

**Naveed Zafar Ashfaq Jaffery & Co.**  
Chartered Accountant

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# **Sindh Microfinance Bank Limited**

**Audit of Financial Statements  
for the year ended December 31, 2022**

# Naveed Zafar Ashfaq Jaffery & Co.

Chartered Accountants

A member firm of



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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SINDH MICROFINANCE BANK LIMITED

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the annexed financial statements of Sindh Microfinance Bank Limited (the Bank), which comprise the financial position as at December 31, 2022, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (here-in-after referred to as "the financial statements"), 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and cash flow statement together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017) and the Microfinance Institutions Ordinance, 2001, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2022 and of the profit, other comprehensive income, the changes in equity and its cash flows for the year then ended.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Directors' report but does include the financial statement and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If based on the work we have performed, on other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of the Companies Act, 2017 (XIX of 2017), Microfinance Institutions Ordinance, and the directives issued by the State Bank of Pakistan and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of directors is responsible for overseeing the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional Judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal and Regulatory Requirements**

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017);
- b) the balance sheet, the profit and loss account and statement of other comprehensive income, statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) Microfinance Institutions Ordinance, 2001, and the directives issued by the State Bank of Pakistan and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Bank's business; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is **Shah Naveed Saeed**.

**Place:** Islamabad

**Date:** \_\_\_\_\_

**UDIN:** \_\_\_\_\_



**Naveed Zafar Ashfaq Jaffery & Co.**  
Chartered Accountants

**SINDH MICROFINANCE BANK LIMITED**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2022**

	Note	2022	2021
		-----Rupees-----	
<b>ASSETS</b>			
Cash and Balances with SBP and NBP	8	35,344,338	22,899,322
Balances With Other Banks/NBFIs/MFBs	9	406,224,534	452,604,262
Lending to financial institutions		-	-
Investment - Net of Provisions	10	54,788,274	475,585,381
Advances - Net of Provisions	11	1,302,898,322	944,464,927
Operating Fixed Assets	12	87,923,956	88,345,333
Other Assets	13	120,361,797	100,204,945
Deferred Tax Asset	14	172,956	1,253,008
<b>Total Assets</b>		<b>2,007,714,177</b>	<b>2,085,357,178</b>
<b>LIABILITIES</b>			
Deposits and other accounts	15	600,335,196	271,022,792
Borrowings	16	310,000,000	750,000,000
Subordinated Debt		-	-
Other Liabilities	17	85,005,967	94,986,876
Deferred Tax Liabilities		-	-
<b>Total Liabilities</b>		<b>995,341,163</b>	<b>1,116,009,668</b>
<b>NET ASSETS</b>		<b>1,012,373,014</b>	<b>969,347,510</b>
<b>REPRESENTED BY:</b>			
Share Capital	18	750,000,000	750,000,000
Statutory Reserves		52,314,542	44,032,746
Depositors' Protection fund		13,078,636	11,008,187
Unappropriated Profit		196,979,836	164,306,577
		<b>1,012,373,014</b>	<b>969,347,510</b>
Surplus/(Deficit) on Revaluation of Assets		-	-
Deferred Grants		-	-
<b>Total Capital</b>		<b>1,012,373,014</b>	<b>969,347,510</b>
<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>	19	-	-

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

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**President & Chief Executive**

**Chief Financial Officer**

**Chairman**

**Director**

**Director**

**SINDH MICROFINANCE BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Note	2022 -----Rupees-----	2021
Mark-up / return / interest earned	20	<b>469,686,106</b>	345,467,004
Mark-up / return / interest expensed	21	<b>(124,525,885)</b>	(61,800,615)
<b>Net mark-up / interest income</b>		<b>345,160,221</b>	283,666,389
Provision against non-performing loans and advances	11.2	<b>(11,488,732)</b>	(13,154,998)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	11.2.1.1	<b>(2,327,457)</b>	(2,296,714)
		<b>(13,816,189)</b>	(15,451,712)
<b>Net mark-up / interest income after provisions</b>		<b>331,344,032</b>	268,214,677
<b>NON MARK-UP/ NON INTEREST INCOME</b>			
Fee, commission and brokerage income		-	-
Dividend income		-	-
Other income		-	-
		-	-
<b>Total non mark-up / non interest income</b>		<b>331,344,032</b>	268,214,677
<b>NON MARKUP/ NON INTEREST EXPENSES</b>			
Administrative expenses	22	<b>(274,063,415)</b>	(222,403,392)
Other provisions/write offs		-	-
Other charges	23	<b>(41,000)</b>	-
<b>Total non mark-up / non interest expenses</b>		<b>(274,104,415)</b>	(222,403,392)
Extra ordinary / unusual items		-	-
<b>Profit before taxation</b>		<b>57,239,617</b>	45,811,285
Taxation			
- current	24	<b>(15,410,853)</b>	(16,261,018)
- prior years	24	-	-
- deferred	24	<b>(419,783)</b>	(2,203,392)
		<b>(15,830,636)</b>	(18,464,410)
<b>Profit after taxation</b>		<b>41,408,981</b>	27,346,875
Unappropriated Profit/(Loss) - brought forward		<b>164,426,459</b>	144,666,338
Less: Other comprehensive loss		<b>1,616,523</b>	(750,035)
<b>Profit available for appropriation/(Loss)</b>		<b>207,451,963</b>	171,263,178
<b>APPROPRIATIONS:</b>			
Transfer to			
- statutory reserve		<b>(8,281,796)</b>	(5,469,375)
- capital reserve		-	-
- contribution to depositors' protection fund		<b>(2,070,449)</b>	(1,367,344)
- revenue reserve		-	-
- proposed dividend		-	-
		-	-
<b>Unappropriated profit - carried forward</b>		<b>197,099,718</b>	164,426,459
<b>EARNINGS PER SHARE</b>	25	<b>0.55</b>	0.36

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

President & Chief Executive

Chief Financial Officer

Chairman

Director

Director

**SINDH MICROFINANCE BANK LIMITED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Note	2022 -----Rupees-----	2021
<b>Profit after taxation</b>		<b>41,408,981</b>	27,346,875
<b>Other comprehensive loss</b>			
- Items that may be reclassified to profit and loss account		-	-
- Items that will not reclassified to profit and loss account subsequently			
<i>Remeasurement loss on provision for gratuity - net of tax</i>	17.1	1,616,523	(750,035)
		<b>1,616,523</b>	<b>(750,035)</b>
<b>Total comprehensive income for the year</b>		<b>43,025,504</b>	<b>26,596,840</b>

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

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**President & Chief Executive**

**Chief Financial Officer**

**Chairman**

**Director**

**Director**

**SINDH MICROFINANCE BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Share capital	Statutory reserve	Depositors' protection fund	Unappropriated profit	Total Equity
	-----Rupees-----				
Balance as at January 1, 2021	750,000,000	38,563,371	9,640,843	144,546,456	942,750,670
<b>Total comprehensive income for the year</b>					
- Profit after taxation	-	-	-	27,346,875	27,346,875
- Other comprehensive income	-	-	-	(750,035)	(750,035)
	-	-	-	26,596,840	26,596,840
Transfer to statutory reserve					
- 20% of the profit after tax for the year	-	5,469,375	-	(5,469,375)	-
Transfer to depositors' protection fund					
- 5% of the profit after tax for the year	-	-	1,367,344	(1,367,344)	-
	-	-	-	-	-
Balance as at December 31, 2021	750,000,000	44,032,746	11,008,187	164,306,577	969,347,510
<b>Total comprehensive income for the year</b>					
- Profit after taxation	-	-	-	41,408,981	41,408,981
- Other comprehensive (loss) / income	-	-	-	1,616,523	1,616,523
	-	-	-	43,025,504	43,025,504
Transfer to statutory reserve					
- 20% of the profit after tax for the year	-	8,281,796	-	(8,281,796)	-
Transfer to depositors' protection fund					
- 5% of the profit after tax for the year	-	-	2,070,449	(2,070,449)	-
<b>Balance as at December 31, 2022</b>	<b>750,000,000</b>	<b>52,314,542</b>	<b>13,078,636</b>	<b>196,979,836</b>	<b>1,012,373,014</b>

