

**U MICROFINANCE BANK LIMITED
(FORMERLY ROZGAR MICROFINANCE BANK LIMITED)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of U MICROFINANCE BANK LIMITED (FORMERLY ROZGAR MICROFINANCE BANK LIMITED) - the 'Bank' as at December 31, 2012 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, (here-in-after referred to as the "Financial Statement") for the year ended December 31, 2012 and 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 above said statements in conformity with the approved accounting standards, the requirements of the Companies Ordinance, 1984, the Microfinance Institution Ordinance, 2001, and the directives issued by State Bank of Pakistan. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards 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 accounts have been kept by the bank as required by the Companies Ordinance, 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, the Microfinance Institution Ordinance 2001 and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - (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 approved accounting standards as applicable in Pakistan, and give information required by the Companies Ordinance, 1984, the Microfinance Institution Ordinance, 2001, and the directives issued by State Bank of Pakistan, in the manner so required and give true and fair view of state of bank affairs as at 31st December, and its true balance of the loss, its cash flows and changes in equity for the year then ended;

- (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.



Chartered Accountants
Karachi.
Dated:

Engagement Partner: Adnan Zaman

U MICROFINANCE BANK LIMITED
(FORMERLY ROZGAR MICROFINANCE BANK LIMITED)
BALANCE SHEET
AS AT DECEMBER 31, 2012

	Note	2012 Rupees	2011 Rupees
Asset			
Cash and balances with State Bank of Pakistan and NBP	6	992,966	1,028,047
Balances with other banks/NBFIs/MFBs	7	1,043,050,562	1,112,502
Lending to financial institution		-	-
Investments - net of provisions	8	4,936,880	99,514,512
Advances - net	9	443,523	2,175,721
Operating fixed assets	10	50,333,470	535,399
Other assets	11	13,325,165	6,241,776
Deferred tax asset	12	-	-
Assets held for sale	13	-	5,500
		<u>1,113,082,566</u>	<u>110,613,457</u>
Liabilities			
Deposits and other accounts	14	5,573,753	7,090,749
Borrowing		-	-
Subordinated debt		-	-
Other liabilities	15	32,465,302	2,395,574
Deferred tax liabilities		-	-
		<u>38,039,055</u>	<u>9,486,323</u>
Net assets		<u><u>1,075,043,511</u></u>	<u><u>101,127,134</u></u>
Represented by:			
Share capital	16	1,185,714,290	185,714,290
Reserves		2,041,825	2,041,825
Discount on issue of right shares		(25,714,290)	(25,714,290)
Accumulated losses		(86,998,314)	(60,914,691)
		<u>1,075,043,511</u>	<u>101,127,134</u>
Surplus on revaluation of fixed assets		-	-
Deferred grant		-	-
		<u><u>1,075,043,511</u></u>	<u><u>101,127,134</u></u>

MEMORANDUM/OFF BALANCE SHEET ITEMS

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The annexed notes 1-37 form an integral part of these financial statements.

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President/Chief Executive

Chairman

Director

Director

U MICROFINANCE BANK LIMITED
(FORMERLY ROZGAR MICROFINANCE BANK LIMITED)
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 Rupees	2011 Rupees
Mark-up/return/interest earned	18	14,078,840	12,236,162
Mark-up / return/ interest expensed	19	(451,915)	(592,909)
Net mark-up / interest income		13,626,925	11,643,253
Provisions against non-performing loans and advances	9.1	(515,392)	(81,529)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
Net mark-up / interest income after provisions		13,111,533	11,561,724
Non markup / non interest income			
Fee, commission and brokerage income	20	1,520	423,321
Dividend income		-	-
Other income	21	1,636,058	3,661,071
Total non-markup/non interest Income		1,637,578	4,084,392
		14,749,111	15,646,116
Non markup / non interest expenses			
Administrative expenses	22	(40,672,767)	(7,254,060)
Other charges	23	-	(86,000)
Loss on disposal of operating fixed assets		(19,163)	(9,325)
Impairment loss on assets held for sale	13	-	(7,069)
		(40,691,930)	(7,356,454)
(Loss) / profit for the year before taxation		(25,942,819)	8,289,662
Taxation - current	25	(140,804)	(122,362)
- prior		-	-
- Deferred	12	-	-
		(140,804)	(122,362)
(Loss) / profit after taxation		(26,083,623)	8,167,300
Balance brought forward		(60,914,691)	(67,040,166)
Loss before appropriation		(86,998,314)	(58,872,866)
Appropriation			
Transfer to			
- Statutory reserve		-	-
- Capital reserve		-	(1,633,460)
- Contribution to depositors' protection fund		-	-
- Revenue reserve		-	(408,365)
- Dividend		-	-
		-	(2,041,825)
Balance carried forward		(86,998,314)	(60,914,691)
(Loss) / profit per share - basic and diluted (Rupees)	26	(1.21)	0.44

The annexed notes 1-37 form an integral part of these financial statements.

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President / Chief Executive

Chairman

Director

Director

U MICROFINANCE BANK LIMITED
(FORMERLY ROZGAR MICROFINANCE BANK LIMITED)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 Rupees	2011 Rupees
Other comprehensive income		
(Loss) / profit after taxation	(26,083,623)	8,167,300
Other comprehensive income for the year (net of tax)	-	-
Total comprehensive (loss) / profit for the year	<u>(26,083,623)</u>	<u>8,167,300</u>

The annexed notes 1-37 form an integral part of these financial statements.

