income from investments

Markup/return on investments is recognized on accrual/time proportion basis using the effective interest rate method. Where debt securities are purchased at premium or discount, those premiums/ discounts are amortized through profit and loss account over the remaining period of maturity.

(c) Dividend income

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

(d) Gain and loss on sale of investments

Gains and losses on sale of investments are included in income currently.

(e) Fee, commission and brokerage income

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

(f) 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.

(g) 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 .

(h) Gain/ loss on sale of operating fixed assets

- (i)** Gain on sale of operating fixed assets are recognized under other income in the profit and loss account.
- (ii)** Loss on sale of operating fixed assets are recognized under administrative expenses in the profit and loss account.

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5.3.15 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.

5.3.16 Financial instruments

Financial assets and liabilities are recognized when the FMFB becomes a party to the contractual provisions of the instrument. These are derecognized when The 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 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 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. Financial charges are accounted for on accrual basis.

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

5.3.17 Off-setting

Financial assets and financial liabilities and tax assets and tax 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 the FMFB intends either to settle on net basis or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

5.3.18 Borrowing costs

Mark up, interest and other charges on borrowings are charged to income in the period in which they are incurred.

5.3.19 Mark-up 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, mark-up bearing borrowings are stated at original cost less subsequent repayments.

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5.4 Forthcoming changes in approved accounting standards which are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments are not expected to impact the current transactions of the FMFB.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments are not expected to impact the current transactions of the FMFB.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The FMFB does not plan to adopt this change early and the extent of the impact has not been determined.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other approved accounting standards continue to apply in this regard. The amendments are not expected to impact the current transactions of the FMFB.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not expected to impact the current transactions of the FMFB.
- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on the unconsolidated financial statements of the FMFB.

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	Note	2011 Rupees	2010 Rupees
6 CASH AND BALANCES WITH SBP AND NBP			
Cash in hand		81,445,546	71,118,729
Balance with State Bank of Pakistan	6.1	156,779,760	139,665,588
Balance with National Bank of Pakistan in			
Current account		-	-
Deposit account	6.2	117,285,968	81,374,296
		<u>355,511,274</u>	<u>292,158,613</u>

6.1 This represents balance maintained in current account with SBP to meet the requirement of maintaining Cash Reserve Requirement ("CRR").

6.2 These carry mark up at the rate of 5% (2010: 2.5%) per annum.

	Note	2011 Rupees	2010 Rupees
7 BALANCES WITH OTHER BANKS/NBFIs/MFBs			
In Pakistan			
Current accounts		21,257,925	28,756,991
Deposit accounts	7.1	707,898,470	520,842,705
		<u>729,156,395</u>	<u>549,599,696</u>

7.1 All deposit accounts carry markup ranging between 8% and 11% (2010: 9% and 11%) per annum.

	Note	2011 Rupees	2010 Rupees
8 LENDING TO FINANCIAL INSTITUTIONS			
Repurchase agreement lendings (Reverse Repo)	8.1	245,941,500	97,543,801

8.1 This represents Market Treasury Bill of Rs. 250,000,000 (2010: Rs. 100,000,000) purchased under a resale agreement at the rate of 11.45% per annum (2010: 12.55%). This was subsequently matured on 03 January 2012.

	Note	2011 Rupees	2010 Rupees
9 INVESTMENTS - net of provisions			
Held-to-maturity - Federal Government security			
<i>Pakistan Investment Bonds</i>	9.1	2,855,232	2,829,732
<i>Market Treasury Bills</i>	9.2	973,309	975,051
		3,828,541	3,804,783
Available for sale			
Federal Government securities			
<i>Pakistan Investment Bonds</i>	9.3	337,353,645	-
<i>Market Treasury Bills</i>	9.4	2,567,414,893	2,637,077,265
Term Finance Certificates - listed	9.5	126,547,437	154,229,605
		3,031,315,975	2,791,306,870
Surplus/(deficit) on revaluation of available for sale investments	9.6	5,032,075	(9,330,917)
		<u>3,040,176,591</u>	<u>2,785,780,736</u>

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- 9.1** This represents a ten year bond held for the purposes of the Depositors' Protection Fund carrying markup at the rate of 9.6% (2010: 9.6%) per annum, payable on semi-annual basis, maturing in 2017.
- 9.2** This represents a 1 year Treasury Bill held for the purposes of the Depositors' Protection Fund carrying discount rate of 13.63% per annum (2010: 12.25%), maturing in March 2012.
- 9.3** These represent three years bonds carrying markup at the rate of 11.25% (2010: nil) per annum, payable on semi-annual basis, maturing in 2014.
- 9.4** These securities have original maturity period of 3 months to 1 year with yield ranging between 11.72% and 13.91% (2010: 11.98% and 13.25%) per annum.

9.5 Term Finance Certificates-listed

Credit Rating	No. of units		Market Value		Cost		
	2011	2010	2011	2010	2011	2010	
			Rupees	Rupees	Rupees	Rupees	
Bank Al-Habib Limited - II	AA	9,000	9,000	46,174,396	44,716,180	46,432,933	46,938,221
Orix Leasing Limited	AA+	12,000	12,000	9,676,628	29,737,811	10,100,696	30,355,877
Soneri Bank Limited	A+	5,000	5,000	18,585,307	24,513,526	18,705,000	25,087,273
United Bank Limited - III	AA	10,000	10,000	49,737,625	49,838,281	51,308,808	51,848,234
				124,173,956	148,805,798	126,547,437	154,229,605

- 9.5.1** All Term Finance Certificates are quoted and carry rate of return ranging between 13.42% and 15.33% (2010:14.57% and 14.82%) per annum and have maturity period upto 3 years (2010: 4 years).

