

Sindh Microfinance Bank Limited

**Audit of Financial Statements
for the year ended December 31, 2021**



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, 2021, 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, 2021 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.

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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: _____



Naveed Zafar Ashfaq Jaffery & Co.
Chartered Accountants

Sindh Microfinance Bank Limited
Statement of Financial Position
As at December 31, 2021

	Note	2021 -----Rupees-----	2020
ASSETS			
Cash and Balances with SBP and NBP	8	22,899,322	19,255,691
Balances With Other Banks/NBFIs/MFBs	9	452,604,262	478,301,018
Lending to financial institutions		-	-
Investment - Net of Provisions	10	475,585,381	687,933,096
Advances - Net of Provisions	11	944,464,927	553,805,824
Operating Fixed Assets	12	88,345,333	52,133,647
Other Assets	13	100,204,945	104,353,871
Deferred Tax Asset	14	1,253,008	3,456,400
Total Assets		2,085,357,178	1,899,239,547
LIABILITIES			
Deposits and other accounts	15	271,022,792	139,339,899
Borrowings	16	750,000,000	750,000,000
Subordinated Debt		-	-
Other Liabilities	17	94,986,876	67,148,978
Deferred Tax Liabilities		-	-
Total Liabilities		1,116,009,668	956,488,877
NET ASSETS		969,347,510	942,750,670
REPRESENTED BY:			
Share Capital	18	750,000,000	750,000,000
Statutory Reserves		44,032,746	38,563,371
Depositors' Protection fund		11,008,187	9,640,843
Unappropriated Profit		164,306,577	144,546,456
		969,347,510	942,750,670
Surplus/(Deficit) on Revaluation of Assets		-	-
Deferred Grants		-	-
Total Capital		969,347,510	942,750,670

MEMORANDUM / OFF BALANCE SHEET ITEMS

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The annexed notes from 1 to 38 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 Profit or Loss Account
For the year ended December 31, 2021

		2021	2020
	Note	-----Rupees-----	
Mark-up / return / interest earned	20	345,467,004	362,142,555
Mark-up / return / interest expensed	21	(61,800,615)	(79,616,958)
Net mark-up / interest income		283,666,389	282,525,597
Provision against non-performing loans and advances	11.2	(13,154,998)	(12,661,408)
Provision for diminution in the value of investments		-	-
Bad debts written off directly	11.3	(2,296,714)	(1,455,012)
		(15,451,712)	(14,116,420)
Net mark-up / interest income after provisions		268,214,677	268,409,177
NON MARK-UP/ NON INTEREST INCOME			
Fee, commission and brokerage income		-	-
Dividend income		-	-
Other income		-	-
		-	-
Total non mark-up / non interest income		268,214,677	268,409,177
NON MARKUP/ NON INTEREST EXPENSES			
Administrative expenses	22	(222,403,392)	(197,883,867)
Other provisions/write offs		-	-
Other charges	23	-	(400,683)
Total non mark-up / non interest expenses		(222,403,392)	(198,284,550)
Extra ordinary / unusual items		-	-
Profit before taxation		45,811,285	70,124,627
Taxation			
- current	24	(16,261,018)	(16,587,840)
- prior years	24	-	2,188,538
- deferred	24	(2,203,392)	(3,040,844)
		(18,464,410)	(17,440,146)
Profit after taxation		27,346,875	52,684,481
Unappropriated Profit/(Loss) - brought forward		144,666,338	104,673,449
Less: Other comprehensive loss		(750,035)	479,528
Profit available for appropriation/(Loss)		171,263,178	157,837,458
APPROPRIATIONS:			
Transfer to			
- statutory reserve		(5,469,375)	(10,536,896)
- capital reserve		-	-
- contribution to depositors' protection fund		(1,367,344)	(2,634,224)
- revenue reserve		-	-
- proposed dividend		-	-
Unappropriated profit - carried forward		164,426,459	144,666,338
EARNINGS PER SHARE	25	0.36	0.70

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, 2021

	Note	2021 -----Rupees-----	2020
Profit after taxation		27,346,875	52,684,481
Other comprehensive loss			
- 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	(750,035)	479,528
		<u>(750,035)</u>	<u>479,528</u>
Total comprehensive income for the year		<u>26,596,840</u>	<u>53,164,009</u>

The annexed notes from 1 to 38 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, 2021

	Share capital	Statutory reserve	Depositors' protection fund	Unappropriated profit	Total Equity
	-----Rupees-----				
Balance as at January 1, 2020	750,000,000	27,930,569	6,982,643	104,673,449	889,586,661
Total comprehensive income for the year					
- Profit after taxation	-	-	-	52,684,481	52,684,481
- Other comprehensive income	-	-	-	479,528	479,528
	-	-	-	53,164,009	53,164,009
Transfer to statutory reserve					
- 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)	-
Balance as at December 31, 2020	750,000,000	38,563,371	9,640,843	144,546,456	942,750,670
Total comprehensive income for the year					
- Profit after taxation	-	-	-	27,346,875	27,346,875
- Other comprehensive (loss) / 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

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

12/2/2020

President & Chief Executive

Chief Financial Officer

Chairman

Director

Director

Sindh Microfinance Bank Limited
Statement of Cash Flow
For the year ended December 31, 2021

