

## **Sindh Microfinance Bank Limited**

**Audit of Financial Statements  
for the year ended December 31, 2020**

**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, 2020, 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, 2020 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:

- proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017);
- the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and 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, 200, and the directives issued by the State Bank of Pakistan and are in agreement with the books of account and returns;
- investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Bank's business; and
- no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

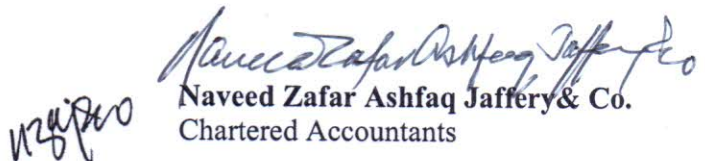
**Other Matters**

The financial statements of the Bank for the year ended December 31, 2019 were audited by another firm of Chartered Accountants, who expressed an unmodified opinion thereon in the auditor's report dated February 28, 2020.

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

Place: Islamabad

Date: 05 MAR 2021

  
Naveed Zafar Ashfaq Jaffery & Co.  
Chartered Accountants




**SINDH MICROFINANCE BANK LIMITED**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2020**

	Note	2020 -----Rupees-----	2019
<b>ASSETS</b>			
Cash and Balances with SBP and NBP	8	19,255,691	13,650,387
Balances With Other Banks/NBFIs/MFBs	9	478,301,018	332,486,158
Lending to financial institutions		-	-
Investment - Net of Provisions	10	687,933,096	619,095,360
Advances - Net of Provisions	11	553,805,824	849,973,816
Operating Fixed Assets	12	52,133,647	52,778,444
Other Assets	13	104,353,871	32,814,467
Deferred Tax Asset	14	3,456,400	6,693,104
<b>Total Assets</b>		<b>1,899,239,547</b>	<b>1,907,491,736</b>
<b>LIABILITIES</b>			
Deposits and other accounts	15	139,339,899	126,446,866
Borrowings	16	750,000,000	800,000,000
Subordinated Debt		-	-
Other Liabilities	17	67,148,978	91,458,209
Deferred Tax Liabilities		-	-
<b>Total Liabilities</b>		<b>956,488,877</b>	<b>1,017,905,075</b>
<b>NET ASSETS</b>		<b>942,750,670</b>	<b>889,586,661</b>
<b>REPRESENTED BY:</b>			
Share Capital	18	750,000,000	750,000,000
Statutory Reserves		38,563,371	27,930,569
Depositors' Protection fund		9,640,843	6,982,643
Unappropriated Profit		144,546,456	104,673,449
		<b>942,750,670</b>	<b>889,586,661</b>
Surplus/(Deficit) on Revaluation of Assets		-	-
Deferred Grants		-	-
<b>Total Capital</b>		<b>942,750,670</b>	<b>889,586,661</b>

**MEMORANDUM / OFF BALANCE SHEET ITEMS**

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The annexed notes from 1 to 38 form an integral part of these financial statements.



\_\_\_\_\_  
President & Chief Executive




\_\_\_\_\_  
Chief Financial Officer



\_\_\_\_\_  
Chairman



\_\_\_\_\_  
Director



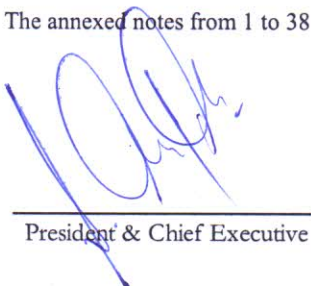
\_\_\_\_\_  
Director

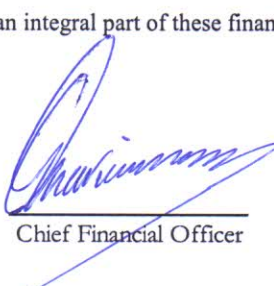


**SINDH MICROFINANCE BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

		2020	2019
	Note	-----Rupees-----	
Mark-up / return / interest earned	20	362,142,555	347,011,283
Mark-up / return / interest expensed	21	(79,616,958)	(71,057,376)
<b>Net mark-up / interest income</b>		<b>282,525,597</b>	<b>275,953,907</b>
Provision against non-performing loans and advances	11.3	(12,661,408)	(11,331,839)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	11.4	(1,455,012)	(2,093,203)
		(14,116,420)	(13,425,042)
<b>Net mark-up / interest income after provisions</b>		<b>268,409,177</b>	<b>262,528,865</b>
<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>268,409,177</b>	<b>262,528,865</b>
<b>NON MARKUP/ NON INTEREST EXPENSES</b>			
Administrative expenses	22	(197,883,867)	(193,871,073)
Other provisions/write offs		-	-
Other charges	23	(400,683)	-
<b>Total non mark-up / non interest expenses</b>		<b>(198,284,550)</b>	<b>(193,871,073)</b>
Extra ordinary / unusual items		-	-
<b>Profit before taxation</b>		<b>70,124,627</b>	<b>68,657,792</b>
Taxation			
- current	24	16,587,840	23,677,311
- prior years	24	(2,188,538)	(3,423,118)
- deferred	24	3,040,844	(3,766,551)
		(17,440,146)	(16,487,642)
<b>Profit after taxation</b>		<b>52,684,481</b>	<b>52,170,150</b>
Unappropriated Profit/(Loss) - brought forward		104,673,449	65,612,029
Less: Other comprehensive loss		479,528	(66,192)
<b>Profit available for appropriation/(Loss)</b>		<b>157,837,458</b>	<b>117,715,987</b>
<b>APPROPRIATIONS:</b>			
Transfer to			
- statutory reserve		(10,536,896)	(10,434,030)
- capital reserve		-	-
- contribution to depositors' protection fund		(2,634,224)	(2,608,508)
- revenue reserve		-	-
- proposed dividend		-	-
<b>Unappropriated profit - carried forward</b>		<b>144,666,338</b>	<b>104,673,449</b>
<b>EARNINGS PER SHARE</b>	25	<b>0.70</b>	<b>0.70</b>