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President/Chief Executive	Chairman	Director
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U MICROFINANCE BANK LIMITED
(FORMERLY ROZGAR MICROFINANCE BANK LIMITED)
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 Rupees	2011 Rupees
Cash flow from operating activities		
(Loss) / profit before taxation	(25,942,819)	8,289,662
Adjustments for non-cash charges		
Depreciation	487,801	237,936
Provision of provident fund	425,802	-
Other assets - written off	-	12,614
Provision for gratuity	940,694	207,267
Misc. income	(38,980)	-
Provisions against non-performing loans and advances	515,392	81,529
Gain on sale of fixed assets	(16,462)	(219,882)
Impairment loss on assets classified as 'Held For Sale'	-	7,069
Loss on sale of fixed assets	19,163	9,325
	2,333,410	335,858
Operating outflow before working capital changes	(23,609,409)	(937,164)
Working capital changes		
Decrease / (increase) in operating assets:		
Advances	1,255,786	(1,905,985)
Other assets	(7,164,866)	1,448,090
	(5,909,080)	(457,895)
(Decrease) / increase in operating liabilities:		
Deposits	(1,516,996)	(16,908,806)
Other liabilities	28,897,235	(853,655)
	27,380,239	(17,762,461)
	(2,138,250)	(8,994,836)
Gratuity paid	(191,184)	(90,478)
Taxes paid	(59,328)	(174,875)
Net cash (used in) operating activities (A)	(2,388,762)	(9,260,189)
Cash flow from investing activities		
Additions in operating fixed assets	(11,249,899)	(1,988,310)
Proceeds from sale of fixed assets held for sale	5,500	778,000
Proceeds from sale of fixed assets	73,000	2,167,500
Capital work in progress	(39,114,492)	-
Investments - net	94,577,632	(45,556,732)
Net cash generated from / (used in) investing activities (B)	44,291,741	(45,199,542)
Cash flow from financing activities		
Issue of new shares	1,000,000,000	-
Net cash generated from financing activities (C)	1,000,000,000	-
Net increase / (decrease) in cash and cash equivalents (A+B+C)	1,041,902,979	(54,459,731)
Cash and cash equivalent at beginning of the year	2,140,549	56,600,280
Cash and cash equivalent at end of the year	1,044,043,528	2,140,549
Cash and cash equivalents comprise of:		
Cash and balances with State Bank of Pakistan	992,966	1,028,047
Balances with other banks	1,043,050,562	1,112,502
	1,044,043,528	2,140,549

The annexed notes 1-37 form an integral part of these financial statements.

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President / Chief Executive

Chairman

Director

Director

U MICROFINANCE BANK LIMITED
(FORMERLY ROZGAR MICROFINANCE BANK LIMITED)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Share Capital	Discount on Issue of shares	Capital Reserve	Statutory Reserve	Depositors Protection Fund	Accumulated loss	Total
Balance as at December 31, 2010	185,714,290	-	-	-	-	(67,040,166)	118,674,124
Transfer to Statutory Reserve	-	-	-	1,633,460	-	(1,633,460)	-
Transfer to Depositors Protection Fund	-	-	-	-	408,365	(408,365)	-
Discount on issue of right shares	-	(25,714,290)	-	-	-	-	(25,714,290)
Profit for the year	-	-	-	-	-	8,167,300	8,167,300
Balance as at December 31, 2011	185,714,290	(25,714,290)	-	1,633,460	408,365	(60,914,691)	101,127,134
New shares issued during the year	1,000,000,000	-	-	-	-	-	1,000,000,000
Profit for the year	-	-	-	-	-	(26,083,623)	(26,083,623)
Transfer to Statutory Reserve	-	-	-	-	-	-	-
Transfer to Depositors Protection Fund	-	-	-	-	-	-	-
Balance as at December 31, 2012	1,185,714,290	(25,714,290)	-	1,633,460	408,365	(86,998,314)	1,075,043,511

The annexed notes 1-37 form an integral part of these financial statements.

President/Chief Executive

Chairman

Director

Director

**U MICROFINANCE BANK LIMITED
(FORMERLY ROZGAR MICROFINANCE BANK LIMITED)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. STATUS AND NATURE OF BUSINESS

U Microfinance Bank (formerly known as Rozgar Microfinance Bank Limited) - the Bank was incorporated in Karachi on October 29, 2003 under the Companies Ordinance, 1984. The Bank's principal business is to assist in stimulating progress, prosperity and social peace in society through the creation of income generating opportunities for the small entrepreneur under the Microfinance Institutions Ordinance, 2001.

The Bank has been granted license No. MFI-004 for commencement of business from the State Bank of Pakistan (SBP) vide SBP letter dated September 14, 2004. The Bank commenced its commercial operations with effect from April 08, 2005. The Bank's head office and principal place of business is located at 2nd Floor, Eastern Half, Razia Sharif Plaza, Jinnah Avenue, Blue Area, Islamabad, Pakistan. The Bank is eligible to carry on its business activities within districts of Karachi. Bank is intending to operate nation wide and has approached SBP for nation wide license which is expected to be received soon.

During the year, the Bank was acquired by Pakistan Telecommunication Company Limited (PTCL) and has become a wholly owned subsidiary of PTCL. Pursuant to the Special Resolution passed in Extraordinary General Meeting of the shareholders held on 24 October 2012, Approval of State Bank of Pakistan (SBP) and Securities Exchange Commission of Pakistan (SECP) 30 November 2012 and 7 December 2012 respectively, the name of the Bank has been changed from Rozgar Microfinance Bank Limited to U Microfinance Bank Limited with effect from 7 December 2012.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

These financial statements have been presented in accordance with BSD circular No. 11 dated December 30, 2003 issue by the State Bank of Pakistan (SBP).

