



Network Microfinance Bank Limited



Annual Report 2011



Corporate Information

- Notice of the Annual General Meeting
- Directors' Report
- Statement showing attendance of Board Members

Vision

Access to a complete range of formal banking services to micro entrepreneurs engaged in income generating activities and to under privileged people on an ongoing basis.

Mission

To ensure that the bank discharges its development and financial obligations in a financially sustainable manner and that the interests of all the stakeholders are protected.

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Corporate Information

CORPORATE INFORMATION

Board of Directors

Chairman	Mr. Jamshad Iqbal Cheema
Directors	Mr. Mohammad Azam Cheema
	Mr. Mohammad Akram Shahid
	Mr. Shoaib Ahmed Butt
	Ms. Shahida Bilquis
	Mr. Qamar-uz-Zaman
President / Chief Executive	Mr. Ejaz Ahmad Khan

Company Secretary	Mr. Rafat Abbas
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Audit Committee of the Board

Chairman	Mr. Shoaib Ahmed Butt
Members	Mr. Qamar-uz-Zaman
	Ms. Shahida Bilquis
Secretary	Internal Auditor

Executive Committee of the Board

Chairman	Mr. Mohammad Azam Cheema
Members	Mr. Shoaib Ahmed Butt
	Mr. Mohammad Akram Shahid
	Mr. Qamar-uz-Zaman
	Mr. Ejaz Ahmad Khan
Member/ Secretary	Company Secretary

Risk Management Committee of the Board

Chairman	Mr. Qamar-uz-Zaman
Members	Mr. Mohammad Azam Cheema
Member	Mr. Ejaz Ahmad Khan
Member/ Secretary	Head of Risk Management



Contents

Human Resource Committee of the Board

Chairman	Mr. Mohammad Akram Shahid
Members	Mr. Mohammad Azam Cheema Mr. Ejaz Ahmed Khan
Member/ Secretary	Country Head HR

Auditors

Ford Rhodes Sidat Hyder & Co.

Legal Advisor

Adam Law Associates
Agha Law Associates

Bankers

KASB Bank Ltd.
Bank AlFalah
Silk Bank Ltd.
Tameer Microfinance Bank Ltd.
Summit Bank Ltd.

Registered & Head Office

202, Azayam Plaza,
Opp. FTC Building, S.M.C.H.S.
Shahrah-e-Faisal, Karachi, Pakistan
PABX 4311723 25, 4554502
Fax 4311722
Website www.networkmicrobank.com

Main Branch

201, Azayam Plaza,
Opp. FTC Building, S.M.C.H.S.
Shahrah-e-Faisal, Karachi, Pakistan
PABX 34311723 25, 34554502
Fax 34311722

Share Registrar

Technology Trade (Pvt.) Ltd.
Dagia House,
241-C, Block-2, P.E.C.H.S.
Off. Shahrah-e-Quaideen,
Karachi.
Phone 34391316 - 17
Fax 34391318



Notice of the Eighth Annual General Meeting

Notice is hereby given that the Eighth Annual General Meeting of Network Microfinance Bank Limited is scheduled to be held on March 28, 2012 at 3:00 p.m. at its head office, room no. 202, Azayam Plaza, Shahra-e-Faisal, Karachi to transact the following business:

1. To read and confirm the minutes of the Extra Ordinary General Meeting held on February 14, 2012.
2. To receive, consider and adopt the Annual Audited Financial Statements for the year ended December 31, 2011 together with Directors' and Auditors' Reports thereon.
3. To appoint the auditors of the bank for the year ending December 31, 2012 and to fix their remuneration.
4. To transact any other business with the permission of the chair.

By Order of the Board

Rafat Abbas
Company Secretary

March 8, 2012
Karachi

NOTES:

1. A member of the Bank entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must receive by the Bank not less than 48 hours before the meeting.

Central Depository Company of Pakistan Limited (CDC) account holders will further have the following under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan.

A) For Attending Meeting:

- i) In the case of individuals, the account holder or sub account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original National Identity Card (CNIC) or original Passport at the time of attending the meeting.
- ii) In the case of Corporate Entity, the Board of Directors' Resolution/ Power of Attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

B) For Appointing Proxies:

- i) In the case of individuals, the account holder or sub-account holder and /or the person whose securities are in-group account and their registration details are uploaded as per the regulations, shall submit the proxy form as per the above requirement.
- ii) Two persons whose names, addresses, and CNIC numbers shall be mentioned on the form shall witness the proxy.



Notice of the Eighth Annual General Meeting

- iii) Attested copies of CNIC or the passport of the beneficial owners and proxy shall be furnished with the Proxy Form.
 - iii) The proxy shall produce his/her original CNIC or original Passport at the time of the meeting.
 - v) In the case of Corporate Entity, the Board of Directors' resolution/ power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) along with proxy form to the Bank.
2. Members are requested to immediately notify the change of their address, if any.
 3. The Share Transfer Book of the company will remain closed from March 22, 2012 to March 28, 2012 (both days inclusive). The share transfer office is situated at Dagia House, 241-C, Block-2, P.E.C.H.S., Off. Shahr-e-Quadeen, Karachi. (Phone No. 439-1316 & 439-1317). Transfer received at the registered office at the close of business on March 21, 2012 will be treated in time.

For Network Microfinance Bank Ltd.

Rafat Abbas
Company Secretary



Directors' Report

It is my pleasure to present, on behalf of the Board of Directors the Audited Financial Statements of the bank for the year ended December 31, 2011. The year under review was the seventh operational year of the bank.

Change in the Composition of the Board of Directors and Change of Management

During the year, a Group of Investors (GOI) showed interest in the acquisition of the Bank and as per the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations, 2008 published a Public Announcement of Intention to Acquire 82% shares or control of Network Microfinance Bank on June 22, 2011. Subsequently on September 12, 2011 majority shareholders of the Bank, Jahangir Siddiqui Company Limited (JSCL) and KASB Bank (KASB) signed a Share Purchase Agreement with the GOI for sale of their entire holding of 70.82% and 11.20% respectively to the GOI. As per the requirements of Regulation 8 of the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations 2008 the GOI made a Public Offer of 9% capital of the Bank for acquiring shares from the remaining shareholders on October 24, 2011.

Subsequent to the year end, on January 24, 2012 the transaction was completed and 27,302,124 shares (which included shares purchased via the public offer and the Share Purchase Agreement with JSCL and KASB) representing 91% of the issued share capital of the Bank was transferred to the GOI. Consequently, the Board of the Bank has been reconstituted effective on January 24, 2012 and the management of the Bank has been transferred to the GOI.

Operational and Financial Review

The Bank posted a loss before taxes of PKR 14 million during the year 2011 as compared to a loss of PKR 18 million last year. Losses in this year were mainly due to the provision expense against non performing loans of PKR 10 million (December 31, 2010: PKR 19 million). During the year an amount of PKR 20 million was written off (December 31, 2010: PKR 11 million). The loss per share for the year ended December 31, 2011 was PKR 0.48 (December 31, 2010: PKR 0.62 per share).

During the year the gross advances portfolio reduced from PKR 61.6 million in December 31, 2010 to PKR 4.9 million in December 31, 2011 and non performing loans decreased from PKR 32.2 million in December 31, 2010 to PKR 3.7 million in December 31, 2011. The decrease in non performing loans was mainly due to the transfer of PKR 20 million from non performing loans to written off loans.