The annexed notes from 1 to 38 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, 2020**

	Note	2020 -----Rupees-----	2019
<b>Profit after taxation</b>		<b>52,684,481</b>	<b>52,170,150</b>
<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	479,528	(66,192)
		<u>479,528</u>	<u>(66,192)</u>
<b>Total comprehensive income for the year</b>		<b><u>53,164,009</u></b>	<b><u>52,103,958</u></b>

The annexed notes from 1 to 38 form an integral part of these financial statements.

*12/31/20*

  
\_\_\_\_\_  
President & Chief Executive

  
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Chief Financial Officer

  
\_\_\_\_\_  
Chairman

  
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Director

  
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Director

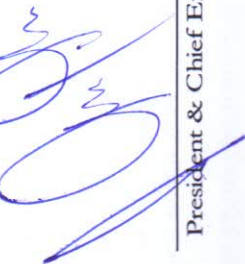


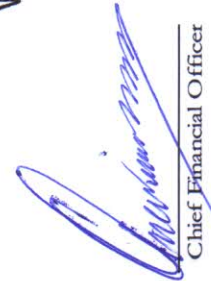
**SINDH MICROFINANCE BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Share capital	Statutory reserve	Depositors' protection fund	Unappropriated profit	Total Equity
	<b>Rupees</b>				
Balance as at January 1, 2019	750,000,000	17,496,539	4,374,135	65,612,029	837,482,703
<b>Total comprehensive income for the year</b>					
- Profit after taxation	-	-	-	52,170,150	52,170,150
- Other comprehensive income	-	-	-	(66,192)	(66,192)
Transfer to statutory reserve	-	-	-	52,103,958	52,103,958
- 20% of the profit after tax for the year	-	10,434,030	-	(10,434,030)	-
Transfer to depositors' protection fund	-	-	-	-	-
- 5% of the profit after tax for the year	-	-	2,608,508	(2,608,508)	-
Balance as at December 31, 2019	750,000,000	27,930,569	6,982,643	104,673,449	889,586,661
<b>Total comprehensive income for the year</b>					
- Profit after taxation	-	-	-	52,684,481	52,684,481
- Other comprehensive (loss) / income	-	-	-	479,528	479,528
Transfer to statutory reserve	-	-	-	53,164,009	53,164,009
- 20% of the profit after tax for the year	-	10,632,802	-	(10,632,802)	-
Transfer to depositors' protection fund	-	-	-	-	-
- 5% of the profit after tax for the year	-	-	2,658,200	(2,658,200)	-
<b>Balance as at December 31, 2020</b>	<b>750,000,000</b>	<b>38,563,371</b>	<b>9,640,843</b>	<b>144,546,456</b>	<b>942,750,670</b>

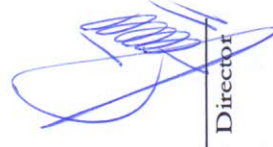
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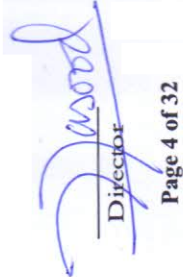
*Waqar Ali*

  
 President & Chief Executive

  
 Chief Financial Officer

  
 Chairman

  
 Director

  
 Director

**SINDH MICROFINANCE BANK LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Note	2020 -----Rupees-----	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		70,124,627	68,657,792
<b>Adjustments for non cash items:</b>			
Provision against non performing advances	11.3	12,661,408	11,331,839
Bad debts written off directly	11.4	1,455,012	2,093,203
Depreciation on property and equipment	12.1	3,861,487	3,272,545
Amortization on intangible assets	12.2	1,062,705	756,191
Depreciation expense on lease assets	12.3	15,051,394	16,206,348
Interest on lease liability	21	2,982,435	4,463,871
Loss on disposal of fixed assets	23	400,683	-
Provision for gratuity	22	4,664,723	3,251,890
		<u>42,139,847</u>	<u>41,375,887</u>
<b>Operating cash flows before changes in working capital</b>		<b>112,264,474</b>	<b>110,033,679</b>
<b>Working capital changes</b>			
<b>(Increase) / decrease in operating assets</b>			
Advances		282,051,572	(280,297,096)
Other assets (excluding advance taxation)		(60,428,889)	2,948,862
Prepaid rent		(20,428,167)	(27,087,594)
		<u>201,194,516</u>	<u>(304,435,828)</u>
<b>Increase in operating liabilities</b>			
Other liabilities(excluding current taxation)		(20,062,904)	47,241,821
Deposits and other accounts		12,893,033	48,677,753
		<u>(7,169,871)</u>	<u>95,919,574</u>
		<b>306,289,119</b>	<b>(98,482,575)</b>
Income tax paid		<u>(25,313,957)</u>	<u>(22,767,869)</u>
<b>Net cash used in operating activities</b>		<b>280,975,162</b>	<b>(121,250,444)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of HTM investment		(68,837,736)	(369,095,360)
Purchase of property and equipment	12.1	(10,133,462)	(4,852,410)
Purchase of intangible assets	12.2	(583,800)	(1,469,000)
<b>Net cash used in from investing activities</b>		<b>(79,554,998)</b>	<b>(375,416,770)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of Running finance facility	16.1	-	(76,522,815)
Borrowing from KBL	16.1	(50,000,000)	50,000,000
Borrowing from SBP	16.2	-	750,000,000
<b>Net cash generated from financing activities</b>		<b>(50,000,000)</b>	<b>723,477,185</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>151,420,164</b>	<b>226,809,971</b>
Cash and cash equivalents at beginning of the year		596,136,545	369,326,574
<b>Cash and cash equivalents at the end of the year</b>	26	<b>747,556,709</b>	<b>596,136,545</b>

The annexed notes from 1 to 38 form an integral part of these financial statements.

