

THE FIRST MICROFINANCE BANK LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2012

	Note	2012	2011
		<u>Rupees</u>	<u>Rupees</u>
<u>ASSETS</u>			
Cash and balances with SBP and NBP	6	375,433,751	355,511,274
Balances with other banks/NBFIs/MFBs	7	945,582,061	729,156,395
Lending to financial institutions	8	-	245,941,500
Investments - net of provisions	9	3,538,250,384	3,040,176,591
Advances - net of provisions	10	2,971,730,910	2,169,034,204
Operating fixed assets	11	130,120,461	127,434,975
Other assets	12	302,481,576	310,722,703
Deferred tax asset	13	-	-
Total assets		8,263,599,142	6,977,977,642
<u>LIABILITIES</u>			
Deposits and other accounts	14	6,570,628,001	5,919,718,300
Borrowings	15	383,403,781	-
Subordinated debt		-	-
Other liabilities	16	324,548,654	267,411,587
Deferred tax liabilities		-	-
Total liabilities		7,278,580,436	6,187,129,887
NET ASSETS		985,018,707	790,847,755
<u>REPRESENTED BY:</u>			
Share capital	17	1,351,500,800	1,111,500,800
Statutory and general reserves		13,472,412	13,472,412
Depositors' protection fund		5,368,357	4,943,862
Accumulated loss		(411,760,543)	(347,930,069)
		958,581,026	781,987,005
Surplus on revaluation of assets	18	20,331,332	5,032,075
Deferred grants	19	6,106,349	3,828,675
Total Capital		985,018,707	790,847,755
MEMORANDUM / OFF-BALANCE SHEET ITEMS	20		

The annexed notes from 1 to 39 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		Rupees	Rupees
Markup/return/interest earned	21	1,255,914,030	1,157,045,785
Markup/return/interest expensed	22	(530,035,056)	(502,256,829)
Net markup/interest income		725,878,974	654,788,956
Provision against non-performing loans and advances	10.3	(109,812,707)	(222,383,296)
Recovery against written off advances	10.5	-	98,857,367
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(109,812,707)	(123,525,929)
Net markup/interest income after provisions		616,066,267	531,263,027
Non mark-up/non interest income			
Fee, commission and brokerage income	23	87,041,735	85,189,562
Dividend income		-	-
Amortization of deferred capital grant	24	1,676,186	5,826,651
Other income		16,201,267	9,825,288
Total non-markup/non interest income		104,919,188	100,841,501
		720,985,455	632,104,528
Non mark-up/non interest expenses			
Administrative expenses	25	(773,011,543)	(710,340,738)
Depreciation - grant related assets	25	(1,676,186)	(5,826,651)
Reversals/other provisions/write offs		-	3,187,891
Other charges	26	-	-
Total non-markup/non interest expenses		(774,687,729)	(712,979,498)
		(53,702,274)	(80,874,970)
Extra ordinary/unusual items		-	-
Loss before taxation		(53,702,274)	(80,874,970)
Taxation			
-Current		(9,703,705)	(12,520,606)
-Prior years		-	-
-Deferred		-	-
	27	(9,703,705)	(12,520,606)
Loss after taxation		(63,405,979)	(93,395,576)
Accumulated loss brought forward		(347,930,069)	(254,104,656)
Loss before appropriations		(411,336,048)	(347,500,232)
Appropriations - Transfers to:			
Statutory reserve		-	-
Capital reserve		-	-
Contribution to depositors' protection fund		(424,495)	(429,837)
Revenue reserve		-	-
Dividend		-	-
		(424,495)	(429,837)
Accumulated loss carried forward		(411,760,543)	(347,930,069)
Loss per share (Rupee)	32	(0.50)	(0.93)

The annexed notes from 1 to 39 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011
		<u>Rupees</u>	<u>Rupees</u>
Loss after taxation		(63,405,979)	(93,395,576)
Other comprehensive income		-	-
Comprehensive income transferred to equity		<u>(63,405,979)</u>	<u>(93,395,576)</u>
Components of comprehensive income not reflected in equity			
Surplus on revaluation of investments	9.7	15,299,257	14,362,992
		<u>(48,106,722)</u>	<u>(79,032,584)</u>

The annexed notes from 1 to 39 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	SHARE CAPITAL	STATUTORY RESERVE	DEPOSITORS' PROTECTION FUND	ACCUMULATED LOSS	TOTAL
	Rupees	Rupees	Rupees	Rupees	Rupees
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
Balance at 01 January 2012	1,111,500,800	13,472,412	4,943,862	(347,930,069)	781,987,005
Issue of share capital	240,000,000	-	-	-	240,000,000
Interest earned on investment of fund	-	-	424,495	(424,495)	-
Total comprehensive income - (loss)	-	-	-	(63,405,979)	(63,405,979)
Balance at 31 December 2012	1,351,500,800	13,472,412	5,368,357	(411,760,543)	958,581,026