9.6 Particulars of surplus / (deficit) on revaluation of available for sale investments:

	Note	2011	2010
		Rupees	Rupees
Opening balance		(9,330,917)	(9,259,818)
Transferred to surplus / (deficit) on revaluation of assets account below equity		14,362,992	(71,099)
Closing balance	17	5,032,075	(9,330,917)

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	Note	2011	2011	2010	2010
		Number	Rupees	Number	Rupees
10 ADVANCES - net of provisions					
Considered good	10.1	115,765	2,338,374,441	141,215	2,240,401,466
Considered doubtful	10.3	3,439	68,769,745	10,582	133,478,831
		<u>119,204</u>	<u>2,407,144,186</u>	<u>151,797</u>	<u>2,373,880,297</u>
Less: Specific provision	10.4		14,180,344		64,469,319
General provision					
- Mandatory provision at the rate of 1% (2010: 1.5%)			23,929,638		34,641,165
- Provision for flood affected clients	10.5		200,000,000		53,000,000
General provision	10.4		223,929,638		87,641,165
	10.4		238,109,982		152,110,484
			<u>2,169,034,204</u>		<u>2,221,769,813</u>

10.1 All advances excluding Staff loan are secured by personal guarantees.

Advances include 498 (2010: 265) number of staff loans, aggregating to Rs. 30,325,899 (2010: Rs. 21,229,031), carrying effective markup rate ranging between 5.61% and 9.15% per annum (2010: 3.8% and 4.8% per annum).

10.2 Pursuant to SBP SMEFD Circular No. 1 dated 02 February 2011, the FMFB filed claim amounting to Rs. 148,843,967, which was reimbursed by SBP. Out of this, Rs. 16,855,448 has been refunded to borrowers against recoveries made and Rs. 381,769, being death claims received from insurance company, will be reimbursed to SBP. Out of the remaining amount of Rs. 131,606,750, Rs. 32,749,383 have been settled with the borrowers' outstanding balances and Rs. 98,857,367 has been taken to profit and loss account as recovery against written off advances.

10.3 Particulars of non performing advances

Following is the detail of advances which have been placed under non performing status in accordance with note 5.3.4.

Classification	Amount outstanding	Required provision percentage	Provision required	Provision held
	Rupees		Rupees	Rupees
Other Assets Especially Mentioned	40,188,316	0	-	-
Sub-standard	8,908,659	25	2,227,165	2,227,165
Doubtful	15,439,182	50	7,719,591	7,719,591
Loss	4,233,588	100	4,233,588	4,233,588
Total	<u>68,769,745</u>		<u>14,180,344</u>	<u>14,180,344</u>

10.4 Particulars of provision against non performing advances

Note	Specific	General	Total	Specific	General	Total
	2011	2011	2011	2010	2010	2010
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Opening balance	64,469,319	87,641,165	152,110,484	11,284,113	41,506,021	52,790,134
Charge for the year	86,094,823	136,288,473	222,383,296	178,298,273	46,135,144	224,433,417
Amounts written off	10.6 (136,383,798)	-	(136,383,798)	(125,113,067)	-	(125,113,067)
	(50,288,975)	136,288,473	85,999,498	53,185,206	46,135,144	99,320,350
Closing balance	<u>14,180,344</u>	<u>223,929,638</u>	<u>238,109,982</u>	<u>64,469,319</u>	<u>87,641,165</u>	<u>152,110,484</u>

10.5 During the year, the FMFB made an assessment of rain affected borrowers in Sindh according to which advances aggregating to Rs.200 million were estimated to be impaired. Following prudent risk management, provision of Rs. 200 million has been made for rain affected clients, in addition to 1 % general provision required under the Prudential Regulations.

	Note	2011	2010
		Rupees	Rupees
10.6 Particulars of write offs			
Directly charged to profit and loss account		-	-
Against provisions	10.6.1	136,383,798	125,113,067
		<u>136,383,798</u>	<u>125,113,067</u>

10.6.1 These represent non performing advances overdue for 210 days or more, written off in accordance with the FMFB policy as explained in note 5.3.4.

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

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10.8 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 overdue. 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	2011	2011	2010	2010
	Amount Rupees	Portfolio at Risk %	Amount Rupees	Portfolio at Risk %
Current and less than 30 days late	2,338,374,441		2,240,401,466	-
30-59 days late	40,188,316	1.67%	21,356,639	0.90%
60-89 days late	8,908,659	0.37%	19,346,078	0.81%
90-179 days late	15,439,182	0.64%	66,286,629	2.79%
180 days or more late	4,233,588	0.18%	26,489,485	1.12%
	2,407,144,186	2.86%	2,373,880,297	5.62%

During the year advances amounting to Rs. 10,040,000 (2010: nil) were rescheduled. All rescheduled advances are regular on balance sheet date.

In 2011, loans are disbursed in 9 loan products (2010: 7 loan products). Loans are disbursed relating to these 9 (2010: 7) 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. Principal and service charges are recovered on monthly basis and on maturity as per repayment schedule. Management estimates that the average term of its outstanding loan portfolio is about 6.8 months (2010: 6.4 months) based on remaining weighted average tenure of loans outstanding as at balance sheet date.

Measures related to the classification of late payments are mentioned in note 5.3.4.

10.9 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 (including 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 %	
	2011	2010
1st Quarter	62.7	76.5
2nd Quarter	78.3	80.6
3rd Quarter	51.9	56.6
4th Quarter	72.9	81.4
	66.5	73.8

Annual loss rate (loans written off during the year divided by average loan portfolio outstanding) for the year comes to 1.36% (2010: 4.04%).

