

Directors' Report



On behalf of the Board of Directors, I am pleased to present the Directors' Report and the audited Financial Statements of Sindh Microfinance Bank Limited (SMFB) for the year ended December 31, 2018. The year 2018 was the second complete year of operations for the Bank and despite challenges, the Bank has shown consistent and commendable progress compared to last year.

To date the Bank has disbursed approximately Rs. 1.5 billion in loans to more than 65,000 women and it is on the correct path to achieving its mission to reduce social and economic poverty by creating opportunities for low income households especially women through cost effective and financially sustainable products and services. In accordance with its mission, during the year the Bank added Livestock Loans to its suite of products. These are small loans for underprivileged women who are engaged in Livestock related activities in Sindh.

During the year SMFB increased its network of branches and service centers from 50 locations in 2017 to 60 locations in various underprivileged areas of Sindh. These locations have been set up to cater micro-credit services to low income households in these jurisdictions.

Overall the Bank increased its total assets from Rs. 0.8 Billion to Rs. 1.0 Billion representing an increase of 25% over 2017. Net equity also grew from Rs. 799 million in 2017 to Rs. 837 million in 2018 which is an increase of 5% over 2017. Gross Loan portfolio of the Bank reached Rs. 590 million (2017: 342 million) which is an increase of 73% over the preceding year.

Most microfinance banks suffer losses in their first years of operations, however SMFB was able to plan for sustainability and achieve organic sustainable growth while maintaining a very low client delinquency ratio i.e. 0.4%. The Bank has grown in terms of outreach in location and clients all the while maintaining a near 20% Net Profit Margin.

Financial Results	2018	2017
Rupees.....	
Net Interest Income	197,697,902	116,468,554
Non Interest Expenses	(145,735,309)	(85,524,686)
Profit Before Taxation	51,962,595	30,953,593
Less Taxation	(13,878,574)	(9,228,250)
Profit after Tax	38,084,021	21,725,343
Earnings per share	0.51	0.29

Future Outlook

The Bank plans to continue its expansion in the Province in Sindh during the year 2019 and grow its portfolio in a sustainable and profitable manner and initiate process to upgrade Bank's operations to National Level.

However, in 2020 it is envisaged that the Bank after obtaining license for National level expand its network across Pakistan so that its services to the low income and underprivileged women are available in all major cities and most rural towns.

In order to fund this expansion, the Bank will need to increase its equity, leverage on borrowings from correspondent banks and international impact funds in addition to focusing on deposit mobilization.

During the year 2018, the Bank applied to the State Bank of Pakistan for its Line of Credit Fund and the State Bank approved Rs. 750 million for on-lending purposes.

Efforts are also underway by the management of the Bank to procure funding from corresponding local banks and International Impact Funds. On the deposit side, the Bank plans to introduce customer friendly small deposit products and employ a business development team in order to develop the liability side of the Bank.

Transfer to Reserves

As per the requirements of Microfinance Institution Ordinance, 2001 and the Prudential Regulations for Microfinance Banks issued by the State Bank of Pakistan, the Bank has transferred an amount equivalent to 20% of profit after tax to the statutory reserve (Rs.7.6 million) and 5% of profit after tax to the Depositors' Protection Fund (Rs. 1.9 million) during 2018.

Capital Adequacy Ratio

The Banks Capital Adequacy Ratio as on Balance Sheet date stood at 115% as of December 31, 2018 compared to 170% as at the end of 31 December 2017. The high capital adequacy ratio of the Bank is due to low leveraging and under investment in gross loan portfolio which is typical of any startup Bank.

Change in Composition in Board of Directors

Casual vacancy of Ms. Masooma Hussain occurred after her resignation as nominee Director during the 2nd quarter of the year. The vacancy was filled in the month of August 2018.

Meetings of the Board

SMFB Board met four times during the year and the detail of the attendance are as follows:

S. No.	Name	Gender	Position	Meetings Attended
1	Shamsuddin Khan	Male	Chairman/Non-Executive Director	4
2	Naila Masood	Female	Independent Director	4
3	Masooma Hussain	Female	Non-Executive Director	1
4	Liaquat Ali	Male	Independent Director	4
5	Farooq Ahmed	Male	Independent Director	4
6	Dr. Noor Mohammad Soomro	Male	Non-Executive Director	3
7	Abdul Rauf Chandio	Male	Non-Executive Director	0
8	Shoab Arif	Male	Executive Director	4

Audit Committee

The Audit Committee consists of two independent directors namely, Mr. Liaquat Ali and Mr. Farooq Ahmed and one non-executive director Dr. Noor Mohammad Soomro.

Holding Company

Sindh Bank Limited with a holding of 99.99% shares is the holding company of Sindh Microfinance Bank Limited.

Auditors

The present auditor Messrs. Grant Thornton Anjum Rehman Chartered Accountants stand retired and are eligible for re-appointment in the forthcoming Annual General Meeting.

Credit Rating

Pakistan Credit Rating Agency (PACRA) has assigned a long term rating of "A-" and short term rating of "A2" with Stable outlook to Sindh Microfinance Bank. These ratings denote low expectation of credit risk and strong capacity for timely payment of financial commitments.

Pattern of Shareholding

The pattern of Shareholding of the bank as at December 31, 2018 as required under sub section 4(i) of section 17 of the Public Sector Companies Rules 2017 is as follows:

No. of Shareholders	Shareholders (s)	No. of Shares	% Shareholding
7	SMFB Board of Directors	7	Less than 0.001%
1	Sindh Bank Ltd	74,999,993	99.99%
8		75,000,000	100%

Financial Highlights of prior years

Key performance highlights of prior years are summarized and annexed to this report.