The State Bank of Pakistan's BSD circular No. 7 dated March 20th 2008 requires that, Microfinance Banks (MFBs) licensed to operate in a specified district shall maintain a minimum paid up capital free of losses of rupees two hundred fifty million at the latest by December 31, 2013. During the year banks sponsor injected PKR one billion as a result of which company has satisfied its minimum capital requirement.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the directives issued by the SBP, the requirements of the Microfinance Institutions Ordinance 2001, the Companies Ordinance, 1984 and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the Standards Interpretation Committee of IASB as adopted in Pakistan except where provision of directives issued by SBP, the Microfinance Institutions Ordinance, 2001, the

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directives issued by State Bank of Pakistan and the Companies Ordinance, 1984 differ with the requirements of these standards, such provisions take precedence.

SBP vide BSD Circular no. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been measured in accordance with the requirements of SBP BSD Circular no. 11 dated 30 December 2003. Further, the SECP vide its S.R.O. No. 411 (I) / 2008 dated 28 April 2008 has deferred the applicability of International Financial Reporting Standards (IFRS) 7 'Financial Instruments' which is applicable for annual periods beginning on or after 01 July 2008 till further orders.

4. BASIS OF MEASUREMENT

4.1. Accounting convention

These financial statements have been prepared under the historical cost convention.

4.2. Standards, amendments to published standards and new interpretations effective during the year ended December 31, 2012

There are certain new standards, amendments to approved accounting standards and new interpretations that are mandatory for the Bank's accounting periods but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not mentioned in these financial statements.

Approved accounting standards, interpretations and amendments thereto issued but not effective as at the reporting date

The following standards, interpretations and amendments are issued which are not effective as at the reporting date or are not applicable to the Bank, as already mentioned above. Their impact on the Bank's financial statements cannot be ascertained as at the reporting date.

<i>Revision / Improvements / amendments to IFRSs and interpretations</i>	<i>Effective for periods beginning on or after</i>
IFRS 7 – Financial Instruments: Disclosures (Amendment)	January 01, 2013 & January 01, 2015
IAS 1 – Presentation of Financial Statements (Amendment)	July 01, 2012 & January 01, 2013

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IAS 27 - Separate Financial Statements	January 1, 2013
IAS 28 - Investments in Associates and Joint Ventures	January 1, 2013
IAS 32 - Financial Instruments: Presentation (Amendment)	January 1, 2014
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013
Annual Improvements to IFRS (the 2009 – 2011 cycle)	January 1, 2013
IAS 19 - Employee Benefits (Revised)	January 1, 2103
Standards issued by IASB but not yet notified by SECP	
IFRS 9 – Financial Instruments: Classification and Measurement	January 1, 2015
IFRS 10 – Consolidated Financial Statements	January 1, 2013
IFRS 11 – Joint Arrangements	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 – Fair Value Measurement	January 1, 2013

4.3. Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to 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 the revision and future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to the Bank's financial statements are as follows:

- a) Provision against doubtful advances (note 9)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

5.1. Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, stamps in hand, balances held with State Bank of Pakistan & National Bank of Pakistan and balances held with other banks.

5.2. Investments

Investments are classified as follows:

Held for Trading

These represent securities acquired with the intention to trade by taking advantage of short-term market / interest rate movements. These are marked to market and surplus / deficit arising on revaluation of 'held for trading' investments is taken to profit and loss account in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

Held to Maturity

These are investments with fixed or determinable payments and fixed maturity and the Bank has positive intent and ability to hold the investment till maturity. These are carried at amortized cost, less any provision for impairment, if any.

Available for Sale

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

5.3. Advances

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

- a) OAEM: These are advances in arrears (payments/ installments overdue) for 30 days or more (but less than 60 days).
- b) Substandard: These are advances in arrears (payments/ installments overdue) for 61 days or more (but less than 90 days).

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- c) Doubtful: These are advances in arrears (payments/ installments overdue) for 91 days or more (but less than 180 days).
- d) Loss: These are advances in arrears (payments/ installments overdue) for 180 days or more. The Bank maintains specific provision for potential loan losses for all non-performing advances as follows:

Substandard	25% of the outstanding principal net of cash collaterals
Doubtful	50% of the outstanding principal net of cash collaterals
Loss	100% of the outstanding principal net of cash collaterals

In addition, a general provision is maintained equivalent to 1.5% of the net outstanding balance (advances net of specific provisions) for potential loan losses.

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

5.4. Operating fixed assets

Capital work-in-progress

Capital work-in-progress is stated at cost and not depreciated. These assets are transferred to property & equipments / intangibles when available to use.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged over estimated useful lives of the related assets at varying rates on reducing balance method. For assets added during the year, depreciation is charged from the month when respective assets were put to use and for assets disposed off depreciation is charged up to the month of disposal. Normal repairs and maintenance is charged to revenue as and when incurred, whereas major renewals and replacements are capitalized. Profit and loss on disposal of fixed assets is taken to income currently.

Intangibles

Intangible assets acquired are capitalized at cost and stated at cost less amortization.

5.5. Impairment

The carrying values of the Bank's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceeds the estimated recoverable amount, the assets are written down to their recoverable amount and the impairment losses are recognized in the profit and loss account.

