

**THE FIRST MICROFINANCEBANK LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2016**

	Note	2016 Rupees '000	2015 Rupees '000
<b>ASSETS</b>			
Cash and balances with SBP and NBP	7	840,523	622,106
Balances with other Banks/NBFIs/MFBs	8	811,977	1,045,644
Lending to Financial Institutions		-	-
Investments - Net of Provisions	9	5,931,703	4,029,765
Advances - Net of Provisions	10	8,183,228	5,525,612
Operating fixed assets	11	496,359	382,967
Other assets	12	580,788	533,557
Deferred tax asset	13	33,653	47,686
<b>Total assets</b>		<b>16,878,231</b>	<b>12,187,337</b>
<b>LIABILITIES</b>			
Deposits and other accounts	14	12,237,466	9,661,088
Borrowings	15	297,820	645,576
Subordinated debt		-	-
Other liabilities	16	512,441	336,267
Deferred tax liabilities		-	-
<b>Total liabilities</b>		<b>13,047,727</b>	<b>10,642,931</b>
<b>NET ASSETS</b>		<b>3,830,504</b>	<b>1,544,406</b>
<b>REPRESENTED BY:</b>			
Share capital	17	2,730,811	1,351,501
Share premium		620,690	-
Statutory & general reserves		189,569	126,317
Depositors' Protection Fund		55,014	36,716
Accumulated profit		231,578	1,081
		<b>3,827,662</b>	<b>1,515,615</b>
Surplus on revaluation of assets	18	1,248	26,015
Deferred grants	19	1,594	2,776
<b>Total Capital</b>		<b>3,830,504</b>	<b>1,544,406</b>
<b>MEMORANDUM / OFF-BALANCE SHEET ITEMS</b>	20		

The annexed notes from 1 to 42 form an integral part of these financial statements.

**THE FIRST MICROFINANCEBANK LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 Rupees '000	2015 Rupees '000
<b>Mark-up/Return/Interest Earned</b>	21	2,480,263	1,972,947
<b>Mark-up/Return/Interest Expensed</b>	22	(580,886)	(595,485)
Net Mark-up/Interest Income		1,899,377	1,377,462
Provision against non - performing loans and advances		(31,624)	(96,968)
Recovery against written off advances		16,012	24,146
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(15,612)	(72,822)
<b>Net Mark-up/ Interest Income after provisions</b>		1,883,765	1,304,640
<b>NON MARK-UP/ NON INTEREST INCOME</b>			
Fee, commission and brokerage income	23	158,770	123,898
Dividend income		-	-
Amortization of deferred grant	24	1,182	1,762
Other income	25	10,609	6,812
<b>Total non-markup/non interest income</b>		170,561	132,472
		2,054,326	1,437,112
<b>NON MARK-UP/ NON INTEREST EXPENSES</b>			
Administrative expenses	26	(1,559,937)	(1,050,301)
Grant related expenses		(1,182)	(1,762)
Other provisions/write offs		-	-
Other charges	27	(1,392)	(40)
<b>Total non-markup/non interest expenses</b>		(1,562,511)	(1,052,103)
		491,815	385,009
Extra ordinary/unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		491,815	385,009
Taxation - Current	28	(155,566)	(60,748)
- Prior years		(5,957)	-
- Deferred		(14,033)	(12,546)
		(175,556)	(73,294)
<b>Profit after taxation</b>		316,259	311,715
Accumulated profit / (loss) brought forward		8,272	(223,972)
Profit before appropriation		324,531	87,743
<b>APPROPRIATIONS:</b>			
Transfer to:			
Statutory reserve		(63,252)	(62,343)
Capital reserve		-	-
Contribution to Depositors' Protection Fund:			
5% of Profit after tax		(15,813)	(15,586)
Interest on Investment		(2,485)	(1,542)
Revenue reserve		-	-
Dividend		-	-
		(81,550)	(79,471)
<b>Accumulated profit carried forward</b>		242,981	8,272
Earning per share (Rupee)	34	1.44	2.31

The annexed notes from 1 to 42 form an integral part of these financial statements.

**THE FIRST MICROFINANCEBANK LIMITED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

---

	Note	2016 Rupees '000	2015 Rupees '000
		<u>          </u>	<u>          </u>
<b>Profit after taxation</b>		316,259	311,715
<b>Other comprehensive income</b>			
Other comprehensive income not to be reclassified to profit or loss account in subsequent periods :			
Actuarial loss on defined benefit obligation	29.4	(6,104)	(7,858)
Related tax impact		1,892	3,624
		(4,212)	(4,234)
<b>Comprehensive income transferred to equity</b>		<u>312,047</u>	<u>307,481</u>
<b>Components of comprehensive income not reflected in equity</b>			
Surplus on revaluation of available for sale investments	9.4	(24,767)	1,270
		<u>(24,767)</u>	<u>1,270</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.

**THE FIRST MICROFINANCEBANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Share Capital	Share premium account	Statutory & General Reserves	Depositors' Protection Fund	Accumulated (Loss) / Profit	Total
	Rupees '000					
<b>Balance at 1 January 2015</b>	<b>1,351,501</b>	-	<b>63,974</b>	<b>19,588</b>	<b>(226,929)</b>	<b>1,208,134</b>
<b>Total Comprehensive Income</b>						
Profit for the year	-	-	-	-	311,715	311,715
Other comprehensive income	-	-	-	-	(4,234)	(4,234)
	-	-	-	-	307,481	307,481
Interest earned on investment of fund	-	-	-	1,542	(1,542)	-
Contribution for the year	-	-	62,343	15,586	(77,929)	-
<b>Balance at 31 December 2015</b>	<b>1,351,501</b>	-	<b>126,317</b>	<b>36,716</b>	<b>1,081</b>	<b>1,515,615</b>
137,931,035 shares, having face value of Rs. 10 each, issued during the year at a premium of Rs. 4.5 each	1,379,310	620,690	-	-	-	2,000,000
<b>Total Comprehensive Income</b>						
Profit for the year	-	-	-	-	316,259	316,259
Other comprehensive income	-	-	-	-	(4,212)	(4,212)
	-	-	-	-	312,047	312,047
Interest earned on investment of fund	-	-	-	2,485	(2,485)	-
Contribution for the year	-	-	63,252	15,813	(79,065)	-
<b>Balance at 31 December 2016</b>	<b>2,730,811</b>	<b>620,690</b>	<b>189,569</b>	<b>55,014</b>	<b>231,578</b>	<b>3,827,662</b>

The annexed notes from 1 to 42 form an integral part of these financial statements.