Earnings Per Share

Earnings per share of the bank for the year ended 2018 was Rs. 0.51 compared to Rs. 0.29 as at end of year 2017.

Employee Benefits Schemes

Value of investments including accrued income of provident and gratuity funds as at December 31, 2018 on the basis of their respective financial statements are:

Recognized Provident Fund (un-audited)	Rs. 8,887,197
Gratuity Fund (un-audited)	Rs. 5,246,750

Environmental and Corporate Social Responsibility

The Bank places great importance to its obligations relating to the environment and social responsibilities. For every loan disbursed in the low income communities our loan officers engage in a training session on cleanliness, taking care of environment, planting of trees, not to engage in using tobacco and associated drugs, encouraging clients to send children to school and prohibition of under-age marriages to mention a few.

In addition to the above, the Bank also has a list prohibitive activities which is in compliance with the SMART Campaign for microfinance institutions.

The Board of Directors also approved an Environment and Social Policy for Bank in August 2018

Risk Management

The Bank has developed a comprehensive Risk and control framework to identify and manage key risk areas faced by the Bank and has a functioning independent Risk Department.

During the year 2018, certain areas of Tharparkar were designated as 'drought affected areas' by the Government of Sindh and hence all financial institutions were requested by the Regulator to engage in a restructuring exercise for the portfolio affected by draught in these areas.

The Bank is actively managing the portfolio affected by draught with more stringent monitoring and controls.

Corporate Governance

The Board of Directors of the Bank is responsible to the shareholders for the management of the Bank. It acknowledges the responsibility for the system of sound internal controls and is committed to uphold the highest standards of Corporate Governance.

Statement of Corporate Governance

The Directors are pleased to state that:

- a) The financial statements, prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- b) Proper books of account of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act 2017, the requirements of the Companies Act 2017, the Microfinance Institutions Ordinance, 2001 and the regulations / directives issued by the SECP and SBP. Wherever the requirements of the Companies Act 2017, the Microfinance Institutions Ordinance, 2001 or the regulations / directives issued by the SECP and SBP differ with the requirements of IFRSs, the requirements of the Companies Act 2017, the Microfinance Institutions Ordinance, 2001 or the requirements of the said regulations / directives shall prevail.
- e) The system of internal control is sound in design and has been effectively implemented and monitored. The ultimate responsibility of the effectiveness of internal control system and its monitoring lies with the Board. An Audit Committee has been formed for the purpose that meets periodically and independently throughout the year with the management and also the internal and external auditors to discuss the effectiveness of internal control system and other financial reporting matters. In addition, there are financial forecasts and budgetary control procedures in place, which are reviewed and monitored throughout the year to indicate and evaluate the variances from the budget.
- f) There are no significant doubts upon the bank's ability to continue as a going concern.

Appreciation & Acknowledgment

We take this opportunity to express our gratitude to our customers and business partners for their continued support and trust. We offer sincere appreciation to the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their guidance and co-operation extended to the bank. Finally, we are also thankful to our Parent Company Sindh Bank and especially staff and colleagues for their committed services provided to our valued customers.

On behalf of the Board of Directors:



President / Chief Executive

Place: Karachi

Dated: February 20, 2019

Chairman's Review



SINDH MICROFINANCE BANK LTD
سندھ مائیکرو فنانانس بینک لمیٹڈ

It is my pleasure to present this report and the performance of the Bank and its Board for the year ended December 31, 2018. As an upcoming microfinance bank its performance is admirable in terms of the outreach achieved, network expansion and profitability. The Bank is now spread all over Sindh via its sixty service locations and has served more than 65,000 women entrepreneurs and is aiming to expand its outreach further in the ensuing years.

The Board has reviewed the audited Annual Financial Statements of the Bank for the year ended December 31, 2018, and is pleased to confirm that in its view the financial statements of the Bank represent a true and fair view of the financial position and performance of the Bank.

A strong corporate governance framework is at the core of any financial institution's sustained performance, reputation and sustainability. The Board of SMFB places great importance on a culture that ensures integrity, ethical values, and respect for regulations along with an unwavering commitment towards the mission of the bank to reduce social and economic poverty by creating opportunities for low income households especially women through cost effective and financially sustainable products and services.

The Board of Directors is composed of seven directors of which six are Non-Executive and three are Non-Executive and Independent Directors. We are also proud to have a female member on the Board. The Board carries out a review of its performance each year after the closure of the financial year, on a self-assessment basis. The overall performance of the Board was assessed as satisfactory.

During the year the Board also reviewed and approved a number of policies which included Compliance Program, Fraud Prevention Policy, Amendment to KYC/AML policy, Safety, Health and Environment policy, Outsourcing Policy, Expenditure Control Policy, Liquidity Management Policy, Revision of Risk Management Policy, HR, Grievance/Complaint Handling policy, Environmental and Social Risk Management Policy, Donation Policy, Communication Policy, Fair Debt Collection Policy, Procurement & Disposal Policy, Revision of Audit Policy and Manual, Succession Plan and Anti- Sexual Harassment Policy.