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

*11/28/2020*

**President & Chief Executive**

**Chief Financial Officer**

**Chairman**

**Director**

**Director**



**SINDH MICROFINANCE BANK LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	Note	2022	2021
		-----Rupees-----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		57,239,617	45,811,285
<b>Adjustments for non cash items:</b>			
Provision against non performing advances	11.2	11,488,732	13,154,998
Bad debts written off directly	11.3	2,327,457	2,296,714
Depreciation on property and equipment	12.1	7,210,117	4,873,827
Amortization on intangible assets	12.2	1,013,274	923,434
Depreciation expense on lease assets	12.3	14,041,889	14,350,476
Interest on lease liability	21	10,892,259	6,515,986
Charged for defined benefit plan	22	5,547,576	4,345,664
		<u>52,521,304</u>	<u>46,461,099</u>
<b>Operating cash flows before changes in working capital</b>		<b>109,760,921</b>	<b>92,272,384</b>
<b>Working capital changes</b>			
<b>(Increase) / decrease in operating assets</b>			
Advances		(372,249,585)	(406,110,815)
Other assets (excluding advance taxation)		(7,082,119)	14,573,217
Prepaid rent/ Lease rental		(35,062,475)	(28,657,977)
		<u>(414,394,179)</u>	<u>(420,195,575)</u>
<b>Increase in operating liabilities</b>			
Other liabilities(excluding current taxation)		12,461,464	(7,076,560)
Deposits and other accounts		329,312,404	131,682,893
		<u>341,773,868</u>	<u>124,606,333</u>
		<u>37,140,610</u>	<u>(203,316,858)</u>
Income tax paid		(28,485,587)	(27,662,695)
<b>Net cash used in operating activities</b>		<b>8,655,023</b>	<b>(230,979,553)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of HTM investment		(29,202,893)	412,347,715
Purchase of property and equipment	12.1	(18,020,341)	(2,869,797)
Purchase of intangible assets	12.2	(5,366,501)	(551,490)
<b>Net cash used in from investing activities</b>		<b>(52,589,735)</b>	<b>408,926,428</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Paid to SBP		(440,000,000)	-
<b>Net cash generated from financing activities</b>		<b>(440,000,000)</b>	<b>-</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(483,934,712)</b>	<b>177,946,875</b>
Cash and cash equivalents at beginning of the year		925,503,584	747,556,709
<b>Cash and cash equivalents at the end of the year</b>	26	<u><u>441,568,872</u></u>	<u><u>925,503,584</u></u>

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

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President & Chief Executive

Chief Financial Officer

Chairman

Director

Director

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**1 STATUS AND NATURE OF BUSINESS**

Sindh Microfinance Bank Limited (the Bank) was incorporated on March 27, 2015 as a public unlisted company limited by shares under the repealed Companies Ordinance, 1984 (repealed by Companies Act 2017). The Bank obtained Microfinance banking license from State Bank of Pakistan on October 16, 2015, to operate in Sindh Province. Subsequently, the Bank received the certificate of commencement of business from Securities & Exchange Commission of Pakistan (SECP) on November 30, 2015 and the certificate of commencement of Banking Business from State Bank of Pakistan on April 15, 2016. The Bank's registered office is situated at 39/F, 2nd Floor, Muhammad Ali Cooperative Housing Society, Karachi. The Bank's principal business is to provide microfinance services to the poor and underserved segment of the society as envisaged in the Microfinance Institutions Ordinance, 2001.

The Bank is the wholly owned subsidiary of Sindh Bank Limited (the Holding bank). The Bank operates through branches and service centers spread within the province of Sindh, the network of branches and service centers comprise of 19 (2021: 18) branches and 71 (2021: 62) service centers.

The credit rating companies PACRA has maintained the long term rating of the Bank at "A-" and short term rating at "A2" and outlook "Stable" as of March 29, 2022.

**2 BASIS OF PRESENTATION**

These financial statements have been presented in accordance with the requirements of Banking Supervision Department (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 directives and prudential regulations issued by SBP, the requirements of the Microfinance Institution Ordinance, 2001 (the MFI Ordinance), the Companies Act, 2017 (the Companies Act) and the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and interpretations issued by the Standards Interpretation Committee of IASB as adopted in Pakistan. In case where provisions of directives issued by the SBP and SECP, the MFI Ordinance and the Companies Act differ with the requirements of these standards, such provisions of directives issued by SBP and SECP, the MFI Ordinance and the Companies Act shall prevail.

The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, the SECP vide its SRO 633 (I)/ 2014, dated 10 July 2014 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement", IAS 40, "Investment Property" and International Financial Reporting Standard (IFRS) 7 "Financial Instruments: Disclosures" for banking companies till further instructions.

Accordingly, the requirements of this standard have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations.

**4 BASIS OF MEASUREMENT**

**4.1 Accounting convention**

These financial statements have been prepared under the historical cost convention except for obligations in respect of defined benefit plan and lease liabilities against right of use assets, which are carried at present value.

These financial statements have been prepared following accrual basis of accounting except for cash flow statement.

11/25/2020

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**4.2 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.

**4.3 Use of critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Significant areas requiring the use of management estimates in these financial statements relate to the:

	<b>Note</b>
a) Provision against non performing advances	7.2
b) Useful life of depreciable assets	7.3
c) Impairment of non-financial assets	7.4
d) Provision for taxation	7.5
e) Provision for gratuity	7.6
f) Lease term for ROU asset	7.3

However, assumptions and significant judgments made by the management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

**5 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO APPROVED ACCOUNTING STANDARDS**

**5.1 Standards, amendments and interpretations to the published standards that are relevant to the Bank and adopted in the current year**

The Bank has adopted the following new standards, amendments to published standards and interpretations of IFRSs which became effective during the current year.

<b>Standard or Interpretat</b>	<b>IASB effective date</b> (Annual periods beginning
IFRS 15 'Revenue from Contracts with	July 1, 2018
IFRS 16 'Leases'	January 1, 2019
IFRIC 23 'Uncertainty over Income Tax Treatments'	January 1, 2019
IAS 19 'Plan Amendment, Curtail or Settlement' (Amendments to IAS 19)	January 1, 2019
Annual improvements to IFRSs 2015 - 2017 Cycle	January 1, 2019

Adoption of the above standard have no significant effect on the amounts for the year ended December 31, 2020.

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**5.2 Standards, amendments to published standards and interpretations that are effective but not relevant**

IAS 28 'Long-term Interests in Associates and Joint Ventures' (Amendments to IAS 28) became effective for annual period beginning on or after 1 January 2019, but considered not to be relevant on the financial reporting and operations of the Bank.

**5.3 Standards, amendments and interpretations to the published standards that are relevant but not yet effective and not early adopted by the Bank**

IFRS 9 'Financial instruments' - This standard is effective for periods beginning from or after July 1, 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. State Bank of Pakistan (SBP) through BPRD Circular Letter No. 3 of 2022, deferred the effective date to January 1, 2024.

The following new standards, amendments to published standards and interpretations would be effective from the dates mentioned below against the respective standard or interpretation.

<b>Standard or Interpretat</b>	<b>IASB effective date (Annual periods beginning</b>
IFRS 14 'Regulatory Deferral	July 1, 2019
IFRS 3 'Definition of a business' Amendment to IFRS 3	January 1, 2020
IAS 1/IAS 8 'Definition of Material' (Amendments to IAS 1	January 1, 2020
Various Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020

The Bank is in the process of assessing the impact of these Standards, amendments and interpretations to the published standards on the financial statements of the Bank.

**5.4 Standards, amendments and interpretations to the published standards that are not yet notified by the Securities and Exchange Commission of Pakistan (SECP)**

Following new standards have been issued by the International Accounting Standards Board (IASB) which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

<b>Standard or Interpretat</b>	<b>IASB effective date (Annual periods beginning</b>
IFRS 17 'Insurance Contracts'	January 1, 2022
IFRS 1 'First-time Adoption of International Financial Reporting Standards'	July 1, 2009

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**6 SUMMARY OF SIGNIFICANT TRANSACTIONS AND BALANCES IN THE CURRENT REPORTING PERIOD**

	Note	2022 ----- Rupees -----	2021
Advances	11	<u>1,321,059,597</u>	<u>957,830,734</u>
Provisions	11	<u>(18,161,275)</u>	<u>(13,365,807)</u>
Depos	15	<u>600,335,196</u>	<u>271,022,792</u>
Borrowings from State Bank of Pakistan	16	<u>310,000,000</u>	<u>750,000,000</u>

**During the year the bank disbursed advances to 56,576 (2021: 42,470) parties.**

The amount of provision represents general and specific provision against advances held in accordance with the requirements of prudential regulations for microfinance banks.

Borrowings from SBP represents fund obtained under LOCF scheme from State Bank of Pakistan as described in 16.1.

**7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted and applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all year presented, unless otherwise stated.

**7.1 Cash and cash equivalents**

Cash and bank balances are stated at cost. For the purpose of cash flow statement, cash and cash equivalents comprises of cash in hand, balances with State Bank of Pakistan (SBP), National Bank of Pakistan (NBP) and balances held with other banks in current and deposit accounts with maturities of less than three months.