President & Chief Executive

Chief Financial Officer

Chairman

Director

Director



**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

**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 17 (2019: 17) branches and 58 (2019: 58) service centers.

The credit rating companies PACRA has maintained the long term rating of the Bank at "A-" and short term rating at "A2" as of April 30, 2020.

**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.

The SBP vide BPRD Circular No. 04 of 2019, dated October 23, 2019 has extended the date of implementation of IFRS 9 'Financial Instruments' to January 1, 2021 for all microfinance banks. 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.



#### **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 Interpretation</b>	<b>IASB effective date</b> (Annual periods beginning on or after)
IFRS 15 'Revenue from Contracts with Customers'	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 No. 04 of 2019, deferred the effective date to January 1, 2021.

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

Standard or Interpretation	IASB effective date (Annual periods beginning on or after)
IFRS 14 'Regulatory Deferral accounts'	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 and IAS 8)	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.

Standard or Interpretation	IASB effective date (Annual periods beginning on or after)
IFRS 17 'Insurance Contracts'	January 1, 2022
IFRS 1 'First-time Adoption of International Financial Reporting Standards'	July 1, 2009

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

	Note	2020 Rupees	2019 Rupees
Advances	11	<u>530,561,731</u>	<u>846,055,017</u>
Provisions	11	<u>(6,188,854)</u>	<u>(14,388,287)</u>
Deposits	15	<u>139,339,899</u>	<u>126,446,866</u>
Borrowings from State Bank of Pakistan	16	<u>750,000,000</u>	<u>750,000,000</u>

During the year the bank disbursed advances to 21,394 (2019: 50,157) 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 16.2.

**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.
- 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.

In addition, the Bank maintains a watchlist 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:

OAEM	NIL
Substandard	25%
Doubtful	50%
Loss	100%

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### **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.

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**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.

*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.

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## **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

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.

### **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.

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**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
- 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.

**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.

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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.

	Note	2020	2019
		-----Rupees-----	
<b>8 CASH AND BALANCES WITH SBP AND NBP</b>			
Cash in hand		1,020,493	737,313
Balances with State Bank of Pakistan in	8.1	13,621,612	10,988,367
Balances with National Bank of Pakistan in	8.2	4,613,586	1,924,707
		<u>19,255,691</u>	<u>13,650,387</u>

**8.1** This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% (2019: 5%) and 10% (2019: 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 5.75% (2019: 8.5%)

	Note	2020	2019
		-----Rupees-----	
<b>9 BALANCES WITH OTHER BANKS/NBFIs/MFBs</b>			
In Pakistan			
- Local currency current account		15,601,712	210,704
- Local currency deposit account	9.1	462,699,306	332,275,454
		<u>478,301,018</u>	<u>332,486,158</u>

**9.1** It includes the accounts maintained with the Sindh Bank Limited (the Holding bank) in daily product saving account carrying mark-up at an annual rate of 5.5% (2019: 11.25%), balances with U-Microfinance Bank carrying mark-up at an annual rate of 10.75% (2019: 13.75%), and Khushhali Bank Limited carrying mark-up at an annual rate of 9.50% (2019: 14.40%).

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**SINDH MICROFINANCE BANK LIMITED**  
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		2020	2019
	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	12,933,096	19,095,360
Term deposits receipts (TDRs)	10.2	675,000,000	600,000,000
		<u>687,933,096</u>	<u>619,095,360</u>

10.1 This represents treasury bills carrying interest at the rate of 7% per annum with maturity on January 28, 2021.

		2020	2019
		-----Rupees-----	
<b>10.2 Details of term deposits receipts</b>			
	<b>Maturity</b>	<b>Interest rate</b>	
	<b>2020</b>	<b>2019</b>	
U-Microfinance Bank Limited	1 month	1 month	10.00% 14.40%
U-Microfinance Bank Limited	1 month	1 month	9.85% 14.35%
Khushali Microfinance Bank	2 month	2 months	14.00% 14.40%
Khushali Microfinance Bank	4 month	5 months	12.30% 14.40%
Khushali Microfinance Bank	5 month	11 months	11.50% 14.00%
Khushali Microfinance Bank	5 month	-	11.50% -
Khushali Microfinance Bank	5 month	-	11.50% -
Khushali Microfinance Bank	5 month	-	11.50% -
Khushali Microfinance Bank	5 month	-	11.50% -
		<u>675,000,000</u>	<u>600,000,000</u>