10.10 Portfolio by segment

Loan type	Note	2011	2010
		Rupees	Rupees
Agri input		802,265,758	959,499,242
Live stock		760,304,446	623,010,714
Micro-enterprise		524,774,146	524,011,828
Others	10.10.1	319,799,836	267,358,513
		2,407,144,186	2,373,880,297

10.10.1 Include loans provided for construction, professional/technical services, warehouse etc.

11 OPERATING FIXED ASSETS

Capital work-in-progress	11.1	13,999,923	11,020,403
Property and equipment	11.2	107,934,051	135,971,813
Intangible assets	11.3	5,501,001	4,476,684
		127,434,975	151,468,900

11.1 Capital work-in-progress

Civil works and furnishing	1,640,344	7,916,253
Advance for purchase of fixed assets	4,206,000	-
Advances for computer software	8,153,579	3,104,150
	13,999,923	11,020,403

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11.2 Property and equipment

	Cost					Accumulated Depreciation				Net Book Value
	At 01 January	Additions	Disposals/ Write offs	At 31 December	Rate per annum	At 01 January	Charge for the year	On Disposals/ Write offs	At 31 December	At 31 December
	Rupees	Rupees	Rupees	Rupees	%	Rupees	Rupees	Rupees	Rupees	Rupees
2011										
Free hold land	7,814,030	-	-	7,814,030	-	-	-	-	-	7,814,030
Lease hold improvements	115,680,093	8,196,206	-	123,876,299	14%	69,895,777	13,172,478	-	83,068,255	40,808,044
Furniture and fixtures	38,805,366	192,218	(579,768)	38,417,816	20%	25,042,325	6,192,819	(221,907)	31,013,237	7,404,579
Office equipment	57,110,288	3,174,478	(2,175,325)	58,109,441	25%	40,721,583	8,996,151	(1,889,859)	47,827,875	10,281,566
Computer equipment	94,534,489	3,845,732	(1,185,981)	97,194,240	33%	78,484,586	11,031,874	(1,057,177)	88,459,283	8,734,957
Vehicles	75,297,758	10,842,788	(3,806,000)	82,334,546	20%	39,125,940	13,981,111	(3,663,380)	49,443,671	32,890,875
	389,242,024	26,251,422	(7,747,074)	407,746,372		253,270,211	53,374,433	(6,832,323)	299,812,321	107,934,051
2010										
Free hold land	7,814,030	-	-	7,814,030	-	-	-	-	-	7,814,030
Lease hold improvements	120,264,647	4,335,040	(8,919,594)	115,680,093	14%	61,026,183	11,801,026	(2,931,432)	69,895,777	45,784,316
Furniture and fixtures	39,120,098	861,300	(1,176,032)	38,805,366	20%	19,270,406	6,651,840	(879,921)	25,042,325	13,763,041
Office equipment	54,819,973	5,020,884	(2,730,569)	57,110,288	25%	32,436,575	10,864,128	(2,579,120)	40,721,583	16,388,705
Computer equipment	93,168,332	6,136,449	(4,770,292)	94,534,489	33%	65,134,217	17,944,187	(4,593,818)	78,484,586	16,049,903
Vehicles	64,698,620	12,747,038	(2,147,900)	75,297,758	20%	28,352,843	12,759,627	(1,986,530)	39,125,940	36,171,818
	379,885,700	29,100,711	(19,744,387)	389,242,024		206,220,224	60,020,808	(12,970,821)	253,270,211	135,971,813

11.2.1 Property and equipment include fully depreciated items, still in use, having cost of Rs. 147,707,764 (2010: Rs. 90,366,914).

11.2.2 Detail of fixed asset deleted with the original cost or book value in excess of Rs. 1 million or Rs. 250,000 respectively; whichever is less; is as under:

Particular	Cost	Book value	Sale Proceeds	Mode of Disposal
	Rupees	Rupees	Rupees	
Vehicle	1,309,000	-	-	Transferred

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

	Cost					Accumulated Amortization				Net Book Value
	At 01 January	Additions	Disposal	At 31 December	Rate	At 01 January	Charge for the year	Disposal	At 31 December	At 31 December
	Rupees	Rupees	Rupees	Rupees	%	Rupees	Rupees	Rupees	Rupees	Rupees
11.3 Intangible assets										
2011										
Computer softwares	8,011,833	1,918,653	-	9,930,486	20%	3,535,149	894,336	-	4,429,485	5,501,001
2010										
Computer softwares	5,364,940	2,646,893	-	8,011,833	20%	2,523,515	1,011,634	-	3,535,149	4,476,684

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	Note	2011 Rupees	2010 Rupees
12 OTHER ASSETS			
Accrued mark-up on:			
- loans and advances		282,854,391	229,050,542
- non performing loans and advances transferred to suspense account		(46,205,939)	(22,609,667)
- investments and bank accounts		26,824,109	9,075,600
		263,472,561	215,516,475
Advances to suppliers		8,465,438	6,339,283
Branch adjustment account		2,347,334	-
Deposits		2,825,782	2,582,151
Prepayments		22,329,635	21,381,507
Advance tax - net of provision		1,499,623	2,888,117
Grant receivable	18	2,021,205	983,452
Insurance claim receivable		6,328,949	3,337,589
Stationery stock		1,432,176	1,428,069
		310,722,703	254,456,643

13 DEFERRED TAX ASSET

FMFB's income is exempt from income tax upto 30 June 2012 as mentioned in note 26.1 to these financial statements. Management is confident that exemption will continue after 30 June 2012, therefore, the FMFB has not recognized deferred tax asset on estimated unused tax losses amounting to Rs. 15,244,312 (2010: Rs. 83,972,204).