	Note	2021 -----Rupees-----	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		45,811,285	70,124,627
Adjustments for non cash items:			
Provision against non performing advances	11.2	13,154,998	12,661,408
Bad debts written off directly	11.3	2,296,714	1,455,012
Depreciation on property and equipment	12.1	4,873,827	3,861,487
Amortization on intangible assets	12.2	923,434	1,062,705
Depreciation expense on lease assets	12.3	14,350,476	15,051,394
Interest on lease liability	21	6,515,986	2,982,435
Loss on disposal of fixed assets	23	-	400,683
Provision for gratuity	22	4,345,664	4,664,723
		46,461,099	42,139,847
Operating cash flows before changes in working capital		92,272,384	112,264,474
Working capital changes			
(Increase) / decrease in operating assets			
Advances		(406,110,815)	282,051,572
Other assets (excluding advance taxation)		14,573,217	(60,428,889)
Prepaid rent/ Lease rental		(28,657,977)	(20,428,167)
		(420,195,575)	201,194,516
Increase in operating liabilities			
Other liabilities(excluding current taxation)		(7,076,560)	(20,062,904)
Deposits and other accounts		131,682,893	12,893,033
		124,606,333	(7,169,871)
		(203,316,858)	306,289,119
Income tax paid		(27,662,695)	(25,313,957)
Net cash used in operating activities		(230,979,553)	280,975,162
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of HTM investment		412,347,715	(68,837,736)
Purchase of property and equipment	12.1	(2,869,797)	(10,133,462)
Purchase of intangible assets	12.2	(551,490)	(583,800)
Net cash used in from investing activities		408,926,428	(79,554,998)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowing from KBL		-	(50,000,000)
Net cash generated from financing activities		-	(50,000,000)
Net increase / (decrease) in cash and cash equivalents		177,946,875	151,420,164
Cash and cash equivalents at beginning of the year		747,556,709	596,136,545
Cash and cash equivalents at the end of the year	26	925,503,584	747,556,709

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, 2021

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 the Microfinance banking license from the State Bank of Pakistan on October 16, 2015, to operate in the Sindh Province. Subsequently, the Bank received the Certificate of Commencement of Business from the Securities and Exchange Commission of Pakistan (SECP) on November 30, 2015 and the Certificate of Commencement of Banking Business from the State Bank of Pakistan on April 15, 2016. The Registered office of the Bank is situated at 39/F, 2nd Floor, Muhammad Ali Cooperative Housing Society, Karachi. The principal business of the Bank 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 the Sindh Bank Limited (the Holding bank). The Bank operates through branches and service centers that spread within the province of Sindh. The network of branches and service centers comprise of 18 (2020: 17) branches and 62 (2020: 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, 2021.

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 Letter No. 24 of 2021 dated July 5, 2021 deferred the applicability of International Financial Reporting Standard (IFRS) 9 "Financial Instruments" till January 1, 2022 in view of the ongoing COVID-19 impact and banking industry representations.

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.

11/2/2020

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:

	Note
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.

12/3/2020

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.

Standard or Interpretation	IASB effective date (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	

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. 24 of 2021, deferred the effective date to January 1, 2022.

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	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.

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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

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

	Note	2021 -----Rupees-----	2020
Advances	11	<u><u>957,830,734</u></u>	<u><u>559,994,678</u></u>
Provisions	11	<u><u>(13,365,807)</u></u>	<u><u>(6,188,854)</u></u>
Deposits	15	<u><u>271,022,792</u></u>	<u><u>139,339,899</u></u>
Borrowings from State Bank of Pakistan	16	<u><u>750,000,000</u></u>	<u><u>750,000,000</u></u>

During the year the bank disbursed advances to 42,470 (2020: 21,394) 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.

12/8/2020

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 and 60 days or more but less than 90 days for Deferred and Restructured Portfolio (DRP) impacted by COVID-19 (as per SBP AC&MFD Circular Letter No. 1 of 2021 applicable till March 31, 2022).
- b) Substandard: These are advances in arrears (payments / installments overdue) for 60 days or more but less than 90 days and 90 days or more but less than 120 days for Deferred and Restructured Portfolio (DRP) impacted by COVID-19 (as per SBP AC&MFD Circular Letter No. 1 of 2021 applicable till March 31, 2022)).
- c) Doubtful: These are advances in arrears (payments / installments overdue) for 90 days or more but less than 180 days and 180 days or more but less than 210 days for Deferred and Restructured Portfolio (DRP) impacted by COVID-19 (as per SBP AC&MFD Circular Letter No. 1 of 2021 applicable till March 31, 2022).
- d) Loss: These are advances in arrears (payments / installments overdue) for 180 days or more and 210 days or more for Deferred and Restructured Portfolio (DRP) impacted by COVID-19 (as per SBP AC&MFD Circular Letter No. 1 of 2021 applicable till March 31, 2022).

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:

OAE	NIL
Substandard	25%
Doubtful	50%
Loss	100%

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.

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.

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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.

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.