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5.6. Grant

The grant related to an asset is recognized in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Bank will comply with the conditions attached to it. Grants that compensate the Bank for expenses incurred are recognized as revenue in the profit and loss account on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Bank for the cost of an asset are recognized in the profit and loss account as other operating income on a systematic basis over the useful life of the asset.

5.7. Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account available tax credits and rebates, if any, or one percent of turnover, whichever is higher. The income of the Bank is exempt from tax for a period of five years starting from July 01, 2007 under Clause 56 (XVIII) of Part 1 of second schedule of the Income Tax Ordinance, 2001, subject to the condition that the Bank shall not distribute its profit to its shareholders and that profits are utilized for microfinance services.

Deferred

Deferred tax is provided using the balance sheet liability method on all major temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available and the credits can be utilized.

5.8. Revenue recognition

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

Mark-up / return on advances are recognised on a time proportion basis using effective interest method.

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

The effective interest rate is the rate that exactly discounts the estimated future cash payment and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial assets or liability. The

effective interest rate is established on initial recognition of the financial assets and liability and is not revised subsequently.

Fee, commission and other income is recognized when earned.

Interest on mark-up recoverable on non-performing advances is recognized on a receipt basis in accordance with the requirements of the Prudential Regulations.

5.9. Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of the financial assets and financial liabilities is taken to profit and loss account currently.

5.10. Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Bank has legally enforceable right to setoff the recognized amount and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

5.11. Transactions with related parties

The Bank enters into transactions with related parties on an arm's length basis.

5.12. Staff retirement benefits

Provision for gratuity has been made on the basis of a computation for gratuity accrued. In the opinion of the management the provision as per actuarial computation is not likely to be materially different from the amount recognized in these financial statements.

5.13. Deposits

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

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	Note	2012 Rupees	2011 Rupees
6 Cash and balances with State Bank of Pakistan and NBP			
Cash in hand		55,806	84,694
Stamps in hand		145,715	149,315
Balance with State Bank of Pakistan	6.1	791,445	794,038
Balance with National Bank of Pakistan (NBP)		-	-
		<u>992,966</u>	<u>1,028,047</u>

6.1 These balances are maintained with State Bank of Pakistan (SBP) to meet the requirement of maintaining minimum balance equivalent to 5% of the Bank's time and demand liabilities in accordance with Regulation No. 6(a) of the Prudential Regulations.

7 Balance with other banks

In Pakistan:

Local currency current accounts		905,518	230,698
Local currency saving accounts	7.1	<u>1,042,145,044</u>	<u>881,804</u>
		<u>1,043,050,562</u>	<u>1,112,502</u>

7.1 The rate of return on these accounts range from 5.00% to 10.00% per annum (December 31, 2011: 5.00% to 10.00% per annum).

8 Investments - net of provisions

Federal Government Securities

-Held to maturity

Treasury bills

Less: Unamortized discount

	5,000,000	104,000,000
	(63,120)	(4,485,488)
8.1	<u>4,936,880</u>	<u>99,514,512</u>

8.1 These investments are held in treasury bills. These are due on January 24, 2013 with a stated yield of 9.15% (2011: 11.45%).

9 Advances - net

Loan type	2012		2011	
	Number of loans outstanding	Amount outstanding	Number of loans outstanding	Amount outstanding
Micro credit	13	290,364	24	1,511,903
Micro lease	13	472,943	13	762,821
	26	763,307	37	2,274,724
Less: Provisions held				
Specific	15	313,001	2	65,842
General	11	6,783	35	33,161
Sub-total	26	319,784	37	99,003
Advances (net of provision)	26	<u>443,523</u>	37	<u>2,175,721</u>

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9.1 Particulars of non-performing loans

Category of Classification	2012			2011		
	Amount Outstanding	Provisions Required	Provisions Held	Amount Outstanding	Provisions Required	Provisions Held
Other Assets Especially Mentioned (OAE M)	191,677	-	-	-	-	-
Sub-standard	21,582	5,396	5,396	-	-	-
Doubtful	233,665	116,833	116,833	20,945	10,472	10,472
Loss	190,772	190,772	190,772	55,369	55,369	55,369
	637,696	313,001	313,001	76,314	65,841	65,841

9.2 Particulars of provision against non-performing advances

	2012			2011		
	Specific	General	Total	Specific	General	Total
Opening balance	65,842	33,161	99,003	26,191	5,977	32,168
Charge for the year	556,259	-	556,259	218,135	33,616	251,751
Amount written off	(294,611)	-	(294,611)	(14,694)	-	(14,694)
Reversal	(14,489)	(26,378)	(40,867)	(163,790)	(6,432)	(170,222)
Closing balance	313,001	6,783	319,784	65,842	33,161	99,003

9.2.1 Provision against non-performing advances

	Note	2012 Rupees	2011 Rupees
Charge for the year	9.2	556,259	251,751
Reversal	9.2	(40,867)	(170,222)
		515,392	81,529

9.3 Particulars of write offs

Against provision	9.2	(294,611)	(14,694)
Directly charged to profit and loss account		-	-
		(294,611)	(14,694)

new

10 Operating fixed assets

Notes

2012 Rupees

2011 Rupees

Capital work-in-progress
Property and equipment
Intangible assets

39,114,492
11,218,978

-
535,399

50,333,470 535,399

10.1 Capital work-in-progress

Advance to contractor
Intangible asset - software

6,980,115
32,134,377

-
-

39,114,492

10.1.1 This amount represent advance given to contractors for leasehold improvements.

10.1.2 This amount represent software licence fee paid by Bank for acquisition of Branchless Banking Solution software from Sybase during the year. The software was delivered in December 2012 and is due for implementation subject to the approval of State Bank of Pakistan (SBP). The bank will capitalize the software licence cost once the software is ready for use. The bank has committed to pay software support fee under the Licence agreement as disclosed in note 17.2. which is due for payment after 3 months from the date of delivery.