	2011 Number	2011 Rupees	2010 Number	2010 Rupees
14 DEPOSITS AND OTHER ACCOUNTS				
Time liabilities				
Term deposits	9,407	3,653,199,087	13,099	3,371,743,936
Demand liabilities				
PLS deposits	89,770	1,632,048,974	83,712	1,369,771,882
Current deposits	141,217	634,470,239	130,228	602,682,378
	230,987	2,266,519,213	213,940	1,972,454,260
	240,394	5,919,718,300	227,039	5,344,198,196

14.1 All above deposits represent voluntary savings of depositors.

	2011 Number	2011 Rupees	2010 Number	2010 Rupees
14.2 Particulars of deposits by ownership				
Individual depositors	230,622	4,228,332,454	218,921	3,936,835,163
Institutional depositors				
Corporations/Firms	9,737	1,487,390,914	8,113	1,401,568,385
Banks and financial institutions	35	203,994,932	5	5,794,648
	240,394	5,919,718,300	227,039	5,344,198,196

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	Note	2011 Rupees	2010 Rupees
15 OTHER LIABILITIES			
Payable to suppliers		19,215,725	22,975,080
Accrued markup on deposits and borrowings		182,002,667	163,736,646
Bills payable		35,782,762	22,382,125
Accrued liabilities		18,932,593	32,832,356
Withholding tax payable		1,826,328	1,785,862
Retention money		82,927	46,927
Payable to defined benefit gratuity fund	27.3	9,568,585	11,175,000
Payable to defined contribution provident fund		-	17,866
Branch adjustment account		-	893,332
		267,411,587	255,845,194

16 SHARE CAPITAL

16.1 Authorized share capital

2011 Numbers	2010 Numbers		2011 Rupees	2010 Rupees
150,000,000	100,000,000	Ordinary shares of Rs. 10 each	1,500,000,000	1,000,000,000

16.1.1 During the year, authorized capital was increased from 100,000,000 to 150,000,000 ordinary shares of Rs 10 each.

16.2 Issued, subscribed and paid-up capital

2011 Numbers	2010 Numbers		Note	2011 Rupees	2010 Rupees
111,150,080	99,000,075	Ordinary shares of Rs. 10 each fully paid in cash	16.3	1,111,500,800	990,000,750

16.3 Share capital of the FMFB is held as under:

Aga Khan Agency for Micro finance (AKAM)	571,500,300	450,000,250
Aga Khan Rural Support Programme (AKRSP)	300,000,000	300,000,000
International Finance Corporation (IFC)	240,000,000	240,000,000
Others	500	500
	1,111,500,800	990,000,750

16.4 During the year, 12,150,005 (2010: 33,000,025) right shares amounting to Rs. 121,500,050 (2010: Rs. 330,000,250) were issued by the FMFB.

17 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS

	Note	2011 Rupees	2010 Rupees
Available-for-sale investments:			
Government securities		7,405,556	(3,907,110)
Term Finance Certificates		(2,373,481)	(5,423,807)
	9.6	5,032,075	(9,330,917)

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

18 DEFERRED GRANTS

Note	FSSP	ILO	AKAM	SDC	SBP	SBP	Total	
	2010	2010	2010	2010	2010	2010	2010	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
	18.1	18.2	18.3	18.4	18.5	18.6		
Cumulative grants received till 31 December 2010	10,857,758	7,160,811	8,087,814	8,604,875	5,324,680	-		
Opening balance payable as at 01 January 2010	5,061,208	183,216	2,396,869	1,387,179	-	-	9,028,472	
Grants received during the year	-	-	-	2,126,299	5,324,680	-	7,450,979	
Other income recognized during the year	-	-	-	145,839	-	-	145,839	
Grant income recognized during the year in respect of the following:								
Expenses incurred during the year	-	-	-	4,619,619	-	-	4,619,619	
Amortization during the year	2,593,855	152,831	859,289	23,150	1,176,800	-	4,805,925	
Income transferred to profit and loss account	23	2,593,855	152,831	859,289	4,642,769	1,176,800	-	9,425,544
Closing payable balance as at 31 December 2010	2,467,353	30,385	1,537,580	-	4,147,880	-	8,183,198	
Closing receivable balance as at 31 December 2010	12	-	-	(983,452)	-	-	(983,452)	
	FSSP	ILO	AKAM	SDC	SBP	SBP	Total	
	2011	2011	2011	2011	2011	2011	2011	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Cumulative grants received till 31 December 2011	10,857,758	7,160,811	8,087,814	9,604,875	6,780,260	-		
Opening balance payable as at 01 January 2011	2,467,353	30,385	1,537,580	-	4,147,880	-	8,183,198	
Opening balance receivable as at 01 January 2011				(983,452)			(983,452)	
Net balance payable / (receivable) as at 01 January 2011	2,467,353	30,385	1,537,580	(983,452)	4,147,880	-	7,199,746	
Grants received during the year	-	-	-	1,000,000	1,455,580	-	2,455,580	
Grant income recognized during the year in respect of the following:								
Expenses incurred during the year	-	-	-	-	-	2,021,205	2,021,205	
Amortization during the year	2,467,353	30,385	1,273,441	8,248	2,047,224	-	5,826,651	
Income transferred to profit and loss account	23	2,467,353	30,385	1,273,441	8,248	2,047,224	2,021,205	7,847,856
Closing payable balance as at 31 December 2011	-	-	264,139	8,300	3,556,236	-	3,828,675	

Closing receivable balance as at 31 December 2011

12

-	-	-	-	-	<u>(2,021,205)</u>	<u>(2,021,205)</u>
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THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