Total recoveries from loans during the year were PKR 44.4 million (Recoveries of principle: PKR 36.2, Recoveries of markup: PKR 8.2 million) while recovery from written off loans were PKR 2.4 million. The bank's liquidity profile also remains strong at PKR 207 million in liquid assets which is approximately 94% of our total assets.

Future Outlook

The Bank plans to enhance its capital to PKR1.2 billion and acquire a National Level License from the State Bank of Pakistan by December 31, 2012 which would enable the Bank to expand its operations throughout the country. Thereafter the Bank plans to introduce microfinance loan products in the country and build the Bank's image as a commercially viable Microfinance Bank.



Directors' Report

As a first step to acquiring the National Level License from the State Bank of Pakistan, on February 14, 2012 the Bank held its Extra Ordinary General Meeting wherein it was decided to enhance the authorized capital of the Bank from the present level of PKR500 million to PKR1,500 million and in the same meeting it was also decided to change the name of the Bank to APNA Microfinance Bank Limited.

Paid-up Capital

As per the State Bank of Pakistan, Banking Surveillance Department circular number 07 dated November 26, 2010 microfinance banks operating in a specified district are required to enhance their paid up capital free of losses to PKR300 million by December 31, 2013 and as per the transitional arrangement are required to have paid up capital free of losses of PKR200 million by December 31, 2011 and PKR 250 million by December 31, 2012.

The Bank's paid up capital free of losses is PKR 206 million as at December 31, 2011 which adequately meets the transitional arrangement minimum capital requirement for microfinance banks operating in a specified district as of December 31, 2011.

Credit Rating

The Pakistan Credit Rating Agency (Pvt) Ltd. has assigned the long term credit rating for the Bank of "BBB" - Triple B and short term rating of "A3" - AThree in April 2011. The ratings denote low expectation of credit risk and an adequate capacity for timely payment of financial commitments.

Corporate Governance

As required under the Code of Corporate Governance, the Board of Directors states that:

- The Financial statements prepared by the management of the Bank present fairly the state of affairs of the bank, the results of its operations, cash flow statement and statement of changes in equity.
- Proper books of accounts of the Bank have been maintained
- Accounting policies as stated in the notes to the accounts have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applied in Pakistan have been followed in preparation of the finance statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no doubt about the ability of the Bank to continue as a going concern
- No payment has remained outstanding on account of any taxes, duties, levies and charges

Employee Benefits Scheme

The bank operates a funded provident scheme covering all its permanent employees. The un-audited balance of the fund as at December 31, 2011 was PKR 3,021,423/-.

Transfer Pricing

All transactions with the related parties undertaken during the financial year were at arm's length price using comparable uncontrolled price method, as admissible in the best interest of the Bank.

**Auditors**

The present auditors M/s Ford Rhodes Sidat Haider & Co., Chartered Accountants retire after completing their fifth annual audit of the Bank. M/s Riaz Ahmed and Co., Chartered Accountants being eligible to conduct audit of the Bank have provided their consent for appointment as Auditors of the Bank. The Board recommends their appointment for the year ending December 31, 2012.

Pattern of Shareholding

The pattern of shareholding is annexed to the annual report.

Acknowledgement

We would like to take this opportunity to thank our valued clients, shareholders and other stakeholders for their patronage and confidence and our management and employees for their dedication and hard work.

We would also like to express our gratitude to the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and the Karachi Stock Exchange for their continued guidance and support.

Karachi: March 03, 2012

On behalf of the Board

Ejaz Ahmad Khan
President and CEO

Statement Showing Attendance of Board Meetings From January 1, 2011 To December 31, 2011

Seven (7) Board meetings were held during the year 2011 and attended as follows

Name of Directors	Meetings Due	Meetings Attended
Mr. Khair Mohamed Junejo	7	7
Mr. Nazar Mohammad Shaikh	7	5
Mr. Kamal Afsar	7	6
Mr. S. M. Rahmanullah	7	5
Ms. Farah Qureshi	7	5
Mr. Mohammad Siddiq Khokhar	7	7
Mr. Zainul Abidin Memon	4	4

Employee Benefits Scheme

The bank operates a funded provident scheme covering all its permanent employees. The fund balance as at December 31, 2011 was PKR 3,028.43m.

Share Pricing

All transactions with its related parties undertaken during the financial year were at arm's length and were in the best interest of the Bank.



Key Financial and Operational Data at a Glance

	2011	2010	2009	2008	2007	2006
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial Data						
Total Assets	219,406,764	251,868,520	351,410,595	193,118,316	232,334,662	114,283,238
Advances and micro leases - net of provision	2,916,117	48,400,891	87,892,252	62,891,194	41,962,359	48,006,642
Borrowings	-	-	-	-	8,366,750	28,701,750
Deposits	11,428,169	29,028,551	110,905,847	101,255,112	83,338,321	3,726,894
Share Capital	300,000,000	300,000,000	300,000,000	160,000,000	100,000,000	100,000,000
Accumulated Loss	(94,244,860)	(78,926,144)	61,482,596	61,550,237	45,715,794	25,440,773
Operating Data						
Mark-up/return/interest earned	33,342,387	48,870,597	49,855,431	29,822,541	16,961,437	17,115,840
Mark-up/return/interest expensed	967,339	3,563,414	4,408,739	4,483,783	1,320,046	1,707,413
Pre-operating and preliminary expenses	-	-	-	-	-	-
Administrative expenses	38,699,931	50,496,759	45,137,615	38,269,291	35,081,170	24,976,732
Profit/ (Loss) before taxation	(13,965,312)	(17,968,250)	510,218	(15,970,648)	(20,190,714)	(7,184,979)
Profit/ (Loss) After taxation	(14,318,736)	(18,463,448)	250,055	(15,934,443)	(20,275,021)	(7,306,235)
EPS	(0.48)	(0.62)	0.01	(1.06)	(2.03)	(0.73)



Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Provision of Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of establishing framework of good governance with best practice for the listed Companies. The said Code has also been adopted by the State Bank of Pakistan, Stock Exchanges and the Board of Directors of Network Microfinance Bank Limited (NMBL) and applied the principles contained in the Code of Corporate Governance and Prudential Regulations for Microfinance Bank.

The Bank has applied the principles contained in the code in the following manner.

1. The Bank encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. The board of the Bank has been reconstituted on January 24, 2011 and includes six non-executive directors and one executive director, in his capacity as President/ Chief Executive.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the bank.
3. All the resident directors of the Bank are registered as taxpayers and to the best of our knowledge none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFC or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Bank.
5. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particular of significant policies along with the dates on which they were approved or amended has been maintained.
6. All the powers of the Board have been duly exercised and decision on material transaction, have been taken by the Board. Appointment and determination of remuneration and terms and conditions of employment of the President/ Chief Executive was approved by the Board.
7. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes were appropriately recorded and circulated.
8. The Directors have been provided with the copies of the Listing Regulations, Code of Corporate Governance, Prudential Regulations, Company's Memorandum and Articles of Association and all other relevant rules and regulations and hence are conversant with the relevant laws applicable to the Company, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.
9. Arrangements are being made to carry out an orientation course for directors to apprise them of their duties and responsibilities. However, directors being senior executives and experienced businessman and bankers are aware of their responsibilities as directors.
10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.



11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the President/ Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The Directors, President/ Chief Executive Officer and Executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, who are non-executive director including the Chairman of the Committee.
16. The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective audit function with employees who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank and they are involved in the internal audit function on a full time basis.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors along with the pricing methodology for the transactions carried out on terms and conditions equivalent to those that prevail in the arms length transactions.
21. We confirm that all other material principles contained in the Code have been complied.