The annexed notes from 1 to 39 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Rupees	2011 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(53,702,274)	(80,874,970)
Adjustments for non-cash charges			
Depreciation of property and equipment		43,858,727	53,374,433
Amortization of intangible assets		2,369,048	894,336
Gain on disposal of operating fixed assets		(2,766,425)	(2,003,933)
Loss on write off/disposal of property and equipment		2,858,852	226,011
Amortization of deferred grant		(1,676,186)	(5,826,651)
Income on investment in Government securities		(258,238,436)	(307,620,184)
Loss on sale of investment / Revaluation gain		216,338	(1,892,095)
Revaluation gain on investment - HFT		(9,557,070)	-
Net amortization of premium on investments		1,121,090	1,281,126
Net amortization of discount on investments		(9,915,268)	(5,033,503)
Mark up on reverse repo transactions		(10,677,086)	(21,705,423)
Provision against non performing loans and advances		109,812,707	222,383,296
Other provision/write offs		-	(3,187,891)
Grant write off		146,205	-
Provision for gratuity		11,680,000	16,568,585
		(120,767,504)	(52,541,893)
		(174,469,778)	(133,416,863)
(Increase)/decrease in operating assets			
Lending to financial institutions		245,941,500	(148,397,699)
Advances		(912,509,413)	(166,459,796)
Other assets (excluding advance taxation)		4,720,299	(58,638,006)
		(661,847,614)	(373,495,501)
Increase in operating liabilities			
Deposits and other accounts		650,909,701	575,520,104
Borrowings		383,403,781	-
Other liabilities		44,053,756	13,172,808
		1,078,367,238	588,692,912
Cash inflows from operations		242,049,846	81,780,548
Gratuity paid		(3,000,000)	(18,175,000)
Income tax paid		(3,800,770)	(11,132,112)
Net cash inflow from operating activities		235,249,076	52,473,436
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in available for sale securities		(4,880,403,108)	(9,277,785,333)
Net investment in held for trading securities		(2,423,108,912)	(854,765,020)
Net investment in lending to financial institutions		(9,785,961,650)	(12,467,298,971)
Refund of principal on available for sale securities		39,113,560	26,261,960
Proceeds from sale/redemption of available for sale securities		6,063,700,000	9,308,461,547
Proceeds from sale/redemption of held for trading securities		1,799,501,792	871,125,938
Proceeds from lending to financial institutions		9,796,638,736	12,488,937,095
Investments in operating fixed assets		(52,026,005)	(31,149,595)
Sale proceeds of property and equipment disposed off		3,020,315	2,692,673
Net cash inflow from investing activities		560,474,728	66,480,294
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds received against rights issue		240,000,000	121,500,050
Grants received		5,828,860	2,455,580
Net cash inflow from financing activities		245,828,860	123,955,630
Net increase in cash and cash equivalents		1,041,552,664	242,909,360
Cash and cash equivalents at the beginning of the year		1,084,667,669	841,758,309
Cash and cash equivalents at the end of the year	34	2,126,220,333	1,084,667,669

The annexed notes from 1 to 39 form an integral part of these financial statements.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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. 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 132 business locations comprising of 84 branches/point of links, 44 Pakistan Post Office (PPO) and 4 HBL - sub offices (2011: 130 business locations comprising of 80 branches/point of links and 50 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 Disclosure", which is applicable for annual periods beginning on or after 01 July 2009, 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 and held for trading are measured at fair value.

4.1 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 off to the nearest of PKR, unless otherwise stated.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

5 SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND POLICIES

5.1 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 recognised 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:

5.1.1 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 SBP.

5.1.2 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 requirement, the Regulations of SBP are taken into consideration.

5.1.3 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.

5.1.4 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.

5.1.5 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 2012

5.2 Significant accounting policies

5.2.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury banks and balances with other banks and investments having maturity of three months or less from the date of acquisition.

5.2.2 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.

5.2.3 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 2012

5.2.4 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% (2011: 1%) 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 FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

5.2.5 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.

5.2.6 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.

5.2.7 Taxation

Income tax expense/income comprises of 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 the FMFB considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

(a) Current

Current tax is the tax 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 realised 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.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

5.2.8 Staff retirement benefits

Salaries, wages and benefits are accrued in the period in which the associated services are rendered by employees of 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 the FMFB and its employees in accordance with rules of the fund.

5.2.9 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 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

5.2.10 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.

5.2.11 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 amortised to the profit and loss account when the related fixed asset is depreciated. Other grants are recognized as income in the year of receipt.

5.2.12 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.

5.2.13 Operating leases

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

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

5.2.14 Revenue recognition

(a) Markup/income on advances

Markup/Income/Return/Service Charge on advances is recognized on accrual/time proportion basis using effective / flat 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.

THE FIRST MICROFINANCE BANK LIMITED
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5.2.15 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.

5.2.16 Financial instruments

Financial assets and liabilities are recognised 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, amortised 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.

5.2.17 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.

5.2.18 Borrowing costs

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

5.2.19 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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5.3 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 2013:

- 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 recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise 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 recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments are not likely to have material impact on financial statements of FMFB.
- 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 IFRSs continue to apply in this regard. These amendments have no impact on the financial statements of FMFB.
- 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.
- 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 have no impact on the financial statements of 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.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. This amendment is not likely to have any impact on FMFB’s financial statements.
- Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations:
 - a) IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the ‘third statement of financial position’, when required, is only required if the effect of restatement is material to statement of financial position.
 - b) IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of ‘property, plant and equipment’ in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendment is not likely to have any material impact on the financial statements of FMFB.
 - c) IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for period taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
 - d) IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

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. This improvement is not relevant to FMFB’s financial statements.