**THE FIRST MICROFINANCEBANK LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 Rupees '000	2015 Rupees '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		491,815	385,009
<b>Adjustments for non-cash charges</b>			
Depreciation of property and equipment		93,766	60,615
Amortization of intangible assets		10,934	3,687
Provision against non performing loans and advances		31,624	96,968
Gain on disposal of operating fixed assets		(2,490)	(1,250)
Amortization of deferred grant		(1,182)	(1,762)
Gain on sale of investment		(18)	(434)
Revaluation loss / (income) on held for trading investments		60	(235)
Amortization of premium on investments		-	462
Amortization of discount on investments		(74,577)	(77,598)
Provision for gratuity		23,969	15,385
		<u>82,086</u>	<u>95,838</u>
		573,901	480,847
<b>(Increase) / decrease in operating assets</b>			
Advances		(2,689,240)	(1,205,889)
Accrued interest on term deposit receipts		(176,216)	(37,445)
Other Assets (excluding advance taxation)		(117,883)	(48,242)
		<u>(2,983,339)</u>	<u>(1,291,576)</u>
<b>Increase / (decrease) in operating liabilities</b>			
Deposits and other accounts		2,576,378	911,187
Borrowings from financial institutions		(347,756)	363,443
Other Liabilities (excluding gratuity)		178,287	(75,432)
		<u>2,406,909</u>	<u>1,199,198</u>
<b>Cash inflows / (outflow) from operations</b>			
		(2,529)	388,469
Gratuity paid		(32,187)	(9,354)
Grants received - net of returned		-	295
Income tax paid		(90,876)	(62,796)
<b>Net cash inflow / (outflow) from operating activities</b>		<u>(125,592)</u>	<u>316,614</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in held to maturity securities		(1,312,907)	(2,921,674)
Investment in available for sale securities		(2,476,962)	(522,461)
Investment in held for trading securities		(94,313)	(394,576)
Refund of principal on available for sale securities		-	22,488
Proceeds from sale/redemption of held to maturity securities		2,357,070	1,800,000
Proceeds from sale/redemption of available for sale securities		1,350,000	1,379,146
Proceeds from sale/redemption of held for trading securities		94,331	396,365
Investments in operating fixed assets		(218,676)	(242,297)
Sale proceeds of property and equipment disposed		3,074	1,995
<b>Net cash outflow from investing activities</b>		<u>(298,383)</u>	<u>(481,014)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of shares		2,000,000	-
<b>Net cash inflow from financing activities</b>		<u>2,000,000</u>	<u>-</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		1,576,025	(164,400)
<b>Cash and cash equivalents at the beginning of the year</b>		2,017,750	2,182,150
<b>Cash and cash equivalents at the end of the year</b>	36	<u>3,593,775</u>	<u>2,017,750</u>

The annexed notes from 1 to 42 form an integral part of these financial statements.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

**1 STATUS AND NATURE OF BUSINESS**

The First MicroFinanceBank Limited (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. FMFB's principal business is to provide microfinance services to the poor and under served segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001. FMFB has 159 (2015:151) business locations comprising of 120 (2015: 109) branches/point of links/Permanent Booths (PBs), 39 (2015: 42) Pakistan Post Office (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. During the year, FMFB issued 137,931,035 shares to Habib Bank Limited (HBL) at a premium of Rs. 4.5 per share on face value resulting in HBL acquiring 50.51% controlling interest in FMFB effective 20 May, 2016.

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

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

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 instructions.

**4 BASIS OF MEASUREMENT**

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

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

**4.1 Functional and presentation currency**

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

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**5.1 Cash and cash equivalents**

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

**5.2 Borrowing from/Lending to 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 the 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 the purchase and the resale price is treated as mark-up/return/interest income over the period of the transaction.

**5.3 Investment**

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

Investments of FMFB are classified into the following categories:

**(a) Held for trading**

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

**(b) Held to maturity**

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

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

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

**(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 presented in the balance sheet below equity. The surplus/(deficit) arising on these investments is taken to the profit and loss account when actually realized upon disposal.

**5.4 Advances**

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

**(a) Other Assets Especially Mentioned:**

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

**(b) Substandard:**

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

**(c) Doubtful:**

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

**(d) Loss:**

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

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

<b>(i) Other Assets Especially Mentioned</b>	Nil
<b>(ii) Substandard</b>	25% of outstanding principal net of cash collateral and gold collateral (ornaments and bullion) realizable without recourse to a court of law
<b>(iii) Doubtful</b>	50% of outstanding principal net of cash collateral and gold collateral (ornaments and bullion) realizable without recourse to a court of law
<b>(iv) Loss</b>	100% of outstanding principal net of cash collateral and gold collateral (ornaments and bullion) realizable without recourse to a court of law

In addition to the above, a general provision is made equivalent to 1% (2015: 1%) of the net outstanding balance (advances net of specific provisions and loans secured against gold or other cash collateral with appropriate margin).

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

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

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

**5.5 Operating Fixed Assets**

**(a) Capital work-in-progress**

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

**(b) Property and equipment**

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

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

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

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

**(c) Intangible assets**

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

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

**5.6 Deposits**

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

**5.7 Taxation**

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

FMFB takes into account the current income tax law and decisions taken by appellate authorities. Instances where FMFB's view differs from the view taken by the income tax department at the assessment stage and where FMFB considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

**(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 temporary differences between the carrying amounts of items 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 asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized. At each balance sheet date, FMFB reassesses the carrying amount of deferred tax asset.

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

**5.8 Staff retirement benefits**

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

**(a) Defined benefit plan**

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

**(b) Defined contribution plan**

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

**5.9 Reserves**

**(a) Statutory reserve**

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

**(b) Depositors' Protection Fund**

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

**5.10 Provisions**

A provision is recognized when, and only when, 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.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

**5.11 Grants**

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

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

**5.12 Foreign currency transactions**

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

**5.13 Operating leases**

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

**5.14 Revenue recognition**

**(a) Mark-up/ interest income on advances**

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

**(b) Income from investments**

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

**(c) Dividend income**

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

**(d) Fee, commission and brokerage income**

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

**(e) Income from lending to financial institutions**

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

**(f) Income from inter bank deposits**

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

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

**5.15 Financial instruments**

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

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

**(a) Financial assets**

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

**(b) Financial liabilities**

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

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

**5.16 Off-setting**

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

**5.17 Borrowing costs**

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

**5.18 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.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

**5.19 Changes in accounting policies and disclosure resulting from adoption of standards, amendments and interpretations during the year**

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

**New Standards, Interpretations and Amendments**

The Company has adopted the following amendments in standards, which became effective for the current year:

- IFRS 10 Consolidated Financial Statements, IFRS 12; Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendment)
- IFRS 11 Joint Arrangements Accounting for Acquisition of Interest in Joint Operation (Amendment)
- IAS 1 Presentation of Financial Statements: Disclosure Initiative (Amendment)
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets: Clarification of Acceptable Method of Depreciation and Amortization (Amendment)
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants (Amendment)
- IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements (Amendment)

The adoption of the above amendments did not have any effect on the financial statements.

**Improvements to Accounting Standards Issued by the IASB in September 2014 (2012-2014 Cycle)**

- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations (Change in method of disposal)
- IFRS 7 Financial Instruments: Disclosures (i. Servicing contracts, ii. Applicability of the amendments to IFRS 7 to condensed interim financial reporting)
- IAS 19 Employees Benefits (Assessment of market debt of high quality bonds)
- IAS 34 Interim Financial Reporting

The adoption of the above amendments did not have any effect on the financial statements.

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

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

<b>Standard or Interpretation</b>	<b>Effective date (annual periods Beginning on or after)</b>
IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendment)	1 January, 2018
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IAS 7 Statement of Cash Flows (Amendments) Disclosure initiative	1 January, 2017
IAS 12 Income Taxes (amendments) Recognition of Deferred Tax Assets for unrecognized losses	1 January 2017

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

---

The above standards and amendments are not expected to have any material impact on the FMFB's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

<b>Standard</b>	<b>IASB Effective date (annual periods beginning on or after)</b>
IFRS 9 – Financial Instruments: Classification and Measurement	1 January 2018
IFRS 14 – Regulatory Deferral Accounts	1 January 2016
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 – Leases	1 January 2019

## **6 SIGNIFICANT ACCOUNTING ESTIMATES**

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

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

### **6.1 Employee benefits**

Defined benefit plan is provided for eligible employees of FMFB. For defined benefit, a deferred liability is recognized in 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.