On behalf of the Board of Directors

Ejaz Ahmad Khan
President/ Chief Executive Officer
Karachi: March 3, 2012

Statement of Compliance with the
Code of Corporate GovernanceReview Report to the Members on Statement
of Compliance with the Best Practices of the
Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Network Microfinance Bank Limited** (the Bank) to comply with the listing regulations No. 35 of the Karachi Stock Exchange (Guarantee) Limited, where the Bank is listed.

The responsibility for the compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xiii a) of Listing Regulation 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Bank to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirements to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended **31 December 2011**.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Date: March 03, 2012

Karachi

Financial Statements

December 31, 2011



Auditors' Report To The Members

We have audited the annexed balance sheet of **NETWORK MICROFINANCE BANK LIMITED (the Bank)** as at **31 December 2011**, and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here in after referred to as the 'financial statements'), for the year then ended. We state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards, the requirements of the Companies Ordinance, 1984 (XLVII of 1984), Microfinance Institutions Ordinance, 2001 and the Prudential Regulations for Microfinance Banks. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984);
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 (XLVII of 1984), the Microfinance Institution Ordinance, 2001 and the Prudential Regulations for Microfinance Banks and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied except 5.1;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the



PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2011
BALANCE SHEET

information required by the Companies Ordinance, 1984 (XLVII of 1984), Microfinance Institutions Ordinance, 2001 and the Prudential Regulations for Microfinance Banks in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at **31 December 2010**, and its loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and

- d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980, (XVIII of 1980).

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: March 03, 2012

Karachi

[Signatures and stamps of the auditors and company representatives]



BALANCE SHEET AS AT DECEMBER 31, 2011

	Note	2011 Rupees	2010 Rupees
ASSETS			
Cash and balances with SBP	8	1,861,782	2,771,317
Balances with other banks/MFBs	9	3,296,157	10,020,614
Lending to financial institutions		-	-
Investments	10	201,678,143	175,785,383
Advances-net of provisions	11	2,916,117	49,400,681
Operating fixed assets	12	7,916,554	10,263,892
Other assets	13	1,738,011	3,616,633
Deferred tax assets		-	-
Total assets		219,406,764	251,858,520
LIABILITIES			
Deposits and other accounts	14	11,428,169	29,026,551
Borrowings		-	-
Subordinated debt		-	-
Other liabilities	15	2,173,464	2,708,102
Deferred tax liabilities		-	-
Total liabilities		13,601,633	31,734,653
NET ASSETS		205,805,131	220,123,867
REPRESENTED BY:			
Share capital	16	300,000,000	300,000,000
Statutory and general reserves		50,011	50,011
Accumulated losses		(94,244,880)	(79,926,144)
		205,805,131	220,123,867
Surplus / (deficit) on revaluation of assets		-	-
Deferred grants		-	-
		205,805,131	220,123,867

MEMORANDUM / OFF-BALANCE SHEET ITEMS

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The annexed notes 1 to 31 form an integral part of these accounts.

Ejaz Ahmad
President & CEO

Muhammad Akram Shahid
Director

Shahida Bilquis
Director

Shoaib Ahmad Butt
Director



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011 Rupees	2010 Rupees
Mark-up/return/interest earned	18	33,342,367	48,870,597
Mark-up/return/interest expensed		(967,339)	(3,563,414)
Net mark-up/interest income		32,375,028	45,307,183
Provision against non performing loans and advances	11.3	(10,079,748)	(19,245,461)
Provision for diminution in the value of investment		-	-
Recovery against bad debts written off - net		2,358,110	2,060,259
		(7,721,638)	(17,185,202)
Net mark-up/ interest income after provisions		24,653,390	28,121,981
Non-mark-up/non interest income			
Fee, commission and brokerage income		-	740,535
Dividend income		-	-
Unrealized gain on revaluation of investments - held for trading security		-	1,296
Other income	19	61,229	3,664,697
Total non-markup/non interest income		61,229	4,406,528
Non mark-up/non interest expenses			
Administrative expenses	20	(38,699,931)	(50,496,759)
Other provisions/write offs		-	-
Other charges		-	-
Total non-markup/non interest expenses		(38,699,931)	(50,496,759)
		(13,985,312)	(17,968,250)
Extraordinary/unusual items		-	-
Loss before taxation		(13,985,312)	(17,968,250)
Taxation - current	21	(333,424)	(495,198)
- prior years		-	-
- deferred		-	-
		(333,424)	(495,198)
Loss after taxation		(14,318,736)	(18,463,448)
Accumulated losses brought forward		(79,926,144)	(61,462,696)
		(94,244,880)	(79,926,144)
Appropriations			
Transfer to			
Statutory reserve		-	-
Capital reserve		-	-
Contribution to MSDF / DPF / RMF		-	-
Revenue reserve		-	-
Proposed cash dividend Rs. Nil per share (2010: Rs. Nil per share)		-	-
Others		-	-
Accumulated losses carried forward		(94,244,880)	(79,926,144)
Basic and diluted (loss) per share - Rupees	23	(0.48)	(0.62)

The annexed notes from 1 to 31 form an integral part of these financial statements.

Ejaz Ahmad
President & CEO

Muhammad Akram Shahid
Director

Shahida Bilquis
Director

Shoaib Ahmad Butt
Director

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011

	2011	2010
	Rupees	
Loss for the year	(14,318,736)	(18,463,448)
Other comprehensive income	-	-
Total comprehensive loss for the year	(14,318,736)	(18,463,448)

Surplus / (deficit) on revaluation of available for sale investments is presented under a separate account below equity in accordance with the format of financial statements as prescribed under BSD Circular No. 11 dated 30 December 2003 issued by the State Bank of Pakistan (SBP).

The annexed notes from 1 to 31 form an integral part of these financial statements.



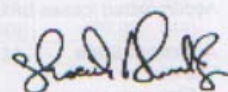
Ejaz Ahmad
President & CEO



Muhammad Akram Shahid
Director



Shahida Bilquis
Director



Shoaib Ahmad Butt
Director



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011 Rupees	2010 Rupees
Cash flow from operating activities			
Loss before taxation		(13,985,312)	(17,968,250)
Adjustment for non cash items			
Depreciation		2,121,232	3,773,323
Amortisation		235,548	1,291,752
Provision against non-performing advances		10,079,748	19,245,461
Unrealized gain on revaluation of investments		-	(1,296)
Gain on sale of fixed assets		(18,332)	(3,303,765)
		12,418,196	21,005,475
		(1,567,116)	3,037,225
Decrease in operating assets			
Advances		36,404,816	19,246,111
Other assets		1,673,648	4,879,974
		38,078,464	24,126,085
(Decrease) / Increase in operating liabilities			
Deposits and other accounts		(17,598,383)	(81,879,295)
Other liabilities (excluding current taxation)		(534,637)	790,668
		(18,133,020)	(81,088,628)
Income tax paid		18,378,328	(53,925,318)
		(128,450)	(209,735)
Net cash inflow from/ (used in) operating activities		18,249,878	(54,135,053)
Cash flow from investing activities			
Net investments in held-to-maturity securities		126,949,087	72,605,678
Purchase of operating fixed assets		(17,110)	(2,253,261)
Sale proceeds from disposal of operating fixed assets		26,000	6,217,250
Net cash used in investing activities		126,957,977	76,569,667
Decrease in cash and cash equivalents		145,207,855	22,434,614
Cash and cash equivalents at the beginning of the year		12,791,931	118,929,843
Cash and cash equivalents at the end of the year	24	157,999,786	141,364,457

The annexed notes from 1 to 31 form an integral part of these financial statements.