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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
For the year ended December 31, 2021

		2021	2020
	Note	-----Rupees-----	
8 CASH AND BALANCES WITH SBP AND NBP			
Cash in hand			
Local currency		763,708	1,020,493
Balances with State Bank of Pakistan in			
Local currency current accounts	8.1	17,422,260	13,621,612
Balances with National Bank of Pakistan in			
Local currency deposit account	8.2	4,713,354	4,613,586
		<u>22,899,322</u>	<u>19,255,691</u>

8.1 This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% (2020: 5%) and 10% (2020: 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 6.25% (2020: 5.75%).

		2021	2020
	Note	-----Rupees-----	
9 BALANCES WITH OTHER BANKS/NBFIs/MFBs			
In Pakistan			
- Local currency current account		13,039,046	15,601,712
- Local currency deposit account	9.1	439,565,216	462,699,306
		<u>452,604,262</u>	<u>478,301,018</u>

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 8.25% (2020: 5.5%), balances with U-Microfinance Bank carrying mark-up at an annual rate of 11.75% (2020: 10.75%), and Khushhali Bank Limited carrying mark-up at an annual rate of 8.50% (2020: 9.50%).

		2021	2020
	Note	-----Rupees-----	
10 INVESTMENT - NET OF PROVISIONS			
Held to maturity (HTM)			
Federal Government securities			
- Market treasury bills (T-bills)	10.1	25,585,381	12,933,096
Term deposits receipts (TDRs)	10.2	450,000,000	675,000,000
		<u>475,585,381</u>	<u>687,933,096</u>

10.1 This represents treasury bills carrying interest at the rate of 11.22% per annum with maturity on June 30, 2022.

10.2 Details of term deposits receipts					2021	2020	
					-----Rupees-----		
		Maturity		Interest rate			
		2021	2020	2021	2020		
U-Microfinance Bank	3 month	1 month	12.50%	10.00%	200,000,000	100,000,000	
First Microfinance Bank Ltd	3 month	-	12.60%	-	250,000,000	-	
U-Microfinance Bank	6 month	1 month	12.60%	9.85%	-	100,000,000	
Khushali Microfinance	-	2 month	-	14.00%	-	50,000,000	
Khushali Microfinance	-	4 month	-	12.30%	-	225,000,000	
Khushali Microfinance	-	5 month	-	11.50%	-	200,000,000	
					450,000,000	675,000,000	

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11 ADVANCES - NET OF PROVISIONS

	Note	2021		2020	
		Number of loans outstanding	Amount outstanding (Rupees)	Number of loans outstanding	Amount outstanding (Rupees)
Micro Credit					
-Unsecured		53,981	929,130,544	36,407	530,561,731
-Secured		9	1,744,226	-	-
Less: Provision held					
- Specific	11.1	-	(4,145,513)	-	(908,713)
- General	11.3	-	(9,220,294)	-	(5,280,141)
		-	(13,365,807)	-	(6,188,854)
Microcredit advances-net of provisions		53,990	917,508,963	36,407	524,372,877
Staff loans		3	26,955,964	3	29,432,947
Advances (net of provisions)		53,993	944,464,927	36,410	553,805,824

Advances include Rs. 10.61 million (2020: 5.3 million) which as detailed below, have been placed under non-performing status:

Category of Classification	2021			2020		
	Amount Outstanding	Provisions Required	Provisions Held	Amount Outstanding	Provisions Required	Provisions Held
	-----Rupees-----					
OAEM	1,766,315	-	-	2,772,348	-	-
Substandard	1,529,368	382,342	382,342	1,511,224	377,806	377,806
Doubtful	7,105,493	3,552,746	3,552,746	1,011,052	505,526	505,526
Loss	210,425	210,425	210,425	25,381	25,381	25,381
	10,611,601	4,145,513	4,145,513	5,320,005	908,713	908,713

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.

11.2 Particulars of provision against non-performing advances	2021			2020		
	Specific	General	Total	Specific	General	Total
	-----Rupees-----					
Opening balance	908,713	5,280,141	6,188,854	6,058,782	8,329,505	14,388,287
Charge for the year	9,214,845	3,940,153	13,154,998	15,710,772	(3,049,364)	12,661,408
Write off	(5,978,045)	-	(5,978,045)	(20,860,841)	-	(20,860,841)
Closing balance	4,145,513	9,220,294	13,365,807	908,713	5,280,141	6,188,854

Note **2021** 2020
 -----Rupees-----

11.3 Particulars of write offs:

Against provision	11.2	5,978,045	20,860,841
Directly charged to profit and loss account	11.3.1	2,296,714	1,455,012
		8,274,759	22,315,853

11.3.1 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
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12 OPERATING FIXED ASSETS

Property and Equipment
Intangible Assets
Right of Use Assets

Note	2021	2020
	-----Rupees-----	
12.1	17,257,492	19,261,522
12.2	2,397,392	2,769,336
12.3	68,690,449	30,102,789
	<u>88,345,333</u>	<u>52,133,647</u>

12.1 Property and Equipment

	COST				ACCUMULATED DEPRECIATION				Net book value at Dec 31, 2021	Rate of Depreciation
	As at Jan 1, 2021	Additions	On Disposal / transfer	As at Dec 31, 2021	As at Jan 1, 2021	Charge for the year	On Disposal / transfer	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%
Total	<u>27,910,660</u>	<u>2,869,797</u>	<u>-</u>	<u>30,780,457</u>	<u>8,649,138</u>	<u>4,873,827</u>	<u>-</u>	<u>13,522,965</u>	<u>17,257,492</u>	