### **6.2 Deferred tax asset**

Deferred tax asset is recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and the level of future taxable profits.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS AT 31 DECEMBER 2016**

	Note	2016 Rupees '000	2015 Rupees '000
<b>7 CASH AND BALANCES WITH SBP AND NBP</b>			
Cash in hand		177,901	146,840
Balance with State Bank of Pakistan	7.1	445,277	309,257
Balance with National Bank of Pakistan in			
Current account		-	-
Deposit accounts	7.2	217,345	166,009
		<u>840,523</u>	<u>622,106</u>

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

7.2 These carry markup at the rate of 4% (2015: 4%) per annum.

	Note	2016 Rupees '000	2015 Rupees '000
<b>8 BALANCES WITH OTHER BANKS/NBFIS/MFBS</b>			
In Pakistan			
- on current accounts		75,783	45,279
- on deposit accounts	8.1, 8.2	736,194	1,000,365
		<u>811,977</u>	<u>1,045,644</u>

8.1 These carry markup at rates ranging between 3.75% to 8% (2015: 4% to 9%) per annum.

8.2 These include balances held with Habib Bank Limited, a related party, amounting to Rs. 337,109 thousand (2015: Rs. 285,122 thousand).

	Note	2016 Rupees '000	2015 Rupees '000
<b>9 INVESTMENTS - NET OF PROVISIONS</b>			
<b>Held to Maturity</b>			
<b>Federal Government securities</b>			
Pakistan Investment Bonds	9.1	262,921	657,870
Market Treasury Bills	9.2	283,444	174,906
		546,365	832,776
<b>Term Deposit Receipts (TDRs)</b>	9.3	2,447,046	2,061,900
		<u>2,993,411</u>	<u>2,894,676</u>
<b>Available for Sale</b>			
<b>Federal Government securities</b>			
Pakistan Investment Bonds	9.1	218,358	918,828
Market Treasury Bills	9.2	2,419,603	190,246
		2,637,961	1,109,074
<b>Held for Trading</b>			
<b>Federal Government securities</b>			
Market Treasury Bills	9.2	299,083	-
		<u>299,083</u>	-
<b>Surplus on revaluation of available for sale investments</b>	9.4	1,248	26,015
		<u>5,931,703</u>	<u>4,029,765</u>

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2016**

---

- 9.1** These represent three to ten year bonds carrying markup at rates ranging between 7.0% to 12.0% (2015: 9.6% to 12.0%) per annum, payable on a semi-annual basis, maturing in 2017-2019. This also includes a ten years bond and a three years bond held for the purposes of Depositors' Protection Fund carrying mark-up at the rate of 9.6% and 7.0% (2015: 9.6% and 11.25%) per annum respectively, maturing in 2017-2019.
- 9.2** These securities have an original maturity period of three months to one year with yields ranging between 5.28% to 6.25% (2015: 6.27% to 8.85%) per annum.
- 9.3** These represent TDRs with an original maturity of one month to one year carrying markup at rate ranging between 6.45% to 12.0% (2015: 6.65% to 10.0%) per annum, payable on maturity. It also include one month TDRs held with Habib Bank Limited, a related party, of Rs. 501,535 thousand carrying a markup 6.75% (2015: Nil).

<b>9.4 Particulars of surplus on revaluation of available for sale investments:</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>Rupees '000</b>	<b>Rupees '000</b>
Opening balance		<b>26,015</b>	24,745
(loss) / gain transferred to revaluation of assets account below equity		<b>(24,767)</b>	1,270
Closing balance	<b>18</b>	<b>1,248</b>	<b>26,015</b>

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016		2015	
		Number	Rupees '000	Number	Rupees '000
<b>10 ADVANCES - NET OF PROVISIONS</b>					
Considered good	10.1	218,357	8,215,053	174,225	5,550,652
Considered doubtful	10.2	2,721	58,873	3,003	89,091
		<u>221,078</u>	<u>8,273,926</u>	<u>177,228</u>	<u>5,639,743</u>
Less:					
Specific provision	10.3		14,049		31,785
General provision					
- Mandatory provision at the rate of 1%	10.3		75,187		50,992
- Provision for flood effected clients	10.4		-		31,354
- Additional provision			1,462		-
			<u>76,649</u>		<u>82,346</u>
			<u>90,698</u>		<u>114,131</u>
			<u>8,183,228</u>		<u>5,525,612</u>

**10.1** This includes advances secured against gold collaterals and cash deposits amounting to Rs. 669,906 thousand (2015: Rs. 539,875 thousand) whereas the remaining advances except staff loans are secured by personal guarantees. Advances includes 585 (2015: 490) staff loans, aggregating to Rs. 71,222 thousand (2015: Rs. 52,151 thousand), carrying markup at rates ranging between 3% to 5% per annum (2015: 3% to 5% per annum). This includes loans outstanding of key management personnel of Rs. 11,040 thousand (2015: Rs. 4,624 thousand).

**10.2 Particulars of non performing advances**

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

Classification	Amount outstanding	Secured loan	Amount to be provide for	Required provision percentage	Provision required	Provision held
	Rupees '000	Rupees '000	Rupees '000		Rupees '000	Rupees '000
<b>2016</b>						
Other Assets Especially Mentioned	29,015	2,054	26,961	0%	-	-
Sub-standard	10,657	736	9,921	25%	2,480	2,480
Doubtful	14,163	824	13,339	50%	6,669	6,669
Loss	5,038	138	4,900	100%	4,900	4,900
Total	<u>58,873</u>	<u>3,752</u>	<u>55,121</u>		<u>14,049</u>	<u>14,049</u>
<b>2015</b>						
Other Assets Especially Mentioned	21,541	1,189	20,352	0%	-	-
Sub-standard	12,347	851	11,496	25%	2,874	2,874
Doubtful	52,001	521	51,480	50%	25,740	25,740
Loss	3,202	31	3,171	100%	3,171	3,171
Total	<u>89,091</u>	<u>2,592</u>	<u>86,499</u>		<u>31,785</u>	<u>31,785</u>

**10.3 Particulars of provision against non performing advances**

Note	Specific	General	Total	Specific	General	Total
	2016 Rupees '000	2016 Rupees '000	2016 Rupees '000	2015 Rupees '000	2015 Rupees '000	2015 Rupees '000
Opening balance	31,785	82,346	114,131	16,983	46,325	63,308
Charge for the year	37,321	(5,697)	31,624	60,947	36,021	96,968
Less: Amounts written off	55,057	-	55,057	46,145	-	46,145
	<u>(17,736)</u>	<u>(5,697)</u>	<u>(23,433)</u>	14,802	36,021	50,823
Closing balance	<u>14,049</u>	<u>76,649</u>	<u>90,698</u>	31,785	82,346	114,131

**10.4** In 2015, general provision was maintained in respect of advances relating to calamity affected branches in Chitral region.

	Note	2016 Rupees '000	2015 Rupees '000
<b>10.5 Particulars of write offs</b>			
Against provisions	10.5.1	55,057	46,145
		<u>55,057</u>	<u>46,145</u>

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

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

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**10.6 Portfolio quality report**

FMFB's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending on the number of days they are over-due. For each class of loan, the aggregated outstanding principal balance of such loan is divided by the aggregated outstanding principal balance of the gross loan portfolio before deducting allowance for non-performing advances. Loans are considered overdue if any payment has fallen due and remained unpaid. Loan payments are applied first to additional mark-up, 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 instalment that has not been fully paid.