**7.2 Advances - net of provisions**

Advances are stated net of specific and general provisions which are determined on the basis of the Prudential Regulations for Microfinance Banks issued by SBP. Advances are written off according to the Prudential Regulations or when there is no realistic prospect of recovery. These regulations prescribe a time based criteria for classification of non-performing advances into the following categories:

- a) Other assets especially mentioned (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 60 days or more but less than 90 days and 90 days.
- c) Doubtful: These are advances in arrears (payments / installments overdue) for 90 days or more but less than 180 days.
- d) Loss: These are advances in arrears (payments / installments overdue) for 180 days or more and 210 days.

In addition, the Bank maintains a watch list of all accounts overdue for 5-29 days. However, such accounts are not treated as non-performing for the purpose of classification and provisioning.

In accordance with the Prudential Regulations the bank maintains specific provision for potential loan losses for all non performing loans net of cash the following rates:

OAE	NIL
Substandard	25%
Doubtful	50%
Loss	100%

*MSBP*

### **7.3 Operating fixed assets**

#### *Property and equipment*

These are stated at cost less accumulated depreciation and any identified impairment losses (if any). Cost of property and equipment's consists of purchase price which is equal to the fair value of consideration paid at the time of acquisition or construction of the asset plus directly attributable costs in bringing the asset to their working conditions.

Depreciation is charged on additions from the month in which asset is available for use, using the straight line method, to the month of disposal.

Gain or loss on disposal, if any, are recognized in the profit and loss account in the year in which they arise.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit and loss account as and when incurred.

#### *Capital work-in-progress*

Capital work in progress is stated at cost less accumulated impairment losses, if any. All expenditures connected with specific assets incurred during installation and related advances there against, if any, are carried under this head. These are transferred to specific assets as and when assets become available for use.

#### *Intangible assets*

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month when these assets are available for use, using the straight line method, whereby the cost of the intangible assets are amortized over its estimated useful lives over which economic benefits are expected to flow to the Bank. The useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

#### *Right of use assets (ROUA)*

The Bank recognizes 'Right of use asset' (ROUA) in respect of the leases measured as the present value of the remaining lease payments on property lease agreements and discounted using the incremental borrowing rate for the Bank. These assets are depreciated on a straight line basis over the lease term as this method most closely reflects the expected pattern of consumption of future economic benefits. These assets are also reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liability.

### **7.4 Impairment of non-financial assets**

The carrying amount of assets are reviewed at each statement of financial position date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account.

### **7.5 Taxation**

#### *Current*

The charge of current tax is based on taxable income at the applicable rate of taxation after taking into account available tax credits and rebates. Income for the purpose of computing current taxation is determined under the provisions of tax laws.

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*Deferred*

Deferred tax is accounted for using the balance sheet method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are subsequently reduced, where required, to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to statement of changes in equity, in which case it is included in equity.

**7.6 Staff retirement benefits**

**Defined contribution plan**

The Bank operates a recognized provident fund for its eligible employees. Equal monthly contributions are made, both by the Bank and the employees, to the Fund at the rate of 10% of basic salary.

**Defined benefit plan**

The Bank operates a recognized funded gratuity scheme for its eligible permanent employees completing the minimum qualifying services period of three years. Provision is made annually on the basis of actuarial recommendations based on Projected Unit Credit (PUC) method with corresponding impact recognized in profit and loss account including past service costs. Measurement gain or loss is recognized in statement of comprehensive income in the year in which they arise.

**7.7 Deposits**

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

**7.8 Borrowings**

Borrowings are recorded at the proceeds received.

Borrowing costs are recognised as an expense in the period in which these are incurred except where such costs are directly attributable to the acquisition, construction or production of qualifying asset in which case such costs are capitalised as part of the cost of that asset.

**7.9 Investments**

The investments of the Bank, upon initial recognition, are classified as held-for-trading, held-to-maturity and 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.

All purchase and sale of investments are recognized using settlement date accounting. Settlement date is the date on which investments are delivered to or by the Bank. All investments are derecognized when the right to receive economic benefit from investment has been expired or transferred and the Bank has transferred all risk and rewards of ownership.

**7.9.1 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 gain / (loss) arising as a result of revaluation is taken to profit and loss account.

*12/31/2022*



**7.9.2 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 amortized cost.

**7.9.3 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 gain / (loss) arising on revaluation is shown in the statement of financial position below equity which is taken to the profit and loss account when actually realized upon disposal.

Premium or discount on securities classified as available-for-sale and held-to-maturity is amortized using effective interest method and taken to 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 requirements of the prudential regulations and charged to profit and loss account.

**7.10 Statutory reserve**

The Bank is required under Microfinance Institution Ordinance, 2001 and Prudential Regulation "R-4 - Statutory Reserve", to create a reserve fund to which shall be credited an amount equal to at least 20% of its annual profits after taxes till such time the reserve fund equals the paid-up capital of the bank and thereafter, a sum not less than 5% of its annual profit after taxes.

**7.11 Depositors' protection fund**

The Bank is required under Microfinance Institutions Ordinance, 2001 to contribute 5% of its annual after tax profit and profit earned on investments of the fund shall be credited to the Depositors' Protection Fund for the purpose of providing security or guarantee to persons depositing money in the Bank.

**7.12 Revenue recognition**

- Mark-up / return / interest earned on advances, investments and bank balances is recognized on a time proportion basis, except in the case of advances classified under the Prudential Regulations on which mark-up is recognized on receipt basis.
- Gain or loss on sale of securities is accounted for in the period in which the sale / settlement occurs.
- Fee, commission and brokerage income is recognized as services are rendered.
- Dividend income is recognized when the right to receive dividend is established.
- Other income is recognized on accrual basis when then financial services have been rendered.

**7.13 Administrative expenses**

Administrative expenses are charged to profit and loss account, on accrual basis of accounting in the period in which these are incurred.

**7.14 Dividend distribution**

Dividends and other appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

Dividend made subsequent to the date of statement of financial position are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standards (IAS) 10, 'Events after the Balance Sheet Date' in the period in which they are approved.

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**7.15 Financial instruments**

Financial assets and liabilities are recognized at the trade date, i.e. the date at which the Bank becomes party to a contractual provision of the instrument. Financial assets and liabilities are derecognized when they are distinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and liabilities are taken to income directly.

**7.16 Financial assets and financial liabilities**

Financial instruments carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, lending to financial institutions, investments, advances, other assets, borrowings, deposits and other liabilities. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

**7.17 Offsetting of financial assets and financial liabilities**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**7.18 Provisions and contingencies**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. However, provisions are reviewed at each statement of financial position date and adjusted to reflect current best estimate.

A contingent liability is disclosed when the Bank has a possible obligation as a result of past event, existence of which will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or the Bank has a present legal or constructive obligation that arises from past events, but is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

**7.19 Earnings per shares**

The Bank presents earnings per share (EPS) for its ordinary shares which is calculated by dividing the profits or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all diluted potential ordinary shares (if any).

**7.20 General**

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

Where there are no amounts to be disclosed in the captions as prescribed by BSD circular No.11 dated December 30, 2003 issued by the SBP in respect of form of the financial statements for microfinance banks, these captions have not been reproduced in these financial statements, except for the captions of the balance sheet and profit and loss account.

**7.21 Related party transactions**

Transactions involving related parties arising in the normal course of the business are conducted at arm's length at normal commercial rates on the same terms and conditions as third transactions using valuation modes as admissible, unless disclosed otherwise.

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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		2022	2021
	Note	----- Rupees -----	
<b>8 CASH AND BALANCES WITH SBP AND NBP</b>			
Cash in hand			
Local currency		908,448	763,708
Balances with State Bank of Pakistan in			
Local currency current accounts	8.1	26,464,325	17,422,260
Balances with National Bank of Pakistan in			
Local currency deposit account	8.2	7,971,565	4,713,354
		35,344,338	22,899,322

**8.1** This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% (2021: 5%) and 10% (2021: 10%) as liquidity reserve of the Bank's time and demand deposits with a tenure of less than one year, in accordance with regulation R-3A of the prudential regulations.

**8.2** This represents balance held in saving accounts carrying mark-up at an annual average rate of 12.50% (2021: 6.25%).

		2022	2021
	Note	----- Rupees -----	
<b>9 BALANCES WITH OTHER BANKS/NBFIs/MFBs</b>			
In Pakistan			
- Local currency current account		1,994,710	13,039,046
- Local currency deposit account	9.1	404,229,824	439,565,216
		406,224,534	452,604,262

**9.1** It includes the accounts maintained with the Sindh Bank Limited (the Holding Company / Parent) in daily product saving account carrying mark-up at an annual rate of 13.25% (2021: 8.25%), balances with U-Microfinance Bank carrying mark-up at an annual rate of 17.50% (2021: 11.75%), and Khushhali Bank Limited carrying mark-up at an annual rate of 17.50% (2021: 8.50%).