	COST				ACCUMULATED DEPRECIATION				Net book value at Dec 31, 2020	Rate of Depreciation
	As at Jan 1, 2020	Additions	Disposals / transfers	As at Dec 31, 2020	As at Jan 1, 2020	Charge for the year	On Disposals / transfers	As at Dec 31, 2020		
	-----Rupees-----									
Office equipment	15,215,374	2,815,520	(2,473,095)	15,557,799	5,377,079	2,955,319	(1,282,197)	7,050,201	8,507,598	20%
Office improvement	2,600,649	889,442	(283,087)	3,207,004	240,863	43,460	93,348	377,671	2,829,333	5%
Furniture and fixture	1,323,983	-	1,393,374	2,717,357	332,135	252,416	226,724	811,275	1,906,082	10%
Vehicles	2,457,500	6,428,500	(2,457,500)	6,428,500	2,257,199	610,292	(2,457,500)	409,991	6,018,509	20%
Total	<u>21,597,506</u>	<u>10,133,462</u>	<u>(3,820,308)</u>	<u>27,910,660</u>	<u>8,207,275</u>	<u>3,861,487</u>	<u>(3,419,625)</u>	<u>8,649,138</u>	<u>19,261,522</u>	

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12.2 Intangible assets

	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	<u>5,833,753</u>	<u>551,490</u>	<u>6,385,243</u>	<u>3,064,417</u>	<u>923,434</u>	<u>3,987,851</u>	<u>2,397,392</u>	

	COST			ACCUMULATED AMORTIZATION			Net book value at Dec 31, 2020	Rate of amortization
	As at Jan 1, 2020	Additions	As at Dec 31, 2020	As at Jan 1, 2020	Amortization	As at Dec 31, 2020		
	-----Rupees-----							
Software	5,249,953	583,800	5,833,753	2,001,712	1,062,705	3,064,417	2,769,336	20%
Total	<u>5,249,953</u>	<u>583,800</u>	<u>5,833,753</u>	<u>2,001,712</u>	<u>1,062,705</u>	<u>3,064,417</u>	<u>2,769,336</u>	

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	2021	2020
		-----Rupees-----	
Balance as at initial application i.e. January 01, 2021		30,102,789	36,139,973
Additions during the year			9,014,210
Remeasurement ROUA		52,938,136	-
Depreciation expense charged for the year	22	(14,350,476)	(15,051,394)
Right of use assets (ROUA) - as of December 31, 2021		<u>68,690,449</u>	<u>30,102,789</u>

12.4 Cost of fully depreciated property and equipment that are still in use is Rs. 2,983,019 (2020: Rs. 118,751)

12.5 Detail of disposals of operating fixed assets 2021 - Nil.

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For the year ended December 31, 2021

	2021	2020
	-----Rupees-----	
13 OTHER ASSETS		
Income/ mark-up accrued on advances	61,158,246	28,589,637
Profit receivable on TDR's	619,178	48,521,918
Advances, prepayments and deposits	13,580,060	12,819,146
Advance tax - net of provision	24,847,461	14,423,170
	<u>100,204,945</u>	<u>104,353,871</u>

14 DEFERRED TAX ASSETS

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

- Provision against advances and other assets
- Employee benefit
- Lease finance facility

3,876,084	1,794,768
1,476,303	3,648,548
16,356,404	7,843,957
<u>21,708,791</u>	<u>13,287,273</u>

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

- Operating fixed assets
- Right to use assets
- " Intangible assets

(865,444)	(905,203)
(19,561,887)	(8,729,809)
(28,452)	(195,861)
<u>(20,455,783)</u>	<u>(9,830,873)</u>
<u>1,253,008</u>	<u>3,456,400</u>

Net deferred tax assets / (liabilities)

15 DEPOSITS AND OTHER ACCOUNTS

Note

	2021		2020	
	Number of accounts	Amount outstanding (Rupees)	Number of accounts	Amount outstanding (Rupees)
Current deposits	11	124,633	10	298,424
Fixed Deposit	15.2	1	1	120,000,000
Savings deposits	15.3	103,094	81,977	19,041,475
		<u>103,106</u>	<u>81,988</u>	<u>139,339,899</u>

15.1 Particulars of deposits by ownership

1) Individual depositors	103,105	21,006,214	81,987	19,339,899
2) Institutional depositors				
a) Corporation/firms	-	-	-	-
b) Banks/financial institution	1	250,016,578	1	120,000,000
	<u>103,106</u>	<u>271,022,792</u>	<u>81,988</u>	<u>139,339,899</u>

15.2 This representative term deposits having tenure of 06 months (2020: 01 month) carrying interest rate 13% (2020: 11.10%) per annum.

15.3 These are remunerative saving deposits of corporate and individual clients carrying interest rate of 8.00% to 13.25% per annum (2020: 8% to 13.25%).

16 BORROWINGS

Note

	2021	2020
	-----Rupees-----	
Borrowings from State Bank of Pakistan	750,000,000	750,000,000
	<u>750,000,000</u>	<u>750,000,000</u>

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Sindh Microfinance Bank Limited
Notes to the Financial Statements
For the year ended December 31, 2021

- 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.