Loans	2016	2016	2015	2015
	Amount Rupees '000	Portfolio at Risk %	Amount Rupees '000	Portfolio at Risk %
Current and less than 30 days late	8,215,053	-	5,550,652	-
30-59 days late	29,015	0.35%	21,541	0.38%
60-89 days late	10,657	0.13%	12,347	0.22%
90-179 days late	14,163	0.17%	52,001	0.92%
180 days or more late	5,038	0.06%	3,202	0.06%
	<b>8,273,926</b>	<b>0.71%</b>	<b>5,639,743</b>	<b>1.58%</b>

In 2016, 9 loan products (2015: 9 loan products) have been disbursed with tenures ranging from three months to three years (2015: 3 months to 3 years), in accordance with the needs of the borrowers. The staff loans have maturity up to 60 months (2015: 60 months). Loan repayments are scheduled on a bullet or instalment basis whereby principal and service charges are recovered on an instalment basis and/or on maturity as per the repayment schedule. Management estimates that the average term of its outstanding loan portfolio is 12.50 months (2015: 11.50 months) based on the remaining weighted average tenure of loans outstanding as at the balance sheet date.

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

**10.7 Current recovery ratio**

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

Period	Current recovery ratio in %	
	2016	2015
1st Quarter	110%	107%
2nd Quarter	108%	107%
3rd Quarter	111%	104%
4th Quarter	105%	105%
	<b>109%</b>	<b>106%</b>

The Annual Loss Rate (loans written off during the year divided by average loan portfolio outstanding) for the year is 0.79% (2015: 0.91%).

10.8 Portfolio by segment	Note	2016	2015
		Rupees '000	Rupees '000
Loan type			
Agri input		1,112,801	809,409
Live stock		2,826,787	1,866,070
Micro-enterprise		2,068,972	1,578,053
Others	10.8.1	2,265,366	1,386,211
		<b>8,273,926</b>	<b>5,639,743</b>

10.8.1 These include loans provided for general purposes.

**11 OPERATING FIXED ASSETS**

Capital work-in-progress	11.1	33,616	155,798
Property and equipment	11.2	358,099	218,888
Intangible assets	11.3	104,644	8,281
		<b>496,359</b>	<b>382,967</b>

**11.1 Capital work-in-progress**

Advances to suppliers and contractors	33,616	29,936
Work in progress - Core Banking System	-	125,862
	<b>33,616</b>	<b>155,798</b>

11.1.1 Movement in the Capital work-in-progress is as follows:

Opening balance	155,798	25,137
Additions during the year	50,355	155,798
Transfers to:		
- Property and equipments	(67,824)	(25,137)
- Intangible assets	(104,713)	-
	<b>(172,537)</b>	<b>(25,137)</b>
Closing balance	<b>33,616</b>	<b>155,798</b>

THE FIRST MICROFINANCEBANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 '000					%	Rupees '000			
<b>2016</b>										
Free hold land	7,814	-	-	7,814	-	-	-	-	-	7,814
Lease hold improvements	195,384	78,642	(4,303)	269,723	14%	119,731	18,549	(3,882)	134,398	135,325
Furniture and fixtures	64,046	19,951	(1,963)	82,034	20%	41,954	8,121	(1,959)	48,116	33,918
Office equipment	105,432	44,799	(8,318)	141,913	25%	65,649	19,963	(8,231)	77,381	64,532
Computer equipment	119,069	69,592	(6,414)	182,247	33%	92,173	28,465	(6,342)	114,296	67,951
Vehicles	131,876	20,577	(3,337)	149,116	20%	85,226	18,668	(3,337)	100,557	48,559
	<b>623,621</b>	<b>233,561</b>	<b>(24,335)</b>	<b>832,847</b>		<b>404,733</b>	<b>93,766</b>	<b>(23,751)</b>	<b>474,748</b>	<b>358,099</b>
<b>2015</b>										
Free hold land	7,814	-	-	7,814	-	-	-	-	-	7,814
Lease hold improvements	158,588	39,387	(2,591)	195,384	14%	106,305	15,722	(2,296)	119,731	75,653
Furniture and fixtures	54,294	12,876	(3,124)	64,046	20%	40,670	4,311	(3,027)	41,954	22,092
Office equipment	88,632	25,883	(9,083)	105,432	25%	63,254	11,176	(8,781)	65,649	39,783
Computer equipment	131,900	15,277	(28,108)	119,069	33%	107,365	12,894	(28,086)	92,173	26,896
Vehicles	118,254	15,443	(1,821)	131,876	20%	70,506	16,512	(1,792)	85,226	46,650
	<b>559,482</b>	<b>108,866</b>	<b>(44,727)</b>	<b>623,621</b>		<b>388,100</b>	<b>60,615</b>	<b>(43,982)</b>	<b>404,733</b>	<b>218,888</b>

11.2.1 Property and equipment include fully depreciated items, still in use, having a cost of Rs. 309,021 thousand (2015: Rs. 295,373 thousand).

11.2.2 Details of fixed assets disposed off with the original cost or book value in excess of Rs. 1 million or Rs. 250 thousand, respectively, whichever is less is as under:

Particulars	Cost	Accumulated Depreciation	Book value	Sale Proceeds	Mode of disposal	Particulars of buyers
	Rupees '000	Rupees '000	Rupees '000	Rupees '000		
Fixture cost of Tiba Sultan POL	555	(151)	404	38	Sale	M/s Madina Electronics
Furniture and fixtures, office equipment and computer equipment	1,003	(1,003)	-	53	Sale	M/s Mohammadi Electronics & Engineering Company
Furniture and fixtures, office equipment and computer equipment	2,879	(2,858)	21	129	Sale	M/s Intellect Systems
Fixture cost of D.G Khan Branch	1,498	(1,498)	-	23	Sale	M/s M Rehman Furniture
Fixture cost of Hyderabad Risala Road Branch	1,615	(1,615)	-	60	Sale	M/s Geo Gillani
Furniture and fixtures, office equipment and computer equipment	1,804	(1,804)	-	181	Sale	Mr. Munawar Ali
<b>Total 2016</b>	<b>9,355</b>	<b>(8,930)</b>	<b>425</b>	<b>483</b>		
<b>Total 2015</b>	<b>2,145</b>	<b>1,112</b>	<b>1,033</b>	<b>1,048</b>		

11.2.3 No fixed assets were sold to the Chief Executive or a director or an executive or a shareholders holding not less than ten percent of the voting shares of the FMFB or any related party.

THE FIRST MICROFINANCEBANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2016

	Cost				Rate	Accumulated Amortization				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 '000					%	Rupees '000			
<b>11.3 Intangible assets</b>										
<b>2016</b>										
Core banking system	-	104,713	-	104,713	10%	-	6,805	-	6,805	97,908
Computer softwares	25,533	2,584	-	28,117	20%	17,252	4,129	-	21,381	6,736
	<u>25,533</u>	<u>107,297</u>	<u>-</u>	<u>132,830</u>		<u>17,252</u>	<u>10,934</u>	<u>-</u>	<u>28,186</u>	<u>104,644</u>
<b>2015</b>										
Computer softwares	22,763	2,770	-	25,533	20%	13,565	3,687	-	17,252	8,281

11.3.1 These include Rs. 7,880 thousand (2015: Rs 7,880 thousand) related to grant related assets.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 Rupees '000	2015 Rupees '000
<b>12 OTHER ASSETS</b>			
Accrued mark-up on:			
- loans and advances		601,436	459,481
- non performing loans and advances transferred to suspense account		(155,206)	(146,901)
- investments and bank accounts		22,735	71,088
		<u>468,965</u>	<u>383,668</u>
Advances to employees		1,898	1,968
Deposits		2,301	2,245
Prepayments	12.1	55,848	43,410
Taxes - net of provision		2,639	73,291
Other receivables	12.2	46,680	26,488
Stationery stock		2,457	2,487
		<u>580,788</u>	<u>533,557</u>

**12.1** This includes prepayment rent amounting to Rs. 13,454 thousand (2015: Rs. 11,284 thousand) to Habib Bank Limited, a related party.