		2022	2021
	Note	----- Rupees -----	
<b>10 INVESTMENT - NET OF PROVISIONS</b>			
<b>Held to maturity (HTM)</b>			
Federal Government securities			
- Market treasury bills (T-bills)	10.1	54,788,274	25,585,381
Term deposits receipts (TDRs)	10.2	-	450,000,000
		54,788,274	475,585,381

**10.1** This represents treasury bills Rs. 20M carrying interest at the rate of 15.55% per annum with maturity on January 26, 2023. second treasury bills Rs. 36.6M carrying interest at the rate of 16.85% per annum with maturity on March 09, 2023.

		2022	2021
		----- Rupees -----	
<b>10.2 Details of term deposits receipts</b>			
	<b>Maturity</b>		<b>Interest rate</b>
	2022    2021		2022    2021
U-Microfinance Bank	-    3 month	-	200,000,000
First Microfinance Bank	-    3 month	-	250,000,000
		-	450,000,000

**SINDH MICROFINANCE BANK LIMITED**  
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**11 ADVANCES - NET OF PROVISIONS**

	Note	2022		2021	
		Number of loans outstanding	Amount outstanding (Rupees)	Number of loans outstanding	Amount outstanding (Rupees)
Micro Credit					
-Unsecured		66,110	1,286,584,114	53,981	929,130,544
-Secured		20	2,951,329	9	1,744,226
Less: Provision held					
- Specific	11.1	-	(5,376,551)	-	(4,145,513)
- General	11.3	-	(12,784,724)	-	(9,220,294)
		-	(18,161,275)	-	(13,365,807)
<b>Microcredit advances-net of provisions</b>		<b>66,130</b>	<b>1,271,374,168</b>	<b>53,990</b>	<b>917,508,963</b>
Staff loans		3	31,524,154	3	26,955,964
<b>Advances (net of provisions)</b>		<b>66,133</b>	<b>1,302,898,322</b>	<b>53,993</b>	<b>944,464,927</b>

Category of Classification	2022			2021		
	Amount Outstanding	Provisions Required	Provisions Held	Amount Outstanding	Provisions Required	Provisions Held
	-----Rupees-----					
OAEM	25,390,059	-	-	1,766,315	-	-
Substandard	1,933,675	483,418	483,418	1,529,368	382,342	382,342
Doubtful	8,472,535	4,236,267	4,236,267	7,105,493	3,552,746	3,552,746
Loss	656,864	656,864	656,864	210,425	210,425	210,425
	<b>36,453,133</b>	<b>5,376,549</b>	<b>5,376,549</b>	<b>10,611,601</b>	<b>4,145,513</b>	<b>4,145,513</b>

**11.1** This represents general provision equivalent to 1% of outstanding unsecured advances held in accordance with the requirements of Prudential Regulations for Microfinance Banks.

Particulars of provision against non-performing advances	2022			2021		
	Specific	General	Total	Specific	General	Total
	-----Rupees-----					
Opening balance	4,145,513	9,220,294	13,365,807	908,713	5,280,141	6,188,854
Charge for the year	7,924,302	3,564,430	11,488,732	9,214,845	3,940,153	13,154,998
Write off	(6,693,265)	-	(6,693,265)	(5,978,045)	-	(5,978,045)
Closing balance	<b>5,376,550</b>	<b>12,784,724</b>	<b>18,161,274</b>	<b>4,145,513</b>	<b>9,220,294</b>	<b>13,365,807</b>

11.2.1 Particulars of write offs:	Note	2022	2021
		Amount (Rupees)	Amount (Rupees)
Against provision	11.3	6,693,265	5,978,045
Directly charged to profit and loss account	11.2.1.1	2,327,457	2,296,714
		<b>9,020,722</b>	<b>8,274,759</b>

**11.2.1.1** This represents write-off against unsecured micro credit advances which were not recovered due to death of loan holders.

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**12 OPERATING FIXED ASSETS**

Property and Equipment  
Intangible Assets  
Right of Use Assets

Note	2022	2021
	----- Rupees -----	
12.1	<b>28,067,716</b>	17,257,492
0	<b>6,750,619</b>	2,397,392
0	<b>53,105,621</b>	68,690,449
	<u><b>87,923,956</b></u>	<u>88,345,333</u>

**12.1 Property and Equipment**

	COST				ACCUMULATED DEPRECIATION				Net book value at Dec 31, 2022	Rate of Depreciation
	As at Jan 1, 2022	Additions	On Disposal / transfer	As at Dec 31, 2022	As at Jan 1, 2022	Charge for the year	On Disposal / transfer	As at Dec 31, 2022		
	-----Rupees-----									
Office equipment	18,350,610	15,487,526	-	33,838,136	10,207,760	5,031,825	-	15,239,585	18,598,551	20%
Office improvement	3,283,990	268,815	-	3,552,805	540,025	171,969	-	711,994	2,840,811	5%
Furniture and fixture	2,717,357	30,000	-	2,747,357	1,083,011	273,823	-	1,356,834	1,390,523	10%
Vehicles	6,428,500	2,234,000	-	8,662,500	1,692,169	1,732,500	-	3,424,669	5,237,831	20%
<b>Total</b>	<b>30,780,457</b>	<b>18,020,341</b>	<b>-</b>	<b>48,800,798</b>	<b>13,522,965</b>	<b>7,210,117</b>	<b>-</b>	<b>20,733,082</b>	<b>28,067,716</b>	

	COST				ACCUMULATED DEPRECIATION				Net book value at Dec 31, 2021	Rate of Depreciation
	As at Jan 1, 2021	Additions	Disposals / transfers	As at Dec 31, 2021	As at Jan 1, 2021	Charge for the year	On Disposals / transfers	As at Dec 31, 2021		
	-----Rupees-----									
Office equipment	15,557,799	2,792,811	-	18,350,610	7,050,201	3,157,559	-	10,207,760	8,142,850	20%
Office improvement	3,207,004	76,986	-	3,283,990	377,671	162,354	-	540,025	2,743,965	5%
Furniture and fixture	2,717,357	-	-	2,717,357	811,275	271,736	-	1,083,011	1,634,346	10%
Vehicles	6,428,500	-	-	6,428,500	409,991	1,282,178	-	1,692,169	4,736,331	20%
<b>Total</b>	<b>27,910,660</b>	<b>2,869,797</b>	<b>-</b>	<b>30,780,457</b>	<b>8,649,137</b>	<b>4,873,827</b>	<b>-</b>	<b>13,522,965</b>	<b>17,257,492</b>	

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**12.2 Intangible assets**

	COST			ACCUMULATED AMORTIZATION			Net book value at Dec 31, 2022	Rate of amortization
	As at Jan 1, 2022	Additions	As at Dec 31, 2022	As at Jan 1, 2022	Amortization	As at Dec 31, 2022		
	-----Rupees-----							
Software	6,385,243	5,366,501	11,751,744	3,987,851	1,013,274	5,001,125	6,750,619	20%
Total	6,385,243	5,366,501	11,751,744	3,987,851	1,013,274	5,001,125	6,750,619	

  

	COST			ACCUMULATED AMORTIZATION			Net book value at Dec 31, 2021	Rate of amortization
	As at Jan 1, 2021	Additions	As at Dec 31, 2021	As at Jan 1, 2021	Amortization	As at Dec 31, 2021		
	-----Rupees-----							
Software	5,833,753	551,490	6,385,243	3,064,417	923,434	3,987,851	2,397,392	20%
Total	5,833,753	551,490	6,385,243	3,064,417	923,434	3,987,851	2,397,392	

**12.3 Right of use assets**

The right-of-use assets for property leases for all branches and service centers were measured on a retrospective basis as if the new rules had always been applied.