	Note	2021	2020
		-----Rupees-----	
17 OTHER LIABILITIES			
Mark-up/Return/ Interest payable		27,181,307	24,119,290
Audit fee payable		645,000	350,000
EOBI payable		189,263	200,993
Withholding tax payable		573,874	553,842
Employees provident fund payable		928,520	834,524
Gratuity payable	17.1	5,095,699	12,581,199
Other payable		3,971,817	7,022,192
Lease liability against right of use assets	17.2	56,401,393	21,486,938
		94,986,876	67,148,978

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 243.

	Note	2021	2020
		-----Rupees-----	
Opening balance		12,581,199	8,591,867
Charge for the year in P&L	17.1.4	4,345,664	4,664,723
Charge for the year in OCI	17.1.4	750,035	(675,391)
Contributions		(12,581,199)	-
Closing balance		5,095,699	12,581,199

17.1.1 Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on 31 December 2021 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

	2021	2020
	-----Rupees-----	
Discount rate used for interest cost in P&L charge	9.75%	11.25%
Discount rate used for year end obligation	11.75%	9.75%
Salary increase used for year end obligation	-	-
Salary increase FY2021	10.75%	8.75%
Salary increase FY2022	10.75%	8.75%
Salary increase FY2023	10.75%	8.75%
Next salary is increased at	01-Jan-22	01-Jan-21
Mortality rates	SLIC	SLIC
	2001 - 2005	2001 - 2005
Withdrawal rates	Age-Based	Age-Based
Retirement assumption	Age 60	Age 60

17.1.2 Statement of financial position

Present value of defined benefit obligation payable	5,095,699	12,581,199
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Sindh Microfinance Bank Limited
Notes to the Financial Statements
For the year ended December 31, 2021

	Note	2021	2020
		-----Rupees-----	
17.1.3 Changes in present value of defined benefit obligations			
Present value of defined benefit obligation		11,133,263	8,591,867
Current service cost	17.1.4	3,885,187	3,779,584
Past service cost (credit)		-	-
Interest cost on defined benefit obligation	17.1.4	1,056,303	885,139
Benefits due but not paid (payables)		(239,642)	(1,447,936)
Benefits paid		(359,130)	-
Remeasurements:			
Actuarial gains from changes in financial assumptions		97,895	(49,958)
Experience adjustments		398,892	(625,433)
		496,787	(675,391)
Present value of defined benefit obligation		15,972,768	11,133,263
17.1.4 Expenses to be charged to P&L			
Current service cost		3,885,187	3,779,584
Past service cost (credit)		1,056,303	-
Interest cost on defined benefit obligation		(595,826)	885,139
Expense chargeable to P&L		4,345,664	4,664,723
Total remeasurements chargeable in other comprehensive income			
Remeasurement of plan obligation:			
Actuarial gains from changes in financial assumptions		97,895	(49,958)
Experience adjustments		398,892	(625,433)
Total remeasurements chargeable in other comprehensive income		496,787	(675,391)
		253,248	-
		750,035	(675,391)
17.1.6 Changes in net liability			
Balance sheet liability		12,581,199	8,591,867
Expense chargeable to P&L		4,345,664	4,664,723
Remeasurements chargeable in other comprehensive income		750,035	(675,391)
Benefits paid		(12,581,199)	-
Benefits payable transferred to short term liability		-	-
Balance sheet liability		5,095,699	12,581,199

17.1.7 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:

	2021	2020
	-----Rupees-----	
Discount rate effect		
Discount rate + 100 bps	15,049,580	10,468,017
Discount rate - 100 bps	17,026,442	11,888,816
Salary increase + 100 bps	17,067,801	11,916,095
Salary increase - 100 bps	14,995,459	10,430,509
Expected benefit payments for next financial year - 2022	1,950,432	993,693

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Sindh Microfinance Bank Limited
Notes to the Financial Statements
For the year ended December 31, 2021

	Note	2021	2020
		-----Rupees-----	
17.2 Lease liability against right of use assets			
Lease liabilities included in the statement of financial position As at December 31, 2021		<u>56,401,393</u>	<u>21,486,938</u>
Of which are:			
Current lease liability		56,401,393	21,486,938
Non-current lease liability		<u>-</u>	<u>-</u>
		<u>56,401,393</u>	<u>21,486,938</u>
17.2.1 Movement in lease liability against right to use assets			
Balance as at initial application i.e. January 01, 2020		21,486,937	29,722,599
Additions during the year		-	9,014,210
Remeasurment		63,572,433	-
Interest expense charged for the year	21	6,515,986	2,982,435
Prepaid Rent		(17,639,404)	(20,232,307)
Lease rentals paid in advance		<u>(17,534,559)</u>	<u>-</u>
		<u>56,401,393</u>	<u>21,486,937</u>
18 SHARE CAPITAL			
Authorized share capital			
2021	2020	2021	2020
-----No. of Shares-----		-----Rupees-----	
<u>200,000,000</u>	<u>200,000,000</u>	<u>2,000,000,000</u>	<u>2,000,000,000</u>
Issued, subscribed and paid-up share capital			
2021	2020	2021	2020
-----No. of Shares-----		-----Rupees-----	
<u>75,000,000</u>	<u>75,000,000</u>	<u>750,000,000</u>	<u>750,000,000</u>
	Ordinary shares of Rs. 10 each fully paid in cash		
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			
		2021	2020
		-----Rupees-----	
On:			
- Advances		252,827,657	241,278,591
- Deposits / Placements with Banks /MFB etc.		91,577,730	119,205,188
- Investment in Federal Government securities T-Bills		82,800	909,638
- Staff loans		978,817	749,138
		<u>345,467,004</u>	<u>362,142,555</u>