Ejaz Ahmad
President & CEO

Muhammad Akram Shahid
Director

Shahida Bilquis
Director

Shoaib Ahmad Butt
Director

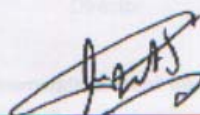
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2011

	Share capital	Statutory Reserve	Accumulated Losses	Total
	Rupees			
Balance as at January 01, 2010	300,000,000	50,011	(61,462,696)	238,587,315
Net loss for the year	-	-	(18,463,448)	(18,463,448)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(18,463,448)	(18,463,448)
Balance as at December 31, 2010	300,000,000	50,011	(79,926,144)	220,123,867
Net loss for the year	-	-	(14,318,736)	(14,318,736)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(14,318,736)	(14,318,736)
Balance as at December 31, 2011	300,000,000	50,011	(94,244,880)	205,805,131

The annexed notes from 1 to 31 form an integral part of these financial statements.



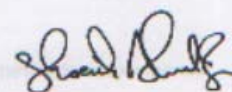
Ejaz Ahmad
President & CEO



Muhammad Akram Shahid
Director



Shahida Bilquis
Director



Shoaib Ahmad Butt
Director



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

1. STATUS AND NATURE OF BUSINESS

- 1.1 Network Microfinance Bank Limited (the Bank) was incorporated on May 08, 2003 as a public limited company under the Companies Ordinance, 1984 and was granted a certificate of commencement of business on December 28, 2004 and its operations started from January 01, 2005. Its shares are listed on the Karachi Stock Exchange. The Bank's principal business is to provide microfinance services to the poor and underserved segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001.
- 1.2 During the year, a public announcement with respect of its intention to acquire 82% of shares of NMBL was announced by a Group of Investors (GOI). Subsequently on September 12, 2011 majority shareholders of the Bank, Jahangir Siddiqui Company Limited (JSCL) and KASB Bank (KASB) signed a Share Purchase Agreement with the GOI for sale of their entire holding of 70.82% and 11.20% respectively to the GOI. As per the requirements of Regulation 8 of the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Regulations 2008 the GOI made a Public Offer of 9% capital of the Bank acquiring from the remaining shareholders on October 24, 2011. Subsequent to the year end, on January 24, 2012 the transaction was completed and 27,302,124 shares (which included shares purchased via the public offer and the Share Purchase Agreement with JSCL and KASB) representing 91% of the issued share capital of the Bank was transferred to the GOI. Consequently, the Board of the Bank has been reconstituted effective on January 24, 2011 and the management of the Bank has been transferred to the GOI.
- 1.3 Subsequent to the year end, on February 14, 2012, EOGM was held in which authorized capital was increased to Rs. 1.5 billion.
- 1.4 The Bank operates five branches (2010: five branches) and is licensed to operate on a district level. The Bank's registered office is situated at 202, Azayam Plaza, S.M.C.H.S., Shahrah-e-Faisal, Karachi.

2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with BSD circular No.11 dated December 30, 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. The approved accounting standards comprise of the 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 Microfinance Institution Ordinance, 2001, the Prudential Regulations for Microfinance Banks / Institutions and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Microfinance Institution Ordinance, 2001, the Prudential Regulations for Microfinance Banks / Institutions or the directives issued by the SECP and the SBP differ with the requirements of the IFRSs, the requirements of the Companies Ordinance, 1984, the Microfinance Institution Ordinance, 2001, the Prudential Regulations for Microfinance Banks / Institutions or the requirements of the said directives take precedence.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain investments which are measured as per accounting policy 5.3.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank has adopted the following new and amended IFRS and related interpretations and improvements which became effective during the year:

IAS 24 - Related Party Disclosures (Revised)

IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

IFRIC 14 - Prepayments of a Minimum Funding Requirement (Amendment)

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

In May 2010, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

IFRS 3 - Business Combinations

- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
- Measurement of non-controlling interests
- Un-replaced and voluntarily replaced share-based payment awards

IAS 1 - Presentation of Financial Statements

- Clarification of Statements of changes in equity

IAS 27 - Consolidated and Separate Financial Statements

- Transition requirements for amendments made as a result of revision in IAS 27 "Consolidated and Separate Financial Statements"

IAS 34 - Interim Financial Reporting

- Significant events and transactions

IFRIC 13 - Customer Loyalty Programmes

- Fair value of award credits

The adaptation of the above standards, amendments, improvements and interpretations did not have any material effect on these financial statements.

5.2 Cash and cash equivalents

Cash and cash equivalents comprises of cash in hand, balances with SBP, NBP and balances held with other banks in current and investment in treasury bills having maturity of less than three months.

5.3 Investments

The investments of the Bank, upon initial recognition, are classified as held-for-trading, held-to-maturity or available-for-sale, as appropriate.

Investments (other than held-for-trading) are initially measured at fair value plus transaction costs associated with the investments. Held-for-trading investments are initially measured at fair value and transaction costs are expensed out in the profit and loss account.

Purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date, which is the date the Bank commits to purchase or sell the investment.

Held-for-trading

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists. After initial measurement, such investments are carried at fair value and the surplus / (deficit) arising as a result of revaluation is taken to profit and loss account.

**Held-to-maturity**

These are securities with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, such investments are carried at amortised cost less impairment, if any.

Available-for-sale

These are investments which do not fall under the held-for-trading and held-to-maturity categories. After initial measurement, such investments are measured at fair value. The surplus / (deficit) arising on revaluation is shown in the balance sheet below equity which is taken to the profit and loss account when actually realised upon disposal.

Premium or discount on securities classified as available-for-sale and held-to-maturity is amortised using effective interest method and taken to the profit and loss account.

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 Prudential Regulations.

5.4 Advances including net investment in micro lease

Advances are stated net of specific and general provisions which are determined on the basis of the Prudential Regulations. Advances are written off according to the Prudential Regulations or when there is no realistic prospect of recovery.

Leases, where substantially all risks and rewards incidental to ownership of an asset are transferred to the lessee, are classified as micro lease. A receivable is recognised at an amount equal to the present value of the lease payments. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

5.5 Operating fixed assets and depreciation**Tangible**

These are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged against income applying the straight line method using the rates stated in note 12.1 to the financial statements. Depreciation on additions is charged from the month in which the asset is acquired and on disposals till the month in which assets are sold.

Maintenance and repairs are charged against income as and when incurred. Major renewals and improvements are capitalized when it is probable that respective future economic benefits will flow to the Bank.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each financial year end.

Gains and losses on disposals, if any, are determined by comparing the sale proceeds with the carrying amount of asset and are included in income currently.

The carrying values of tangible fixed assets are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount and an impairment loss is recognized in the profit and loss account. The recoverable amount of fixed asset is greater of fair value less selling costs and value in use.



Intangible assets

These are stated at cost less accumulated amortization and impairment, if any. Amortisation is charged over the useful life of the asset on a systematic basis to income applying the straight line method at the rate specified in note 12.2 to the financial statements.

Amortisation on additions is charged from the month in which the assets are put to use while no amortisation is charged in the month in which the assets are deleted.

Software and other development costs are only capitalised to the extent that future economic benefits are expected to be derived by the Bank.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed estimated recoverable amount, assets are written down to their estimated recoverable amount.