The Board has also constituted the following Committees and during the year these Committees performed as designated by the Board:

- The Audit Committee focused on improvement of internal controls of the Bank and follow up of the external audit and internal audit observations and recommendations
- The Risk Committee of the Bank engaged in review and approval of the Risk Management Policy of the Bank and review of risk identification and compliance structure of the Bank on an ongoing basis.
- The Human Resource and Remuneration Committee ensured that the HR policies were adhered to.
- The Nominations Committee along with evaluating the Board's performance and the Bank's compliance with corporate governance regulations recommended on timely basis relevant appointments to the Board in order to fill casual vacancies during the year.
- The Procurement Committee oversaw material procurements of the Bank and ensured that the Bank's procurement rules were adhered to and the Sindh Public Procurement Rules, 2010 were followed to the extent of their applicability on SMFB.

On an overall basis, I believe that the Bank is on the correct strategic path and is developing in a sustainable manner. On behalf of SMFB I would like to acknowledge the contribution of all our employees in the success of the Bank and the Regulators for their guidance and support for this institution.

Shamsuddin Khan
Chairman of the Board

Financial Statements and Auditors' report
Sindh Microfinance Bank Limited

For the year ended December 31, 2018



Grant Thornton

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

Report on the audit of the financial statements

Opinion

We have audited the annexed financial statements of **Sindh Microfinance Bank Limited** (the Bank), which comprise the statement of financial position as at December 31, 2018, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows 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 statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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, 2018 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 (the Code) as adopted by the Institute of Chartered Accountants of Pakistan 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 information included in the Annual Report but does not include the financial statement and our auditor's report thereon.

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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, 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 Companies Act, 2017 (XIX of 2017) and the Microfinance Institutions Ordinance, 2001, 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.

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; and
- 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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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) and the Microfinance Institutions Ordinance, 2001;
- b) the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and the Microfinance Institutions Ordinance, 2001 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 **Muhammad Shaukat Naseeb**.


Grant Thornton Anjum Rahman

Karachi

Date: February 20, 2019

Sindh Microfinance Bank Limited

Financial Statements

For the year ended December 31, 2018

SINDH MICROFINANCE BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Note	2018 -----Rupees-----	2017
ASSETS			
Cash and balances with SBP and NBP	8	13,416,112	1,005,398
Balances with other banks	9	255,910,462	23,921,212
Lending to financial institutions		-	-
Investment - net of provisions	10	100,000,000	400,000,000
Advances - net of provisions	11	583,101,762	338,388,828
Operating fixed assets	12	14,345,797	9,012,416
Other assets	13	36,679,795	31,577,415
Deferred tax asset-net		-	-
Total assets		1,003,453,928	803,905,269
LIABILITIES			
Deposits and other accounts	14	77,769,113	1,373,112
Borrowings	15	76,522,815	-
Subordinated debt		-	-
Other liabilities	16	11,175,708	2,729,942
Deferred tax liabilities-net	17	503,589	403,533
Total liabilities		165,971,225	4,506,587
NET ASSETS		837,482,703	799,398,682
REPRESENTED BY:			
Share capital	18	750,000,000	750,000,000
Statutory and general reserves		17,496,539	9,879,735
Depositors' protection fund		4,374,135	2,469,934
Unappropriated profit		65,612,029	37,049,013
		837,482,703	799,398,682
Surplus/(deficit) on revaluation of assets		-	-
Deferred grants		-	-
TOTAL CAPITAL		837,482,703	799,398,682

MEMORANDUM / OFF BALANCE SHEET ITEMS 19

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




 President & Chief Executive



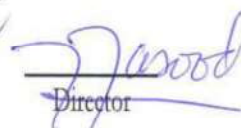
 Chief Financial Officer



 Chairman



 Director



 Director

SINDH MICROFINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Note	-----Rupees-----	
Mark-up / return / interest earned	207,309,759	119,668,435
Mark-up / return / interest expensed	(5,014,585)	(5,290)
Net mark-up / interest income	202,295,174	119,663,145
Provision against non-performing loans and advances	(3,314,233)	(2,724,665)
Provision for diminution in the value of investments	-	-
Bad debts written off directly	(1,283,038)	(469,926)
	(4,597,271)	(3,194,591)
Net mark-up / interest income after provisions	197,697,903	116,468,554
NON MARK-UP/ NON INTEREST INCOME		
Fee, commission and brokerage income	-	-
Dividend income	-	-
Other income	-	9,725
	-	9,725
Total non mark-up / non interest income	197,697,903	116,478,279
NON MARKUP/ NON INTEREST EXPENSES		
Administrative expenses	(144,938,808)	(85,524,686)
Other provisions/write offs	-	-
Other charges	(796,500)	-
Total non mark-up / non interest expenses	(145,735,308)	(85,524,686)
Extra ordinary / unusual items	-	-
Profit before taxation	51,962,595	30,953,593
Taxation		
- current	14,969,096	9,232,624
- prior years	(1,190,578)	-
- deferred	100,056	(4,374)
	(13,878,574)	(9,228,250)
Profit after taxation	38,084,021	21,725,343
Unappropriated profit - brought forward	37,049,013	20,755,006
Profit available for appropriation	75,133,034	42,480,349
APPROPRIATIONS:		
Transfer to		
- statutory reserve	(7,616,804)	(4,345,069)
- capital reserve	-	-
- contribution to depositors' protection fund	(1,904,201)	(1,086,267)
- revenue reserve	-	-
- proposed dividend	-	-
	-	-
Unappropriated profit - carried forward	65,612,029	37,049,013
EARNINGS PER SHARE	0.51	0.29