**12.2** These includes an amount due from related parties, Jubilee General / Life Insurance, of Rs. 10,591 thousand (2015: Rs. 12,147 thousand); Aga Khan Agency for Microfinance, of Rs. 1,427 thousand (2015: of Rs. 1,021 thousand), FMFB Afganistan and Tajikistan of Rs.628 thousand (2015: Nil) and Habib Bank Limited of Rs. 3,648 thousand (2015: Nil).

	Note	2016 Rupees '000	2015 Rupees '000
<b>13 DEFERRED TAX ASSET</b>			
<b>Arising in respect of deductible temporary differences</b>			
Operating fixed asset		6,444	13,133
Provision against non-performing loans and advances		27,209	34,553
		<u>33,653</u>	<u>47,686</u>

	Note	2016 Number	2016 Rupees '000	2015 Number	2015 Rupees '000
<b>14 DEPOSITS AND OTHER ACCOUNTS</b>					
Time liabilities					
Fixed Deposits		8,376	6,307,133	8,067	5,325,504
Demand liabilities					
Saving deposits		108,016	4,578,120	104,485	3,316,856
Current deposits		341,818	1,352,213	183,696	1,018,728
	14.1	<u>458,210</u>	<u>12,237,466</u>	<u>296,248</u>	<u>9,661,088</u>

**14.1** These include balances due to related parties of Rs. 907,605 thousand (2015: Rs. 666,679 thousand).

	Note	2016 Number	2016 Rupees '000	2015 Number	2015 Rupees '000
<b>14.2 Particulars of deposits by ownership</b>					
Individual depositors		442,361	7,485,776	282,931	6,066,208
Institutional depositors					
a) Corporations/Firms		15,556	2,275,036	13,231	2,653,596
b) Banks and financial institutions		293	2,476,654	86	941,284
		<u>458,210</u>	<u>12,237,466</u>	<u>296,248</u>	<u>9,661,088</u>

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 Rupees '000	2015 Rupees '000
<b>15 BORROWINGS</b>			
Borrowings under repurchase agreements		<u>297,820</u>	<u>645,576</u>
15.1 This represents borrowing, from a local financial institution, amounting to Rs. 296,955 thousand with maturity date of 16 January 2017 and carry mark-up rate of 6.25% per annum. It is secured against Market Treasury Bills having face value of Rs. 300,000 thousand.			
<b>16 OTHER LIABILITIES</b>			
Accrued markup on deposits	16.1	235,439	210,686
Bills payable		31,464	47,263
Branch adjustment account		11,682	3,179
Accrued liabilities	16.2	206,274	50,658
Withholding tax payable		11,886	8,986
Retention money		3,477	1,213
Payable to defined benefit gratuity fund	29.3	12,150	14,263
Payable to defined contribution provident fund		69	19
		<u>512,441</u>	<u>336,267</u>
16.1 These include accrued markup on deposits due with related parties of Rs. 9,972 thousand (2015: Rs. 7,061 thousand).			
16.2 These include balances amounts due with related parties of Rs. 11,898 thousand (2015: Rs. 6,552 thousand).			
<b>17 SHARE CAPITAL</b>			
<b>17.1 Authorized Share Capital</b>			
		<u>2016</u>	<u>2015</u>
		<u>Numbers</u>	<u>Numbers</u>
		<u>350,000,000</u>	<u>350,000,000</u>
Ordinary shares of Rs. 10 each		<u>3,500,000</u>	<u>3,500,000</u>
<b>17.2 Issued, subscribed and paid-up capital</b>			
		<u>2016</u>	<u>2015</u>
		<u>Numbers</u>	<u>Numbers</u>
		<u>273,081,115</u>	<u>135,150,080</u>
Ordinary shares of Rs. 10 each fully paid in cash	17.3	<u>2,730,811</u>	<u>1,351,501</u>
<b>17.3 Share Capital of FMFB is held as under:</b>			
Habib Bank Limited ("HBL")	17.3.1	1,379,310	-
Aga Khan Agency for Microfinance ("AKAM")		571,500	571,500
Aga Khan Rural Support Programme ("AKRSP")		300,000	300,000
International Finance Corporation ("IFC")		240,000	240,000
Japan International Corporation Agency ("JICA")		240,000	240,000
Others		1	1
		<u>2,730,811</u>	<u>1,351,501</u>
17.3.1 During the year, 137,931,035 shares, having face value of Rs. 10 each, were issued in cash to HBL at a premium of Rs. 4.5 each.			
<b>18 Surplus on Revaluation of Assets</b>			
<b>Available-for-sale investments:</b>			
Government securities	9.4	<u>1,248</u>	<u>26,015</u>

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

		2016 Rupees '000			
		SBP	CIDA	SBP FICF	Total
<b>19</b>	<b>DEFERRED GRANTS</b>	<b>Note</b>			
		<b>19.1</b>	<b>19.2</b>	<b>19.3</b>	
	<b>Opening balance as at 1 January 2016</b>	2,776	-	-	2,776
	Grants received during the year	-	-	-	-
	Expenses incurred during the year	-	-	-	-
	Amortization during the year	1,182	-	-	1,182
	Income transferred to profit and loss account	1,182	-	-	1,182
	Grant returned to the donor	-	-	-	-
	<b>Closing balance as at 31 December 2016</b>	<b>1,594</b>	<b>-</b>	<b>-</b>	<b>1,594</b>
	<b>Cumulative grants received till 31 December 2016</b>	<b>12,841</b>	<b>4,288</b>	<b>2,505</b>	
		<b>Note</b>			
		<b>2015</b> Rupees '000			
		SBP	CIDA	SBP FICF	Total
	Opening balance as at 1 January 2015	3,958	302	-	4,260
	Opening balance receivable as at 1 January 2015		-	(17)	(17)
	<b>Net balance payable / (receivable) as at 1 January 2015</b>	<b>6,090</b>	<b>-</b>	<b>(17)</b>	<b>4,243</b>
	Grants received during the year	-	-	1,421	1,421
	Expenses incurred during the year	-	302	278	580
	Amortization during the year	1,182	-	-	1,182
	Income transferred to profit and loss account	1,182	302	278	1,762
	Grant written off during the year	-	-	1,126	1,126
	<b>Closing balance as at 31 December 2015</b>	<b>2,776</b>	<b>-</b>	<b>-</b>	<b>2,776</b>
	<b>Cumulative grants received till 31 December 2015</b>	<b>12,841</b>	<b>4,288</b>	<b>2,505</b>	

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

**19.2** This was grant from the Canadian International Development Agency (CIDA) for Independent Evaluation of Alternate Microcredit Delivery Channel - Pakistan Post Office Operation.

**19.3** This was grant awarded by State Bank of Pakistan (SBP) to introduce the solar tube wells in the agriculture sector to support irrigation needs in collaboration with Nizam Energy (Pvt) Ltd.