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	Note	2012 Rupees	2011 Rupees
6 CASH AND BALANCES WITH SBP AND NBP			
Cash in hand		94,792,861	81,445,546
Balance with State Bank of Pakistan ("SBP")	6.1	166,461,937	156,779,760
Balance with National Bank of Pakistan ("NBP")			
Current account		-	-
Deposit accounts	6.2	114,178,953	117,285,968
		<u>375,433,751</u>	<u>355,511,274</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 6% (2011: 5%) per annum.		
7 BALANCES WITH OTHER BANKS/NBFIs/MFBs	Note	2012 Rupees	2011 Rupees
In Pakistan			
- on current accounts		38,452,978	21,257,925
- on deposit accounts	7.1	907,129,083	707,898,470
		<u>945,582,061</u>	<u>729,156,395</u>
7.1	All deposit accounts carry markup ranging between 7.2% and 9.5% (2011: 8% and 11%) per annum.		
8 LENDING TO FINANCIAL INSTITUTIONS			
Repurchase agreement lendings (Reverse Repo)		-	245,941,500
9 INVESTMENTS-net of provision			
Held-to-maturity			
Federal Government securities			
Pakistan Investment Bonds	9.1	2,880,872	2,855,232
Market Treasury Bills	9.2	976,909	973,309
Term Deposit Receipts (TDRs)	9.3	805,204,521	-
		809,062,302	3,828,541
Available for sale			
Federal Government securities			
Pakistan Investment Bonds	9.4	616,315,612	337,353,645
Market Treasury Bills	9.5	1,322,520,709	2,567,414,893
Term Finance Certificates - listed	9.6	86,322,009	126,547,437
		2,025,158,330	3,031,315,975
Held for trading			
Federal Government securities			
Pakistan Investment Bonds	9.4	386,802,670	-
Market Treasury Bills	9.5	296,895,750	-
		683,698,420	-
Surplus on revaluation of available for sale investments	9.7	20,331,332	5,032,075
		<u>3,538,250,384</u>	<u>3,040,176,591</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% (2011: 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 11.94% per annum (2011: 13.63%), maturing in March 2013.
- 9.3** These represent three months TDRs carrying markup rate ranging between 9.8% and 9.9% (2011: Nil) per annum, payable on maturity.
- 9.4** These represent three years bonds carrying markup at the rate of 11.25% (2011: 11.25%) per annum, payable on semi-annual basis.
- 9.5** These securities have original maturity period of 3 months to 1 year with yield ranging between 9.18% and 11.89% (2011: 11.72% and 13.91%) per annum.

9.6 Term Finance Certificates-listed

	Credit Rating	No. of units		Market Value		Amortised Cost	
		2012	2011	2012	2011	2012	2011
				Rupees	Rupees	Rupees	Rupees
Bank Al-Habib Limited - II	AA	9,000	9,000	46,285,837	46,174,396	45,938,603	46,432,933
Orix Leasing Limited	AA+	-	12,000	-	9,676,628	-	10,100,696
Soneri Bank Limited	A+	5,000	5,000	6,206,961	18,585,307	6,235,000	18,705,000
United Bank Limited - III	AA	10,000	10,000	33,828,040	49,737,625	34,148,406	51,308,808
				86,320,838	124,173,956	86,322,009	126,547,437

- 9.6.1** All Term Finance Certificates are quoted and carry rate of return ranging between 10.95% and 13.65% (2011:13.42% and 15.33%) per annum and have maturity period upto 2 years (2011: 3 years).

9.7 Particulars of surplus on revaluation of available for sale investments:

	Note	2012	2011
		Rupees	Rupees
Opening balance		5,032,075	(9,330,917)
Transferred to gain on revaluation of assets account below equity		15,299,257	14,362,992
Closing balance	18	20,331,332	5,032,075

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	Note	2012	2012	2011	2011
		Number	Rupees	Number	Rupees
10 ADVANCES - net of provisions					
Considered good	10.1	120,470	3,011,264,872	115,765	2,338,374,441
Considered doubtful	10.2	2,769	45,397,431	3,439	68,769,745
		<u>123,239</u>	<u>3,056,662,303</u>	<u>119,204</u>	<u>2,407,144,186</u>
Specific provision	10.3		14,509,869		14,180,344
General provision					
- Mandatory provision at the rate of 1%	10.4		30,421,524		23,929,638
- Provision for flood affected clients	10.3		40,000,000		200,000,000
General provision	10.3		70,421,524		223,929,638
	10.3		84,931,393		238,109,982
			<u>2,971,730,910</u>		<u>2,169,034,204</u>

10.1 This includes fully secured advances amounting to Rs. 19,342,896 whereas the remaining advances are secured by personal guarantees except staff loan.

Advances includes 383 (2011: 498) number of staff loans, aggregating to Rs. 29,319,312 (2011: Rs. 30,325,899), carrying markup rate ranging between 3% and 5% per annum (2011: 3% and 5% per annum).

10.2 Particulars of non performing advances

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

Classification	Amount outstanding	Required provision percentage	Provision required	Provision held
	Rupees		Rupees	Rupees
Other Assets Especially Mentioned	18,065,927	0	-	-
Sub-standard	7,073,430	25	1,768,358	1,768,358
Doubtful	15,033,126	50	7,516,563	7,516,563
Loss	5,224,948	100	5,224,948	5,224,948
Total	<u>45,397,431</u>		<u>14,509,869</u>	<u>14,509,869</u>

10.3 Particulars of provision against non performing advances

Note	Specific	General	Total	Specific	General	Total
	2012	2012	2012	2011	2011	2011
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Opening balance	14,180,344	223,929,638	238,109,982	64,469,319	87,641,165	152,110,484
Charge/(Reversal) for the year	263,320,821	(153,508,114)	109,812,707	86,094,823	136,288,473	222,383,296
Amounts written off	(262,991,296)	-	(262,991,296)	(136,383,798)	-	(136,383,798)
	329,525	(153,508,114)	(153,178,589)	(50,288,975)	136,288,473	85,999,498
Closing balance	<u>14,509,869</u>	<u>70,421,524</u>	<u>84,931,393</u>	<u>14,180,344</u>	<u>223,929,638</u>	<u>238,109,982</u>

10.4 During 2012, FMFB made an assessment of rain affected borrowers in Sindh and Punjab according to which advances aggregating PKR. 28 million were estimated to be impaired. Following prudent risk management, provision of Rs. 28 million has been provided for rain affected clients for 2012 and Rs. 12 million for rain affected clients for 2011 on account of rescheduled loans, in addition to 1 % general provision required under the Prudential Regulations.