10.2 Operating fixed assets

Particulars	Cost				2012				Rate %
	As at 1st January 2012	Addition	Deletion/ Adjustments*	As at December 31, 2012	Accumulated Depreciation at 1st Jan, 2012	Charge for the year	On Deletions/ Adjustments*	Accumulated Depreciation at 31 Dec, 2012	
Office improvement	-	7,342,517	-	7,342,517	-	224,418	-	224,418	10%
Computers	2,022,545	572,332	(43,500)	2,551,377	1,750,885	132,717	(15,311)	1,868,291	33%
Electrical equipments	34,600	2,647,500	-	2,682,100	17,590	80,617	-	98,207	20%
Furniture & fixture	326,171	632,050	(74,800)	883,421	104,700	40,408	(49,728)	95,380	10%
Vehicles	205,600	55,500	(202,400)	55,500	180,342	9,641	(141,362)	9,641	20%
*			(3,200)				(38,980)		
Total 2012	2,588,916	11,249,899	(320,700)	13,514,915	2,053,517	487,801	(206,401)	2,295,937	
								11,218,978	

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2011									
Particulars	Cost			Depreciation				Written down value 31 December, 2011	Rate %
	As at 1st January 2011	Addition	Deletion	As at December 31, 2011	Accumulated Depreciation at 1st Jan, 2011	Charge for the year	Adjustment	Accumulated Depreciation at 31 Dec, 2011	
Office improvement	-	-	-	-	-	-	-	-	10%
Computers	2,037,545	34,000	(49,000)	2,022,545	1,688,623	105,932	(43,670)	1,750,885	33%
Electrical equipments	34,600	-	-	34,600	16,181	1,409	-	17,590	20%
Furniture & fixture	265,953	90,760	(30,542)	326,171	110,661	16,342	(22,303)	104,700	10%
Vehicles	829,100	1,863,550	(2,487,050)	205,600	584,195	114,253	(518,106)	180,342	20%
Total 2011	3,167,198	1,988,310	(2,566,592)	2,588,916	2,399,660	237,936	(584,079)	2,053,517	

10.2.1 Disposal of fixed assets

Particulars	Cost	Book Value	Sale proceed	Mode of disposal	Particulars of buyer
Hero RF-70 Motorcycle	39,580	12,001	16,000	Public Auction	Mr.Asim Husain
Hero RF-70 Motorcycle	39,580	12,001	16,000	Public Auction	Mr.Asim Husain
Hero RF-125 Motorcycle	57,500	17,435	18,000	Public Auction	Mr.Asim Husain
Honda CD -100 Motor cycle	65,740	19,601	20,000	Public Auction	Mr.Asim Husain
Furniture Sale	25,000	11,974	3,000	Public Auction	Mr. Ahsan
Furniture (written off)	49,800	13,098	13,098	Against Settlement of payables	Foundation Schools
Computer Inter Core 2				Against Settlement of payables	
DUO Sale	34,000	26,386	17,000	Against Settlement of payables	Sirat-e-Mustaqeem Foundation
HP-Printer 1020				Against Settlement of payables	
Recovered	9,500	1,803	1,000		
	320,700	114,299	104,098		

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		Note	2012 Rupees	2011 Rupees
11	Other assets			
	Advances		101,220	133,970
	Deposits		2,943,255	20,000
	Prepayments		2,866,682	44,766
	Mark-up receivable		3,393,424	1,828,600
	Taxation-net	11.1	311,169	445,158
	Income tax refundable		3,354,867	3,302,354
	Sundry debtors		78,012	190,000
	Stock of stationary		276,536	276,928
			<u>13,325,165</u>	<u>6,241,776</u>

11.1 Taxation-net

Advance income tax		451,973	567,520
Less: Provision for taxation - current - prior	11.1.1	(140,804) -	(122,362) -
		<u>(140,804)</u>	<u>(122,362)</u>
		<u>311,169</u>	<u>445,158</u>

- 11.1.1 The income of the Bank is exempt from tax for a period of five years starting from July 01, 2007 under Clause 56 (XVIII) of Part 1 of second schedule of the Income Tax Ordinance, 2001, subject to the condition that the Bank shall not distribute its profit to its shareholders and that profits are utilized for microfinance services.

The amount represents minimum tax under section 113 of Income Tax Ordinance.

12 Deferred tax asset

The bank has not recognized deferred tax assets in its profit & loss account amounting to Rs. 9.38 million (2011: 22.86 million) on prudent basis.

ADW

13 Assets held for sale

Note
2012
Rupees

2011
Rupees

Assets held for sale

13.1
- 5,500

Particulars	Cost	Depreciation	Carrying Value as at December 31, 2012	Fair Value	Estimated Cost to sales	Fair Value Less cost to sales	Impairment
Amount in Rupees							
Furniture	-	-	-	-	-	-	-
Computer	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-

Particulars	Cost	Depreciation	Carrying Value as at December 31, 2011	Fair Value	Estimated Cost to sales	Fair Value Less cost to sales	Impairment
Amount in Rupees							
Furniture	30,542	22,303	8,239	3,000	500	2,500	(5,239)
Computer	49,000	43,670	5,330	3,500	500	3,000	(1,830)
2011	79,542	65,973	13,569	6,500	1,000	5,500	(7,069)