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Sindh Microfinance Bank Limited
Notes to the Financial Statements
For the year ended December 31, 2021

	Note	2021	2020
		-----Rupees-----	
21 MARK-UP / RETURN / INTEREST EXPENSED			
On:			
- Deposits		3,556,443	3,298,434
- Leased liability		6,515,986	2,982,435
- Borrowings		51,728,186	73,336,089
		<u>61,800,615</u>	<u>79,616,958</u>
22 ADMINISTRATIVE EXPENSES			
Salaries, wages and other allowances etc.		154,324,780	134,012,006
Contribution to defined contribution plan		5,465,808	4,875,328
Gratuity expense	17.1	4,345,664	4,664,723
Staff welfare		849,613	654,640
Directors' fee		570,000	275,000
Printing and stationery		1,835,283	1,594,714
Communication		3,753,216	3,862,950
Office supplies		53,210	110,675
Travelling and conveyance		4,283,769	3,755,649
Insurance		3,239,206	2,891,538
Training and development		560,930	397,901
Utilities		4,520,949	3,563,467
Branch setup cost		719,754	765,275
Advertisement & publicity		323,180	190,000
Depreciation	12.1	4,873,827	3,861,487
Amortization	12.2	923,434	1,062,705
Depreciation expense on lease assets	12.3	14,350,476	15,051,394
Auditor's remuneration	22.1	728,820	649,360
Bank charges		1,903,811	1,826,778
Repair & maintenance Exp		1,498,320	1,098,645
Office cleaning and maintenance		901,838	583,926
Legal and professional fee		144,000	276,497
Fee and subscription		6,406,897	7,126,394
IT equipment and software maintenance		4,614,642	3,488,048
Others		1,211,965	1,244,767
		<u>222,403,392</u>	<u>197,883,867</u>
22.1 Auditors' remuneration			
Provident fund		37,800	30,000
Half yearly review fee		137,500	125,000
Yearly Audit fee		385,000	350,000
Certification fee		61,500	61,500
Public sector code of corporate governance - report fee		38,500	38,500
Out of pocket and others		68,520	44,360
		<u>728,820</u>	<u>649,360</u>
23 OTHER CHARGES			
Loss on scrapping of fixed assets	12.3	-	400,683

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Sindh Microfinance Bank Limited
Notes to the Financial Statements
For the year ended December 31, 2021

	2021	2020
	-----Rupees-----	
24 TAXATION		
For the year		
- current	16,261,018	16,587,840
- deferred	2,203,392	3,040,844
	18,464,410	19,628,684
For the prior year's		
- current	-	(2,188,538)
- deferred	-	-
	-	(2,188,538)
	18,464,410	17,440,146

24.1 Relationship between tax expense and accounting profit

Profit before tax	45,811,285	70,124,627
Tax at the tax rate of 29%	13,285,273	20,336,142
Effects of:		
- prior year	-	(2,188,538)
- reduce rate difference	-	-
- others	5,179,137	(707,458)
Tax expense	18,464,410	17,440,146

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.

		2021	2020
		-----Rupees-----	
25.1 Profit for the year	A	27,346,875	52,684,481
		(Number)	(Number)
Weighted average ordinary shares	B	75,000,000	75,000,000
		-----Rupees-----	
Earnings per share	A/B	0.36	0.70

Diluted

There is no dilution effect on the basic earnings per share of the Bank as on December 31, 2021 (2020: Nil).

		2021	2020
		-----Rupees-----	
26 CASH AND CASH EQUIVALENTS			
Cash in hand	8	763,708	1,020,493
Cash and balances with SBP and NBP	8	22,135,614	18,235,198
Balances with other banks	9	452,604,262	478,301,018
Investment - net of provisions		450,000,000	250,000,000
		925,503,584	747,556,709

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27 NUMBER OF EMPLOYEES

	Credit /Sales Staff	Banking Staff	Total
2021	-----Number-----		
Permanent	155	99	254
Contractual	97	-	97
Total number of employees	<u>252</u>	<u>99</u>	<u>351</u>
2020	Credit /Sales Staff	Banking Staff	Total
	-----Number-----		
Permanent	205	122	327
Contractual	54	1	55
Total number of employees	<u>259</u>	<u>123</u>	<u>382</u>
	2021	2020	
Average number of employees during the year	<u>367</u>	<u>381</u>	