10.5 In 2011, Government of Pakistan ("GoP") via SBP reimbursed amount against written off advances under malakand relief package, whereas no such reimbursement occurred in 2012.

	Note	2012	2011
		Rupees	Rupees
10.6 Particulars of write offs			
Directly charged to profit and loss account		-	-
Against provisions	10.6.1	262,991,296	136,383,798
		<u>262,991,296</u>	<u>136,383,798</u>

10.6.1 These represent non performing advances overdue for 210 days or more, written off in accordance with FMFB policy as explained in note 5.2.4.

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

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. FMFB does not charge late payment surcharge/penalty on overdue advances into principal.

Loans	2012	2012	2011	2011
	Amount Rupees	Portfolio at Risk %	Amount Rupees	Portfolio at Risk %
Current and less than 30 days late	3,011,264,872		2,338,374,441	-
30-59 days late	18,065,927	0.59%	40,188,316	1.67%
60-89 days late	7,073,430	0.23%	8,908,659	0.37%
90-179 days late	15,033,126	0.49%	15,439,182	0.64%
180 days or more late	5,224,948	0.17%	4,233,588	0.18%
	3,056,662,303	1.49%	2,407,144,186	2.86%

During the year advances amounting to Rs. 12,327,887 (2011: 10,040,000) were rescheduled. All rescheduled advances are regular on balance sheet date.

In 2012, loans are disbursed in 9 loan products (2011: 9 loan products). Loans are disbursed relating to these 9 (2011: 9) loan products with tenures ranging from 3 months to 4 years (2011: 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 11.2 months (2011: 7.8 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 5.2.4.

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). Additional service charge 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 %	
	2012	2011
1st Quarter	54.5	62.7
2nd Quarter	54.0	78.3
3rd Quarter	39.7	51.9
4th Quarter	69.7	72.9
	54.5	66.5

Annual loss rate (loans written off during the year divided by average loan portfolio outstanding) for the year comes to 7.89% (2011: 1.36%).

10.10 Portfolio by segment

Loan type	Note	2012	2011
		Rupees	Rupees
Agri input		692,497,389	802,265,758
Live stock		896,280,987	760,304,446
Micro-enterprise		736,257,755	524,774,146
Others	10.10.1	731,626,172	319,799,836
		3,056,662,303	2,407,144,186

10.10.1 Include loans provided for general purpose.

11 OPERATING FIXED ASSETS

Capital work-in-progress	11.1	3,832,802	13,999,923
Property and equipment	11.2	114,281,977	107,934,051
Intangible assets	11.3	12,005,682	5,501,001
		130,120,461	127,434,975

11.1 Capital work-in-progress

Civil works and furnishing	2,661,362	1,640,344
Advance for purchase of fixed assets	-	4,206,000
Advances for computer software	1,171,440	8,153,579
	3,832,802	13,999,923

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11.2 Property and equipment

	Cost				Rate per annum	Accumulated Depreciation				Net Book Value
	At 01 January	Additions	Disposals/ Write offs	At 31 December		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
2012										
Free hold land	7,814,030	-	-	7,814,030	-	-	-	-	-	7,814,030
Lease hold improvements	123,876,299	16,674,982	(12,277,256)	128,274,025	14%	83,068,255	12,197,921	(9,433,559)	85,832,617	42,441,408
Furniture and fixtures	38,417,816	2,439,221	(105,300)	40,751,737	20%	31,013,237	4,402,018	(102,340)	35,312,915	5,438,822
Office equipment	58,109,441	5,913,546	(965,325)	63,057,662	25%	47,827,875	6,330,897	(909,273)	53,249,499	9,808,163
Computer equipment	97,194,240	7,146,940	(839,500)	103,501,680	33%	88,459,283	6,254,946	(811,821)	93,902,408	9,599,272
Vehicles	82,334,546	21,144,708	(3,613,500)	99,865,754	20%	49,443,671	14,672,945	(3,431,144)	60,685,472	39,180,282
	407,746,372	53,319,397	(17,800,881)	443,264,888		299,812,321	43,858,727	(14,688,137)	328,982,911	114,281,977
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

11.2.1 Property and equipment include fully depreciated items, still in use, having cost of Rs. 213,029,783 (2011: Rs. 147,707,764).

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:

Particulars	Cost	Book value	Sale Proceeds	Mode of
	Rupees	Rupees	Rupees	Disposal
Vehicle	1,510,000	-	-	Insurance claim received

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

	Cost				Rate	Accumulated Amortisation				Net Book 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	Rupees	Rupees		%	Rupees	Rupees	Rupees	Rupees
11.3 Intangible assets										
2012										
Computer software's	9,930,486	8,873,729	-	18,804,215	20%	4,429,485	2,369,048	-	6,798,533	12,005,682
2011										
Computer software's	8,011,833	1,918,653	-	9,930,486	20%	3,535,149	894,336	-	4,429,485	5,501,001

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	Note	2012 Rupees	2011 Rupees
12 OTHER ASSETS			
Accrued mark-up on:			
- loans and advances		306,426,336	282,854,391
- non performing loans and advances transferred to suspense account		(104,340,023)	(46,205,939)
- investments and bank accounts		<u>55,016,974</u>	<u>26,824,109</u>
		<u>257,103,287</u>	<u>263,472,561</u>
Advances to suppliers		13,246,178	8,465,437
Branch adjustment account		-	2,347,335
Deposits		2,677,723	2,825,782
Prepayments		26,553,910	22,329,635
Advance tax - net of provision		-	1,499,623
Grant receivable	19	-	2,021,205
Insurance claim receivable		1,321,101	6,328,949
Stationery stock		1,579,377	1,432,176
		<u>302,481,576</u>	<u>310,722,703</u>

13 DEFERRED TAX ASSET

FMFB has not recognised deferred tax asset (net) on unused tax losses amounting to Rs.93.62 million and deductible temporary differences amounting to Rs. 29.72 million in view of uncertainty about the availability and realisation of taxable profits in the future against which such losses can be utilized.