14 Deposits & other accounts

Particulars	2012		2011	
	Number of accounts	Amount	Number of accounts	Amount
Fixed deposits	1	1,000,000	1	1,000,000
Daily product deposits	30	2,111,784	31	2,363,673
Saving deposits	1,302	1,728,277	1,311	1,806,194
Current deposits	151	733,692	161	1,920,882
	1,484	5,573,753	1,504	7,090,749

14.1 Particulars of deposits by ownership

	2012		2011	
	Number of accounts	Amount	Number of accounts	Amount
1) Individual depositors	1,443	4,890,360	1,453	6,407,356
2) Institutional depositors	41	683,393	51	683,393
- Corporation/firm/etc.	1,484	5,573,753	1,504	7,090,749

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	Note	2012 Rupees	2011 Rupees
15 Other liabilities			
Accrued expenses		1,060,759	1,151,757
Payable to related party	15.1	29,432,151	-
Provision for gratuity	15.2	1,271,466	521,956
Provident fund		425,802	-
Accrued markup on saving deposits		153,063	98,555
Bills payable		122,061	623,306
		<u>32,465,302</u>	<u>2,395,574</u>

15.1 The amount represents payable to Ufone, an associated company, in lieu of purchase of fixed assets and payments of expense made by Ufone on behalf of U Microfinance Bank Limited (formerly Rozgar Microfinance Bank Limited).

15.2 Provision for gratuity

Opening balance as on Jan 1, 2011		521,956	405,167
Gratuity paid		(191,184)	(90,478)
Charge to profit and loss account	15.3	940,694	207,267
Closing balance		<u>1,271,466</u>	<u>521,956</u>

15.3 Gratuity expenses consists of

Current service cost		940,694	283,267
Expense reversed		-	(76,000)
Current service cost		<u>940,694</u>	<u>207,267</u>

16 Share capital

Authorized share capital

2012	2011		2012	2011
Number of shares				
<u>125,000,000</u>	<u>25,000,000</u>	Ordinary shares of Rs.10/- each	<u>1,250,000,000</u>	<u>250,000,000</u>

Issued subscribed and paid-up

2012	2011		2012	2011
Number of shares				
10,000,000	10,000,000	Ordinary shares of Rs.10/- fully paid in cash	100,000,000	100,000,000
8,571,429	8,571,429	Fully paid shares of Rs. 10 each issued as right shares at discounted rate of Rs. 7/- each	85,714,290	85,714,290
100,000,000	-	Fully paid ordinary shares of Rs 10/- each issued as right shares at par.	1,000,000,000	-
<u>118,571,429</u>	<u>18,571,429</u>		<u>1,185,714,290</u>	<u>185,714,290</u>

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	Note	2012 Rupees	2011 Rupees
17	Memorandum/ off balance sheet items		
17.1	Contingencies		
	There were no contingent liabilities as at the balance sheet date.		
17.2	Commitment		
	The Bank has committed to pay the following:		
	Branchless banking system	17.2.1 45,835,945	-
	Oracle Platform	17.2.2 28,115,152	-
		<u>73,951,097</u>	<u>-</u>
17.2.1	This represent payments committed under agreement with Abacus Consulting Technologies (Private) Limited against purchase, implementation and support fee of Branchless Banking System.		
17.2.2	This represent payments committed under agreement with Techaccess Pakistan (Private) Limited against provision of Oracle Exadata solution, implementation and maintenance services.		
18	Mark-up earned		
	Mark-up on advances	381,183	276,952
	Income reversal (charged excessively in preceeding years)	-	(249,596)
	Mark-up on deposits accounts	3,569,807	470,870
	Profit on government securities	10,127,850	11,737,936
		<u>14,078,840</u>	<u>12,236,162</u>
19	Mark-up/ Interest expensed		
	Deposit	<u>451,915</u>	<u>592,909</u>
20	Fee, commission and brokerage income		
	Income from issuance of cheque book	1,020	10,296
	Service charges	-	375,525
	Commission on remittance	500	37,500
		<u>1,520</u>	<u>423,321</u>
21	Other income		
	Gain on sale of fixed assets	16,462	219,882
	Recovery against write off cases	1,580,616	2,182,149
	Sale of written off asset	-	150,000
	Miscellaneous income	38,980	1,109,040
		<u>1,636,058</u>	<u>3,661,071</u>

Attn

		2012 Rupees	2011 Rupees
22	Administration and other expenses		
	Salary, allowances and other benefits	12,353,866	2,725,301
	Gratuity	940,694	207,267
	Repair and maintenance	2,608,777	1,130,281
	Legal and professional charges	9,210,850	231,597
	Insurance	254,429	97,035
	Advertisement	2,450	10,805
	Stationary and printing	443,257	258,789
	Communication expenses	563,874	312,091
	Power and fuel	783,953	264,393
	Books and periodicals	1,138	3,805
	Rent, rates and taxes	3,720,632	444,775
	Entertainment	401,447	111,900
	Miscellaneous expenses	99,775	173,367
	Traveling and conveyance	923,238	140,639
	Security charges	274,202	103,278
	Other assets - written off	13,098	75,801
	IT service cost	6,776,454	-
	Financial charges	3,782	-
	Auditors remuneration	209,050	125,000
	Depreciation	487,801	237,936
	Software licence fee	600,000	600,000
		<u>40,672,767</u>	<u>7,254,060</u>
22.1	Auditors' remuneration		
	Statutory audit	150,000	125,000
	Quarterly review	25,000	-
	Out of pocket expenses	34,050	-
		<u>209,050</u>	<u>125,000</u>
23	Other charges		
	SBP penalty	-	86,000
25	Taxations		
	Current	(140,804)	(122,362)
	Prior	-	-
		<u>(140,804)</u>	<u>(122,362)</u>
26	(Loss) / earning per share - Basic and diluted		
	(Loss) / profit after taxation	<u>(26,083,623)</u>	<u>8,167,300</u>
		(Number of shares)	
	Weighted average number of ordinary shares	<u>21,576,893</u>	<u>18,571,429</u>
	(Loss) / profit per share (Rupees)	<u>(1.21)</u>	<u>0.44</u>
27	Number of branches / service units	Nos.	Nos.
	At beginning of the year	2	8
	Add: Opened during the year	-	-
	Less: Closed during the year	-	6
	At the end of the year	<u>2</u>	<u>2</u>