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



 President & Chief Executive



 Chief Financial Officer



 Chairman



 Director



 Director

SINDH MICROFINANCE BANK LIMITED
 STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	-----Rupees-----	
Profit after taxation	38,084,021	21,725,343
Other comprehensive income		
- Items that may be reclassified to profit and loss account	-	-
- Items that will not be reclassified to profit and loss account subsequently	-	-
	-	-
Comprehensive income for the year transferred statement of changes to equity	38,084,021	21,725,343
Total comprehensive income for the year	<u>38,084,021</u>	<u>21,725,343</u>

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



President & Chief Executive



Chief Financial Officer



Chairman



Director



Director

SINDH MICROFINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Share capital	Statutory reserve	Depositors' protection fund	Unappropriated profit	Total Equity
	-----Rupees-----				
Balance as at January 1, 2017	750,000,000	5,534,666	1,383,667	20,755,006	777,673,339
Total comprehensive income for the year					
- Profit after taxation				21,725,343	21,725,343
- Other comprehensive income	-	-	-	-	-
	-	-	-	21,725,343	21,725,343
Transfer to statutory reserve	-	4,345,069	-	(4,345,069)	-
Transfer to depositors' protection fund					
- 5% of the profit after tax for the year	-	-	1,086,267	(1,086,267)	-
	-	-	-	-	-
Balance as at December 31, 2017	750,000,000	9,879,735	2,469,934	37,049,013	799,398,682
Total comprehensive income for the year					
- Profit after taxation	-	-	-	38,084,021	38,084,021
- Other comprehensive income	-	-	-	-	-
	-	-	-	38,084,021	38,084,021
Transfer to statutory reserve	-	7,616,804	-	(7,616,804)	-
Transfer to depositors' protection fund					
- 5% of the profit after tax for the year	-	-	1,904,201	(1,904,201)	-
	-	-	-	-	-
Balance as at December 31, 2018	750,000,000	17,496,539	4,374,135	65,612,029	837,482,703

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



 President & Chief Executive



 Chief Financial Officer



 Chairman



 Director



 Director

SINDH MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017
		-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		51,962,595	30,953,593
Adjustments for non cash items:			
Depreciation	12.1	2,385,085	1,488,447
Amortization	12.2	590,599	341,250
Provision against non performing advances	11.3	3,314,233	2,724,665
Bad debts written off directly	11.4	1,283,038	469,926
Provision for gratuity	22	5,246,750	-
Operating cash flows before changes in working capital		64,782,300	35,977,881
Working capital changes			
(Increase)/decrease in operating assets			
Advances		(249,310,205)	(272,926,349)
Other assets (excluding advance taxation)		(7,447,373)	(6,844,738)
		(256,757,578)	(279,771,087)
Increase in operating liabilities			
Other liabilities(excluding current taxation)		3,199,016	1,257,673
Borrowing from Bank		76,522,815	-
Deposits		76,396,001	234,487
		156,117,832	1,492,160
		(35,857,446)	(242,301,046)
Income tax paid		(11,433,525)	(11,284,494)
Net cash flows used in operating activities		(47,290,971)	(253,585,540)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net maturity / investments in certificate of deposit		-	100,000,000
Purchase of property and equipment	12.1	(6,239,050)	(3,442,505)
Purchase of intangible assets	12.2	(2,070,015)	-
Net cash flow(used in)/ from investing activities		(8,309,065)	96,557,495
CASH FLOWS FROM FINANCING ACTIVITIES			
Net decrease in cash and cash equivalents		(55,600,036)	(157,028,045)
Cash and cash equivalents at beginning of the year		424,926,610	581,954,655
Cash and cash equivalents at the end of the year	26	369,326,574	424,926,610

The annexed notes from 1 to 38 form an integral part of these financial statements. *5/10/18*



President & Chief Executive



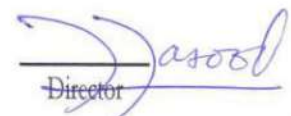
Chief Financial Officer



Chairman



Director



Director

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

1 STATUS AND NATURE OF BUSINESS

- 1.1 Sindh Microfinance Bank Limited (the Bank) was incorporated on March 27, 2015 as a public 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 13 (2017: 10) branches and 47 (2017: 40) service centers.

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 SECP and SBP, the MFI Ordinance and the Companies Act differ with the requirements of these standards, such provisions of SBP directive, 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 SECP vide its SRO 1007(I)/2017, dated 4 October 2017 introduce IFRS-15 and IFRS-9 which replace IAS-39 to be applicable on the accounting period beginning on or after July 1st, 2018. Accordingly, the requirements of these standards 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.

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

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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) Provision for taxation	7.5
d) Provision for gratuity	7.6

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 new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 01, 2018 are considered not to be relevant or to have any significant effect on the Bank's financial reporting and operations and are therefore not presented here.

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

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

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.

IFRS 15 introduces a single five-step model for revenue recognition and establishes a comprehensive framework for recognition of revenue from contracts with customers based on a core principle that an entity should recognise revenue representing the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 16 'Leases' - This standard is effective for periods beginning from or after January 1, 2019. IFRS 16 replaces the previous lease standard: IAS 17 Leases. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases.

IFRIC 23 - Uncertainty over Income Tax Treatments	January 1, 2019
IAS 19 - Plan Amendment, Curtail or Settlement (Amendments to IAS 19)	January 1, 2019
IAS 1/IAS 8 - Definition of Material (Amendments to IAS 1 and IAS 8)	January 1, 2020
Annual Improvements to IFRSs 2015 - 2017 Cycle	January 1, 2019

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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.