	2012 Number	2012 Rupees	2011 Number	2011 Rupees
14 DEPOSITS AND OTHER ACCOUNTS				
Time liabilities				
Term deposits	9,385	4,120,302,452	9,407	3,653,199,087
Demand liabilities				
PLS deposits	93,746	1,734,889,653	89,770	1,632,048,974
Current deposits	147,081	715,435,896	141,217	634,470,239
	<u>240,827</u>	<u>2,450,325,549</u>	<u>230,987</u>	<u>2,266,519,213</u>
	<u>250,212</u>	<u>6,570,628,001</u>	<u>240,394</u>	<u>5,919,718,300</u>

14.1 All above deposits represent voluntary savings of depositors.

	2012 Number	2012 Rupees	2011 Number	2011 Rupees
14.2 Particulars of deposits by ownership				
Individual depositors	239,077	5,022,940,001	230,622	4,228,332,454
Institutional depositors				
Corporations/Firms	11,109	1,260,581,000	9,737	1,487,390,914
Banks and financial institutions	26	287,107,000	35	203,994,932
	<u>250,212</u>	<u>6,570,628,001</u>	<u>240,394</u>	<u>5,919,718,300</u>

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	Note	2012 Rupees	2011 Rupees
15 BORROWINGS			
Borrowings under repurchase agreement from banks in Pakistan	15.1	383,403,781	-

15.1 These borrowings have been secured against Treasury Bills having face value Rs. 400 million and are taken from Habib Bank Limited carrying mark-up rate 8.5% to 9.5% (2011: nil). These borrowings have been subsequently repaid in January 2013.

	Note	2012 Rupees	2011 Rupees
16 OTHER LIABILITIES			
Payable to suppliers		15,043,855	19,215,725
Accrued markup on deposits and borrowings		211,575,725	182,002,667
Bills payable		22,805,401	35,782,762
Accrued liabilities		42,802,035	18,932,593
Withholding tax payable		1,541,030	1,826,328
Provision for taxation - net of advance tax		4,403,312	-
Retention money		1,539,987	82,927
Payable to defined benefit gratuity fund	28.3	18,248,585	9,568,585
Payable to defined contribution provident fund		532,006	-
Branch adjustment account		6,056,718	-
		324,548,654	267,411,587

17 SHARE CAPITAL

17.1 Authorized share capital

	2012 Numbers	2011 Numbers		2012	2011
	150,000,000	150,000,000	Ordinary shares of Rs. 10 each	1,500,000,000	1,500,000,000

17.2 Issued, subscribed and paid-up capital

	2012 Numbers	2011 Numbers		2012	2011
	135,150,080	111,150,080	Ordinary shares of Rs. 10 each fully paid in cash	1,351,500,800	1,111,500,800

17.3 Share capital of FMFB is held as under:

Related parties:			2012	2011
Aga Khan Agency for Micro finance ("AKAM")			571,500,300	571,500,300
Aga Khan Rural Support Programme ("AKRSP")			300,000,000	300,000,000
International Finance Cooperation ("IFC")			240,000,000	240,000,000
Japan International Corporation Agency ("JICA")			240,000,000	-
Others			500	500
			1,351,500,800	1,111,500,800

17.4 During the year, 24,000,000 other than right shares amounting to Rs. 240,000,000 were issued to Japan International Cooperation Agency ("JICA").

18 SURPLUS ON REVALUATION OF ASSETS

Available-for-sale investments:

Government securities		20,332,502	7,405,556
Term Finance Certificates		(1,171)	(2,373,481)
	9.7	20,331,331	5,032,075

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19 DEFERRED GRANTS

	FSSP	ILO	AKAM	SDC	SBP	SBP	Total
	2011	2011	2011	2011	2011	2011	2011
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Note			19.1		19.2		
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 recognised 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	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	-	-	-	-	-	(2,021,205)	(2,021,205)
	FSSP	ILO	AKAM	SDC	SBP	SBP	Total
	2012	2012	2012	2012	2012	2012	2012
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Cumulative grants received till 31 December 2012	10,857,758	7,160,811	8,087,814	9,604,875	10,734,120	1,875,000	
Opening balance payable as at 01 January 2012	-	-	264,139	8,300	3,556,236	-	3,828,675
Opening balance receivable as at 01 January 2012	-	-	-	-	-	(2,021,205)	(2,021,205)
Net balance payable / (receivable) as at 01 January 2012	-	-	264,139	8,300	3,556,236	(2,021,205)	1,807,470
Grants received during the year	-	-	-	-	3,953,860	1,875,000	5,828,860
Expenses incurred during the year	-	-	-	-	-	-	-
Amortization during the year	-	-	248,188	8,300	1,419,698		1,676,186
Income transferred to profit and loss account	-	-	248,188	8,300	1,419,698		1,676,186
Grant written off during the year						146,205	146,205
Closing balance as at 31 December 2012	-	-	15,951	-	6,090,398	-	6,106,349
Closing receivable balance as at 31 December 2012	-	-	-	-	-	-	-

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19.1 This represents grant from the Aga Khan Agency for Microfinance - Micro insurance Initiative (AKAM MI) for developing a micro-insurance business in Pakistan against aggregate limit of USD 140,000. The grant can only be availed for program related expenditure and is recognized as income, on a systematic basis.