**11 ADVANCES - NET OF PROVISIONS**

		<b>2020</b>	<b>2019</b>
	Note	<b>Number of loans outstanding</b>	<b>Amount outstanding (Rupees)</b>
Micro Credit			
-Unsecured		36,407	530,561,731
Less: Provision held			
- Specific	11.1	-	(908,713)
- General	11.3	-	(5,280,141)
		-	(6,188,854)
<b>Microcredit advances - net of provisions</b>		<b>36,407</b>	<b>524,372,877</b>
Staff loans		3	29,432,947
<b>Advances (net of provisions)</b>		<u><b>36,410</b></u>	<u><b>553,805,824</b></u>

**11.1 Particulars of non-performing loans**

Advances include Rs. 5.3 million (2019: 16.5 million) which as detailed below, have been placed under non-performing status:

	<b>2020</b>	<b>2019</b>
Category of Classification	<b>Amount Outstanding</b>	<b>Provisions Required</b>
	<b>Provisions Held</b>	
	-----Rupees-----	
OAEM	2,772,348	-
Substandard	1,511,224	377,806
Doubtful	1,011,052	505,526
Loss	25,381	25,381
	<u>5,320,005</u>	<u>908,713</u>

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## 12 OPERATING FIXED ASSETS

Note	2020	2019
	Rupees-----	
12.1	19,261,522	13,390,230
12.2	2,769,336	3,248,241
12.3	30,102,789	36,139,973
	<u>\$2,133,647</u>	<u>\$2,778,444</u>

## 12.1 Property and Equipment

	COST		ACCUMULATED DEPRECIATION				Net book value at Dec 31, 2020	Rate of Depreciation
	As at Jan 1, 2020	Additions	On Disposal / transfer	As at Dec 31, 2020	Charge for the year	On Disposal / transfer		

	COST			ACCUMULATED DEPRECIATION				Net book value at Dec 31, 2019	Rate of Depreciation
	As at Jan 1, 2019	Additions	Disposals / transfers	As at Dec 31, 2019	Charge for the year	On Disposals / transfers	As at Dec 31, 2019		
		4,035,463	-	15,215,374	2,551,368	-	5,377,079	9,838,295	20%
Office equipment	11,179,911				2,825,711			2,359,786	5%
Office improvement	1,972,654	627,995	-	2,600,649	111,944	-	240,863	991,848	10%
Furniture and fixture	1,135,031	188,952	-	1,323,983	214,403	-	332,135	200,301	20%
Vehicles	2,457,500	-	-	2,457,500	1,765,698	-	2,257,199	13,390,230	
Total	16,745,096	4,852,410	-	21,597,506	4,934,730	-	8,207,276		

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12.2 Intangible assets

	COST		ACCUMULATED AMORTIZATION		Net book value at Dec 31, 2020	Rate of amortization
	As at Jan 1, 2020	Additions	As at Jan 1, 2020	As at Dec 31, 2020		
Rupees						
Software	5,249,953	583,800	2,001,712	1,062,705	2,769,336	20%
Total	5,249,953	583,800	2,001,712	1,062,705	2,769,336	
Rupees						
	COST		ACCUMULATED AMORTIZATION		Net book value at Dec 31, 2019	Rate of amortization
	As at Jan 1, 2019	Additions	As at Jan 1, 2019	As at Dec 31, 2019		
Software	3,780,953	1,469,000	1,245,521	756,191	3,248,241	20%
Total	3,780,953	1,469,000	1,245,521	756,191	3,248,241	

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	2020	2019
Rupees			
Balance as at initial application i.e. January 01, 2020		36,139,973	43,240,194
Additions during the year		9,014,210	9,106,127
Depreciation expense charged for the year	22	(15,051,394)	(16,206,348)
Right of use assets (ROUA) - as of December 31, 2020		30,102,789	36,139,973

12.4 Cost of fully depreciated property and equipment that are still in use is Rs. 118,751 (2019 : Nil)

12.5 Detail of disposals of operating fixed assets

	Original Cost	Accumulated Depreciation		WDV	Gain /( Loss)	Mode of Disposal	Particulars of buyers
		Rupees					
Vehicle	2,457,500	(2,457,500)	-	-	-	As per Policy	Employee
Office Equipments	1,362,808	(962,125)	400,683	(400,683)	As per Policy	NIL	<i>Wg/Dr</i>

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**NOTES TO THE FINANCIAL STATEMENTS**

	2020	2019
	-----Rupees-----	
<b>13 OTHER ASSETS</b>		
Income/ mark-up accrued on advances	28,589,637	17,127,408
Profit receivable on TDR's	48,521,918	9,773,425
Advances, prepayments and deposits	12,819,146	2,600,979
Advance tax - net of provision	14,423,170	3,312,655
	<u>104,353,871</u>	<u>32,814,467</u>

**14 DEFERRED TAX ASSETS**

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

- Provision against advances and other assets	1,794,768	4,172,603
- Employee benefit	3,648,548	2,518,676
- Lease finance facility	7,843,957	10,973,333
	<u>13,287,273</u>	<u>17,664,612</u>

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

- Operating fixed assets	(905,203)	(490,916)
- Right to use assets	(8,729,809)	(10,480,592)
- Other comprehensive income - gratuity payable	(195,861)	-
	<u>(9,830,873)</u>	<u>(10,971,508)</u>
Net deferred tax assets / (liabilities)	<u>3,456,400</u>	<u>6,693,104</u>

		2020		2019	
	Note	Number of accounts	Amount outstanding (Rupees)	Number of accounts	Amount outstanding (Rupees)
<b>15 DEPOSITS AND OTHER ACCOUNTS</b>					
Current deposits		10	298,424	10	10,827,439
Savings deposits	15.2	81,978	139,041,475	73,198	115,619,427
		<u>81,988</u>	<u>139,339,899</u>	<u>73,208</u>	<u>126,446,866</u>
<b>15.1 Particulars of deposits by ownership</b>					
1) Individual depositors		81,987	19,339,899	73,207	26,446,866
2) Institutional depositors					
a) Corporation/firms		-	-	-	-
b) Banks/financial institution		1	120,000,000	1	100,000,000
		<u>81,988</u>	<u>139,339,899</u>	<u>73,208</u>	<u>126,446,866</u>

**15.2** These are remunerative saving deposits of corporate and individual clients carrying interest rate of 8.00% to 13.25% per annum (2019: 8% to 14.60%).