5.3 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)
IFRS 14 - Regulatory Deferral Accounts	January 1, 2016
IFRS 17 - Insurance Contracts	January 1, 2021

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

	Note	2018 Rupees	2017 Rupees
Advances	11	<u>589,666,316</u>	<u>341,806,999</u>
Provisions	11	<u>(6,564,554)</u>	<u>(3,418,171)</u>
Deposits	14	<u>77,769,113</u>	<u>1,373,112</u>

During the year the bank disbursed advances to 38,474 (2017: 23,221) parties.

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

The Fifth Schedule to the Companies Act, 2017 (the Act) became applicable to the Bank for the first time for the preparation of financial statements. The Act (including its Fourth Schedule) forms an integral part of the statutory financial reporting framework applicable to the Bank. The Act has also brought certain changes with regards to preparation and presentation of annual and interim financial statements of the Bank and resulted in specific additional disclosures and changes to the existing disclosures.

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 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

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, a general provision is maintained equivalent to 1% of the net outstanding balance (advances net of specific provisions) for potential loan losses. In addition, 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 income for the year.

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%

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.

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.

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 taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. 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 reduced 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 an unfunded gratuity scheme for its eligible permanent employees. Provision is made annually on the basis of actuarial recommendations based on projected unit credit method. Qualifying services period is three years. Measurement gain /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

Loans and borrowings are initially recorded at proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method.

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.

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 derecognized when the right to receive economic benefit from investment was expired or has been transferred substantially all risk and rewards of ownership.

7.10 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.

7.11 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.

7.12 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.

7.13 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.

7.14 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.

7.15 Revenue recognition

Revenue is recognized when it is probable that future economic benefits will flow to the entity and amount can be reliably measured.

Mark-up on advances

Mark up/ return/ interest on performing advances is recognized on accrual basis using effective interest method at the Bank's prevailing markup/ interest rates for the loan products.

Balances with other banks

Income on balances with National bank of Pakistan, Sindh Bank Limited and other banks is recognized in profit and loss account on accrual basis using the effective interest rate.

Investment income

Return on investment is recognized on accrual basis using effective interest method.

Other income

Other income is recognized when financial services are rendered.

7.16 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.

7.17 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.

7.18 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.

7.19 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.

7.20 Provisions

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.

7.21 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).

7.22 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 BSP 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.

7.23 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.

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		2018	2017			
		-----Rupees-----				
8	CASH AND BALANCES WITH SBP AND NBP					
	Cash in hand					
	Local currency	534,674	280,262			
	Balances with State Bank of Pakistan in					
	Local currency deposit accounts	8.1 12,881,438	725,136			
	Balances with National Bank of Pakistan in					
	Local currency current account	-	-			
	Local currency deposit account	-	-			
		<u>13,416,112</u>	<u>1,005,398</u>			
8.1	This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% (2017: 5%) and 10% (2017: 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.					
9	BALANCES WITH OTHER BANKS					
	In Pakistan					
	- Local currency current account	-	-			
	- Local currency deposit account	9.1 255,910,462	23,921,212			
		<u>255,910,462</u>	<u>23,921,212</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 rate ranging from 6.15% to 8.75% per annum (2017: 5.25% to 6.15% per annum), balances with U-Microfinance Bank carrying mark-up at rate of 11.15% (2017: nil) and Khushhali Bank Limited carrying mark-up at rate of 10.75%.					
10	INVESTMENT - NET OF PROVISIONS					
	Available for sale (AFS)	-	-			
	Held for trading (HFT)	-	-			
	Held to maturity (HTM)					
	Term deposits receipts (TDRs)	10.1 100,000,000	400,000,000			
		<u>100,000,000</u>	<u>400,000,000</u>			
10.1	Term deposits receipts (TDRs)					
	Microfinance banks	10.2 100,000,000	400,000,000			
10.2	Details of TDRs.					
		Maturity	Interest rate			
		2018	2017			
		2018	2017			
	Telenor Microfinance Bank	6 months	6 m-1 year	8% 7.5%-9%	50,000,000	100,000,000
	U-Microfinance Bank Limited	3 months	-	10.25%	50,000,000	-
	NRSP Microfinance Bank	-	1 Year	9.50%	-	200,000,000
	Khushhali Microfinance Bank	-	6 months	7.50%	-	100,000,000
		<u>100,000,000</u>	<u>400,000,000</u>			

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11 ADVANCES - NET OF PROVISIONS

	Note	2018		2017	
		Number of loans outstanding	Amount outstanding (Rupees)	Number of loans outstanding	Amount outstanding (Rupees)
Micro Credit -Unsecured		37,243	589,666,316	23,221	341,806,999
Less: Provision held					
- General	11.2	-	(5,876,139)	-	(3,418,171)
- Specific	11.3	-	(688,415)	-	-
		-	(6,564,554)	-	(3,418,171)
Advances (net of provisions)		37,243	583,101,762	23,221	338,388,828

11.1 Particulars of non-performing loans

Advances include Rs. 2,405,017 (2017: Rs.29,208) which as detailed below, have been placed under non performing status:

Category of Classification	2018			2017		
	Amount Outstanding	Provisions Required	Provisions Held	Amount Outstanding	Provisions Required	Provisions Held
	Rupees					
OAEM	352,656	-	-	29,208	-	-
Substandard	1,433,258	358,315	358,315	-	-	-
Doubtful	578,005	289,003	289,003	-	-	-
Loss	41,097	41,097	41,097	-	-	-
	2,405,017	688,415	688,415	29,208	-	-