19.2 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, Human Resource Information System (HRIS) and Real Time Online System (RTS).

20 MEMORANDUM / OFF - BALANCE SHEET ITEMS

20.1 Contingencies related to taxation:

Tax claims filed by the FMFB for and upto Tax years 2012 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 is now pending decision by the Federal High Court. The management is confident of a favorable outcome.

20.2 Commitments:

	Note	2012	2011
		Rupees	Rupees
Capital commitments		-	10,422,155
Commitments in respect of reverse repo transactions		-	250,000,000
Commitments in respect of repo transactions		400,000,000	-

21 MARK-UP/RETURN/INTEREST EARNED

Mark-up on advances		825,055,297	724,615,562
Income on investment in Government securities		341,102,236	340,458,398
Income from Term Finance Certificates - net of premium		13,049,793	20,091,004
Income from Term Deposit Receipts (TDRs)		5,204,521	-
Mark-up on reverse repo transactions		10,677,086	21,705,423
Mark-up on deposit accounts with treasury and other banks		60,825,097	50,175,398
		1,255,914,030	1,157,045,785

22 MARK-UP/RETURN/INTEREST EXPENSED

Deposits and other accounts		523,381,736	501,633,463
Borrowings	22.1	6,653,320	623,366
		530,035,056	502,256,829

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

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	Note	2012	2011
		Rupees	Rupees
23 FEE, COMMISSION AND BROKERAGE INCOME			
Fee	23.1	80,904,480	78,638,623
Commission		6,137,255	6,550,939
		<u>87,041,735</u>	<u>85,189,562</u>

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

	Note	2012	2011
		Rupees	Rupees
24 AMORTIZATION OF DEFERRED CAPITAL GRANT			
Deferred grant income recognised in respect of :			
- Operational expenses		-	-
- Capital expenditure - Amortization		1,676,186	7,847,856
	19	<u>1,676,186</u>	<u>7,847,856</u>
Less: operational expenses incurred during the year:			
State Bank of Pakistan (SBP)		-	(2,021,205)
	25	<u>1,676,186</u>	<u>5,826,651</u>

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

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	Note	2012 Rupees	2011 Rupees
25 ADMINISTRATIVE EXPENSES			
Staff salaries and benefits		347,973,414	333,378,191
Contribution to defined contribution provident fund		15,669,214	16,877,636
Charge for defined benefit gratuity fund	28.7	11,680,000	16,568,585
Depreciation	11.2	43,858,727	53,374,433
Travel and transportation		60,679,988	55,559,338
Rent, rates and taxes		54,349,384	48,086,024
Utilities		41,155,509	37,189,321
Printing, stationery and periodicals		14,453,722	13,674,717
Communications		21,843,321	22,805,476
Office security		24,621,966	21,039,859
Repair and maintenance		21,322,460	20,821,352
Office supplies		14,745,776	13,828,513
Training and capacity building		6,643,124	5,348,657
Advertisement and business promotions		1,640,458	1,310,243
Legal and professional		13,742,118	2,658,079
Pakistan Post operating expenses		6,198,903	6,704,990
Information technology supplies and software		4,865,718	2,136,966
Insurance		20,957,249	20,635,207
Loss on write off/disposal of property and equipment		2,858,852	226,011
Auditors' remuneration	25.1	1,200,000	1,210,870
Amortization of intangible assets	11.3	2,369,048	894,336
NADRA verification charges		8,949,270	4,088,141
Bank charges		2,455,010	3,462,924
Advances documentation expenses		15,240,614	12,076,702
Other expenses		15,213,884	2,210,818
		<u>774,687,729</u>	<u>716,167,389</u>
Less: Depreciation - grant related assets	24	(1,676,186)	(5,826,651)
		<u>773,011,543</u>	<u>710,340,738</u>
25.1 Auditors' remuneration			
Audit fee		825,000	750,000
Fee for half yearly review		120,000	110,000
Other assignments		90,000	137,000
Out of pocket expenses		165,000	213,870
		<u>1,200,000</u>	<u>1,210,870</u>
26 OTHER CHARGES			
Penalties imposed by SBP and other regulator		-	-
		<u>-</u>	<u>-</u>
27 PROVISION FOR TAXATION			

Numerical reconciliation between tax expense and accounting profit has not been presented as provision for current years income tax has been made under section 113 of the Income tax Ordinance, 2001 on markup income, fee, commission and brokerage income and other income.

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28 DEFINED BENEFIT PLAN

28.1 General description

As mentioned in note 5.2.8 (a), FMFB operates an approved defined benefit gratuity plan 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.

28.2 Principal actuarial assumptions

The latest actuarial valuation of FMFB's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out as at 31 December 2012. 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 11.5% (2011: 12.5%) per annum
- Expected increase in salary levels of 10.5% (2011: 11.5%) per annum
- Expected return on plan assets of 11.5% (2011: 12.5%) per annum.