- 18.1** This represents grant from the Financial Sector Strengthening Programme (FSSP) for following purposes:
- (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.
- 18.2** This represents grant from the International Labor Organization (ILO) for Business Development Services (BDS) and is recognized as income, on a systematic basis.
- 18.3** This represents grant from the Aga Khan Agency for Microfinance - Microinsurance Initiative (AKAM MI) for developing a micro-insurance business in Pakistan against aggregate limit of USD 140,000 (2010: USD 140,000). The grant can only be availed for program related expenditure and is recognized as income, on a systematic basis.
- 18.4** This represents grant from Swiss Agency for Development and Cooperation (SDC) to assist FMFB under Social Performance Indices' project to devise a set of social indicators needed to assess the living standards of beneficiaries, and ultimately improve the poverty alleviation focus of the FMFB.
- 18.5** 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.
- 18.6** This represents grant receivable from State Bank of Pakistan under Financial Inclusion Program (FIP), as per contract dated 27 December 2011, to support the institutional capacity building of the FMFB for projects "Acquisition and installation of Human Resource Information System" and "Business Systems Control and Application Strategic Review - ERapid" (also refer note 12).

19 MEMORANDUM / OFF - BALANCE SHEET ITEMS

19.1 Contingencies related to taxation:

Tax claims filed by the FMFB for the and upto Tax years 2011 stand assessed in terms of section 120 of the Income Tax Ordinance, 2001. However, the tax authorities are empowered to question / amend the return within five (05) years of the end of the financial year in which the related return was filed.

Assessment for the Tax year 2004 was amended by the Tax authorities by disallowing exemption claimed by FMFB on grant income of Rs. 2,381,193 and reducing credit for tax payments by Rs. 1,183,671. These matters have been decided in favour of the FMFB upto the level of Appellate Tribunal Inland Revenue and reference application filed by the Tax department are now pending decision by the Federal High Court. The management is confident of a favorable outcome.

19.2 Commitments:

Note	2011 Rupees	2010 Rupees
Capital commitments	10,422,155	-
Commitments in respect of reverse repo transactions	250,000,000	100,000,000

20 MARK-UP/RETURN/INTEREST EARNED

Mark up on advances	724,615,562	879,064,217
Income on investment in Government securities	340,458,398	186,480,133
Income from Term Finance Certificates - net of premium	20,091,004	21,671,435
Mark up on reverse repo transactions	21,705,423	21,314,087
Markup on deposit accounts with treasury and other banks	50,175,398	38,222,711
	1,157,045,785	1,146,752,583

21 MARK-UP/RETURN/INTEREST EXPENSED

Deposits and other accounts		501,633,463	487,056,565
Borrowings	21.1	623,366	-
		502,256,829	487,056,565

- 21.1** This represents markup expense on repo transactions during the year.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Rupees	2010 Rupees
22 FEE, COMMISSION AND BROKERAGE INCOME			
Fee	22.1	78,638,623	94,497,652
Commission		6,550,939	4,987,812
		<u>85,189,562</u>	<u>99,485,464</u>

22.1 This represents loan application/processing fee and life insurance premium received from borrowers.

	Note	2011 Rupees	2010 Rupees
23 AMORTIZATION OF DEFERRED CAPITAL GRANT			
Deferred grant income recognized in respect of :			
- Operational expenses		-	4,619,619
- Capital expenditure - Amortization		7,847,856	4,805,925
	18	<u>7,847,856</u>	9,425,544
Less: operational expenses incurred during the year:			
Swiss Development Corporation (SDC)		-	(4,619,619)
SBP		(2,021,205)	-
	24	<u>5,826,651</u>	<u>4,805,925</u>

23.1 There were no grants in kind received during the year.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Rupees	2010 Rupees
24 ADMINISTRATIVE EXPENSES			
Staff salaries and benefits		333,378,191	312,694,025
Contribution to defined contribution provident fund		16,877,636	15,648,891
Charge for defined benefit gratuity fund	27.7	16,568,585	11,175,000
Depreciation	11.2	53,374,433	60,020,808
Travel and transportation		55,559,338	51,015,696
Rent, rates and taxes		48,086,024	55,312,755
Utilities		37,189,321	32,835,688
Printing, stationery and periodicals		13,674,717	14,206,703
Communications		22,805,476	22,727,894
Office security		21,039,859	21,503,129
Repair and maintenance		20,821,352	19,319,475
Office supplies		13,828,513	11,991,250
Training and capacity building		5,348,657	3,451,120
Advertisement and business promotions		1,310,243	1,721,438
Legal and professional		2,658,079	6,041,423
Pakistan Post Operating expenses		6,704,990	10,052,547
Information Technology supplies and software		2,136,966	3,439,844
Insurance		20,635,207	22,939,534
Loss on write off/disposal of property and equipment		226,011	5,949,172
Auditors' remuneration	24.1	1,210,870	1,193,609
Amortisation of intangible assets	11.3	894,336	1,011,634
NADRA verification charges		4,088,141	650,432
Bank charges		3,462,924	2,263,359
Advances documentation expenses		12,076,702	7,269,042
Other expenses		2,210,818	888,548
		<u>716,167,389</u>	<u>695,323,016</u>
Less: Depreciation - grant related assets	23	<u>(5,826,651)</u>	<u>(4,805,925)</u>
		<u>710,340,738</u>	<u>690,517,091</u>
24.1 Auditors' remuneration			
Audit fee		750,000	682,500
Fee for half yearly review		110,000	100,000
Other assignments		137,000	40,000
Out of pocket expenses		213,870	371,109
		<u>1,210,870</u>	<u>1,193,609</u>
25 OTHER CHARGES			
Penalties imposed by SBP and other regulators		-	47,000
		<u>-</u>	<u>47,000</u>
26 PROVISION FOR TAXATION			
26.1			
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. Management is confident that exemption will continue after 30 June 2012. Provision for minimum tax at one percent (2010: one half percent) of the turnover has been provided in terms of Section 113 of the Income Tax Ordinance, 2001.			
26.2			
No numeric tax rate reconciliation is given as the FMFB is exempt from tax.			