Capital work-in-progress

All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use. These are carried at cost less impairment loss, if any.

5.6 Taxation

Current

Provision for current taxation is based on the expected taxable income for the year determined in accordance with the prevailing laws for taxation on income. The charge for tax also includes adjustments, where considered necessary relating to prior years.

Deferred

Deferred tax is recognised using the balance sheet liability method, on all temporary differences arising at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which the assets may be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recognised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

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

5.7 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.



5.8 Employee benefits

Defined contribution plan

The Bank operates an approved funded contributory provident fund for all its permanent employees to whom equal monthly contributions are made both by the Bank and the employees at the rate of 10% per annum of basic salary. The contributions made by the Bank are recognized as employee benefit expense when they are due.

5.9 Revenue recognition

Markup/return/interest on regular advances is recognised on accrual basis using effective interest rate method. Profit on classified advances is recognised on receipt basis.

Return on investment is recognised on accrual basis using effective interest rate method.

Income on net investment in micro lease is recognised over the term of the lease so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease. Income on classified micro lease is recognised on receipt basis in compliance with the Prudential Regulations issued by SBP.

Fee, commission and brokerage income is recognised when earned.

Dividend income from investments is recognised when Bank's right to receive the dividend is established.

Gain or loss on sale of securities is accounted for in the period in which the sale / settlement occurs.

All exchange differences are recognised in income.

Income on balances with other banks is recognised in profit and loss account as it is earned.

5.10 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities are recognised in the profit and loss account of the current period.

5.11 Offsetting of financial assets and financial liabilities

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 recognised amount and the Bank intends either to settle on a 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.

5.12 Related party transactions

Prices for transactions with related parties are determined using the comparable uncontrolled price method except for those transactions which in exceptional circumstances are specifically approved by the Board.

5.13 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

5.14 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognised separately as part of other liabilities.

5.15 Foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency

Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date. Forward foreign exchange promise / options are valued at forward rates applicable to their respective maturities.

Translation gains and losses

Translation gains and losses are included in the profit and loss account.

5.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing product or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

5.16.1 Business segments

- | | |
|--|---|
| Investment in Government Securities | - Includes investment in market treasury bills |
| Retail banking | - It includes retail deposits and banking services. |
| Micro Finance Banking | - Micro finance banking comprises advances provided to customers on Micro Credit and Micro Lease basis. |

5.16.2 Geographical segment

The Bank has 5 branches as at December 31, 2011 (2010: 5 branches) and operates only in the district of Karachi, Pakistan.

6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The estimates/judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

	Note
Classification and valuation of investments	5.3
Provision against non-performing advances	5.4
Residual values and useful lives of assets and methods of depreciation	5.5
Recognition of current and deferred taxation	5.6



7. ACCOUNTING STANDARDS NOT YET EFFECTIVE

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

Standard or interpretation	Effective date (accounting periods beginning on or after)
IAS 1 Presentation of Financial Statements- Presentation of items of comprehensive income	July 01, 2012
IAS 12 Income Taxes(Amendment) - Recovery of Underlying Assets	January 01, 2012
IAS 19 Employee Benefits – (Amendment)	January 01, 2013

The Bank expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Bank's financial statements in the period of initial application.

In addition to the above, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

	IASB effective date (annual period beginning on or after)
IFRS 9 Financial Instruments: Classifications and Measurement	January 01, 2015
IFRS 10 Consolidated Financial Statements	January 01, 2013
IFRS 11 Joint Arrangements	January 01, 2013
IFRS 12 Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 Fair Value Measurement	January 01, 2013

	Note	2011 Rupees	2010 Rupees
8. CASH AND BALANCES WITH SBP AND NBP			
Cash in hand – local currency		975,209	982,800
Balance with State Bank of Pakistan	8.1	886,573	1,788,517
		<u>1,861,782</u>	<u>2,771,317</u>

8.1 Represents balance maintained in a current account with the State Bank of Pakistan to meet the requirements of maintaining a minimum balance equivalent not less than 5% of the Bank's time and demand liabilities in accordance with Regulation 6 of the Prudential Regulation.

	Note	2011 Rupees	2010 Rupees
9. BALANCES WITH OTHER BANKS/NBFIs/MFBs			
In Pakistan			
- on current account		4,484	4,484
- on deposit account	9.1	3,291,673	10,016,130
		<u>3,296,157</u>	<u>10,020,614</u>

9.1 These carry mark-up rates ranging from 5 to 11 percent (2010: 5 to 12 percent) per annum. Includes deposits with related parties amounting to Rs. 2,288,591/- (2010: Rs. 5,614,905/-).

	Note	2011 Rupees	2010 Rupees
10. INVESTMENTS			
Held for trading			
Open ended mutual fund			
- Pakistan Income Enhancement Fund		-	11,072
Nil units (2010: 192.83 units)			
Held-to-maturity			
Federal Government Securities			
- Market Treasury Bills	10.1	201,678,143	175,774,311
		<u>201,678,143</u>	<u>175,785,383</u>

10.1 The effective yield of these Bills is from 11.65 to 13.73 percent (2010: 12.75 to 13.42 percent) per annum and has a maturity ranging from January 2012 to July 2012. These bills have an aggregate face value of Rs. 206.3 million (2010: 180 million)

11. ADVANCES – net of provisions

	Note	2011	2010
		Number of loans Rupees	Number of loans Rupees
Micro credit		662	5717
Micro lease	11.1	5	17
		4,857,980	60,820,140
		109,294	796,732
		4,967,274	61,616,872
Less: Provision held:			
- Specific		2,021,701	11,465,696
- General	11.3	29,456	752,293
		2,051,157	12,218,191
		<u>667</u>	<u>5734</u>
		<u>2,916,117</u>	<u>49,400,681</u>

11.1 Net investment in micro lease

		2011	2010
		Not later than one year Later than one and less than five years Over five years Total	Not later than one year Later than one and less than five years Over five years Total
		(Rupees)	(Rupees)
Lease rentals receivable	120,728	-	215,062
Residual value	-	-	9,850
Minimum lease payments	120,728	-	765,426
Financial charges for future period	(11,434)	-	(42,605)
Present value of minimum lease payments	109,294	-	616,625
		<u>109,294</u>	<u>796,732</u>

11.2 Particulars of nonperforming loan

Advances include Rs 3,704,397/- (2010: Rs. 32,231,278/-) which have been placed under non-performing status as detailed below:

	2011	2010
	Amount Outstanding Provision Required Provision Held	Amount outstanding Provision Required Provision Held
	(Rupees)	(Rupees)
OAEM	527,314	7,971,759
Sub-standard	558,634	2,134,526
Doubtful	1,472,815	6,390,037
Loss	1,145,634	2,941,333
	<u>3,704,397</u>	<u>11,465,898</u>



11.3 Particulars of provisions against non-performing advances

Note	2011			2010		
	Specific	General	Total	Specific	General	Total
	(Rupees)					
Opening balance	11,465,898	752,293	12,218,191	2,843,225	1,338,461	4,181,686
Charge/ (reversal) for the year	10,802,585	(722,837)	10,079,748	19,831,628	(586,168)	19,245,460
Amount written off	(20,246,782)	-	(20,246,782)	(11,208,955)	-	(11,208,955)
	2,021,701	29,456	2,051,157	11,465,898	752,293	12,218,191

11.5 Particulars of write offs:

Against provisions	20,246,782	11,208,955
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12. OPERATING FIXED ASSETS