	Note	2022	2021
		-----Rupees-----	
Balance as at initial application i.e. January 01, 2022		70,209,441	30,102,789
Additions during the year		-	-
Remeasurement ROUA		-	52,938,136
Depreciation expense charged for the year	22	(17,103,820)	(14,350,476)
Right of use assets (ROUA) - as of December 31, 2022		<u>53,105,621</u>	<u>68,690,449</u>

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	<b>2022</b>	<b>2021</b>
	----- Rupees -----	
<b>13 OTHER ASSETS</b>		
Income/ mark-up accrued on advances	<b>69,900,433</b>	61,158,246
Profit receivable on TDR's	-	619,178
Advances, prepayments and deposits	<b>12,539,170</b>	13,580,060
Advance tax - net of provision	<b>37,922,194</b>	24,847,461
	<b>120,361,797</b>	100,204,945

**14 DEFERRED TAX ASSETS**

Deferred tax assets arising on account of temporary deductible difference in:

- Provision against advances and other assets	<b>5,266,770</b>	3,876,084
- Employee benefit	<b>726,039</b>	1,476,303
- Lease finance facility	<b>10,291,589</b>	16,356,404
	<b>16,284,398</b>	21,708,791

Deferred tax Liabilities arising on account of temporary taxable difference in:

- Operating fixed assets	<b>(747,613)</b>	(865,444)
- Right to use assets	<b>(15,400,630)</b>	(19,561,887)
" Intangible assets	<b>36,801</b>	(28,452)
	<b>(16,111,442)</b>	(20,455,783)
Net deferred tax assets / (liabilities)	<b>172,956</b>	1,253,008

**15 DEPOSITS AND OTHER ACCOUNTS**

		<b>2022</b>		<b>2021</b>	
	Note	<b>Number of accounts</b>	<b>Amount outstanding (Rupees)</b>	Number of accounts	Amount outstanding (Rupees)
Current deposits		<b>11</b>	<b>124,094</b>	11	124,633
Fixed Deposit	15.2	-	<b>310,592,559</b>	1	250,000,000
Savings deposits	15.3	<b>129,045</b>	<b>289,618,543</b>	103,094	20,898,159
		<b>129,056</b>	<b>600,335,196</b>	103,106	271,022,792

**15.1 Particulars of deposits by ownership**

1) Individual depositors	<b>129,054</b>	<b>269,159,666</b>	103,105	21,006,214
2) Institutional depositors				
a) Corporation/firms	1	<b>50,000,000</b>	-	-
b) Banks/financial institution	<b>1</b>	<b>281,175,530</b>	1	250,016,578
	<b>129,056</b>	<b>600,335,196</b>	103,106	271,022,792

**15.2** This representative term deposits having tenure of 06-36 months (2021: 06 month) carrying interest rate 12-17.25% (2021: 13.00%) per annum.

**15.3** These are remunerative saving deposits of corporate and individual clients carrying interest rate of 8.00% to 17.50% per annum (2021: 8% to 13.25%).

		<b>2022</b>	<b>2021</b>
	Note	----- Rupees -----	
<b>16 BORROWINGS</b>			
Borrowings from State Bank of Pakistan	16.1	<b>310,000,000</b>	750,000,000
		<b>310,000,000</b>	750,000,000

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**16.1** The Bank obtained borrowing from the State Bank of Pakistan under its line of credit fund Scheme. A total amount of Rs. 750 million was sanctioned and was received by the Bank in two tranches. The first tranche of Rs. 109.22 million received at markup rate of six months KIBOR +1% (ranging from 8.35% to 8.69% during the year) and the second tranche of Rs. 640.78 million was received at a markup rate of six months KIBOR - 1% (ranging from 6.35% to 6.69% during the year). The interest on the facility is payable bi-annually and the principle can be repaid within 5 years by 2024. We paid during the year the first tranche of Rs. 109.22 million at markup rate of six months KIBOR +1% and remaining paid from second tranche of Rs. 331.00 at a markup rate of six months KIBOR -1% .

	Note	2022 ----- Rupees -----	2021
<b>17 OTHER LIABILITIES</b>			
Mark-up/Return/ Interest payable		<b>36,483,017</b>	27,181,307
Audit fee payable		<b>542,050</b>	645,000
EOBI payable		<b>250,101</b>	189,263
Withholding tax payable		<b>2,822,872</b>	573,874
Employees provident fund payable		<b>783,600</b>	928,520
Gratuity payable	17.1	<b>2,503,582</b>	5,095,699
Other payable		<b>6,132,508</b>	3,971,820
Lease liability against right of use assets	17.2	<b>35,488,237</b>	56,401,393
		<b><u>85,005,967</u></b>	<b><u>94,986,876</u></b>

**17.1 Gratuity payable**

**17.1.1 Statement of financial position**

Present value of defined benefit obligation	17.1.4	<b>17,625,463</b>	15,972,768
less Fair value of plan assets	[ 17.1.4	<b>(15,398,648)</b>	(11,153,836)
plus payable		<b>276,767</b>	276,767
Balance sheet liability / (assets)		<b><u>2,503,582</u></b>	<b><u>5,095,699</u></b>

**17.1.2 Changes in present value of defined benefit obligations**

Present value of defined benefit obligation		<b>15,972,768</b>	11,133,263
Current service cost	17.1.4	<b>5,325,796</b>	3,885,187
Past service cost (credit )		-	-
Interest cost on defined benefit obligation	17.1.4	<b>1,691,082</b>	1,056,303
Benefits due but not paid (payables)		-	(239,642)
Benefits paid		<b>(3,161,167)</b>	(359,130)
Remeasurements:			
Actuarial (gains)/losses from changes in demographic assumptions		<b>(185,267)</b>	-
Actuarial (gains)/losses from changes in financial assumptions		<b>154,546</b>	97,895
Experience adjustments		<b>(2,172,294)</b>	398,892
		<b><u>(2,203,015)</u></b>	<b><u>496,787</u></b>
Present value of defined benefit obligation		<b><u>17,625,464</u></b>	<b><u>15,972,768</u></b>

**17.1.3 Changes in Fair Value of Plan Assets**

Fair Value of Plan Assets		<b>11,153,836</b>	-
Contributions		<b>5,862,899</b>	12,581,199
Interest income on plan assets		<b>1,424,229</b>	595,826
Benefit paid		<b>(3,161,167)</b>	(1,769,941)
Benefits due but not paid		-	-
Return on plan assets, excluding interest income		<b>73,778</b>	(253,248)
		<b><u>15,353,575</u></b>	<b><u>11,153,836</u></b>

**SINDH MICROFINANCE BANK LIMITED**  
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	2022	2021
Note	----- Rupees -----	
<b>17.1.4 Expenses to be charged to P&amp;L</b>		
Current service cost	5,325,796	3,885,187
Past service cost (credit )	-	-
Interest cost on defined benefit obligation	1,691,082	1,056,303
Interest income on plan assets	<u>(1,469,302)</u>	<u>(595,826)</u>
Expense chargeable to P&L	<u><u>5,547,576</u></u>	<u><u>4,345,664</u></u>
<b>17.1.5 Total remeasurements chargeable in other comprehensive income</b>		
Remeasurement of plan obligation:		
Actuarial gains from changes in demographic assumptions	(185,267)	-
Actuarial gains from changes in financial assumptions	154,546	97,895
Experience adjustments	<u>(2,172,294)</u>	<u>398,892</u>
Total remeasurements chargeable in other comprehensive income	<u>(2,203,015)</u>	<u>496,787</u>
	<u><u>(73,778)</u></u>	<u><u>253,248</u></u>
	<u><u>(2,276,793)</u></u>	<u><u>750,035</u></u>
<b>17.1.6 Changes in net liability</b>		
Balance sheet liability	5,095,699	12,581,199
Expense chargeable to P&L	5,547,576	4,345,664
Remeasurements chargeable in other comprehensive income	(2,276,793)	750,035
Benefits paid	(5,862,899)	(12,581,199)
Benefits payable transferred to short term liability	-	-
<b>Balance sheet liability</b>	<u><u>2,503,583</u></u>	<u><u>5,095,699</u></u>
<b>17.1.7 Significant Actuarial Assumptions</b>		
Discount rate used for interest cost in P&L charge	11.75%	9.75%
Discount rate used for year end obligation	14.50%	11.75%
Salary increase used for year end obligation	-	-
Salary increase FY2022	N/A	10.75%
Salary increase FY2023	13.50%	10.75%
Salary increase FY2024	13.50%	10.75%
Salary increase FY2025	13.50%	10.75%
Salary increase FY2026	13.50%	10.75%
Salary increase FY2027	13.50%	10.75%
Salary increase FY2028 onward	13.50%	10.75%
Next salary is increased at	01-Jan-23	01-Jan-22
Mortality rates	SLIC	SLIC
	2001 - 2005	2001 - 2005
	Setback 1	Setback 1
	Year	Year
Withdrawal rates	Age-Based	Age-Based
Retirement assumption	Age 60	Age 60

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**SINDH MICROFINANCE BANK LIMITED**  
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**Dec-31, 2022**

**17.1.8 Estimated Expenses to be charged to P&L in FY 2023**

Current service cost	5,535,977
Interest cost on defined benefit obligation	2,335,507
Interest income on plan assets	(2,437,679)
Amount chargeable to P&L	<u><u><b>5,433,805</b></u></u>