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

27 DEFINED BENEFIT PLAN

27.1 General description

As mentioned in note 5.3.8 (a), the FMFB operates approved defined benefit gratuity fund for all permanent 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.

27.2 Principal actuarial assumptions

The latest actuarial valuation of the FMFB's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out as at 31 December 2011. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceed 10% of the higher of the defined 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. Following are significant assumptions used in the valuation:

- Discount rate of 12.5% (2010: 14%) per annum
- Expected increase in salary levels of 11.5% (2010: 13%) per annum
- Expected return on plan assets of 12.5% (2010: 15%) per annum.

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

	Note	2011 Rupees	2010 Rupees
Present value of defined benefit obligation		44,152,000	38,205,000
Fair value of plan assets	27.9	(38,431,415)	(26,162,479)
Actuarial gain / (loss) not recognized		3,848,000	(867,521)
	15	<u>9,568,585</u>	<u>11,175,000</u>

27.4 Movement in the liability recognized in the balance sheet:

Opening net liability		11,175,000	7,130,000
Expense for the year	27.7	16,568,585	11,175,000
Paid to fund		(18,175,000)	(7,130,000)
Liability at end of the year		<u>9,568,585</u>	<u>11,175,000</u>

27.5 Movement in the present value of defined benefit obligation:

Present value of defined benefit obligation at beginning of the year		38,205,000	23,227,622
Current service cost		16,155,000	10,618,000
Interest cost		4,742,585	3,484,000
Benefits paid		(8,663,000)	(1,531,000)
Actuarial (gain)/loss		(6,287,585)	2,406,378
Present value of defined benefit obligation at end of the year		<u>44,152,000</u>	<u>38,205,000</u>

27.6 Movement in the fair value of plan assets:

Fair value of plan assets at beginning of the year		26,162,479	16,714,622
Expected return on plan assets		4,329,000	2,927,000
Contributions		18,175,000	7,130,000
Benefits paid		(8,663,000)	(1,531,000)
Actuarial (loss)/ gain		(1,572,064)	921,857
Fair value of plan assets at end of the year		<u>38,431,415</u>	<u>26,162,479</u>

THE FIRST MICROFINANCE BANK LIMITED
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	Note	2011 Rupees	2010 Rupees
27.7 Amount charged to defined benefit plan in the profit and loss account:			
Current service cost		16,155,000	10,618,000
Interest cost		4,742,585	3,484,000
Expected return on plan assets		(4,329,000)	(2,927,000)
	24	<u>16,568,585</u>	<u>11,175,000</u>
27.8 Actual return on plan assets			
The actual return earned on plan assets		<u>4,484,128</u>	<u>3,104,242</u>
27.9 Plan assets consists of the following assets:			
Bank balances		784,238	515,482
Term Deposit Receipts - TDRs		-	10,772,909
Investment in PIBs/MTBs		37,477,651	14,359,443
Term Finance Certificates - TFCs		169,526	514,645
		<u>38,431,415</u>	<u>26,162,479</u>
27.10 Movement in fair value of plan assets			
Opening balance of fair value of plan assets		8,754,000	753,906
Contributions made into the fund		7,130,000	8,306,000
Benefits paid by the fund		(1,075,315)	(1,418,959)
Expected return on plan assets		1,905,937	1,113,053
Closing balance of fair value of plan assets		<u>16,714,622</u>	<u>8,754,000</u>

27.11 Historical information and comparison for five years:

	2011 Rupees	2010 Rupees	2009 Rupees	2008 Rupees	2007 Rupees
Funded gratuity plan					
Present value of defined benefit obligation	44,152,000	38,205,000	23,227,622	16,443,000	10,761,000
Fair value of plan assets	(38,431,415)	(26,162,479)	(16,714,622)	(8,754,000)	(8,315,000)
Deficit	<u>5,720,585</u>	<u>12,042,521</u>	<u>6,513,000</u>	<u>7,689,000</u>	<u>2,446,000</u>
Expense for the year	<u>16,568,585</u>	<u>11,175,000</u>	<u>7,130,000</u>	<u>8,306,000</u>	<u>2,969,000</u>

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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28 NUMBER OF EMPLOYEES

		2011		
		Credit/sales	Banking/support	Total
Permanent		828	123	951
Contractual		10	1	11
	Total	838	124	962

		2010		
		Credit/sales	Banking/support	Total
Permanent		1,003	118	1,121
Contractual		19	1	20
	Total	1,022	119	1,141

29 NUMBER OF BRANCHES/POINT OF LINK UNITS

	2011	2010
At beginning of the year	83	88
Opened during the year	-	1
Merged during the year	(3)	(6)
At end of the year	80	83

30 REMUNERATION OF DIRECTORS AND EXECUTIVES

	President/Chief Executive		Executives	
	2011 Rupees	2010 Rupees	2011 Rupees	2010 Rupees
Managerial remuneration	11,970,540	1,000,008	43,479,886	33,817,841
Contribution to provident fund	4,686,641	99,996	3,968,720	3,036,945
Rent and house maintenance	4,763,215	300,000	17,391,946	13,526,857
Utilities	1,197,053	99,996	4,347,985	3,386,906
Medical	51,284	99,996	188,000	141,000
Others	469,114	-	2,674,821	3,118,095
	23,137,847	1,599,996	72,051,358	57,027,644
Numbers	2	1	47	34