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

11.3 Particulars of provision against non-performing advances

	2018			2017		
	Specific	General	Total	Specific	General	Total
	Rupees					
Opening balance	-	3,418,171	3,418,171	-	693,506	693,506
Charge for the year	856,265	2,457,968	3,314,233	-	2,724,665	2,724,665
Write off	(167,850)	-	(167,850)	-	-	-
Closing balance	688,415	5,876,139	6,564,554	-	3,418,171	3,418,171

11.4 Particulars of write offs:

	Note	2018		2017	
		Number of customers	Amount (Rupees)	Number of customers	Amount (Rupees)
Directly charged to profit and loss account	11.4.1	98	1,283,038	35	469,926

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

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		Note	2018	2017
			-----Rupees-----	
12 OPERATING FIXED ASSETS				
Property and equipment		12.1	11,810,365	7,956,400
Intangible assets		12.2	2,535,432	1,056,016
			<u>14,345,797</u>	<u>9,012,416</u>

12.1 Property and equipment

	COST			ACCUMULATED DEPRECIATION			Net book value at Dec 31, 2018	Rate of Depreciation
	As at Jan 1, 2018	Additions	As at Dec 31, 2018	As at Jan 1, 2018	Charge for the year	As at Dec 31, 2018		
	-----Rupees-----							
Office equipment	5,816,688	5,363,223	11,179,911	1,145,752	1,679,959	2,825,711	8,354,200	20%
Office improvement	1,504,403	468,251	1,972,654	43,094	85,825	128,919	1,843,735	5%
Furniture and fixture	727,455	407,576	1,135,031	86,603	127,800	214,403	920,628	10%
Vehicles	2,457,500	-	2,457,500	1,274,197	491,501	1,765,698	691,802	20%
Total	<u>10,506,046</u>	<u>6,239,050</u>	<u>16,745,096</u>	<u>2,549,646</u>	<u>2,385,085</u>	<u>4,934,731</u>	<u>11,810,365</u>	
	-----Rupees-----							
	COST			ACCUMULATED DEPRECIATION			Net book value at Dec 31, 2017	Rate of Depreciation
	As at Jan 1, 2017	Additions	As at Dec 31, 2017	As at Jan 1, 2017	Charge for the year	As at Dec 31, 2017		
	-----Rupees-----							
Office equipment	3,820,735	1,995,953	5,816,688	233,596	912,156	1,145,752	4,670,936	20%
Office improvement	437,851	1,066,552	1,504,403	9,210	33,884	43,094	1,461,309	5%
Furniture and fixture	347,455	380,000	727,455	35,697	50,906	86,603	640,852	10%
Vehicles	2,457,500	-	2,457,500	782,696	491,501	1,274,197	1,183,303	20%
Total	<u>7,063,541</u>	<u>3,442,505</u>	<u>10,506,046</u>	<u>1,061,198</u>	<u>1,488,447</u>	<u>2,549,646</u>	<u>7,956,400</u>	

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12.2 Intangible assets

	COST			ACCUMULATED AMORTIZATION			Net book value at Dec 31, 2018	Rate of amortization
	As at Jan 1, 2018	Additions	As at Dec 31, 2018	As at Jan 1, 2018	Amortization	As at Dec 31, 2018		
	Rupees							
Software	1,710,938	2,070,015	3,780,953	654,922	590,599	1,245,521	2,535,432	20%
Total	1,710,938	2,070,015	3,780,953	654,922	590,599	1,245,521	2,535,432	

	COST			ACCUMULATED AMORTIZATION			Net book value at Dec 31, 2017	Rate of amortization
	As at Jan 1, 2017	Additions	As at Dec 31, 2017	As at Jan 1, 2017	Amortization	As at Dec 31, 2017		
	Rupees							
Software	1,710,938	-	1,710,938	313,672	341,250	654,922	1,056,016	20%
Total	1,710,938	-	1,710,938	313,672	341,250	654,922	1,056,016	

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		2018	2017
		-----Rupees-----	
13	OTHER ASSETS		
	Income/ mark-up accrued on advances	12,239,334	6,239,865
	Profit receivable on TDR's	3,988,352	6,437,325
	Advances, prepayments and deposits	16,222,988	12,326,111
	Advance tax - net of provision	4,229,121	6,574,114
		<u>36,679,795</u>	<u>31,577,415</u>
14	DEPOSITS AND OTHER ACCOUNTS		
	Note		
		2018	2017
		Number of accounts	Number of accounts
		Amount outstanding (Rupees)	Amount outstanding (Rupees)
	Current deposits	10	2
	Savings deposits	46,954	24,414
		<u>46,964</u>	<u>24,416</u>
		<u>13,422,267</u>	<u>1,100,075</u>
		<u>64,346,846</u>	<u>273,037</u>
		<u>77,769,113</u>	<u>1,373,112</u>
14.1	Particulars of deposits by ownership		
	1) Individual depositors	46,963	24,416
	2) Institutional depositors		
	a) Corporation/firms	-	-
	b) Banks/financial institution	1	-
		<u>46,964</u>	<u>24,416</u>
		<u>50,000,000</u>	<u>1,373,112</u>
		<u>77,769,113</u>	<u>1,373,112</u>
14.2	The deposits pertains to individual & corporate loan holders carrying interest rate of 4% to 12.15% per annum (2017: 0% to 4%).		
15	BORROWINGS		
	Note		
		2018	2017
		-----Rupees-----	
	Borrowings from banks/ financial institution in Pakistan	15.1	
		<u>76,522,815</u>	-
15.1	Borrowings from Banks/ Financial Institution in Pakistan		
	Secured		
	Sindh Bank Limited (Running Finance)	15.2	
		<u>76,522,815</u>	-
15.2	The bank has obtained running finance facility from Sindh Bank Limited (the Holding Bank) amounting to Rs 500 million carrying markup at the rate of 3 months Kibor+1.5%.		
16	OTHER LIABILITIES		
	Note		
		2018	2017
		-----Rupees-----	
	Interest payable on running finance & depositors	1,646,730	-
	Audit fee payable	478,000	175,000
	EOBI payable	115,439	135,749
	Withholding tax payable	465,449	291,580
	Employees provident fund payable	512,490	396,848
	Gratuity payable	5,246,750	-
	Other payable	2,710,851	1,730,765
		<u>11,175,708</u>	<u>2,729,942</u>
16.1	Gratuity payable		