**20 MEMORANDUM / OFF - BALANCE SHEET ITEMS**

**20.1 Contingencies:**

FMFB has filed tax returns up to tax year 2016, which are deemed assessed in terms of section 120(1) of the Income

Tax Ordinance, 2001.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**20.2 Commitments:**

There were no commitments as at 31 December 2016 (2015: Nil)

<b>21 MARK-UP/RETURN/INTEREST EARNED</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>Rupees '000</b>	<b>Rupees '000</b>
Mark-up on advances		<b>2,058,631</b>	1,546,771
Income on investment in Government securities		<b>186,481</b>	258,922
Income from Term Deposit Receipts (TDRs)		<b>176,216</b>	114,053
Mark-up on deposit accounts with treasury and other banks		<b>58,935</b>	53,069
Income from Term Finance Certificates - net of premium		<b>-</b>	132
		<b>2,480,263</b>	<b>1,972,947</b>
<b>22 MARK-UP/RETURN/INTEREST EXPENSED</b>			
Deposits and other accounts		<b>576,464</b>	579,327
Borrowings	<b>22.1</b>	<b>4,422</b>	16,158
		<b>580,886</b>	<b>595,485</b>
<b>22.1</b> This represents mark-up expense on repo transactions during the year.			
<b>23 FEE, COMMISSION AND BROKERAGE INCOME</b>			
Fee		<b>151,566</b>	116,550
Commission		<b>7,204</b>	7,348
		<b>158,770</b>	<b>123,898</b>
<b>24 AMORTIZATION OF DEFERRED GRANT</b>			
Deferred grant income recognized in respect of :			
- Operational expenses		<b>-</b>	580
- Capital expenditure (amortization)	<b>11.3.1</b>	<b>1,182</b>	1,182
	<b>19</b>	<b>1,182</b>	<b>1,762</b>
<b>25 OTHER INCOME</b>			
Gain on disposal of operating fixed assets		<b>2,490</b>	1,250
Revaluation (loss) / gain on held for trading investments		<b>(60)</b>	235
Gain on sale of investment		<b>18</b>	434
Others		<b>8,161</b>	4,893
		<b>10,609</b>	<b>6,812</b>

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 Rupees '000	2015 Rupees '000
<b>26 ADMINISTRATIVE EXPENSES</b>			
Staff salaries and benefits		778,840	524,206
Contribution to defined contribution provident fund		32,741	25,430
Charge for defined benefit gratuity fund		23,969	15,385
Training and capacity building		32,620	9,320
Depreciation	11.2	93,766	60,615
Amortization of intangible assets	11.3	10,934	3,687
Travel and transportation		84,219	61,311
Rent, rates and taxes		92,983	81,220
Utilities		54,194	49,136
Printing, stationery and periodicals		36,764	22,414
Communications		38,161	23,808
Office security		61,909	47,524
Insurance		63,903	43,874
Repair and maintenance		30,702	23,656
Office supplies		23,831	18,195
Information technology supplies and software		34,805	8,881
Verification charges		15,582	10,672
Bank charges		14,912	10,154
Advertisement and business promotions		6,807	1,061
Legal and professional		21,723	8,289
Auditors' remuneration	26.1	2,377	1,946
Other expenses		5,377	1,279
		<u>1,561,119</u>	<u>1,052,063</u>
Less: Grant related expense	24	<u>(1,182)</u>	<u>(1,762)</u>
		<u>1,559,937</u>	<u>1,050,301</u>
<b>26.1 Auditors' remuneration</b>			
Audit fee		1,099	999
Special certifications and other assurance services		255	340
Fee for half yearly review		160	145
Out of pocket expenses		864	462
		<u>2,377</u>	<u>1,946</u>
<b>27 OTHER CHARGES</b>			
Penalties imposed by the State Bank of Pakistan		<u>1,392</u>	<u>40</u>
		<u>2016</u>	<u>2015</u>
		<u>Rupees '000</u>	<u>Rupees '000</u>
<b>28 TAXATION</b>			
<b>28.1 Reconciliation of tax expense and accounting profit</b>			
Accounting profit before tax		<u>491,815</u>	<u>385,009</u>
Tax at the applicable rate of 31% (2015: 32%)		152,463	123,203
Prior year brought forward tax losses		-	(27,152)
Benefit of gross loss		14,850	-
Minimum tax and Alternate Corporate Tax paid in prior years		-	(52,194)
Relating to origination and reversal of temporary differences		(15,018)	16,891
Others		3,271	-
		<u>155,566</u>	<u>60,748</u>

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**29 DEFINED BENEFIT PLAN**

**29.1 General description**

As mentioned in note 5.8, FMFB operates an approved defined benefit gratuity plan for all permanent employees with a qualifying service period of five years. Eligible employees are entitled to one month's basic salary for each completed year of service upon retirement. An annual provision has been made on the basis of an actuarial valuation to cover obligations under the scheme for all eligible employees.

**29.2 Principal actuarial assumptions**

The latest actuarial valuation of FMFB's defined benefit plan based on the Projected Unit Credit Method was carried out as at 31 December 2016. Actuarial gains/(losses) arising during the year are recognized in Other Comprehensive Income (OCI) in accordance with IAS-19 (Revised 2011). The significant assumptions used in the valuation are as follows:

- Discount rate of 9.5% (2015: 10%) per annum
- Expected increase in salary levels of 8.5% (2015: 8.50%) per annum
- Expected return on plan assets of 9.5% (2015: 10%) per annum.

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

	Note	2016 Rupees '000	2015 Rupees '000
Present value of defined benefit obligation	29.5	134,433	102,238
Fair value of plan assets	29.6	(122,284)	(87,975)
	29.4	<u>12,149</u>	<u>14,263</u>

**29.4 Movement in the liability recognized in the balance sheet:**

Opening net liability		14,263	374
Expense for the year	29.7	23,969	15,385
Contributions made to the fund		(32,187)	(9,354)
Actuarial loss		6,104	7,858
Liability at end of the year		<u>12,150</u>	<u>14,263</u>

**29.5 Movement in the present value of defined benefit obligation:**

Present value of defined benefit obligation at beginning of the year		102,238	80,352
Current service cost		24,152	17,965
Interest cost		10,018	8,587
Benefits paid		(4,107)	(8,056)
Settlement gain		-	(2,097)
Actuarial loss		2,132	5,487
Present value of defined benefit obligation at end of the year		<u>134,433</u>	<u>102,238</u>

**29.6 Movement in the fair value of plan assets:**

Fair value of plan assets at beginning of the year		87,975	79,978
Interest income		10,201	9,070
Contributions made to the fund		32,187	9,354
Benefits paid		(4,107)	(8,056)
Actuarial loss		(3,972)	(2,371)
Fair value of plan assets at end of the year	29.9	<u>122,284</u>	<u>87,975</u>

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 Rupees '000	2015 Rupees '000
<b>29.7 Amount charged to defined benefit plan in the profit and loss account:</b>			
Current service cost		24,152	17,965
Interest cost on obligation		10,018	8,587
Interest income on plan assets		(10,201)	(9,070)
Settlement gain		-	(2,097)
	26	23,969	15,385
<b>29.8 Actual return on plan assets</b>			
The actual return earned on plan assets		6,229	6,699
<b>29.9 Plan assets consists of the following assets:</b>			
Bank balances		76,688	10,538
Investments		45,596	77,437
		122,284	87,975

**29.1 Sensitivity Analysis**

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

	2016 Rupees '000	2015 Rupees '000
<b>Changes in PVDBO</b>		
Increase in discount rate by 1%	(17,501)	(12,878)
Decrease in discount rate by 1%	21,342	15,674
Increase in future increment in salary by 1%	21,696	16,280
Decrease in future increment in salary by 1%	(18,062)	(13,545)
Increase in Withdrawal Rate by 10%	406	236
Decrease in Withdrawal Rate by 10%	(369)	(243)
Increase in Mortality Rate by 10%	(70)	81
Decrease in Mortality Rate by 10%	70	(82)