- (a) Number of persons includes those who have worked partly or completely during the year.
- (b) Executive means any employee whose basic salary exceeds Rs. 500,000 (2010: Rs. 500,000) per year.
- (c) 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 FMFB.
- (d) No remuneration was paid to the directors of the FMFB.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
31 LOSS PER SHARE (RUPEE)		
Loss after taxation - Rupees	(93,395,576)	(169,558,735)
Weighted average number of ordinary shares - Numbers	100,689,117	66,452,105
Loss per share - Rupee	(0.93)	(2.55)

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

32 RELATED PARTY TRANSACTIONS

78.40% of the FMFB shares are held by AKAM and AKRSP which are part of Aga Khan Development Network (AKDN), therefore all subsidiaries and associated undertakings of AKAM, AKRSP and AKDN are the related parties of the FMFB. Other related parties comprise of IFC (other major shareholder), directors and entities over which the directors are able to exercise significant influence, staff retirement funds and key management personnel. The details of transactions with related parties along with the balances are as follows:

	2011	2010
	Rupees	Rupees
Related party by virtue of significant influence over the FMFB		
Mark-up expense on deposits received	19,937,593	5,779,623
Administrative expenses on services	16,575,154	6,944,000
Profit received on deposit with related parties	18,529,710	18,354,225
Deposits and other accounts	107,813,847	319,547
Bank balances with related parties	328,588,438	291,471,573
Other liabilities	9,078,550	1,684,760
Other assets	10,122,728	10,750,246

Related parties by virtue of common directorship

Mark-up expense on deposits received	4,435,690	15,191,303
Administrative expenses on services	20,635,207	24,303,034
Deposits and other accounts	82,855,128	88,732,538
Accrued mark-up on deposits received	2,918,224	7,572,677
Other liabilities	-	68,000
Other assets	6,328,949	3,337,589

Others

Mark-up expense on deposits received	1,028,808	9,291,184
Remuneration of Key Management personnel	31,914,156	47,081,842
Charge for defined contribution gratuity fund	16,568,585	11,175,000
Contribution to defined contribution provident fund	16,877,636	15,648,891
Deposits and other accounts	-	36,418,746
Accrued mark-up on deposits received	-	6,190,246

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

	Note	2011	2010
		Rupees	Rupees
33 CASH AND CASH EQUIVALENTS			
Cash and balances with SBP and NBP	6	355,511,274	292,158,613
Balances With Other Banks/NBFIs/MFBs	7	729,156,395	549,599,696

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1,084,667,669

841,758,309

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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34 FINANCIAL INSTRUMENTS

	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	2010
		Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
31 December 2010	%									
Financial assets										
Cash and balances with SBP and NBP	2.5	81,374,296	-	-	81,374,296	210,784,317	-	-	210,784,317	292,158,613
Balances with other banks/NBFIs/MFBs	9 - 11	520,842,705	-	-	520,842,705	28,756,991	-	-	28,756,991	549,599,696
Lending to financial institutions	12.55	97,543,801	-	-	97,543,801	-	-	-	-	97,543,801
Investments - net of provisions	9.6 - 14.82	2,634,145,206	148,805,798	2,829,732	2,785,780,736	-	-	-	-	2,785,780,736
Advances - net of provisions	3.8 - 38.4	2,181,903,799	39,866,014	-	2,221,769,813	-	-	-	-	2,221,769,813
Other assets	-	-	-	-	-	218,854,064	-	-	218,854,064	218,854,064
Rupees		<u>5,515,809,807</u>	<u>188,671,812</u>	<u>2,829,732</u>	<u>5,707,311,351</u>	<u>458,395,372</u>	<u>-</u>	<u>-</u>	<u>458,395,372</u>	<u>6,165,706,723</u>
Financial liabilities										
Deposits and other accounts	3 - 13	3,351,394,307	1,390,121,511	-	4,741,515,818	602,682,378	-	-	602,682,378	5,344,198,196
Other liabilities	-	-	-	-	-	255,027,949	817,245	-	255,845,194	255,845,194
Rupees		<u>3,351,394,307</u>	<u>1,390,121,511</u>	<u>-</u>	<u>4,741,515,818</u>	<u>857,710,327</u>	<u>817,245</u>	<u>-</u>	<u>858,527,572</u>	<u>5,600,043,390</u>
Off balance sheet financial instruments:										
Capital commitments		-	-	-	-	-	-	-	-	-
Commitments in respect of reverse repo transactions		100,000,000	-	-	100,000,000	-	-	-	-	100,000,000

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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34 FINANCIAL INSTRUMENTS

	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	2011
		Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
31 December 2011	%									
Financial assets										
Cash and balances with SBP and NBP	5.0	117,285,968	-	-	117,285,968	238,225,306	-	-	238,225,306	355,511,274
Balances With Other Banks/NBFIs/MFBs	8 - 11	707,898,470	-	-	707,898,470	21,257,925	-	-	21,257,925	729,156,395
Lending to financial Institutions	11.45	245,941,500	-	-	245,941,500	-	-	-	-	245,941,500
Investments - net of provisions	9.6 - 15.33	2,578,631,837	458,689,522	2,855,232	3,040,176,591	-	-	-	-	3,040,176,591
Advances - net of provisions	5.6 - 38.4	2,037,404,490	131,629,714	-	2,169,034,204	-	-	-	-	2,169,034,204
Other assets						263,472,561	-	-	263,472,561	263,472,561
Rupees		5,687,162,265	590,319,236	2,855,232	6,280,336,733	522,955,792	-	-	522,955,792	6,803,292,525
Financial liabilities										
Deposits and other accounts	3 - 13	3,951,645,659	1,333,602,402	-	5,285,248,061	634,470,239	-	-	634,470,239	5,919,718,300
Other liabilities		-	-	-	-	181,796,987	205,680	-	182,002,667	182,002,667
Rupees		3,951,645,659	1,333,602,402	-	5,285,248,061	816,267,226	205,680	-	816,472,906	6,101,720,967
Off balance sheet financial instruments:										
Capital commitments		-	-	-	-	-	-	-	-	-
Commitments in respect of reverse repo transactions		250,000,000	-	-	250,000,000	-	-	-	-	250,000,000

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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, 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. 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 the Regulations. Maximum amount of financial assets which are subject to credit risk amount to Rs. 3,783,438,015 (2010: Rs. 3,397,673,066).