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

	Note	2012 Rupees	2011 Rupees
Present value of defined benefit obligation		52,860,000	44,152,000
Fair value of plan assets	28.9	(36,402,415)	(38,431,415)
Actuarial gain not recognized		1,791,000	3,848,000
	16	<u>18,248,585</u>	<u>9,568,585</u>

28.4 Movement in the liability recognized in the balance sheet:

Opening net liability		9,568,585	11,175,000
Expense for the year	28.7	11,680,000	16,568,585
Paid to fund		(3,000,000)	(18,175,000)
Liability at end of the year		<u>18,248,585</u>	<u>9,568,585</u>

28.5 Movement in the present value of defined benefit obligation:

Present value of defined benefit obligation at beginning of the year		44,152,000	38,205,000
Current service cost		11,373,000	16,155,000
Interest cost		5,026,000	4,742,585
Benefits paid		(7,892,000)	(8,663,000)
Actuarial (gain)/loss		201,000	(6,287,585)
Present value of defined benefit obligation at end of the year		<u>52,860,000</u>	<u>44,152,000</u>

28.6 Movement in the fair value of plan assets:

Fair value of plan assets at beginning of the year		38,431,415	26,162,479
Expected return on plan assets		4,719,000	4,329,000
Contributions		3,000,000	18,175,000
Benefits paid		(7,892,000)	(8,663,000)
Actuarial gain/(loss)		(1,856,000)	(1,572,064)
Fair value of plan assets at end of the year		<u>36,402,415</u>	<u>38,431,415</u>

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	Note	2012 Rupees	2011 Rupees
28.7 Amount charged to defined benefit plan in the profit and loss account:			
Current service cost		11,373,000	16,155,000
Interest cost		5,026,000	4,742,585
Expected return on plan assets		(4,719,000)	(4,329,000)
	25	11,680,000	16,568,585
28.8 Actual return on plan assets			
The actual return earned on plan assets		4,523,119	4,484,128
28.9 Plan assets consists of the following assets:			
Bank balances		7,604,343	784,238
Investment in PIBs - T Bills		28,798,072	37,477,651
Term Finance Certificates - TFCs		-	169,526
		36,402,415	38,431,415

28.10 Historical information and comparison for five years:

	2012 Rupees	2011 Rupees	2010 Rupees	2009 Rupees	2008 Rupees
Funded gratuity plan					
Present value of defined benefit obligation	52,860,000	44,152,000	38,205,000	23,227,622	16,443,000
Fair value of plan assets	(36,402,415)	(38,431,415)	(26,162,479)	(16,714,622)	(8,754,000)
Deficit	16,457,585	5,720,585	12,042,521	6,513,000	7,689,000
Expense for the year	11,680,000	16,568,585	11,175,000	7,130,000	8,306,000

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29 NUMBER OF EMPLOYEES

		2012		
		Credit/sales	Banking/support	Total
Permanent		931	121	1,052
Contractual		10	6	16
	Total	941	127	1,068

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

30 NUMBER OF BRANCHES/POINT OF LINK UNITS

	2012	2011
At beginning of the year	80	83
Opened during the year	5	-
Merged during the year	(1)	(3)
At end of the year	84	80

31 REMUNERATION OF DIRECTORS AND EXECUTIVES

	President/Chief Executive		Executives	
	2012 Rupees	2011 Rupees	2012 Rupees	2011 Rupees
Managerial remuneration	8,037,631	11,970,540	52,707,704	43,479,886
Contribution to provident fund	803,768	4,686,641	4,556,822	3,968,720
Rent and house maintenance	3,215,051	4,763,215	21,083,075	17,391,946
Utilities	803,770	1,197,053	5,270,789	4,347,985
Medical	28,935	51,284	358,250	188,000
Others	1,250,000	469,114	661,090	2,674,821
	14,139,155	23,137,847	84,637,730	72,051,358
Numbers	1	2	50	47

- (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 (2011: Rs. 500,000) per year.
- (c) The President/Chief Executive Officer and certain other executives are also provided with free use of FMFB owned and maintained cars in accordance with their entitlement as per rules of FMFB.
- (d) No remuneration was paid to the directors of FMFB.

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	2012	2011
32 LOSS PER SHARE (RUPEE)		
Loss after taxation - Rupees	<u>(63,405,979)</u>	<u>(93,395,576)</u>
Weighted average number of ordinary shares - Numbers	<u>126,691,064</u>	<u>100,689,117</u>
Loss per share - Rupee	<u>(0.50)</u>	<u>(0.93)</u>

32.1 There is no dilutive effect on the basic loss per share of FMFB.

33 RELATED PARTY TRANSACTIONS

64.48% (2011: 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 and JICA (other major shareholders), 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:

	2012 Rupees	2011 Rupees
Related party by virtue of significant influence over FMFB		
Mark-up expense on deposits received and borrowings	24,339,726	19,937,593
Administrative expenses on services	17,131,915	16,575,154
Profit received on deposits with related parties	21,495,001	18,529,710
Deposits and other accounts	101,801,165	107,813,847
Accrued mark-up on deposits received	14,348,006	-
Bank balances with related parties	410,600,399	328,588,438
Borrowings from related parties	383,403,781	-
Other liabilities	2,824,868	9,078,550
Other assets	10,811,007	10,122,728
Related parties by virtue of common directorship		
Mark-up expense on deposits received	22,277,550	4,435,690
Administrative expenses on services	20,957,249	20,635,207
Deposits and other accounts	261,418,597	82,855,128
Accrued mark-up on deposits received	17,950,358	2,918,224
Other assets	589,896	6,328,949
Others		
Mark-up expense on deposits received	-	1,028,808
Remuneration of Key Management personnel	32,203,320	31,914,156
Charge for defined contribution gratuity fund	11,680,000	16,568,585
Contribution to defined contribution provident fund	15,669,214	16,877,636
Other liabilities	18,780,591	-

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

	Note	2012 Rupees	2011 Rupees
34 CASH AND CASH EQUIVALENTS			
Cash and balances with SBP and NBP	6	375,433,751	355,511,274
Balances with other banks/NBFIs/MFBs	7	945,582,061	729,156,395
Term deposit receipts	9	805,204,521	-
		<u>2,126,220,333</u>	<u>1,084,667,669</u>