The Bank operates an unapproved and unfunded gratuity scheme for all of its eligible employees. Number of employees covered under the scheme are 150.

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on 31 December 2018 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

	2018	2017
Valuation Discount rate	13.25%	-
Expected long term rate of increase in salary level	12.25%	-

16.1.1 Liability in statement of financial position

	2018	2017
	-----Rupees-----	
Present value of defined benefit obligation	<u>5,246,750</u>	<u>-</u>

16.1.2 Movement in liability during the year

Charged to profit and loss account	<u>5,246,750</u>	<u>-</u>
------------------------------------	------------------	----------

16.1.3 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:

Discount rate effect	Rupees
Discount rate + 100 bps	4,898,817
Discount rate - 100 bps	5,640,588
Salary increase + 100 bps	5,653,058
Salary increase - 100 bps	4,881,481

17 DEFERED TAX LIABILITIES - NET

	2018	2017
	-----Rupees-----	
Opening balance	403,533	407,907
Charged during the year	100,056	(4,374)
Closing balance	<u>503,589</u>	<u>403,533</u>

17.1 Movement in temporary differences during the year

	2018	2017
	-----Rupees-----	
Opening	403,533	407,907
Deferred tax liabilities arising in respect of: Accelerated tax depreciation allowance	100,056	(4,374)
	<u>503,589</u>	<u>403,533</u>

SINDH MICROFINANCE BANK LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

18 SHARE CAPITAL

Authorized share capital

2018	2017		2018	2017
-----Number of Shares-----			-----Rupees-----	
<u>100,000,000</u>	<u>100,000,000</u>	Ordinary shares of Rs. 10 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>

Issued, subscribed and paid-up share capital

2018	2017		2018	2017
-----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.

19 MEMORANDUM / OFF BALANCE SHEET ITEMS

There are no contingencies and undisbursed loans as at year end (2017: Nil).

20 MARK-UP / RETURN / INTEREST EARNED

	2018	2017
	-----Rupees-----	
On:		
- Advances	174,832,924	71,764,965
- Deposits on daily savings account	6,491,908	4,474,334
- Certificate of deposits	-	1,497,945
- Term deposit receipts	25,984,927	41,931,191
	<u>207,309,759</u>	<u>119,668,435</u>

21 MARK-UP / RETURN / INTEREST EXPENSED

Deposits	251,727	5,290
Borrowings	4,762,858	-
	<u>5,014,585</u>	<u>5,290</u>

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017
		-----Rupees-----	
22 ADMINISTRATIVE EXPENSES			
Salaries, wages and other allowances		89,769,274	57,210,941
Provident fund contribution		2,924,309	2,039,101
Gratuity expense		5,246,750	-
Staff welfare		589,118	306,508
Rent and taxes		14,511,279	8,478,285
Directors' fee		264,000	210,000
Printing and stationery		2,041,334	1,038,285
Communication		3,151,219	1,762,236
Office supplies		56,716	153,749
Travelling and conveyance		2,837,921	1,607,483
Insurance		2,618,459	913,463
Training and development		730,869	198,442
Utilities		2,510,668	1,633,458
Branch setup cost		2,755,506	1,929,783
Advertisement		393,676	207,330
Depreciation	12.1	2,385,085	1,488,447
Amortization	12.2	590,599	341,250
Auditor's remuneration	22.1	809,976	478,200
Bank charges		1,539,394	691,976
Office cleaning and maintenance		1,599,567	1,699,397
Legal and professional fee		199,405	548,510
Fee and subscription		1,902,892	2,325,056
I.T maintenance expenses		4,781,543	-
Others		729,249	262,786
		<u>144,938,808</u>	<u>85,524,686</u>
22.1 Auditors' remuneration			
Audit fee		210,000	175,000
Provident fund audit fee		60,000	-
Half yearly review fee		95,000	80,000
Taxation services		158,976	109,200
Certification fee		203,000	54,000
Public sector code of corporate governance- report fee		35,000	35,000
Out of pocket		48,000	25,000
		<u>809,976</u>	<u>478,200</u>
23 OTHER CHARGES			
Penalties imposed by State Bank of Pakistan		<u>796,500</u>	-
24 TAXATION			
		-----Rupees-----	
- current		14,969,096	9,232,624
- deferred		100,056	(4,374)
- prior years		(1,190,578)	-
		<u>13,878,574</u>	<u>9,228,250</u>

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	-----Rupees-----	
24.1 Relationship between tax expense and accounting profit		
Profit before tax	<u>51,962,595</u>	<u>30,953,593</u>
Tax at the applicable tax rate	14,969,096	9,286,078
Effects of:		
- Prior year	(1,190,578)	-
- Taxable temporary difference - operating fixed assets	100,056	(4,374)
- Reduce rate difference	-	(53,454)
Tax expense	<u>13,878,574</u>	<u>9,228,251</u>

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.