	Note	2020	2019
		-----Rupees-----	
<b>16 BORROWINGS</b>			
Borrowings from banks/ financial institution in Pakistan	16.1	-	50,000,000
Borrowings from State Bank of Pakistan	16.2	750,000,000	750,000,000
		<u>750,000,000</u>	<u>800,000,000</u>
<b>16.1 Borrowings from banks/ financial institution in Pakistan</b>			
Unsecured			
Call borrowings		-	50,000,000
		<u>-</u>	<u>50,000,000</u>

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- 16.2 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 8.24% to 14.49% 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 6.24% to 12.49% during the year). The interest on the facility is payable bi-annually and the principle can be repaid within 5 years by 2024.

	Note	2020 -----Rupees-----	2019
<b>17 OTHER LIABILITIES</b>			
Mark-up/Return/ Interest payable		24,119,290	47,911,410
Audit fee payable		350,000	500,000
EOBI payable		200,993	211,379
Withholding tax payable		553,842	519,846
Employees provident fund payable		834,524	602,282
Gratuity payable	17.1	12,581,199	8,591,867
Other payable		7,022,192	3,398,828
Lease liability against right of use assets	17.2	21,486,938	29,722,597
		<u>67,148,978</u>	<u>91,458,209</u>

**17.1 Gratuity payable**

The Bank operates an approved funded gratuity scheme for all of its eligible employees. Number of employees covered under the scheme are 253.

	Note	2020 -----Rupees-----	2019
Opening balance		8,591,867	5,246,750
Charge for the year in P&L	17.1.4	4,664,723	3,251,890
Charge for the year in OCI	17.1.4	(675,391)	93,227
Payment during the year		-	-
Closing balance		<u>12,581,199</u>	<u>8,591,867</u>

**17.1.1. Principal actuarial assumptions**

The latest actuarial valuation of the gratuity scheme was carried out on 31 December 2020 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

	2020	2019
Discount rate used for interest cost in P&L charge	11.25%	13.25%
Discount rate used for year end obligation	9.75%	11.25%
Salary increase used for year end obligation	-	-
Salary increase FY2020	N/A	N/A
Salary increase FY2021	8.75%	10.25%
Salary increase FY2022	8.75%	10.25%
Next salary is increased at	01-Jan-21	01-Jan-20
Mortality rates	SLIC	SLIC
	2001 - 2005	2001 - 2005
Withdrawal rates	Age-Based	Age-Based
Retirement assumption	Age 60	Age 60

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**SINDH MICROFINANCE BANK LIMITED**  
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	Note	2020	2019
		-----Rupees-----	
<b>17.1.2 Statement of financial position</b>			
Present value of defined benefit obligation payable		<u>12,851,199</u>	<u>8,591,867</u>
<b>17.1.3 Changes in present value of defined benefit obligations</b>			
Present value of defined benefit obligation		8,591,867	5,246,750
Current service cost	17.1.4	3,779,584	2,556,696
Past service cost (credit)		-	-
Interest cost on defined benefit obligation	17.1.4	885,139	695,194
Benefits due but not paid (payables)		(1,447,936)	
Remeasurements:			
Actuarial gains from changes in financial assumptions		(49,958)	(50,054)
Experience adjustments		(625,433)	143,281
		(675,391)	93,227
Present value of defined benefit obligation		<u>11,133,263</u>	<u>8,591,867</u>
<b>17.1.4 Expenses to be charged to P&amp;L</b>			
Current service cost		3,779,584	2,556,696
Past service cost (credit)		-	-
Interest cost on defined benefit obligation		885,139	695,194
Expense chargeable to P&L		<u>4,664,723</u>	<u>3,251,890</u>
<b>Total remeasurements chargeable in other comprehensive income</b>			
Remeasurement of plan obligation:			
Actuarial gains from changes in financial assumptions		(49,958)	(50,054)
Experience adjustments		(625,433)	143,281
Total remeasurements chargeable in other comprehensive income		<u>(675,391)</u>	<u>93,227</u>
<b>17.1.5 Changes in net liability</b>			
Balance sheet liability		8,591,867	5,246,750
Expense chargeable to P&L		4,664,723	3,251,890
Remeasurements chargeable in other comprehensive income		(675,391)	93,227
Benefits paid		-	-
Benefits payable transferred to short term liability		-	-
<b>Balance sheet liability</b>		<u>12,581,199</u>	<u>8,591,867</u>

**17.1.6 Sensitivity analysis**

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

	2020	2019
	-----Rupees-----	
<b>Discount rate effect</b>		
Discount rate + 100 bps	10,468,017	8,031,972
Discount rate - 100 bps	11,888,816	9,227,501
Salary increase + 100 bps	11,916,095	9,248,156
Salary increase - 100 bps	10,430,509	8,003,360
Expected benefit payments for next financial year - 2021	993,693	715,547