**17.1.9 Additional Disclosure item**

**A) Plan Assets at December**

1 Bond	0.00%
2 Equity	0.00%
3 Cash and/or Deposits	100.00%
4 Others	0.00%
	<u><u><b>100.00%</b></u></u>

**B) Year End Sensitivity Analysis on Defined Benefit Obligation**

	2022	2021
<b>Discount rate effect</b>	----- Rupees -----	
Discount rate + 100 bps	<u><u><b>16,813,437</b></u></u>	<u><u>15,049,580</u></u>
Discount rate - 100 bps	<u><u><b>18,537,958</b></u></u>	<u><u>17,026,442</u></u>
Salary increase + 100 bps	<u><u><b>18,587,716</b></u></u>	<u><u>17,067,801</u></u>
Salary increase - 100 bps	<u><u><b>16,753,080</b></u></u>	<u><u>14,995,459</u></u>

**C) Expected Benefit Payments for the next 10 years and beyond**

1 FY 2023	3,037,039
2 FY 2024	3,368,223
3 FY 2025	4,899,278
4 FY 2026	4,069,342
5 FY 2027	12,707,896
6 FY 2028	3,198,315
7 FY 2029	3,363,276
8 FY 2030	3,283,687
9 FY 2031	2,932,006
10 FY 2032	2,961,266
11 FY 2033	332,699,535
12 The average duration of the defined benefit obligation is	<b>5 Years</b>

**17.2 Lease liability against right of use assets**

	2022	2021
<b>Note</b>	----- Rupees -----	
Lease liabilities included in the statement of financial position As at December 31, 2022	<u><u><b>35,488,237</b></u></u>	<u><u>56,401,393</u></u>
Of which are:		
Current lease liability	<b>35,488,237</b>	21,486,938
Non-current lease liability	-	-

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**SINDH MICROFINANCE BANK LIMITED**  
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**17.2.1** The Bank has leased assets which are essentially property rent contracts for its branches and service centers with lease terms of less than one year with the option to extend the lease term based on mutual consent of the landlord and the Bank. It has been the usual practice that most of these rent contracts are extended with rent incremental of 8% to 15% per annum. An indicative finance charge at the SBP policy rate of 17% per annum has been assumed for the purposes of discounting the future cash flows relating to rental / lease payments.

These leased assets fall under the scope of IFRS 16 and hence the appropriate treatment has been applied.

**18 SHARE CAPITAL**

**Authorized share capital**

2022	2021		2022	2021
-----No. of Shares-----		Ordinary shares of Rs. 10 each	-----Rupees-----	
<u>200,000,000</u>	<u>200,000,000</u>	fully paid in cash	<u>2,000,000,000</u>	<u>2,000,000,000</u>

**Issued, subscribed and paid-up share capital**

2022	2021		2022	2021
-----No. of Shares-----		Ordinary shares of Rs. 10 each	-----Rupees-----	
<u>75,000,000</u>	<u>75,000,000</u>	fully paid in cash	<u>750,000,000</u>	<u>750,000,000</u>

**18.1** Sindh Bank Limited is the parent bank holding 99.99% shares of Sindh Microfinance Bank Limited.

**19 MEMORANDUM / OFF BALANCE SHEET ITEMS**

There are no contingencies as at year end (2021: Nil).

**20 MARK-UP / RETURN / INTEREST EARNED**

	Note	2022	2021
		-----Rupees-----	
On:			
- Advances		<b>390,793,605</b>	252,827,657
- Deposits / Placements with Banks /MFB etc.		<b>73,424,692</b>	91,577,730
- Investment in Federal Government securities T-Bills		<b>4,455,477</b>	82,800
- Staff loans		<b>1,012,332</b>	978,817
		<u><b>469,686,106</b></u>	<u>345,467,004</u>

**21 MARK-UP / RETURN / INTEREST EXPENSED**

On:			
- Deposits		<b>72,100,967</b>	3,556,443
- Leased liability		<b>10,892,259</b>	6,515,986
- Borrowings		<b>41,532,659</b>	51,728,186
		<u><b>124,525,885</b></u>	<u>61,800,615</u>

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**SINDH MICROFINANCE BANK LIMITED**  
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	Note	2022	2021
		-----Rupees-----	
<b>22 ADMINISTRATIVE EXPENSES</b>			
Salaries, wages and other allowances etc.		<b>185,915,195</b>	154,324,780
Contribution to defined contribution plan		<b>5,058,594</b>	5,465,808
Gratuity expense	17.1	<b>5,547,576</b>	4,345,664
Staff welfare		<b>1,625,114</b>	849,613
Directors' fee		<b>480,000</b>	570,000
Printing and stationery		<b>3,151,688</b>	1,835,283
Communication		<b>4,805,063</b>	3,753,216
Office supplies		<b>23,800</b>	53,210
Travelling and conveyance		<b>9,058,178</b>	4,283,769
Insurance		<b>3,085,498</b>	3,239,206
Training and development		<b>1,147,748</b>	560,930
Utilities		<b>7,320,922</b>	5,335,759
Branch setup cost		<b>562,963</b>	719,754
Advertisement & publicity		<b>255,096</b>	323,180
Depreciation	12.1	<b>7,210,117</b>	4,873,827
Amortization	0	<b>1,013,274</b>	923,434
Depreciation expense on lease assets	0	<b>14,041,889</b>	14,350,476
Auditor's remuneration	22.1	<b>686,425</b>	728,820
Bank charges		<b>2,586,406</b>	1,903,811
Repair & maintenance Exp		<b>3,809,472</b>	1,785,080
Office cleaning and maintenance		<b>634,665</b>	615,078
Legal and professional fee		<b>144,000</b>	144,000
Client KYC and verification expenses		<b>6,829,728</b>	3,672,003
Fee and subscription		<b>2,901,644</b>	2,734,894
IT equipment and software maintenance		<b>5,747,398</b>	4,614,642
Others		<b>420,962</b>	397,155
		<b><u>274,063,415</u></b>	<b><u>222,403,392</u></b>
<b>22.1 Auditors' remuneration</b>			
Provident fund		<b>37,800</b>	37,800
Half yearly review fee		<b>144,375</b>	137,500
Yearly Audit fee		<b>404,250</b>	385,000
Certification fee		<b>61,500</b>	61,500
Public sector code of corporate governance - report fee		<b>38,500</b>	38,500
Out of pocket and others		<b>-</b>	68,520
		<b><u>686,425</u></b>	<b><u>728,820</u></b>
<b>23 OTHER CHARGES</b>			
State Bank of Pakistan-Pemalty	12.3	<b>41,000</b>	-

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	<b>2022</b>	<b>2021</b>
	-----Rupees-----	
<b>24 TAXATION</b>		
For the year		
- current	15,410,853	16,261,018
- deferred	419,783	2,203,392
	<b>15,830,636</b>	18,464,410
For the prior year's		
- current	-	-
- deferred	-	-
	-	-
	<b>15,830,636</b>	18,464,410

**24.1 Relationship between tax expense and accounting profit**

Profit before tax	57,239,617	45,811,285
Tax at the tax rate of 29%	16,599,489	13,285,273
Effects of:		
- prior year	-	-
- reduce rate difference	-	-
- others	(768,853)	5,179,137
Tax expense	<b>15,830,636</b>	18,464,410

**25 EARNINGS PER SHARE**

**Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

		<b>2022</b>	<b>2021</b>
		-----Rupees-----	
<b>25.1 Profit for the year</b>	<b>A</b>	<b>41,408,981</b>	27,346,875
		(Number)	(Number)
Weighted average ordinary shares	<b>B</b>	<b>75,000,000</b>	75,000,000
Earnings per share	<b>A/B</b>	<b>0.55</b>	0.36

**Diluted**

There is no dilution effect on the basic earnings per share of the Bank as on December 31, 2022 (2021: Nil).

