



Network Microfinance Bank
Limited





Statement of Compliance with the Code of Corporate Governance for the Year Ended December 31, 2010

Review 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. 37 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 internal controls.

Further, Sub-Regulation (xiii) of Listing Regulation 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the Bank to place before the board of directors for their consideration and approval related party transactions extinguishing 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 requirement 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 2010.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accounts

Karachi: February 24, 2011



Auditors' Report To The Members

The firm has audited the financial statements of NETWORK MICROFINANCE BANK LIMITED for the year ended December 31, 2010 and has issued this report thereon to the members of the Bank. The financial statements have been prepared in accordance with the provisions of the Companies Act, 1993 and the Companies (Accounts) Rules, 1989 and the Companies (Auditors' Report) Order, 2003. The financial statements have been prepared on the basis of the records and documents which are the responsibility of the management of the Bank and are not the responsibility of the auditors.

It is the responsibility of the Bank's management to establish and maintain a system of internal control and to ensure that the financial statements are prepared in accordance with the provisions of the Companies Act, 1993 and the Companies (Accounts) Rules, 1989 and the Companies (Auditors' Report) Order, 2003. The auditors have conducted their audit in accordance with the provisions of the Companies Act, 1993 and the Companies (Auditors' Report) Order, 2003 and have issued this report thereon to the members of the Bank.

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The auditors have conducted their audit in accordance with the provisions of the Companies Act, 1993 and the Companies (Auditors' Report) Order, 2003 and have issued this report thereon to the members of the Bank.

Financial Statements

December 31, 2010

The auditors have conducted their audit in accordance with the provisions of the Companies Act, 1993 and the Companies (Auditors' Report) Order, 2003 and have issued this report thereon to the members of the Bank.

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Auditors' Report To The Members

We have audited the annexed balance sheet of **NETWORK MICROFINANCE BANK LIMITED** (the Bank) as at **31 December 2010**, 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 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 zakat deductible at source under the Zakat and Ushr Ordinance, 1980, (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Audit Engagement Partner: **Omer Chughtal**

Karachi: February 24, 2011



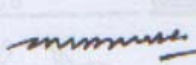
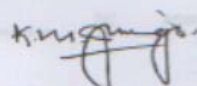
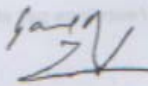
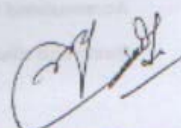
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

BALANCE SHEET AS AT DECEMBER 31, 2010

	Note	2010 Rupees	2009 Rupees
ASSETS			
Cash and balances with SBP and NBP	8	2,771,317	12,809,350
Balances with other banks/NBFs/MFBs	9	10,020,614	106,120,493
Lending to financial institutions		-	-
Investments-net of provisions	10	175,785,383	119,818,535
Advances-net of provisions	11	49,400,681	87,892,252
Operating fixed assets	12	10,263,892	16,273,358
Other assets	13	3,616,633	8,496,607
Deferred tax assets		-	-
Total assets		251,858,520	351,410,595
LIABILITIES			
Deposits and other accounts	14	29,026,551	110,905,847
Borrowings		-	-
Subordinated debt		-	-
Other liabilities	15	2,708,102	1,917,433
Deferred tax liabilities		-	-
Total liabilities		31,734,653	112,823,280
NET ASSETS		220,123,867	238,587,315
REPRESENTED BY:			
Share capital	16	300,000,000	300,000,000
Statutory and general reserves		50,011	50,011
Accumulated losses		(79,926,144)	(61,462,696)
		220,123,867	238,587,315
Surplus / (deficit) on revaluation of assets		-	-
Deferred grants		-	-
		220,123,867	238,587,315

MEMORANDUM / OFF-BALANCE SHEET ITEMS 17

The annexed notes 1 to 34 form an integral part of these accounts.