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		2020	2019
	Note	-----Rupees-----	
<b>17.2 Lease liability against right of use assets</b>			
Lease liabilities included in the statement of financial position As at December 31, 2020		<u>21,486,938</u>	<u>29,722,597</u>
Of which are:			
Current lease liability		21,486,938	10,108,705
Non-current lease liability		<u>-</u>	<u>19,613,892</u>
		<u>21,486,938</u>	<u>29,722,597</u>
<b>17.2.1 Movement in lease liability against right to use assets</b>			
Balance as at initial application i.e. January 01, 2020		29,722,599	43,240,194
Additions during the year		9,014,210	9,106,127
Interest expense charged for the year	21	2,982,435	4,463,872
Lease rental payments for the year		(20,232,307)	(18,971,111)
Lease rentals paid in advance		<u>-</u>	<u>(8,116,483)</u>
		<u>21,486,937</u>	<u>29,722,599</u>
<b>18 SHARE CAPITAL</b>			
Authorized share capital			
2020                      2019		2020                      2019	
-----Number of Shares-----		-----Rupees-----	
<u>200,000,000</u> <u>100,000,000</u> Ordinary shares of Rs. 10 each		<u>2,000,000,000</u>	<u>1,000,000,000</u>
Issued, subscribed and paid-up share capital			
2020                      2019		2020                      2019	
-----Number of Shares-----		-----Rupees-----	
<u>75,000,000</u> <u>75,000,000</u> Ordinary shares of Rs. 10 each 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.			
<b>19 MEMORANDUM / OFF BALANCE SHEET ITEMS</b>			
There are no contingencies as at year end (2019: Nil).			
		2020	2019
		-----Rupees-----	
<b>20 MARK-UP / RETURN / INTEREST EARNED</b>			
On:			
- Advances		241,278,591	264,735,204
- Deposits / Placements with Banks /MFB etc.		119,205,188	79,000,681
- Investment in Federal Government securities T-Bills		909,638	3,094,860
- Staff loans		<u>749,138</u>	<u>180,538</u>
		<u>362,142,555</u>	<u>347,011,283</u>

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

			2020	2019
	Note		-----Rupees-----	
<b>21 MARK-UP / RETURN / INTEREST EXPENSED</b>				
On:				
- Deposits			3,298,434	5,248,483
- Leased liability			2,982,435	4,463,871
- Borrowings			73,336,089	61,345,022
			<u>79,616,958</u>	<u>71,057,376</u>
<b>22 ADMINISTRATIVE EXPENSES</b>				
Salaries, wages and other allowances etc.			134,012,006	132,891,512
Contribution to defined contribution plan			4,875,328	3,874,564
Gratuity expense	17.1		4,664,723	3,251,890
Staff welfare			654,640	893,064
Directors' fee			275,000	384,000
Printing and stationery			1,594,714	2,086,273
Communication			3,862,950	3,063,475
Office supplies			110,675	37,669
Travelling and conveyance			3,755,649	3,936,855
Insurance			2,891,538	3,302,711
Training and development			397,901	811,226
Utilities			3,563,467	2,711,094
Branch setup cost			765,275	2,150,799
Advertisement & publicity			190,000	406,273
Depreciation	12.1	#	3,861,487	3,272,545
Amortization	12.2	#	1,062,705	756,191
Depreciation expense on lease assets	12.3	#	15,051,394	16,206,348
Auditor's remuneration	22.1	#	649,360	738,150
Bank charges			1,826,778	2,085,786
Office cleaning and maintenance			1,682,571	1,073,689
Legal and professional fee			276,497	84,870
Fee and subscription			7,126,394	4,710,104
IT equipment and software maintenance			3,488,048	4,298,009
Others			1,244,767	843,976
			<u>197,883,867</u>	<u>193,871,073</u>
<b>22.1 Auditors' remuneration</b>				
Audit fee			350,000	350,000
Provident fund			30,000	30,000
Half yearly review fee			125,000	125,000
Tax services			-	111,500
Certification fee			61,500	35,140
Public sector code of corporate governance - report fee			38,500	38,500
Out of pocket and others			44,360	48,010
			<u>649,360</u>	<u>738,150</u>
<b>23 OTHER CHARGES</b>				
Loss on scrapping of fixed assets	12.3		<u>400,683</u>	-

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

24 TAXATION	2020	2019
	-----Rupees-----	
For the year		
- current	16,587,840	23,677,311
- deferred	3,040,844	(3,766,551)
	19,628,684	19,910,760
For the prior year's		
- current	(2,188,538)	(98,018)
- deferred	-	(3,325,100)
	(2,188,538)	(3,423,118)
	17,440,146	16,487,642

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

Profit before tax	70,124,627	68,657,792
Tax at the tax rate of 29%	20,336,142	19,910,760
Effects of:		
- prior year	(2,188,538)	(3,423,118)
- reduce rate difference	-	-
- others	(707,458)	-
Tax expense	17,440,146	16,487,642

**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.

	2020	2019
	-----Rupees-----	
25.1 Profit for the year	52,684,481	52,170,150
	(Number)	(Number)
Weighted average ordinary shares	75,000,000	75,000,000
	-----Rupees-----	
Earnings per share	0.70	0.70

**Diluted**

There is no dilution effect on the basic earnings per share of the Bank as on December 31, 2020 (2019: Nil).