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	2021 (Rupees)	2020 (Rupees)
-Sindh Bank Limited	Parent Company			
(Highest balance during the year)				
Deposits in daily Saving account			47,352,986	75,049,927
Rent Payable			-	37,500
Balances outstanding as at December 31,				
Deposits in daily saving account			36,751,419	75,049,927
Rent payable			-	37,500
Loan to Employess	key management Personnel	11	26,955,964	29,432,947
Sindh Insurance Limited	Associates			
Premium payable			-	1,516,599
Deposit of	key management Personnel		5,507	2,007
relative of a key				
Transactions with related party				
-Sindh Bank Limited	Parent Company			
Mark-up / return / interest earned			1,493,138	2,381,152
Bank Charges			103,603	38,986
Sindh Insurance Limited	Associates			
Insurance premium paid			1,963,491	817,268
Sale of vehicle	key management Personnel	12.5	-	1
Provision for Gratuity	key management Personnel	17.1	4,345,664	4,664,723
Interest on Loan to Employess	key management Personnel	20	978,817	749,138
Contribution to	key management Personnel	22	5,465,808	4,875,328
Provident fund				

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Sindh Microfinance Bank Limited
Notes to the Financial Statements
For the year ended December 31, 2021

	2021	2020
	-----Numbers-----	
29 NUMBER OF BRANCHES		
At the beginning of the year	17	17
Opened during the year	1	-
Closed during the year	0	-
	<u>18</u>	<u>17</u>
30 NUMBER OF SERVICE CENTERS		
At the beginning of the year	58	58
Opened during the year	6	-
Closed during the year	-2	-
	<u>62</u>	<u>58</u>

31 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

	2021			2020		
	Rupees			Rupees		
	CEO	Director	Executives	CEO	Director	Executive
-Managerial remuneration	9,239,105	-	9,851,433	9,104,555	-	7,953,290
-House rent allowance	4,157,597		4,433,145	4,097,050	-	3,578,981
-Medical allowance	923,910		985,143	910,455	-	795,329
-Utilities allowance	923,910		985,143	910,455	-	795,329
-Contribution to PF	923,910	-	985,143	910,455	-	795,329
-Directors fee	-	570,000	0	-	225,000	-
-Bonus	1,539,851	-	1,436,636	1,495,001	-	1,288,458
-Others	-	60,000	-	-	50,000	-
	<u>17,708,283</u>	<u>630,000</u>	<u>18,676,643</u>	<u>17,427,971</u>	<u>275,000</u>	<u>15,206,716</u>
Number of persons at year end	<u>1</u>	<u>4</u>	<u>8</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.

	2021 (un-audited)	2020 (audited)
	-----Rupees-----	

32 DEFINED CONTRIBUTION PLAN

32.1 Disclosures relating to Provident fund

Size of the fund	36,455,407	26,326,439
Cost of the investments made	-	-
Percentage of investments made	0%	0%
Fair value of investments	-	14,064,653
Break-up of investments		
TDR's	-	-
Government securities – T-Bills	-	-
Receivable from Sindh Microfinance Bank Limited	928,520	834,524
Bank balances	35,526,887	25,491,915
	<u>36,455,407</u>	<u>26,326,439</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.

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 is 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.

		Interest bearing / exposed to yield / interest risk						Non interest bearing / not exposed to yield / interest risk							
		Note	Effective yield / interest rate	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	Total	
2021			%							-Rupees					
Financial assets															
Cash and balances with SBP and I	8			4,713,354	-	-	-	4,713,354	18,185,968	-	-	-	18,185,968	22,899,322	
Balances with other banks	9	5.5 - 10.75		439,565,216	-	-	-	439,565,216	13,039,046	-	-	-	13,039,046	452,604,262	
Investment - net of provisions	10	9.85 - 14.40		-	475,585,381	-	-	475,585,381	-	-	-	-	-	475,585,381	
Advances	11	34.00		143,084,464	574,162,618	225,677,589	19,481,367	962,406,038	-	-	-	-	-	962,406,038	
Other assets	13			61,158,246	619,178	-	-	61,777,424	-	-	13,580,060	114,445,802	128,025,862	189,803,286	
				648,521,280	1,050,367,177	225,677,589	19,481,367	1,944,047,413	31,225,014	-	13,580,060	114,445,802	159,250,876	2,103,298,289	
Off statement of financial position				-	-	-	-	-	-	-	-	-	-	-	
Total				648,521,280	1,050,367,177	225,677,589	19,481,367	1,944,047,413	31,225,014	-	13,580,060	114,445,802	159,250,876	2,103,298,289	
Financial liabilities															
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	
Off statement of financial position				-	-	-	-	-	-	-	-	-	-	-	
Total				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	
On statement of financial position gap				646,031,121	800,367,177	221,677,589	(744,926,633)	923,149,254	(1,744,400)	(645,000)	12,586,364	53,942,406	64,139,370	987,288,624	
Off statement of financial position gap				-	-	-	-	-	-	-	-	-	-	-	