		<b>2022</b>	<b>2021</b>
		-----Rupees-----	
<b>26 CASH AND CASH EQUIVALENTS</b>	<b>Note</b>		
Cash in hand	8	908,448	763,708
Cash and balances with SBP and NBP	8	34,435,890	22,135,614
Balances with other banks	9	406,224,534	452,604,262
Investment - net of provisions		-	450,000,000
		<b>441,568,872</b>	925,503,584

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**SINDH MICROFINANCE BANK LIMITED**  
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**FOR THE YEAR ENDED DECEMBER 31, 2022**

**27 NUMBER OF EMPLOYEES**

	Credit /Sales Staff	Banking Staff	Total
	-----Number-----		
<b>2022</b>			
Permanent	131	72	203
Contractual	186	12	198
Total number of employees	<u>317</u>	<u>84</u>	<u>401</u>
<b>2021</b>			
Permanent	155	99	254
Contractual	97	-	97
Total number of employees	<u>252</u>	<u>99</u>	<u>351</u>
		<b>2022</b>	<b>2021</b>
Average number of employees during the year		<u>376</u>	<u>367</u>

**28 TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

	2022			2021		
	Key			Key		
	Directors	management personnel	Other related parties	Directors	management personnel	Other related parties
	------(Rupees in '000)-----					
<b>Income:</b>						
Mark-up / return /interest earned	-	-	4,492,803	-	-	1,493,138
Interest on Loan to Employpess	-	1,012,332	-	-	978,817	-
<b>Expense:</b>						
Directors' meetinf fee	480,000	-	-	570,000	-	-
Insurance Premium Paid	-	-	2,859,429	-	-	1,963,491
Provision for Gratuity	-	5,547,576	-	-	4,345,664	-
Contribution to Provident fund	-	5,058,594	-	-	5,465,808	-
Bank Charges	-	-	477,971	-	-	103,603
<b>Balances with Related Parties:</b>						
-Sindh Bank Limited						
(Highest balance during the year)						
Deposits in daily Saving account	-	-	65,296,804	-	-	47,352,986
Balances outstanding as at December 31,						
Deposits in daily saving account	-	-	11,572,742	-	-	36,751,419
Loan to Employpess	-	-	31,524,154	-	-	26,955,964
Deposit of relative of a key management personnel	-	-	5,507	-	-	5,507
<b>Transactions with Related Parties:</b>						
Purchase of Government Securities	-	-	119,667,642	-	-	25,569,486
Gratuity Paid	-	5,862,899	-	-	12,581,199	-

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	2022	2021
	-----Numbers-----	
<b>29 NUMBER OF BRANCHES</b>		
At the beginning of the year	18	17
Opened during the year	1	1
Closed during the year	0	0
	19	18
<b>30 NUMBER OF SERVICE CENTERS</b>		
At the beginning of the year	62	58
Opened during the year	9	6
Closed during the year	0	-2
	71	62

**31 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES**

	2022			2021		
	----- Rupees -----			----- Rupees -----		
	CEO	Director	Executives	CEO	Director	Executives
-Managerial remuneration	8,661,661	-	10,036,228	9,239,105	-	9,851,433
-House rent allowance	3,897,747	-	4,516,303	4,157,597	-	4,433,145
-Medical allowance	866,166	-	1,003,623	923,910	-	985,143
-Utilities allowance	866,166	-	1,003,623	923,910	-	985,143
-Contribution to PF	866,166	-	1,003,623	923,910	-	985,143
-Directors fee	-	480,000	0	-	570,000	-
-Bonus	1,539,851	-	1,523,331	1,539,851	-	1,436,636
-Others	-	-	-	-	60,000	-
	16,697,757	480,000	19,086,731	17,708,283	630,000	18,676,643
Number of persons at year end	1	3	6	1	4	8

**31.1** Executive means employees, other than the chief executive officer and directors, whose basic salary exceed Rs. 1,200,000 in a financial year.

**31.2** The President / Chief Executive Officer is entitled to use bank maintained car and perquisites in accordance with the terms of his appointment.

	2022	2021
	----- Rupees -----	
<b>32 DEFINED CONTRIBUTION PLAN</b>		
<b>32.1 Disclosures relating to Provident fund</b>		
Size of the fund	41,766,909	36,455,407
Cost of the investments made	-	-
Percentage of investments made	0%	0%
Fair value of investments	-	-
Break-up of investments		
TDR's	30,000,000	-
Government securities – T-Bills	-	-
Receivable from Sindh Microfinance Bank Limited	783,600	928,520
Bank balances	10,983,309	35,526,887
Accrued markup	-	-
	41,766,909	36,455,407

Investments out of Provident Fund have been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

*11/3/2020*

33 FINANCIAL RISK MANAGEMENT

33.1 Interest / mark-up rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market interest rates. The risk as managed by the regular review of market rates. The Bank's interest rate exposure is low due to the short-term nature of the majority of business transactions.

Note	Effective yield / interest rate	Interest bearing / exposed to yield / interest risk					Non interest bearing / not exposed to yield / interest risk					Total	
		Up to one month	Over one month up to six months	Over six months up to one year	Over one year	Sub total	Up to one month	Over one month up to six months	Over six months up to one year	Over one year	Sub total		
2022		-----Rupees-----					-----Rupees-----						
Financial assets													
Cash and balances with SBP and NBP	8		7,971,565	-	-	-	7,971,565	27,372,773	-	-	-	27,372,773	35,344,338
Balances with other banks	9	13.25 - 17.50	404,229,824	-	-	-	404,229,824	1,994,710	-	-	-	1,994,710	406,224,534
Investment - net of provisions	10	15.55 - 16.85	-	54,788,274	-	-	54,788,274	-	-	-	-	-	54,788,274
Advances	11	44.00	107,461,287	644,767,722	537,306,435	31,524,154	1,321,059,598	(18,161,275)	-	-	-	(18,161,275)	1,302,898,323
Other assets	13		-	-	-	-	-	-	69,900,433	12,539,170	126,019,106	208,458,709	208,458,709
			519,662,676	699,555,996	537,306,435	31,524,154	1,788,049,261	11,206,208	69,900,433	12,539,170	126,019,106	219,664,917	2,007,714,178
<b>Off statement of financial position</b>			-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>			519,662,676	699,555,996	537,306,435	31,524,154	1,788,049,261	11,206,208	69,900,433	12,539,170	126,019,106	219,664,917	2,007,714,178
<b>Financial liabilities</b>													
Deposits and other accounts	15	8.00 - 17.25	289,618,543	7,550,000	160,342,559	142,700,000	600,211,102	(124,094)	-	-	-	124,094	600,335,196
Borrowings	16	6.35 - 8.69	-	-	-	310,000,000	310,000,000	124,094	-	-	-	-	310,000,000
Other liabilities	17		-	-	-	-	-	46,472,098	542,050	-	37,991,819	85,005,967	85,005,967
			289,618,543	7,550,000	160,342,559	452,700,000	910,211,102	46,596,192	542,050	-	37,991,819	85,130,061	995,341,163
<b>Off statement of financial position</b>			-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>			289,618,543	7,550,000	160,342,559	452,700,000	910,211,102	46,596,192	542,050	-	37,991,819	85,130,061	995,341,163
<b>On statement of financial position gap</b>			230,044,133	692,005,996	376,963,876	(421,175,846)	877,838,159	(35,389,984)	69,358,383	12,539,170	88,027,287	134,534,856	1,012,373,015
<b>Off statement of financial position gap</b>			-	-	-	-	-	-	-	-	-	-	-
			336,214,735	8,092,050	160,342,559	490,691,819							

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Note	Effective yield / interest rate	Interest bearing / exposed to yield / interest risk					Non interest bearing / not exposed to yield / interest risk					Total	
		Up to one month	Over one month up to six months	Over six months up to one year	Over one year	Sub total	Up to one month	Over one month up to six months	Over six months up to one year	Over one year	Sub total		
		%					Rupees						
<b>2021</b>													
<b>Financial assets</b>													
Cash and balances with SBP and NBP	8		4,713,354	-	-	-	4,613,586	18,185,968	-	-	-	14,642,105	19,255,691
Balances with other banks	9	5.5 - 10.75	439,565,216	-	-	-	462,699,306	13,039,046	-	-	-	15,601,712	478,301,018
Investment - net of provisions	10	9.85 - 14.40	-	475,585,381	-	-	687,933,096	-	-	-	-	-	687,933,096
Advances	11	34	143,084,464	574,162,618	225,677,589	19,481,367	559,994,677	-	-	-	-	-	559,994,677
Other assets	13		61,158,246	619,178	-	-	77,111,555	-	-	13,580,060	114,445,802	82,832,363	159,943,918
			648,521,280	1,050,367,177	225,677,589	19,481,367	1,792,352,220	31,225,014	-	13,580,060	114,445,802	113,076,180	1,905,428,400
<b>Off statement of financial position</b>													
			-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>													
			834,491,148	778,676,461	153,180,636	26,003,975	1,792,352,220	31,225,014	-	13,580,060	114,445,802	113,076,180	1,905,428,400
<b>Financial liabilities</b>													
Deposits and other accounts	15	8 - 13.25	2,490,159	250,000,000	4,000,000	14,408,000	270,898,159	124,633	-	-	-	124,633	271,022,792
Borrowings	16	6.24 - 14.49	-	-	-	750,000,000	750,000,000	-	-	-	-	-	750,000,000
Other liabilities	17		-	-	-	-	-	32,844,781	645,000	993,696	60,503,396	94,986,873	94,986,873
			2,490,159	250,000,000	4,000,000	764,408,000	1,020,898,159	32,969,414	645,000	993,696	60,503,396	95,111,506	1,116,009,665
<b>Off statement of financial position</b>													
			-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>													
			123,150,212	-	2,476,956	775,995,506	1,020,898,159	33,029,265	350,000	-	21,486,938	54,866,203	956,488,877
<b>On statement of financial position gap</b>													
			711,340,936	778,676,461	150,703,680	(749,991,531)	771,454,061	(1,804,251)	(350,000)	13,580,060	92,958,864	58,209,977	948,939,523
<b>Off statement of financial position gap</b>													
			-	-	-	0	0	0	0	0	0	0	0

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**33.2 Credit risk management**

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 advance. The bank has an effective loan disbursement and recovery monitoring system which allow it to evaluate borrowers' credit worthiness and identify potential problem loans. Provision for loan losses is maintained as required by the Prudential Regulation.