Property and equipments	12.1	7,916,554	10,028,344
Intangible assets	12.2	-	235,548
		7,916,554	10,263,892

12.1 Property and equipments

	COST			Rate %	DEPRECIATION			Written down value as at December 31, 2011
	As at January 01, 2011	Additions/ (deletions)	As at December 31, 2011		As at January 01, 2011	Charge for the year	As at December 31, 2011	
	(Rupees)				(Rupees)			
Leasehold improvements	3,856,561	-	3,856,561	5	813,738	198,985	1,012,723	3,147,347
Furniture and fixtures	3,953,157	17,110	3,970,267	10	1,195,757	351,121	1,547,918	1,932,349
Electricity and office equipment	2,892,594	-	2,892,594	20	2,878,925	255,126	2,344,501	518,863
Computer hardware and peripheral	3,731,954	-	3,731,954	30	3,140,431	422,154	3,562,585	169,369
Motor vehicles	10,455,125	(46,008)	10,409,117	20	7,410,755	885,665	8,296,420	2,112,697
	24,893,391	17,110	24,910,501		14,440,637	2,131,232	16,571,869	7,916,554

	COST			Rate %	DEPRECIATION			Written down value as at December 31, 2010
	As at January 01, 2010	Additions/ (deletions)	As at December 31, 2010		As at January 01, 2010	Charge for the year	As at December 31, 2010	
	(Rupees)				(Rupees)			
Leasehold improvements	3,956,061	-	3,956,061	5	417,830	195,926	613,756	3,544,315
Furniture and fixtures	3,236,072	227,003	3,463,075	10	945,175	253,622	1,198,797	2,264,278
Electricity and office equipment	2,430,344	325,560	2,755,904	20	2,003,400	143,088	2,146,488	609,416
Computer hardware and peripheral	3,833,528	86,328	3,919,856	30	2,882,158	458,273	3,340,431	579,425
Motor vehicles	16,482,422	1,393,500	17,875,922	20	8,938,356	2,732,432	11,670,788	6,205,134
	29,940,427	2,047,389	31,987,816		14,997,459	3,779,539	18,777,000	13,210,816

12.1.1 Property and equipments include assets costing Rs. 10,511,645 (2010: 9,140,726) which are fully depreciated and still in use.

12.2 Intangible assets

PARTICULARS	COST			Rate %	AMORTISATION			Written down value as at December 31, 2011
	As at January 01, 2011	Additions	As at December 31, 2011		As at January 01, 2011	Charge for the year	As at December 31, 2011	
	(Rupees)				(Rupees)			
Computer software	5,167,025	-	5,167,025	25	4,831,477	235,548	5,067,025	-
	5,167,025	-	5,167,025	25	4,831,477	235,548	5,067,025	-

12.2.1 Intangibles include assets costing Rs. 5,167,025 (2010: Nil) which are fully depreciated and still in use.

	2011 Rupees	2010 Rupees
13. OTHER ASSETS		
Income/mark-up accrued	28,482	1,134,024
Advances, deposits, advance rent and other		
Prepayments	460,759	429,153
Tax deducted at source (net of provision)	798,286	1,003,261
Security deposits	450,484	484,284
Receivable against sale of fixed asset	-	550,000
Others	-	15,911
	1,738,011	3,616,633

14. DEPOSITS AND OTHER ACCOUNTS

	2011		2010	
	Number	Rupees	Number	Rupees
Fixed deposits	-	-	2	1,400,000
Saving deposits	1,765	8,046,479	1,761	14,361,858
Current deposits	13,467	3,381,690	13,459	13,264,693
	15,232	11,428,169	15,222	29,026,551

14.1 Particulars of deposits by ownership

	2011		2010	
	Number	Rupees	Number	Rupees
Individual depositors	15,162	4,179,499	15,162	13,126,475
Institutional depositors				
- Corporation / firm	66	1,404,175	52	5,691,932
- Banks and financial institutions	4	5,844,495	8	10,208,144
	15,232	11,428,169	15,222	29,026,551

14.2 Includes deposits from related parties amounting to Rs. 5,840,384/- (2010: Rs. 10,161,003/-).

	Note	2011 Rupees	2010 Rupees
15. OTHER LIABILITIES			
Mark-up / return / interest payable	15.1	108,404	181,565
Bills payable		746,631	801,561
Accrued expenses		1,282,759	1,535,100
Payable to depositors' protection fund	15.2	12,503	12,503
Security deposits against micro lease		-	9,456
Salary payable		23,167	84,263
Provident fund payable		-	77,572
EOBI contribution		-	5,880
Others		-	202
		2,173,464	2,708,102

15.1 Includes Rs. 50,688/- (2010: Rs. 3,011/-) payable to related parties.

15.2 As per Prudential Regulations for Microfinance Banks, the Bank is required to establish and maintain Depositors' Protection Fund for the purpose of mitigating risk of its depositors to which shall be credited not less than 5 percent of the annual profit after taxes.



16. SHARE CAPITAL

16.1 Authorized capital

2011 No. of shares	2010 No. of shares	2011 Rupees	2010 Rupees
50,000,000	50,000,000	500,000,000	500,000,000

16.2 Issued, subscribed and paid-up capital

2011 No. of shares	2010 No. of shares	2011 Rupees	2010 Rupees
30,000,000	30,000,000	300,000,000	300,000,000
30,000,000	30,000,000	300,000,000	300,000,000

17. MEMORANDUM / OFF- BALANCE SHEET ITEMS

There are no contingent liabilities at the year end.

18. MARK-UP/RETURN/INTEREST EARNED

Mark-up on loans and advances	7,289,894	27,816,034
Mark-up on investments in government securities	25,514,064	12,883,142
Mark-up on deposit accounts	538,409	8,171,421
	<u>33,342,367</u>	<u>48,870,597</u>

19. OTHER INCOME

Gain on disposal of fixed assets	18,332	3,569,598
Others	42,897	95,099
	<u>61,229</u>	<u>3,664,697</u>

20. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc.	23,753,920	27,909,364
Contribution to defined contribution plan	474,438	740,906
Rent, taxes, insurance, electricity, etc.	4,435,569	5,024,423
IT related expenses	2,038,656	2,141,167
Credit rating fees	275,000	275,000
Legal and professional charges	464,160	296,968
Security charges	1,218,352	1,411,150
Travelling	73,642	443,810
Fees and subscription	187,863	297,501
Communication	1,075,610	1,694,863
Fueling expense	479,581	546,001
Repair and maintenance	478,204	1,382,115
Stationery and printing	274,394	1,260,394
Advertisement and publicity	81,809	87,220
Auditors' remuneration	499,555	584,313
Depreciation	2,121,232	3,773,323
Amortization	235,548	1,291,752
Entertainment	444,904	795,660
Credit verification expenses	9,499	248,997
Others	77,995	291,832
	<u>38,699,931</u>	<u>50,496,759</u>

	Note	2011 Rupees	2010 Rupees
20.1 Auditors' remuneration			
Audit fee		300,000	275,000
Half yearly review and other certifications		110,000	180,000
Out-of-pocket expenses		89,555	129,313
		<u>499,555</u>	<u>584,313</u>

21. Taxation

21.1 The income of the Bank is exempt from tax under clause 66 (XVIII) of Part I of the Second Schedule of the Income Tax Ordinance, 2001 (the Ordinance), for a period of five years starting from first day of July 2007, subject to the condition that the Bank shall not distribute its profit to its shareholders and that profits are utilized for microfinance operations only. However, section 113 "minimum tax on income of certain persons" of the Ordinance has been reintroduced for the tax year 2011, therefore provision for minimum taxation amounting to Rs. 333,424 has been made during the year end December 31, 2011.