Sindh Microfinance Bank Limited
Notes to the Financial Statements
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2020	Note	Interest bearing / exposed to yield / interest risk					Non interest bearing / not exposed to yield / interest risk					Sub total	Total
		Effective yield / interest rate	Up to one month	Over one month up to six months	Over six months up to one year	Over one year	Up to one month	Over one month up to six months	Over six months up to one year	Over one year			
		%						Rupees					
Financial assets													
Cash and balances with SBP and 1	8		4,613,586	-	-	-	4,613,586	14,642,105	-	-	-	14,642,105	19,255,691
Balances with other banks	9	5.5 - 10.75	462,699,306	-	-	-	462,699,306	15,601,712	-	-	-	15,601,712	478,301,018
Investment - net of provisions	10	9.85 - 14.40	212,933,096	475,000,000	-	-	687,933,096	-	-	-	-	-	687,933,096
Advances	11	34	125,655,523	255,154,543	153,180,636	26,003,975	559,994,677	-	-	-	-	-	559,994,677
Other assets	13		28,589,637	48,521,918	-	-	77,111,555	-	-	12,819,146	70,013,217	82,832,363	159,943,918
			834,491,148	778,676,461	153,180,636	26,003,975	1,792,352,220	30,243,817	-	12,819,146	65,726,815	108,789,778	1,905,428,400
Off statement of financial position			-	-	-	-	-	-	-	-	-	-	-
Total			834,491,148	778,676,461	153,180,636	26,003,975	1,792,352,220	30,243,817	-	12,819,146	65,726,815	108,789,778	1,905,428,400
Financial liabilities													
Deposits and other accounts	15	8 - 13.25	123,150,212	-	1,483,263	14,408,000	139,041,475	298,424	-	-	-	298,424	139,339,899
Borrowings	16	6.24 - 14.49	-	-	-	750,000,000	750,000,000	-	-	-	-	-	750,000,000
Other liabilities	17		-	-	993,693	11,587,506	12,581,199	32,730,841	350,000	-	21,486,938	54,567,779	67,148,978
			123,150,212	-	2,476,956	775,995,506	901,622,674	33,029,265	350,000	-	21,486,938	54,866,203	956,488,877
Off statement of financial position			-	-	-	-	-	-	-	-	-	-	-
Total			123,150,212	-	2,476,956	775,995,506	901,622,674	33,029,265	350,000	-	21,486,938	54,866,203	956,488,877
On statement of financial position gap			711,340,936	778,676,461	150,703,680	(749,991,531)	890,729,546	(2,785,448)	(350,000)	12,819,146	44,239,877	53,923,575	948,939,523
Off statement of financial position gap			-	-	-	0	0	0	0	0	0	0	0

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	2021 -----Rupees-----	2020
Bank balances	8 & 9	457,317,616	482,914,604
Advances - Net of Provisions	11	944,464,927	553,805,824
Investment - Net of Provisions	10.2	450,000,000	675,000,000
Other Assets	13	75,357,484	89,930,701
		<u>1,927,140,027</u>	<u>1,801,651,129</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:

2021	Effective yield / interest rate	Upto one year	Over one year	Total
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
		<u>290,524,395</u>	<u>824,911,396</u>	<u>1,115,435,791</u>
2020				
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>

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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	2021 -----Rupees-----	2020
Net financial assets	33.1	<u><u>923,149,254</u></u>	<u><u>890,729,546</u></u>
Effect on profit and loss account			
Interest rate + 100 bps		<u><u>9,231,493</u></u>	<u><u>8,907,295</u></u>
Interest rate - 100 bps		<u><u>(9,231,493)</u></u>	<u><u>(8,907,295)</u></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

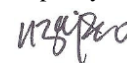
Currently, no financial instruments are classified in level 2.

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



34 MATURITIES OF ASSETS AND LIABILITIES

2021	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
-----Rupees-----					
Market rate assets					
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	-	-
Total market rate assets	1,944,047,413	648,521,280	1,050,367,177	225,677,589	19,481,367
Other non-earning assets	159,250,876	31,225,014	-	13,580,060	114,445,802
Total assets	2,103,298,289	679,746,294	1,050,367,177	239,257,649	133,927,169
	-				
Market rate liabilities					
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	-	-	-	-	-
Total market rate liabilities	770,398,117	1,990,117	-	4,000,000	764,408,000
Other non- cost bearing liabilities	95,111,506	32,969,414	645,000	993,696	60,503,396
Total liabilities	865,509,623	34,959,531	645,000	4,993,696	824,911,396
2020	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
-----Rupees-----					
Market rate assets					
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	-	-
Total market rate assets	1,792,352,220	834,491,148	778,676,461	153,180,636	26,003,975
Other non-earning assets	108,789,778	30,243,817	-	12,819,146	65,726,815
Total assets	1,901,141,998	864,734,965	778,676,461	165,999,782	91,730,790
	-				
Market rate liabilities					
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
Total market rate liabilities	901,622,674	123,150,212	1,483,263	993,693	775,995,506
Other non- cost bearing liabilities	54,866,203	33,029,265	350,000	-	21,486,938
Total liabilities	956,488,877	156,179,477	1,833,263	993,693	797,482,444

12/28/20

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, 2021, the paid up share capital of the Bank stood at Rs. 750 million (2020: 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, 2021, the Bank's Capital adequacy ratio (CAR) is approximately 73.34% (2020: 98.30%) 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.

12/3/20

36 COMPARATIVE FIGURES

Items presented in the statement of financial position as at December 31, 2021 have been reclassified to conform to current year's presentation.

	Note	Before classification	Reclassification	After classification
-----Rupees-----				
Balances With Other Banks/NBFIs/MFBs				
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 _____ by the Board of Directors of the Bank.

msp

President & Chief Executive

Chief Financial Officer

Chairman

Director

Director