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28 Number of employees

	Credit/ Sales Staff	Banking/ support	2012 Total
Permanent	4	32	36
Temporary / on contractual basis	2	1	3
	6	33	39

29 Reconciliation between tax expense and accounting profit

The income of the Bank is exempt from tax for a period of five years starting from July 01, 2007 under Clause 56 (XVIII) of Part 1 of second schedule of the Income Tax Ordinance, 2001, subject to the condition that the Bank shall not distribute its profit to its shareholders and that profits are utilized for microfinance services.

The Bank was exempted from tax upto June 30, 2012. The bank is in loss for the remaining six months period hence has only recorded minimum tax under section 113 of Income Tax Ordinance, 2001. Therefore, no reconciliation has been provided in the current financial statements.

30 Financial instruments and related disclosures

30.1 Liquidity risk

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitments when they fall due or take the advantage of investment opportunities when they rise. The management ensures that funds are available at all times to meet the funding requirements of the Bank. The Bank manages risk by maintaining sufficient liquidity at head office and branch. The Bank believes that it is not exposed to any significant level of liquidity risk.

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30.2 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the interest rates. The Bank manages this risk through risk management strategies. The Bank is exposed to yield/mark-up rate risk in respect of the following:

2012						
Interest bearing			Non-interest bearing			Total
Upto one year	One to five years	Over five years	Upto one year	One to five years	Over five years	
----- Rupees -----						
-	-	-	992,966	-	-	992,966
1,042,145,044	-	-	905,518	-	-	1,043,050,562
4,936,880	-	-	-	-	-	4,936,880
443,523	-	-	-	-	-	443,523
-	-	-	13,325,165	-	-	13,325,165
1,047,525,447	-	-	15,223,649	-	-	1,062,749,096
4,840,061	-	-	733,692	-	-	5,573,753
-	-	-	32,465,302	-	-	32,465,302
4,840,061	-	-	33,198,994	-	-	38,039,055

Effective interest rates are mentioned in the respective notes to the financial statements.

2011						
Interest bearing			Non-interest bearing			Total
Upto one year	One to five years	Over five years	Upto one year	One to five years	Over five years	
Rupees						
-	-	-	1,028,047	-	-	1,028,047
881,804	-	-	230,698	-	-	1,112,502
99,514,512	-	-	-	-	-	99,514,512
-	2,175,721	-	-	-	-	2,175,721
-	-	-	6,241,776	-	-	6,241,776
100,396,316	2,175,721	-	7,500,521	-	-	110,072,559
5,169,867	-	-	1,920,882	-	-	7,090,749
-	-	-	2,395,574	-	-	2,395,574
5,169,867	-	-	4,316,456	-	-	9,486,323

Effective interest rates are mentioned in the respective notes to the financial statements.

At the

30.3 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties fail completely to perform as contracted. The Bank manages this risk through having exposures only to those parties, which are considered to be credit worthy, and obtaining security deposit wherever applicable. All financial assets except cash and bank balances are subject to credit risk.

30.4 Fair value of financial instruments

The carrying value of all the financial assets and financial liabilities are estimated to approximate their fair values.

31 Remuneration of directors and executives

	President/Chief Executive		Directors		Executives	
	2012	2011	2012	2011	2012	2011
Remuneration	2,440,000	-	-	-	4,436,731	-
Rent and house maintenance	1,423,333	-	-	-	2,548,329	-
Utilities	203,333	-	-	-	373,342	-
Vehicle Maintenance	223,667	-	-	-	955,667	-
Total	4,290,333	-	-	-	8,314,068	-
Number of persons	1	1	9	9	13	-

Amu

32 Maturity distribution of assets and liabilities

	2012					
	Total 2012	Upto one month	Over one month upto six month	Over six month upto one year	Over one year upto five year	Over five year
Assets						
Interest bearing						
Advances-net of provision	443,523	-	-	443,523	-	-
Investment in government securities	4,936,880	-	4,936,880	-	-	-
Balance with other banks	1,042,145,044	1,042,145,044	-	-	-	-
Non - interest bearing						
Cash and balances with SBP	992,966	992,966	-	-	-	-
Balance with other banks	905,518	905,518	-	-	-	-
Operating fixed assets	50,333,470	-	-	-	-	50,333,470
Other assets	13,325,165	78,012	3,143,218	2,943,255	3,494,644	3,666,036
	1,113,082,566	1,044,121,540	8,080,098	3,386,778	3,494,644	53,999,506
Liabilities						
Interest bearing						
Deposits	4,840,061	2,111,784	1,728,277	1,000,000	-	-
Non - Interest bearing						
Deposits	733,692	733,692	-	-	-	-
Other liabilities	32,465,302	29,554,212	153,063	1,060,759	-	1,697,268
	38,039,055	32,399,688	1,881,340	2,060,759	-	1,697,268
Net assets	1,075,043,511	1,011,721,852	6,198,758	1,326,019	3,494,644	52,302,238
Represented by:						
Share capital	1,185,714,290					
Accumulated loss	(86,998,314)					
Discount on issue of right shares	(25,714,290)					
Reserves	2,041,825					
	1,075,043,511					