21.2 As of 31 December 2011, the Bank has accumulated tax losses aggregating to Rs. 94,244,880. The unrecognized deferred tax on such losses amounts to Rs. 94,244,880.

22. NUMBER OF EMPLOYEES

	2011			2010		
	Credit/sales staff	Banking / Support	Total	Credit/sales staff	Banking / Support	Total
	Numbers			Numbers		
Permanent	10	12	22	13	25	38
Contractual	28	8	36	55	10	65
Daily wages	-	6	6	-	8	8
	<u>38</u>	<u>26</u>	<u>64</u>	<u>68</u>	<u>43</u>	<u>111</u>

23. BASIC AND DILUTED (LOSS) / EARNING PER SHARE

		2011	2010
Loss after taxation for the year	(Rupees)	<u>(14,318,736)</u>	<u>(18,463,448)</u>
Weighted average number of ordinary shares outstanding during the year	Numbers	<u>30,000,000</u>	<u>30,000,000</u>
Loss per share	(Rupee)	<u>(0.48)</u>	<u>(0.62)</u>

23.1 There were no convertible dilutive potential ordinary shares outstanding as at year end.

24. CASH AND CASH EQUIVALENTS

	2011 Rupees	2010 Rupees
Cash and balances with SBP and NBP	1,861,782	2,771,317
Balances with other banks / NBFIs / MFBs	3,296,157	10,020,614
Market Treasury Bills – having maturities less than 3 months	152,841,847	128,572,526
	<u>157,999,786</u>	<u>141,364,457</u>

25. REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts for remuneration, including all benefits to President/ Chief Executive of the Bank was as follows:

	President/ Chief Executive		Executive	
	2011	2010	2011	2010
	(Rupees)		(Rupees)	
Managerial remuneration	4,140,000	3,496,000	1,926,000	418,000
Rent and house maintenance	-	791,000	770,400	188,600
Utilities	318,644	519,157	253,350	128,724
Medical	-	48,660	-	-
Contribution to provident fund	-	177,100	192,600	35,000
Bonus and other benefits	-	198,065	1,421,692	154,570
	4,458,644	5,229,882	4,564,042	924,894
Number of persons	1	2	1	2

The President/ Chief Executive and Executives are entitled to use company maintained cars and perquisites in accordance with the terms of their employment.

26. MATURITIES OF ASSETS AND LIABILITIES

	Total	2011			
		Upto one Month	Over one month upto 6 months (Rupees)	Over 6 months upto 1 year	Over one Year upto 5 years
Assets					
Cash and balances with SBP and NBP	1,861,782	1,861,782	-	-	-
Balances with other banks/NBFI/VFBs	3,296,157	3,296,157	-	-	-
Investments	201,678,143	114,037,115	45,466,532	41,184,476	336,227
Advances	2,916,117	968,848	549,369	662,373	336,227
Operating fixed assets	7,916,554	-	-	-	7,916,554
Other assets	1,738,011	28,482	-	-	1,709,529
	219,406,754	120,192,384	47,405,921	41,847,446	8,961,310
Liabilities					
Deposits and other accounts	11,428,199	11,428,199	-	-	-
Other liabilities	2,173,494	2,148,484	-	-	-
	13,601,693	13,576,683	-	-	-
Net assets	205,805,131	106,615,751	47,405,921	41,847,446	8,961,310
Represented by:					
Share capital	300,000,000				
Statutory reserves	50,011				
Accumulated losses	(34,244,880)				
	205,805,131				

	Total	2010			
		Upto one Month	Over one month upto 6 months (Rupees)	Over 6 months upto 1 year	Over one Year upto 5 years
Assets					
Cash and balances with SBP and NBP	2,771,317	2,771,317	-	-	-
Balances with other banks/NBFI/VFBs	10,020,614	10,020,614	-	-	-
Investments	175,785,363	128,752,528	47,082,857	-	3,242,640
Advances	49,400,531	13,674,825	28,777,820	5,705,505	10,253,892
Operating fixed assets	13,263,842	-	-	-	13,263,842
Other assets	3,616,835	1,134,324	-	-	2,482,511
	251,858,520	156,303,307	73,810,477	5,705,505	15,989,141
Liabilities					
Deposits and other accounts	29,628,551	27,628,551	1,200,000	200,000	-
Other liabilities	2,768,108	2,768,108	-	-	-
	31,396,659	30,396,659	1,200,000	200,000	-
Net assets	220,461,861	125,906,648	72,610,477	5,505,505	15,989,141
Represented by:					
Share capital	300,000,000				
Statutory reserves	50,011				
Accumulated losses	(79,588,144)				
	220,461,867				

27. FINANCIAL RISK MANAGEMENT

27.1 Interest / mark-up rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

The Bank interest rate exposure is very low due to the short-term nature of the majority of business transactions. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Optimization of yield is achieved through the Bank's investment strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of ALCO.

The advances and deposits of the Bank are on periodic basis based on interest rates scenario.

		2011				
		Exposed to yield / Interest risk				
	Effective yield/ Interest rate %	Total	upto one month	One month to six month	over six month to one year	Over one year to five years
		(Rupees)				
Assets						
Balances with other banks	5 - 11	3,296,157	3,296,157	-	-	-
Investment	11.65 - 13.73	201,678,143	114,037,115	48,456,552	41,184,476	-
Advances	16.6	2,916,117	968,848	948,089	662,873	336,227
		207,890,417	118,302,120	47,406,821	41,847,449	336,227
Liabilities						
Deposits	5-10	11,428,169	11,428,169	-	-	-
		106,462,248	106,678,951	47,406,821	41,847,449	336,227
2010						
		Exposed to yield / Interest risk				
	Effective yield/ Interest rate %	Total	upto one month	One month to six month	over six month to one year	Over one year to five years
		(Rupees)				
Assets						
Balances with other banks	5 - 12	10,020,614	10,020,614	-	-	-
Investment	12.75 - 13.42	176,780,383	128,752,526	47,032,857	-	-
Advances	33.48	48,400,681	13,674,828	26,777,620	5,706,595	3,242,640
		226,206,678	152,447,968	73,810,477	5,706,595	3,242,640
Liabilities						
Deposits	6.01	15,761,858	14,361,856	1,200,000	200,000	-
		219,444,820	139,086,106	72,810,477	5,506,595	3,242,640

27.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's credit risk is primarily attributable to its advances and balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Bank 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 loan losses is maintained as required by the Prudential Regulations. Maximum amount of financial assets which are subject to credit risk amount to Rs. 6,240,756 (2010: Rs. 60,555,319/-)

27.3 Liquidity risk

Liquidity risk is the risk that the Bank will not be able to raise funds to meet its commitments. At present the Bank is not exposed to this risk as there is sufficient cash placed with various commercial banks at the year end.

27.4 Fair value of financial instruments

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

27.5 Capital management

The prudential regulation's for Microfinance Banks prescribe the Minimum Capital Requirements for Micro Finance Banks (MFBs) regulation 4 of the said regulations, inter alia, require all MFBs which are licensed to operate in a specified district to maintain minimum paid up capital of at least Rs. 300 million free of losses. Furthermore, the aforementioned Regulation also requires MFBs that do not meet the minimum paid up capital requirement above to enhance their capital as per the following transitional arrangement.