34.2 Liquidity risk:

Liquidity risk is the risk that 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 activities. 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 Institutions 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, FMFB has a paid up capital of Rs. 1,111,500,800. The minimum paid up capital (free of losses) requirement applicable to the FMFB is Rs. 600,000,000. FMFB has maintained capital adequacy ratio in accordance with Section number 4 of the Regulations which states that the Bank shall maintain capital equivalent to at least 15% of its risk-weighted assets.

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35 MATURITIES OF ASSETS AND LIABILITIES

	Total 2010	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years
31 December 2010	Rupees	Rupees	Rupees	Rupees	Rupees
Assets					
Interest/Mark up earning					
Cash and balances with SBP and NBP	81,374,296	81,374,296			
Balances with other banks/NBFIs/MFBs	520,842,705	520,842,705			
Lending to financial institution	97,543,801	97,543,801			
Investments	2,785,780,736	848,923,929	1,738,694,527	46,526,750	151,635,530
Advances	2,221,769,813	239,251,953	1,099,444,641	843,207,205	39,866,014
Non-Interest/Mark up earning					
Cash balances with SBP and NBP	210,784,317	210,784,317			
Balances with other banks/NBFIs/MFBs	28,756,991	28,756,991			
Other assets	254,456,643	224,867,364	6,311,955	21,370,173	1,907,151
Operating fixed assets	151,468,900				151,468,900
	<u>6,352,778,202</u>	<u>2,252,345,356</u>	<u>2,844,451,123</u>	<u>911,104,128</u>	<u>344,877,595</u>
Liabilities					
Interest/mark up bearing					
Deposits and other accounts	4,741,515,818	1,701,079,404	929,317,073	726,033,036	1,385,086,305
Non-Interest/mark up bearing					
Deposits and other accounts	602,682,378	602,682,378			
Other liabilities	255,845,194	92,554,864	5,789,058	156,684,027	817,245
	<u>5,600,043,390</u>	<u>2,396,316,646</u>	<u>935,106,131</u>	<u>882,717,063</u>	<u>1,385,903,550</u>
Net assets	<u>752,734,812</u>	<u>(143,971,290)</u>	<u>1,909,344,992</u>	<u>28,387,065</u>	<u>(1,041,025,955)</u>
Represented by :					
Share capital	990,000,750				
Statutory and general reserves	13,472,412				
Depositors' protection fund	4,885,814				
Accumulated loss	(254,476,445)				
Deficit on revaluation of assets	(9,330,917)				
Deferred grant	8,183,198				
	<u>752,734,812</u>				

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35 MATURITIES OF ASSETS AND LIABILITIES

	Total 2011	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years
31 December 2011	Rupees	Rupees	Rupees	Rupees	Rupees
Assets					
Interest/Mark up earning					
Cash and balances with SBP and NBP	117,285,968	117,285,968	-	-	-
Balances with other banks/NBFIs/MFBs	707,898,470	707,898,470	-	-	-
Lending to financial institution	245,941,500	245,941,500	-	-	-
Investments	3,040,176,591	896,473,100	1,024,419,587	657,739,150	461,544,754
Advances	2,169,034,204	246,060,765	972,336,855	819,006,870	131,629,714
Non-Interest/Mark up earning					
Cash balances with SBP and NBP	238,225,306	238,225,306	-	-	-
Balances with other banks/NBFIs/MFBs	21,257,925	21,257,925	-	-	-
Other assets	310,722,703	261,950,438	24,449,451	21,497,032	2,825,782
Operating fixed assets	127,434,975				127,434,975
	6,977,977,642	2,735,093,472	2,021,205,893	1,498,243,052	723,435,225
Liabilities					
Interest/mark up bearing					
Deposits and other accounts	5,285,248,061	1,945,727,596	1,135,420,325	870,497,738	1,333,602,402
Non-Interest/mark up bearing					
Deposits and other accounts	634,470,239	634,470,239			
Other liabilities	267,411,587	86,060,925	11,050,197	170,094,785	205,680
	6,187,129,887	2,666,258,760	1,146,470,522	1,040,592,523	1,333,808,082
Net assets	790,847,755	68,834,712	874,735,371	457,650,529	(610,372,857)
Represented by :					
Share capital	1,111,500,800				
Statutory and general reserves	13,472,412				
Depositors' protection fund	4,943,862				
Unappropriated profit	(347,930,069)				
Surplus on revaluation of assets	5,032,075				
Deferred grant	3,828,675				
	790,847,755				

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	2011	2010
	Rupees	Rupees
36 OPERATIONAL/NON-OPERATIONAL INCOME/(LOSS)		
Loss before taxation comprises of:		
Operational Loss	(86,701,621)	(161,779,915)
Grant income	5,826,651	4,805,925
	<u>(80,874,970)</u>	<u>(156,973,990)</u>

37 GENERAL

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

38 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors of FMFB in their meeting held on March 05, 2012 .