ANW

Maturity distribution of assets and liabilities

2011

	Total 2011	Rupees				
		Upto one month	Over one month upto six month	Over six month upto one year	Over one year upto five year	Over five year
Assets						
Interest Bearing						
Advances-net of provision	2,175,721	-	-	2,175,721	-	-
Investment in government securities	99,514,512	8,919,567	90,594,945	-	-	-
	881,804	-	881,804	-	-	-
Non - Interest Bearing						
Cash and balances with SBP	1,028,047	1,028,047	-	-	-	-
Balance with other banks	230,698	230,698	-	-	-	-
Operating fixed assets	535,399	-	-	-	-	535,399
Intangible assets	-	-	-	-	-	-
Assets held for sale	5,500	-	5,500	-	-	-
Other assets	6,241,777	190,000	321,694	20,000	1,962,570	3,747,512
	110,613,459	10,368,312	91,803,943	2,195,721	1,962,570	4,282,911
Liabilities						
Interest Bearing						
Deposits	5,169,867	2,363,673	1,806,194	1,000,000	-	-
Non - Interest Bearing						
Deposits	1,920,882	1,920,882	-	-	-	-
Other liabilities	2,395,576	623,306	98,556	1,151,757	-	521,956
	4,316,458	2,544,188	98,556	1,151,757	-	521,956
Net Assets	101,127,134	5,460,451	89,899,194	43,964	1,962,570	3,760,955
Represented by:						
Share capital	185,714,290					
Accumulated loss	(60,914,691)					
Discount on issue of right shares	(25,714,290)					
Reserves	2,041,825					
	101,127,134					

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33 Related party transactions

Parties are considered to be related if one party has the ability to control the other party and exercise significant influence over the other party in making financial and operating decisions.

The related parties comprise of major shareholders, associated undertakings with or without common directors, directors of the Bank, key management personnel, and financial institution having nominee on the Board of Directors. Remuneration and benefits to the executives of the Bank are in accordance with the terms of employment while contribution to the provident fund are in accordance with the staff services rules. Transactions with other related parties are entered into at rates negotiated with them. The remuneration to Chief Executive, Directors and Executives is disclosed in note 31 to the financial statement.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

On August 31, 2012 the bank was acquired by Pakistan Telecommunication Company Limited (PTCL) and ceased to be a related party of Summit Bank Ltd. The bank undertook transactions with Ufone during the year which is a wholly owned subsidiary of PTCL and therefore, a sister concern of U Microfinance Bank Ltd (Formerly Rozqar Microfinance Bank Ltd).

Details of balances and transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements or are clearly insignificant, are as follows:

Balances	Relationship	2012 Rupees	2011 Rupees
Deposits			
Summit Bank- Current A/c.	Major Shareholder	-	105,575
Summit Bank- Daily product account	(Former)	-	770,685
Total		-	876,260
Deposits by:			
Mariam Afzal Munif	Major Shareholder	-	2,077
Rana Afzal Munif	(Former)	-	989,036
Total		-	991,113
Other Liabilities			
Payable to Ufone	Sister Concern	29,432,151	-
Transactions	Relationship	2012 Rupees	2011 Rupees
		Sep-Dec	Jan-Aug
Share Capital			
Issue of ordinary shares to PTCL	Holding Company	1,000,000,000	-
Fixed Assets			
Purchase of fixed assets from Ufone	Sister Concern	8,512,036	-
Markup earned			
Markup on deposit account		-	162,956
Profit on treasury bills (Purchased from Summit Bank Ltd)	Major Shareholder	-	10,093,196
Total	(Former)	-	10,256,152
Markup expensed			
Mariam Afzal Munif	Major Shareholder	-	-
Rana Afzal Munif	(Former)	-	-
Total		-	17,360
Sale of asset (Laptop) to Mr Bard-ud-din			
Cost of asset		-	-
Sale proceed	Director (Former)	-	-
Loss on sale		-	-
			10,427

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

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34 Capital management

Objectives, policies and processes for managing capital

The objectives, policies and processes for managing capital of the Bank are as follows:

- i) To be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;
- ii) Maintain strong rating and to protect the bank against unexpected events.
- iii) Availability of adequate capital at reasonable cost so as to enable the Bank to expand; and achieve low cost of capital with approximate mix of capital elements.

35 Date of authorization

These financial statements were authorized for issue on _____ by the Board of Directors of the Bank.

36 Reclassification of corresponding figure

Prior years figures have been reclassified for the purpose of better presentation and comparison. Changes made during the year are as follows:

Reclassification From	Reclassification To	Amount
Operating fixed assets	Profit & loss account	
Intangibles	Administration and other expenses	
	Software licence fee	600,000

37 General

- i). Figures have been rounded off to the nearest rupee.
- ii). Captions, as prescribed by BSD Circular No. 11 dated December 20, 2003 issued by the State Bank of Pakistan (in respect of forms of financial statements for Microfinance Banks/Institutions) where there are no amounts reported, have not been reproduced in these financial statements except for in the balance sheet and the profit and loss account.

President/Chief Executive

Chairman

Director

Director