26 CASH AND CASH EQUIVALENTS	Note	2020	2019
		-----Rupees-----	
Cash in hand	8	1,020,493	737,313
Cash and balances with SBP and NBP	8	18,235,198	12,913,074
Balances with other banks	9	478,301,018	332,486,158
Investment - net of provisions		250,000,000	250,000,000
		747,556,709	596,136,545

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**27 NUMBER OF EMPLOYEES**

	Credit /Sales Staff	Banking Staff	Total
<b>2020</b>	-----Number-----		
Permanent	205	122	327
Contractual	54	1	55
Total number of employees	259	123	382
<b>2019</b>			
Permanent	215	123	338
Contractual	40	1	41
Total number of employees	255	124	379
		<b>2020</b>	<b>2019</b>
Average number of employees during the year		381	324

**28 TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

The bank is a subsidiary of Sindh bank limited which holds 99.99% share capital of the bank. Therefore, all subsidiaries and associated undertakings of SBL are related parties of the bank. Other related parties include directors, key management personnel which include CEO and Head of departments (HOD's) entities under common directorship. remuneration to directors and executives is disclosed in note 31 to these financial statements. All transactions involving related parties are subject to the approval of the Board of Directors. Significant transactions with related parties during the year are as follows;

	Relationship	Note	2020	2019
			----- Rupees -----	-----
<b>Balances with related party</b>				
- Sindh Bank Limited	Parent Company			
(Highest balance during the year)				
Deposits in daily Saving account			75,049,927	81,174,073
Rent Payable			37,500	37,500
Balances as at December 31,				
Deposits in daily saving account			75,049,927	81,174,073
Rent payable			37,500	37,500
- Loan to Employess	key management Personnel	11	29,432,947	18,307,086
- Sindh Insurance Limited	Associates			
Premium payable			1,516,599	15,431
- Deposit of relative of a key management	key management Personnel		2,007	965,718
<b>Transactions with related party</b>				
- Sindh Bank Limited	Parent Company			
Mark-up / return / interest earned			2,381,152	3,779,105
Mark-up / return / interest expensed			-	4,806,634
Bank Charges			38,986	302,000
Rent Paid			-	262,500
- Sindh Insurance Limited	Associates			
Insurance premium paid			817,268	3,482,473
- Sale of vehicle	key management Personnel	12.5	1	-
- Provision for Gratuity	key management Personnel	17.1	4,664,723	3,251,890
- Interest on Loan to Employess	key management Personnel	20	749,138	180,538
- Contribution to Provident fund	key management Personnel	22	4,875,328	3,874,564

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**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

	2020	2019
	-----Number-----	
<b>29 NUMBER OF BRANCHES</b>		
At the beginning of the year	13	13
Closed during the year	-	-
	<u>13</u>	<u>13</u>
<b>30 NUMBER OF SERVICE CENTERS</b>		
At the beginning of the year	58	47
Opened during the year	-	11
Closed during the year	-	-
	<u>58</u>	<u>58</u>

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

	2020			2019		
	Rupees			Rupees		
	CEO	Director	Executive	CEO	Director	Executive
-Managerial remuneration	9,104,555	-	7,953,290	8,970,000	-	12,165,348
-House rent allowance	4,097,050		3,578,981	4,036,500	-	5,474,400
-Medical allowance	910,455		795,329	897,000	-	1,216,536
-Utilities allowance	910,455		795,329	897,000	-	1,216,536
-Contribution to PF	910,455	-	795,329	897,000	-	1,216,536
-Directors fee	-	225,000	-	-	345,000	-
-Bonus	1,495,001	-	1,288,458	1,370,417	-	908,919
-Others	-	50,000	-	-	39,000	-
	<u>17,427,971</u>	<u>275,000</u>	<u>15,206,716</u>	<u>17,067,917</u>	<u>384,000</u>	<u>22,198,275</u>
Number of persons at year end	<u>1</u>	<u>4</u>	<u>7</u>	<u>1</u>	<u>4</u>	<u>7</u>

**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.

**32 DEFINED CONTRIBUTION PLAN**

**32.1 Disclosures relating to Provident fund**

	2020 (un-audited)	2019 (audited)
	-----Rupees-----	
Size of the fund	26,326,439	19,744,040
Cost of the investments made	-	13,573,938
Percentage of investments made	0%	69%
Fair value of investments	-	14,064,653
Break-up of investments		
TDR's	-	-
Government securities – T-Bills	-	13,573,938
Receivable from Sindh Microfinance Bank Limited	834,524	644,056
Bank balances	25,491,915	5,035,331
Accrued markup	-	490,715
	<u>26,326,439</u>	<u>19,744,040</u>

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.

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### 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	2020	2019
		-----Rupees-----	
Bank balances	8 & 9	482,914,604	334,410,865
Advances - Net of Provisions	11	553,805,824	849,973,816
Investment - Net of Provisions	10.2	675,000,000	600,000,000
Other Assets	13	89,930,701	29,501,812
		<u>1,801,651,129</u>	<u>1,813,886,493</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:

2020	Effective yield / interest rate	Upto one year	Over one year	Total
Deposits and other accounts	8 - 13.25	124,931,899	14,408,000	139,339,899
Borrowings	6.24 - 14.49	-	750,000,000	750,000,000
Other Liabilities		33,520,692	33,074,444	66,595,136
		<u>158,452,591</u>	<u>797,482,444</u>	<u>955,935,035</u>
<b>2019</b>				
Deposits and other accounts	8 - 14.60	126,446,866	-	126,446,866
Borrowings	11.86 - 14.60	50,000,000	750,000,000	800,000,000
Other Liabilities		53,339,446	37,598,917	90,938,363
		<u>229,786,312</u>	<u>787,598,917</u>	<u>1,017,385,229</u>