In summary, the maximum exposure to credit risk as at reporting date was as follows:

	Note	2022	2021
		-----Rupees-----	
Bank balances	8 & 9	<b>414,196,099</b>	457,317,616
Advances - Net of Provisions	11	<b>1,302,898,322</b>	944,464,927
Investment - Net of Provisions	10.2	<b>54,788,274</b>	450,000,000
Other Assets	13	<b>82,439,603</b>	75,357,484
		<b><u>1,854,322,298</u></b>	<u>1,927,140,027</u>

**33.3 Liquidity risk management**

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitment when they fall due or take the advantage of investment opportunities when they rise. The management ensure that funds are available at all times to meet the funding requirements of the Bank.

As at the reporting date the Bank's financial liabilities have contractual maturities as summarized below:

2022	Effective yield / interest rate	Upto one year	Over one year	Total
Deposits and other accounts	8.00 - 17.25	457,635,196	142,700,000	600,335,196
Borrowings	6.35 - 8.69	-	310,000,000	310,000,000
Other Liabilities		47,014,148	37,991,819	85,005,967
		<b><u>504,649,344</u></b>	<b><u>490,691,819</u></b>	<b><u>995,341,163</u></b>
<b>2021</b>				
Deposits and other accounts	8 - 13.25	256,614,792	14,408,000	271,022,792
Borrowings	6.24 - 14.49	-	750,000,000	750,000,000
Other Liabilities		33,909,603	60,503,396	94,412,999
		<b><u>290,524,395</u></b>	<b><u>824,911,396</u></b>	<b><u>1,115,435,791</u></b>

**33.4 Interest risk measurement**

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rate. The risk is managed by regular review of market rates.

Sensitivity analysis of interest rate risk on financial assets and liabilities is presented below:

	Note	2022	2021
		-----Rupees-----	
Net financial assets	33.1	<b><u>877,838,159</u></b>	771,454,061
Effect on profit and loss account			
Interest rate + 100 bps		<b><u>8,778,382</u></b>	8,907,295
Interest rate - 100 bps		<b><u>(8,778,382)</u></b>	(8,907,295)

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**33.5 Fair value measurement**

Assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Financial instrument in level 1**

Currently, no financial instruments are classified in level 1.

**Financial instrument in level 2**

Currently, no financial instruments are classified in level 2.

**Financial instrument in level 3**

Currently, no financial instruments are classified in level 3.

The fair value of assets and liabilities except for staff loan and non-performing advances, their carrying values since these assets and liabilities are either short term in nature or frequently repriced in case of customer loan and deposits.

The fair value of staff loan cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and reliable data regarding market rates for similar instruments. The provision for non-performing advances is calculated in accordance with the Bank's accounting policy as stated in policy note.

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**34 MATURITIES OF ASSETS AND LIABILITIES**

<b>2022</b>	<b>Total</b>	<b>Upto one month</b>	<b>Over one month upto six months</b>	<b>Over six months upto one year</b>	<b>Over one year</b>
-----Rupees-----					
<b>Market rate assets</b>					
Advances	1,321,059,598	107,461,287	644,767,722	537,306,435	31,524,154
Investments	54,788,274	-	54,788,274	-	-
Other earning assets	412,201,389	412,201,389	-	-	-
<b>Total market rate assets</b>	<b>1,788,049,261</b>	<b>519,662,676</b>	<b>699,555,996</b>	<b>537,306,435</b>	<b>31,524,154</b>
Other non-earning assets	219,664,917	11,206,208	69,900,433	12,539,170	126,019,106
<b>Total assets</b>	<b>2,007,714,178</b>	<b>530,868,884</b>	<b>769,456,429</b>	<b>549,845,605</b>	<b>157,543,260</b>
-----Rupees-----					
<b>Market rate liabilities</b>					
Time deposits of Rs.100,000 and above	600,087,008	289,494,449	7,550,000	160,342,559	142,700,000
Time deposits below Rs.100,000	-	-	-	-	-
Borrowing	310,000,000	-	-	-	310,000,000
Other cost bearing liabilities	-	-	-	-	-
<b>Total market rate liabilities</b>	<b>910,087,008</b>	<b>289,494,449</b>	<b>7,550,000</b>	<b>160,342,559</b>	<b>452,700,000</b>
Other non- cost bearing liabilities	85,254,155	46,720,286	542,050	-	37,991,819
<b>Total liabilities</b>	<b>995,341,163</b>	<b>336,214,735</b>	<b>8,092,050</b>	<b>160,342,559</b>	<b>490,691,819</b>
-----Rupees-----					
<b>2021</b>	<b>Total</b>	<b>Upto one month</b>	<b>Over one month upto six months</b>	<b>Over six months upto one year</b>	<b>Over one year</b>
-----Rupees-----					
<b>Market rate assets</b>					
Advances	962,406,038	143,084,464	574,162,618	225,677,589	19,481,367
Investments	475,585,381	-	475,585,381	-	-
Other earning assets	506,055,994	505,436,816	619,178	-	-
<b>Total market rate assets</b>	<b>1,944,047,413</b>	<b>648,521,280</b>	<b>1,050,367,177</b>	<b>225,677,589</b>	<b>19,481,367</b>
Other non-earning assets	159,250,876	31,225,014	-	13,580,060	114,445,802
<b>Total assets</b>	<b>2,103,298,289</b>	<b>679,746,294</b>	<b>1,050,367,177</b>	<b>239,257,649</b>	<b>133,927,169</b>
-----Rupees-----					
<b>Market rate liabilities</b>					
Time deposits of Rs.100,000 and above	20,398,117	1,990,117	-	4,000,000	14,408,000
Time deposits below Rs.100,000	-	-	-	-	-
Borrowing	750,000,000	-	-	-	750,000,000
Other cost bearing liabilities	-	-	-	-	-
<b>Total market rate liabilities</b>	<b>770,398,117</b>	<b>1,990,117</b>	<b>-</b>	<b>4,000,000</b>	<b>764,408,000</b>
Other non- cost bearing liabilities	54,866,203	32,969,414	645,000	993,696	60,503,396
<b>Total liabilities</b>	<b>825,264,320</b>	<b>34,959,531</b>	<b>645,000</b>	<b>4,993,696</b>	<b>824,911,396</b>

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**35 CAPITAL RISK MANAGEMENT**

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns and benefits to stakeholders by pricing products and services commensurately with the level of risk and comply with capital requirement set by SBP. It is the policy of the Bank to maintain a strong capital base at reasonable post so as to maintain investors, creditor and market confidence, sustained future development of the business and achieve low overall cost of the capital with appropriate mix of cost of capital. The impact of the level of capital on shareholders return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with higher gearing and the advantages and security afforded by a sound capital position.

As per amendments in Prudential Regulations (R-1) issued vide BPRD Circular No. 10 of 2015 dated June 03, 2015, the minimum paid up capital requirement (MCR), free of losses for Microfinance Banks operating at provincial level is Rs. 500 million. As at December 31, 2022, the paid up share capital of the Bank stood at Rs. 750 million (2021: Rs. 750 million).

The capital of the Bank is managed keeping in view the minimum Capital Adequacy Ratio CAR (15%) required by the Prudential Regulations for the Microfinance Banks / Institutions. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the Bank conducts business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization.

The Bank manages its capital structure and makes adjustments to it in light of changes in regulatory and economic conditions. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend paid to shareholders, return capital to shareholders or issue new shares.

As at December 31, 2022, the Bank's Capital adequacy ratio (CAR) is approximately 63.43% (2021: 73.34%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

**Note 36 Comparative Figures missing.**

**36 SUBSEQUENT EVENTS**

No adjusting or significant non-adjusting events have occurred between the reporting date and date of authorization.

**37 DATE OF AUTHORIZATION**

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



**President & Chief Executive**

**Chief Financial Officer**

**Chairman**

**Director**

**Director**