			
President/Chief Executive	Chairman	Director	Director



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010 Rupees	2009 Rupees
Mark-up/return/interest earned	18	48,870,597	49,855,431
Mark-up/return/interest expensed	19	<u>(3,563,414)</u>	<u>(4,409,739)</u>
Net mark-up/interest income		45,307,183	45,445,692
Provision against non performing loans and advances	11.3	<u>(19,245,461)</u>	<u>(2,980,250)</u>
Provision for diminution in the value of investment		-	-
Bad debts written off directly		<u>(19,245,461)</u>	<u>(2,980,250)</u>
Net mark-up/ interest income after provisions		26,061,722	42,465,442
Non-mark-up/non interest income			
Fee, commission and brokerage income	20	<u>740,535</u>	<u>1,821,158</u>
Recovery against written off advances		<u>2,060,259</u>	<u>1,015,687</u>
Dividend income		-	-
Unrealized gain / (loss) on revaluation of investments – held for trading security		<u>1,296</u>	<u>(220)</u>
Other income	21	<u>3,664,697</u>	<u>358,179</u>
Total non-markup/non interest income		32,528,509	3,192,804
Non mark-up/non interest expenses			
Administrative expenses	22	<u>(50,496,759)</u>	<u>(45,137,615)</u>
Other provisions/write offs		-	<u>(10,413)</u>
Other charges		<u>(50,496,759)</u>	<u>(45,148,028)</u>
Total non-markup/non interest expenses		(17,968,250)	510,218
Extraordinary/unusual items		-	-
(Loss) / profit before taxation		(17,968,250)	510,218
Taxation - current	23	<u>(495,198)</u>	<u>(260,163)</u>
- prior years		-	-
- deferred		<u>(495,198)</u>	<u>(260,163)</u>
(Loss) / profit after taxation		(18,463,448)	250,055
Accumulated losses brought forward		<u>(61,462,696)</u>	<u>(61,650,237)</u>
		(79,926,144)	(61,400,182)
Appropriations			
Transfer to			
Statutory reserve		-	<u>(50,011)</u>
Capital reserve		-	-
Contribution to MSDF / DPF / RMF		-	<u>(12,503)</u>
Revenue reserve		-	-
Proposed cash dividend Rs. Nil per share (2009: Rs. Nil per share)		-	-
Others		<u>(79,926,144)</u>	<u>(62,514)</u>
Accumulated losses carried forward		(79,926,144)	(61,462,696)
Basic and diluted (loss) / earnings per share – Rupees	26	<u>(0.62)</u>	<u>0.01</u>

President/Chief Executive

Chairman

Director

Director

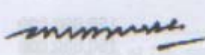
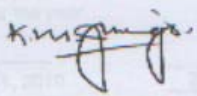
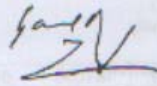
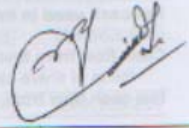


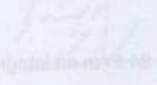
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010

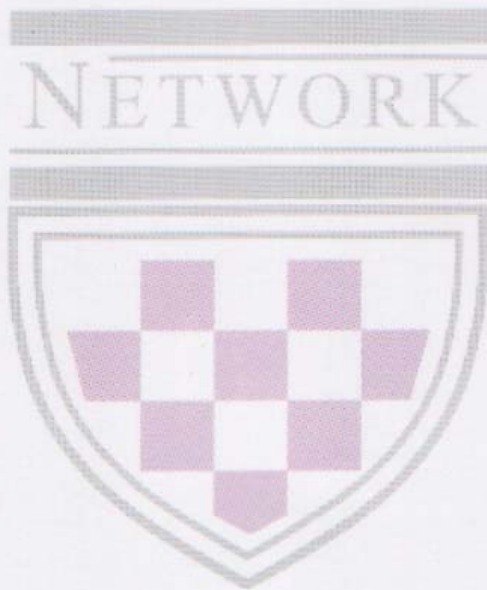
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
	----- Rupees -----	
(Loss) / Profit for the year	(18,463,448)	250,055
Other comprehensive income	-	-
Total comprehensive (loss) / income for the year	(18,463,448)	250,055

The annexed notes from 1 to 34 form an integral part of these financial statements.

 President/Chief Executive	 Chairman	 Director	 Director
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 President/Chief Executive	 Chairman	 Director	 Director
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Head Office:

202 Azayam Plaza, Opp. FTC Building, S.M.H.S. Shahrah-e-Faisal, Karachi, Pakistan.

www.networkmicrobank.com