### 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	2020	2019
		-----Rupees-----	
Net financial assets	33.1	<u>890,729,546</u>	<u>916,814,763</u>
Effect on profit and loss account			
Interest rate + 100 bps		<u>8,907,295</u>	<u>9,168,148</u>
Interest rate - 100 bps		<u>(8,907,295)</u>	<u>(9,168,148)</u>

**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.





34 MATURITIES OF ASSETS AND LIABILITIES

2020	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
	-----Rupees-----				
<b>Market rate assets</b>					
Advances	559,994,677	125,655,523	255,154,543	153,180,636	26,003,975
Investments	687,933,096	212,933,096	475,000,000	-	-
Other earning assets	544,424,447	495,902,529	48,521,918	-	-
<b>Total market rate assets</b>	<b>1,792,352,220</b>	<b>834,491,148</b>	<b>778,676,461</b>	<b>153,180,636</b>	<b>26,003,975</b>
Other non-earning assets	113,076,180	30,243,817	-	12,819,146	70,013,217
<b>Total assets</b>	<b>1,905,428,400</b>	<b>864,734,965</b>	<b>778,676,461</b>	<b>165,999,782</b>	<b>96,017,192</b>
<b>Market rate liabilities</b>					
Time deposits of Rs.100,000 and above	137,558,212	123,150,212	-	-	14,408,000
Time deposits below Rs.100,000	1,483,263	-	1,483,263	-	-
Borrowing	750,000,000	-	-	-	750,000,000
Other cost bearing liabilities	12,581,199	-	-	993,693	11,587,506
<b>Total market rate liabilities</b>	<b>901,622,674</b>	<b>123,150,212</b>	<b>1,483,263</b>	<b>993,693</b>	<b>775,995,506</b>
Other non- cost bearing liabilities	54,866,203	33,029,265	350,000	-	21,486,938
<b>Total liabilities</b>	<b>956,488,877</b>	<b>156,179,477</b>	<b>1,833,263</b>	<b>993,693</b>	<b>797,482,444</b>
<b>2019</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	864,362,104	115,031,468	477,641,516	255,740,187	15,948,933
Investments	619,095,360	200,000,000	319,095,360	100,000,000	-
Other earning assets	361,311,698	351,538,273	9,773,425	-	-
<b>Total market rate assets</b>	<b>1,844,769,162</b>	<b>666,569,741</b>	<b>806,510,301</b>	<b>355,740,187</b>	<b>15,948,933</b>
Other non-earning assets	17,639,314	11,725,680	-	2,600,979	3,312,655
<b>Total assets</b>	<b>1,862,408,476</b>	<b>678,295,421</b>	<b>806,510,301</b>	<b>358,341,166</b>	<b>19,261,588</b>
<b>Market rate liabilities</b>					
Time deposits of Rs.100,000 and above	118,151,105	103,743,105	-	-	14,408,000
Time deposits below Rs.100,000	1,211,427	-	11,009	1,200,418	-
Borrowing	800,000,000	50,000,000	-	-	750,000,000
Other cost bearing liabilities	8,591,867	-	-	715,547	7,876,320
<b>Total market rate liabilities</b>	<b>927,954,399</b>	<b>153,743,105</b>	<b>11,009</b>	<b>1,915,965</b>	<b>772,284,320</b>
Other non- cost bearing liabilities	89,950,676	59,516,700	711,379	-	29,722,597
<b>Total liabilities</b>	<b>1,017,905,075</b>	<b>213,259,805</b>	<b>722,388</b>	<b>1,915,965</b>	<b>802,006,917</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 cost 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, 2020, the paid up share capital of the Bank stood at Rs. 750 million (2019: 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, 2020, the Bank's Capital adequacy ratio (CAR) is approximately 98.30% (2019: 77.33%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

**Regulatory Relief to dampen the effects of Covid-19**

State Bank of Pakistan vide AC&MFD Circular Letter No. 01 & 04 of 2020; in which some policy measures were prescribed for Microfinance banks to provide regulatory relief. In order to enable Microfinance banks in extending relief measures to the affected borrowers, following additional relief measures have been taken;

Through AC&MFD circular letter no. 7 dated August 10, 2020, each NPL category has been extended by 2-months for borrowers who could not avail relief under the scheme. However, this facility shall stand expired on March 31, 2021.

Further, a general provision is maintained equivalent to 1% of the net outstanding balance (advances net of specific provisions) for potential loan losses. However, general provision is not required in cases where loans have been secured against cash collaterals with appropriate margin.

Specific and general provisions are charged to profit and loss account in the period in which they occur.

Non-performing advances are written off one month after the loan is classified as 'Loss' in accordance with the requirements of the prudential regulations for microfinance banks issued by the State Bank of Pakistan. However, the Bank continues its efforts for recovery of the written off balances.

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**36 COMPARATIVE FIGURES**

Items presented in the statement of financial position as at December 31, 2019 have been reclassified to confirm to current year's presentation.

	Note	Before classification	Reclassification	After classification
<b>Balances With Other Banks/NBFIs/MFBs</b>				
Local currency deposit account	9	332,486,158	(210,704)	332,275,454
Local currency current account	9	-	210,704	210,704
		<u>332,486,158</u>	<u>-</u>	<u>332,486,158</u>


**37 SUBSEQUENT EVENTS**

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

**38 DATE OF AUTHORIZATION**


These financial statements were authorized for issue on 05 MAR 2021 by the Board of Directors of the Bank.

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\_\_\_\_\_  
President & Chief Executive

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chairman

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director