Time	Minimum Paid up capital (free of losses)
31 December, 2011	Rs. 200 Million
31 December, 2012	Rs. 250 Million
31 December, 2013	Rs. 300 Million

The Bank has a paid up capital as at 31 December, 2011 of Rs. 205.8 Million.

28. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

	Investment in Government Securities	Retail Banking	Micro Banking	Total
-----Rupees-----				
December 31, 2011				
Total income	25,514,064	538,409	9,709,233	35,761,706
Total expenses	-	10,642,322	39,104,696	49,747,018
Net income / (loss)	25,514,064	(10,103,913)	(29,395,463)	(13,985,312)
Segment assets (gross)	201,678,143	5,157,939	14,621,839	221,457,921
Segment non performing loans	-	-	3,704,397	3,704,397
Segment provision required	-	-	2,021,701	2,021,701
Segment liabilities	-	12,174,801	1,426,832	13,601,633
December 31, 2010				
Total income	12,883,142	8,171,421	34,282,622	55,337,185
Total expenses	-	16,187,604	57,613,229	73,800,833
Net income / (loss)	12,883,142	(8,016,183)	(23,330,607)	(18,463,448)
Segment assets (gross)	175,774,311	12,803,003	75,499,398	264,076,712
Segment non performing loans	-	-	32,231,278	32,231,278
Segment provision required	-	-	12,218,192	12,218,192
Segment liabilities	-	30,009,677	1,724,975	31,734,653

29. RELATED PARTY TRANSACTIONS

Related parties of the Bank comprise group companies, staff retirement benefits, key management personnel and major share holder of the Bank. The details of transaction with related parties other than those which have been disclosed elsewhere in these financial statement are as follows:



FINANCIAL STATEMENTS

	2011 Rupees	2010 Rupees
Balances as at year end		
Associates:		
Deposits	2,288,591	5,614,905
Key management personnel:		
Deposits	547,991	667,160
Transactions for the period		
Associates:		
Deposits		
Deposit Received	11,902,711	61,951,072
Withdrawals	16,173,395	65,083,624
Mark-up on deposit paid	757,489	1,018,734
Placements		
Placements	114,777,765	624,300,152
Repayments	118,308,861	664,762,375
Mark-up on deposit earned	204,781	3,160,793
Key management personnel:		
Remuneration to Chief Executive Officer	4,458,644	5,229,882
Remuneration to Executives	4,564,042	924,894
Deposits		
Deposit Received	3,728,858	1,666,341
Withdrawals	3,707,962	1,000,006

30. DATE OF AUTHORIZATION

These financial statements were authorized for issue on March 3, 2012 by the Board of Directors of the Bank.

31. GENERAL

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

31.2 Figures have been rounded off to the nearest rupee.

Ejaz Ahmad
President & CEO

Muhammad Akram Shahid
Director

Shahida Bilquis
Director

Shoaib Ahmad Butt
Director



PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 2011

Number of Share holders	Shareholdings		Total Share held	
106	Shareholding From	1	To 100	1,727
94	Shareholding From	101	To 500	37,923
43	Shareholding From	501	To 1000	39,251
56	Shareholding From	1001	To 5000	157,058
13	Shareholding From	5001	To 10000	102,151
3	Shareholding From	10001	To 15000	33,403
4	Shareholding From	15001	To 20000	74,137
3	Shareholding From	20001	To 25000	62,813
1	Shareholding From	25001	To 30000	25,608
1	Shareholding From	40001	To 45000	44,813
1	Shareholding From	45001	To 50000	50,000
2	Shareholding From	50001	To 55000	100,625
2	Shareholding From	70001	To 75000	143,325
1	Shareholding From	75001	To 80000	77,822
2	Shareholding From	80001	To 85000	164,523
2	Shareholding From	85001	To 90000	172,173
1	Shareholding From	90001	To 95000	91,508
1	Shareholding From	100001	To 105000	100,028
1	Shareholding From	105001	To 110000	107,750
1	Shareholding From	120001	To 125000	120,034
1	Shareholding From	150001	To 155000	151,542
1	Shareholding From	180001	To 185000	183,810
1	Shareholding From	245001	To 250000	250,000
1	Shareholding From	405001	To 410000	405,312
1	Shareholding From	1355001	To 1360000	1,359,198
1	Shareholding From	1995001	To 2000000	2,000,000
1	Shareholding From	2965001	To 2700000	2,697,742
1	Shareholding From	8995001	To 9000000	9,000,000
1	Shareholding From	12245001	To 12250000	12,245,184
347				30,000,000

CATEGORIES OF SHAREHOLDERS AS AT DECEMBER 31, 2011

S. No.	Categories of Shareholders	Number of Shares Held	Percentage
1	Individuals	2,340,014	7.80
2	Investment Company	21,245,184	70.82
3	Insurance Company	2,250	0.00
4	Banks, DFIs, NBFIs	3,359,198	11.20
5	Manager to the Offer-NMBL	2,697,742	9.00
6	Others	355,612	1.19
	Total	30,000,000	100.00

Particulars	Shareholdings	Percentage
CEO, Directors, Sponsor Directors, their spouses and minor children	101	0.00
Associated Companies, undertakings & related parties	24,604,382	82.02
NIT & ICP	0.00	0.00
Banks, DFI & NBFCs	3,359,198	11.20
Insurance Companies	2,250	0.01
Modarbas and Mutual Funds	0.00	0.00
Shareholders Holding 10% or more voting interest in the Company	24,604,382	82.02
General Public (Local)	2,340,014	7.80
General Public (Foreign)	0.00	0.00
Manager to the Offer-NMBL	2,697,742	9.00
Others (Joint Stock Companies)	355,511	1.19

NETWORK MICROFINANCE BANK LIMITED PROXY FORM FOR SHAREHOLDERS

**AFFIX
Correct
Postage**

The Company Secretary
Network Microfinance Bank Limited
 202, Azayam Plaza,
 Opp. FTC Building, S.M.C.H.S.
 Shahrah-e-Faisal, Karachi,
 Pakistan.

Particulars	Shareholdings	Percentage
CEO, Director	100	0.00
Managing Director	100	0.00
Executive Director	100	0.00
Non-Executive Director	100	0.00
NT & P	100	0.00
Board of Directors	100	0.00

IMPORTANT
 1. The proxy form must be deposited at the registered office of the company, Network Microfinance Bank Limited, 202, Azayam Plaza, Opp. FTC Building, S.M.C.H.S. Shahrah-e-Faisal, Karachi, Pakistan, not less than 48 hours before the date of holding the meeting and shall be valid as a proxy for the shareholder.

2. The proxy form shall be valid only if it is signed by the shareholder or his authorized agent. If the proxy form is signed by two persons whose names and CNIC numbers are mentioned on the form, it shall be valid.

3. The proxy form shall be valid only if it is signed by the shareholder or his authorized agent. If the proxy form is signed by two persons whose names and CNIC numbers are mentioned on the form, it shall be valid.

4. The proxy form shall be valid only if it is signed by the shareholder or his authorized agent. If the proxy form is signed by two persons whose names and CNIC numbers are mentioned on the form, it shall be valid.

5. The proxy form shall be valid only if it is signed by the shareholder or his authorized agent. If the proxy form is signed by two persons whose names and CNIC numbers are mentioned on the form, it shall be valid.

6. The proxy form shall be valid only if it is signed by the shareholder or his authorized agent. If the proxy form is signed by two persons whose names and CNIC numbers are mentioned on the form, it shall be valid.