**29.1 Expected contribution to the plan**

Based on actuarial advice, the management estimates that the charge in respect of defined benefit plan for the year ending 31 December 2017 is Rs. 26,515 thousand.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**30 NUMBER OF EMPLOYEES**

		2016		
		Credit/sales	Banking/ support	Total
Permanent		1,259	247	1,506
Contractual		19	16	35
<b>Total</b>		<b>1,278</b>	<b>263</b>	<b>1,541</b>
		2015		
		Credit/sales	Banking/ support	Total
Permanent		1,062	255	1,317
Contractual		18	11	29
<b>Total</b>		<b>1,080</b>	<b>266</b>	<b>1,346</b>

		2016	2015
<b>30.1</b>	Average number of employees during the year	<b>1,423</b>	1,223

**31 EMPLOYEES PROVIDENT FUND TRUST**

	Un-audited 2016 Rupees '000	Audited 2015 Rupees '000
Size of the Fund	351,989	272,089
Cost of investments made	326,014	256,812
Percentage of investments made	93%	94%
Fair value of investments	331,881	266,873

Breakup of Investments is as follows:

	2016		2015	
	Rs '000'	%	Rs '000'	%
Pakistan Investment Bonds	1,108	0%	78,290	29%
Mutual Funds	7,164	2%	-	-
Term Deposit Receipts	125,595	38%	167,771	63%
Balance with Banks	198,014	60%	20,812	8%
	<b>331,881</b>		<b>266,873</b>	

**31.1** The figures for 2016 are based on the un-audited financial statements (2015: audited financial statements) of the Provident Fund. All the investments out of provident fund trust have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for that purpose.

**32 NUMBER OF BRANCHES/POINT OF LINK UNITS/PERMANENT BOOTHS**

At beginning of the year	109	100
Opened during the year	3	9
Upgraded during the year	8	-
At end of the year	<b>120</b>	<b>109</b>

**33 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

	President/Chief Executive		Executives	
	2016 Rupees '000	2015 Rupees '000	2016 Rupees '000	2015 Rupees '000
Managerial remuneration	11,235	11,235	116,249	101,681
Contribution to provident fund	1,124	1,124	10,684	8,492
Rent and house maintenance	4,494	4,494	46,500	40,672
Utilities	1,124	1,123	11,624	10,168
Medical	393	36	4,075	718
Others	-	936	13,430	9,539
	<b>18,370</b>	<b>18,948</b>	<b>202,562</b>	<b>171,270</b>
Numbers	<b>1</b>	<b>1</b>	<b>103</b>	<b>116</b>

**33.1** Number of executives includes those who have worked partly or completely during the year and whose basic salary exceeds Rs. 500,000 (2015: Rs. 500,000) per year.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

33.2 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 policy of FMFB.

33.3 No remuneration was paid to the directors of FMFB.

	<u>2016</u>	<u>2015</u>
<b>34 EARNING PER SHARE (RUPEE)</b>		
Profit after taxation - Rupees in '000'	<u>316,259</u>	311,715
Weighted average number of ordinary shares - Numbers in '000'	<u>219,944</u>	135,150
Earning per share - Rupee	<u>1.44</u>	<u>2.31</u>

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

**35 RELATED PARTY TRANSACTIONS**

Related parties of FMFB comprise of its major shareholders, associates (including entities having directors in common with FMFB), directors, key management personnel and staff retirement funds.

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

	<u>2016</u> <u>Rupees '000</u>	<u>2015</u> <u>Rupees '000</u>
<b>Related parties by virtue of major shareholders</b>		
Mark-up expense on deposits received and borrowings	10,872	20,186
Vehicle and offices' rentals	22,482	21,564
Profit received on deposits with related parties	6,437	8,426
<b>Related parties by virtue of common directorship</b>		
Mark-up expense on deposits received	5,863	16,591
Insurance expense	63,903	43,873
Meals and lodging expenses	404	-
<b>Others</b>		
Contribution to defined contribution provident fund	32,741	25,430
Mark-up expense on deposits of key management personnel	19	21

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

	<b>Note</b>	<u>2016</u> <u>Rupees '000</u>	<u>2015</u> <u>Rupees '000</u>
<b>36 CASH AND CASH EQUIVALENTS</b>			
Cash and Balances with SBP and NBP	7	<u>840,523</u>	622,106
Balances With Other Banks/NBFIs/MFBs	8	<u>811,977</u>	1,045,644
Term deposit receipts (having tenure of three months or less)		<u>1,941,275</u>	350,000
		<u>3,593,775</u>	<u>2,017,750</u>

THE FIRST MICROFINANCEBANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

37 FINANCIAL INSTRUMENTS (based on contractual obligation)

	Effective yield/ interest rate	Interest/Mark up bearing				Non interest/mark up bearing			Total
		Up to one year	One to five years	Over five years	Sub total	Up to one year	One to five years	Sub total	2016
		Rupees '000	Rupees '000	Rupees '000	Rupees '000	Rupees '000	Rupees '000	Rupees '000	Rupees '000
<b>31 December 2016</b>	%								
<b>Financial assets</b>									
Cash and Balances with SBP and NBP	4.0	217,345	-	-	217,345	623,178	-	623,178	840,523
Balances With Other Banks/NBFIs/MFBs	3.75 - 8.0	736,194	-	-	736,194	75,783	-	75,783	811,977
Investments	5.28 - 12.0	5,752,481	179,222	-	5,931,703	-	-	-	5,931,703
Advances	4.0 - 38.4	6,844,462	1,338,766	-	8,183,228	-	-	-	8,183,228
Other Assets		-	-	-	-	517,543	2,301	519,844	519,844
		<b>13,550,482</b>	<b>1,517,988</b>	<b>-</b>	<b>15,068,470</b>	<b>1,216,504</b>	<b>2,301</b>	<b>1,218,805</b>	<b>16,287,275</b>
<b>Financial liabilities</b>									
Deposits and other accounts	3.0 - 13.0	10,171,738	713,515	-	10,885,253	1,352,213	-	1,352,213	12,237,466
Borrowings	6.25	297,820	-	-	297,820	-	-	-	297,820
Other Liabilities		-	-	-	-	455,457	33,416	488,873	488,873
		<b>10,469,558</b>	<b>713,515</b>	<b>-</b>	<b>11,183,073</b>	<b>1,807,670</b>	<b>33,416</b>	<b>1,841,086</b>	<b>13,024,159</b>