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35 FINANCIAL INSTRUMENTS (based on contractual obligation)

	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	9.6 - 15.33	2,578,631,837	458,689,522	2,855,232	3,040,176,591	-	-	-	-	3,040,176,591
Advances	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		250,000,000	-	-	250,000,000	-	-	-	-	250,000,000

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35 FINANCIAL INSTRUMENTS (based on contractual obligation)

	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	2012
		Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
31 December 2012	%									
Financial assets										
Cash and balances with SBP and NBP	6.0	114,178,953	-	-	114,178,953	261,254,798	-	-	261,254,798	375,433,751
Balances with other banks/NBFIs/MFBs	7.2 - 9.5	907,129,083	-	-	907,129,083	38,452,978	-	-	38,452,978	945,582,061
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	9.18 - 13.65	2,889,698,384	648,552,000	-	3,538,250,384	-	-	-	-	3,538,250,384
Advances	5.6 - 38.4	2,546,519,910	425,211,000	-	2,971,730,910	-	-	-	-	2,971,730,910
Other assets						257,103,287	-	-	257,103,287	257,103,287
Rupees		6,457,526,330	1,073,763,000	-	7,531,289,330	556,811,063	-	-	556,811,063	8,088,100,393
Financial liabilities										
Deposits and other accounts	3 - 13	4,684,000,105	1,171,192,000	-	5,855,192,105	715,435,896	-	-	715,435,896	6,570,628,001
Borrowings	8.5 - 9.5	383,403,781	-	-	383,403,781	-	-	-	-	383,403,781
Other liabilities						211,340,749	234,975	-	211,575,725	211,575,725
Rupees		5,067,403,886	1,171,192,000	-	6,238,595,886	926,776,645	234,975	-	927,011,621	7,165,607,507
Off balance sheet financial instruments:										
Capital commitments		-	-	-	-	-	-	-	-	-
Commitments in respect of reverse repo transactions		-	-	-	-	-	-	-	-	-
Commitments in respect of repo transactions		400,000,000	-	-	400,000,000	-	-	-	-	400,000,000

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35.1 Concentration of credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. FMFB's credit risk is primarily attributable to its advances, lending to financial institutions and balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. FMFB has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained as required by the Regulations. Maximum amount of financial assets which are subject to credit risk amount to Rs: 5,168,119,183 (2011: Rs. 3,783,438,015).

35.2 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.

35.3 Interest rate risk:

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

35.4 Fair value of financial instruments:

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

35.5 Capital management

Capital requirements applicable to FMFB are set out under Microfinance Institutions Ordinance, 2001. These requirements are put in place to ensure sufficient solvency margins. 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. 1,351,500,800. The minimum paid up capital requirement applicable to the FMFB is Rs. 800,000,000. FMFB has maintained capital adequacy ratio in accordance with regulation number 4 of the Regulations which states that the Bank shall maintain capital equivalent to at least 15% of its risk-weighted assets.

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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36 MATURITIES OF ASSETS AND LIABILITIES (based on contractual obligation)

	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 institutions	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				
Accumulated loss	(347,930,069)				
Deficit on revaluation of assets	5,032,075				
Deferred grant	3,828,675				
	790,847,755				

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36 MATURITIES OF ASSETS AND LIABILITIES (based on contractual obligation)

	Total 2012	Upto one month	Over one month upto six months	Over six months upto one year	Over one year upto five years
31 December 2012	Rupees	Rupees	Rupees	Rupees	Rupees
Assets					
Interest/Mark up earning					
Cash and balances with SBP and NBP	114,178,953	114,178,953	-	-	-
Balances with other banks/NBFIs/MFBs	907,129,083	907,129,083	-	-	-
Lending to financial institutions	-	-	-	-	-
Investments	3,538,250,384	543,454,157	1,178,044,212	1,168,199,635	648,552,380
Advances	2,971,730,910	207,329,363	1,098,322,618	1,240,867,929	425,211,000
Non-Interest/Mark up earning					
Cash balances with SBP and NBP	261,254,798	261,254,798	-	-	-
Balances with other banks/NBFIs/MFBs	38,452,978	38,452,978	-	-	-
Other assets	302,481,576	218,736,918	56,899,516	24,806,858	2,038,284
Operating fixed assets	130,120,461				130,120,461
	8,263,599,143	2,290,536,250	2,333,266,346	2,433,874,422	1,205,922,125
Liabilities					
Interest/mark up bearing					
Deposits and other accounts	5,855,192,105	2,207,859,105	1,390,235,000	1,085,906,000	1,171,192,000
Borrowings	383,403,781	383,403,781			
Non-Interest/mark up bearing					
Deposits and other accounts	715,435,896	715,435,896			
Other liabilities	324,548,654	114,164,170	12,208,578	197,940,931	234,975
	7,278,580,436	3,420,862,952	1,402,443,578	1,283,846,931	1,171,426,975
Net assets	985,018,707	(1,130,326,702)	930,822,768	1,150,027,491	34,495,150
Represented by :					
Share capital	1,351,500,800				
Statutory and general reserves	13,472,412				
Depositors' protection fund	5,368,357				
Accumulated loss	(411,760,543)				
Deficit on revaluation of assets	20,331,332				
Deferred grant	6,106,349				
	985,018,707				

THE FIRST MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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	2012	2011
	Rupees	Rupees
37 OPERATIONAL/NON-OPERATIONAL LOSS		
Loss before taxation comprises of:		
Operational loss	(55,378,460)	(86,701,621)
Grant income	1,676,186	5,826,651
	<u>(53,702,274)</u>	<u>(80,874,970)</u>

38 GENERAL

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

39 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 18, 2013