THE FIRST MICROFINANCEBANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

37 FINANCIAL INSTRUMENTS (based on contractual obligation)

	Effective yield/ interest rate	Interest/Mark up bearing				Non interest/mark up bearing			Total
		Up to one year	One to five years	Over five years	Sub total	Up to one year	One to five years	Sub total	2015
		%	Rupees '000	Rupees '000	Rupees '000	Rupees '000	Rupees '000	Rupees '000	Rupees '000
<b>31 December 2015</b>									
<b>Financial assets</b>									
Cash and Balances with SBP and NBP	4.0	166,009	-	-	166,009	456,097	-	456,097	622,106
Balances With Other Banks/NBFIs/MFBs	4.0 - 9.0	1,000,365	-	-	1,000,365	45,279	-	45,279	1,045,644
Investments	6.27 - 12.0	3,700,269	329,496	-	4,029,765	-	-	-	4,029,765
Advances	5.49 - 38.4	4,651,522	874,090	-	5,525,612	-	-	-	5,525,612
Other Assets		-	-	-	-	485,415	2,245	487,660	487,660
		<b>9,518,165</b>	<b>1,203,586</b>	<b>-</b>	<b>10,721,751</b>	<b>986,791</b>	<b>2,245</b>	<b>989,036</b>	<b>11,710,787</b>
<b>Financial liabilities</b>									
Deposits and other accounts	3.0 - 13.5	7,688,177	954,183	-	8,642,360	1,018,728	-	1,018,728	9,661,088
Borrowings	6.55 - 6.75	645,576	-	-	645,576	-	-	-	645,576
Other Liabilities		-	-	-	-	276,019	49,407	325,426	325,426
		<b>8,333,753</b>	<b>954,183</b>	<b>-</b>	<b>9,287,936</b>	<b>1,294,747</b>	<b>49,407</b>	<b>1,344,154</b>	<b>10,632,090</b>

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

---

**37.1 Concentration of credit risk:**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. FMFB's credit risk is primarily attributable to its advances, lending to financial institutions and balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. FMFB has an effective loan disbursement and recovery monitoring system which allows it to evaluate borrowers credit worthiness and identify potential problem loans. A provision for potential loan losses is maintained as required by the Prudential Regulations. Maximum amount of financial assets which are subject to credit risk amount to Rs. 11,234,427 thousand (2015: Rs. 8,580,941 thousand).

**37.2 Liquidity risk:**

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

**37.3 Interest rate risk:**

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

**37.4 Fair value of financial instruments:**

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

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

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

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

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

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

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

**37.5 Capital management**

The paid-up capital of FMFB is Rs. 2,730,811 thousand (2015: Rs. 1,351,501 thousand) which meets minimum paid-up capital (free of losses) requirement of Rs. 1,000,000 thousand (2015: Rs. 1,000,000 thousand) as specified in the Microfinance Institutions Ordinance, 2001. FMFB has Capital Adequacy Ratio (CAR) of 40% of its risk-weighted assets which is in compliance with the requirements of Prudential Regulations to maintain CAR of 15% of risk-weighted assets.

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**38 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES**

	Total 2016	Up to one month	Over one month up to six months	Over six months up to one year	Over one year
	Rupees '000	Rupees '000	Rupees '000	Rupees '000	Rupees '000
<b>31 December 2016</b>					
<b>Assets</b>					
Interest/Mark up earning					
Cash and Balances with SBP and NBP	217,345	217,345	-	-	-
Balances With Other Banks/NBFIs/MFBs	736,194	736,194	-	-	-
Investments	5,931,703	1,823,224	3,085,413	843,844	179,222
Advances	8,183,228	155,683	1,820,448	3,974,178	2,232,919
Non-Interest/Mark up earning					
Cash and Balances with SBP and NBP	623,178	623,178	-	-	-
Balances With Other Banks/NBFIs/MFBs	75,783	75,783	-	-	-
Other Assets	580,788	447,643	42,047	88,983	2,115
Deferred Tax	33,653	-	-	-	-
Operating Fixed Assets	496,359	-	-	-	-
	<b>16,878,231</b>	<b>4,079,050</b>	<b>4,947,908</b>	<b>4,907,005</b>	<b>2,414,256</b>
<b>Liabilities</b>					
Interest/mark up bearing					
Large time deposits above Rs. 100,000	6,134,930	1,462,268	2,059,410	1,920,363	692,889
Deposits and other accounts	4,750,323	4,599,317	73,322	57,058	20,626
Borrowings	297,820	297,820	-	-	-
Non-Interest/mark up bearing					
Deposits and other accounts	1,352,213	1,352,213	-	-	-
Other Liabilities	512,441	324,150	83,642	71,233	33,416
	<b>13,047,727</b>	<b>8,035,768</b>	<b>2,216,374</b>	<b>2,048,654</b>	<b>746,931</b>
<b>Net assets</b>	<b>3,830,504</b>	<b>(3,956,718)</b>	<b>2,731,534</b>	<b>2,858,351</b>	<b>1,667,325</b>
<b>Represented by :</b>					
Share Capital	2,730,811				
Share premium	620,690				
Statutory & General Reserves	189,569				
Depositors protection fund	55,014				
Accumulated profit	231,578				
Surplus on revaluation of assets	1,248				
Deferred grant	1,594				
	<b>3,830,504</b>				

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**38 SCHEDULE OF MATURITY DISTRIBUTION OF MARKET RATE ASSETS AND LIABILITIES**

<b>31 December 2015</b>	<b>Total 2015</b>	<b>Up to one month</b>	<b>Over one month up to six months</b>	<b>Over six months up to one year</b>	<b>Over one year</b>
	<b>Rupees '000</b>	<b>Rupees '000</b>	<b>Rupees '000</b>	<b>Rupees '000</b>	<b>Rupees '000</b>
<b>Assets</b>					
Interest/Mark up earning					
Cash and Balances with SBP and NBP	166,009	166,009	-	-	-
Balances With Other Banks/NBFIs/MFBs	1,000,365	1,000,365	-	-	-
Investments	4,029,765	468,521	1,001,608	2,230,140	329,496
Advances	5,525,612	207,953	1,868,771	2,574,798	874,090
Non-Interest/Mark up earning					
Cash and Balances with SBP and NBP	456,097	456,097	-	-	-
Balances With Other Banks/NBFIs/MFBs	45,279	45,279	-	-	-
Other Assets	533,557	289,553	157,796	83,734	2,474
Deferred Tax	47,686	-	-	-	-
Operating Fixed Assets	382,967	-	-	-	-
	<b>12,187,337</b>	<b>2,633,777</b>	<b>3,028,175</b>	<b>4,888,672</b>	<b>1,206,060</b>
<b>Liabilities</b>					
Interest/mark up bearing					
Large time deposits above Rs. 100,000	5,110,921	774,898	2,284,344	1,141,664	910,015
Deposits and other accounts	3,531,439	3,338,526	74,561	74,184	44,168
Borrowings	645,576	645,576	-	-	-
Non-Interest/mark up bearing					
Deposits and other accounts	1,018,728	1,018,728	-	-	-
Other Liabilities	336,267	164,832	91,247	30,782	49,406
	<b>10,642,931</b>	<b>5,942,560</b>	<b>2,450,152</b>	<b>1,246,630</b>	<b>1,003,589</b>
<b>Net assets</b>	<b>1,544,406</b>	<b>(3,308,783)</b>	<b>578,023</b>	<b>3,642,042</b>	<b>202,471</b>
<b>Represented by :</b>					
Share Capital	1,351,501				
Statutory & General Reserves	126,317				
Depositors' Protection Fund	36,716				
Accumulated profit	1,081				
Surplus on Revaluation of Assets	26,015				
Deferred grant	2,776				
	<b>1,544,406</b>				

**THE FIRST MICROFINANCEBANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

---

	<b>2016</b>	<b>2015</b>
	<b><u>Rupees '000</u></b>	<b><u>Rupees '000</u></b>
<b>39 OPERATIONAL/NON-OPERATIONAL PROFIT / (LOSS)</b>		
<b>Profit before taxation comprises of:</b>		
Operational profit	<b>490,633</b>	383,247
Grant income	<b>1,182</b>	1,762
	<b><u>491,815</u></b>	<u>385,009</u>
<b>40 CORRESPONDING FIGURES</b>		

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

**41 GENERAL**

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

**42 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 16, 2017