		2018	2017
		-----Rupees-----	
25.1 Profit for the year	A	<u>38,084,021</u>	<u>21,725,343</u>
		(Number)	(Number)
Weighted average ordinary shares	B	<u>75,000,000</u>	<u>75,000,000</u>
		(Rupees)	(Rupees)
Earnings per share	A/B	<u>0.51</u>	<u>0.29</u>

Diluted

There is no dilution effect on the basic earnings per share of the Bank as on December 31, 2018 (2017: Nil).

	Note	2018	2017
		-----Rupees-----	
26 CASH AND CASH EQUIVALENTS			
Cash in hand	8	534,674	280,262
Cash and balances with SBP and NBP	8	12,881,438	725,136
Balances with other banks	9	255,910,462	23,921,212
Investment - net of provisions	10	100,000,000	400,000,000
		<u>369,326,574</u>	<u>424,926,610</u>

27 NUMBER OF EMPLOYEES

	2018		
	Credit /Sales Staff	Banking Staff	Total
	-----Number-----		
Permanent	219	49	268
Contractual	-	-	-
Total number of employees	<u>219</u>	<u>49</u>	<u>268</u>
	2017		
	Credit /Sales Staff	Banking Staff	Total
	-----Number-----		
Permanent	193	22	215
Contractual	-	-	-
Total number of employees	<u>193</u>	<u>22</u>	<u>215</u>

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

28 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

-----2018-----						
Related Parties	Note	Holding Company	Key Management Personal	Directors	Associates	Fund managed by the Bank
-----Rupees-----						
Balance with related party						
Sindh Bank Limited						
Deposits in Daily Saving Account		31,744,411	-	-	-	-
Borrowing	15	76,522,815	-	-	-	-
Interest Payable on borrowing		1,564,984	-	-	-	-
Sindh Insurance Limited						
Premium Payable		-	-	-	1,354,886	-
Provision for gratuity	16	-	5,246,750	-	-	-
Transaction with related party						
Sindh Bank Limited						
Mark-up / return / interest earned		1,519,204	-	-	-	-
Mark-up / return / interest expensed	21	4,762,858	-	-	-	-
Remuneration paid to executive staff	31	-	9,943,282	-	-	-
Directors meeting fee	31	-	-	264,000	-	-
Sindh Insurance Limited						
Insurance premium Paid		-	-	-	2,126,360	-
Contribution to provident fund	22	-	-	-	-	2,924,309
Provision for gratuity	16	-	-	-	-	5,246,750

-----2017-----						
Related Parties		Holding Company	Key Management Personal	Directors	Associates	Fund managed by the Bank
-----Rupees-----						
Balance with related party						
Sindh Bank Limited						
Deposits in Daily Saving Account		4,338,692	-	-	-	-
Borrowing		-	-	-	-	-
Interest Payable on borrowing		-	-	-	-	-
Sindh Insurance Limited						
Prepaid insurance		-	-	-	127,836	-
Transaction with related party						
Sindh Bank Limited						
Mark-up / return / interest earned	21	4,474,334	-	-	-	-
Mark-up / return / interest expensed		-	-	-	-	-
Remuneration paid to executive staff	31	-	19,697,222	-	-	-
Directors meeting fee	31	-	-	210,000	-	-
Sindh Insurance Limited						
Insurance expense		-	-	-	808,210	-
Contribution to provident fund	22	-	-	-	-	2,039,101

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	-----Numbers-----	
29 NUMBER OF BRANCHES		
At the beginning of the year	10	5
Add: Opened during the year	3	5
Less: Closed during the year	-	-
Total	<u>13</u>	<u>10</u>

30 NUMBER OF SERVICE CENTERS		
At beginning of the year	40	19
Add: Opened during the year	7	21
Less: Closed during the year	-	-
Total	<u>47</u>	<u>40</u>

31 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

	2018			2017		
	Rupees			Rupees		
-Managerial remuneration	6,987,500	-	4,677,114	6,066,665	-	3,501,363
-House rent allowance	3,144,375	-	2,104,701	2,729,999	-	1,575,614
-Medical allowance	698,750	-	467,711	606,667	-	350,136
-Utilities allowance	698,750	-	467,711	606,667	-	350,136
-Contribution to PF	698,750	-	487,329	606,667	-	376,061
-Bonus	1,083,333	-	360,682	866,666	-	591,181
-Directors fee	-	264,000	-	-	210,000	-
-Others	888,310	-	1,378,034	591,950	-	877,450
	<u>14,199,768</u>	<u>264,000</u>	<u>9,943,282</u>	<u>12,075,281</u>	<u>210,000</u>	<u>7,621,941</u>
Number of persons at year end	<u>1</u>	<u>4</u>	<u>3</u>	<u>1</u>	<u>3</u>	<u>2</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

	2018	2017
	(un-audited)	(audited)
	-----Rupees-----	
32.1 Disclosures relating to Provident fund		
Size of the fund	<u>8,887,197</u>	<u>6,243,565</u>
Cost of the investments made	<u>6,287,000</u>	<u>5,828,014</u>
Percentage of investments made	<u>71%</u>	<u>93%</u>
Fair value of investments	<u>6,287,000</u>	<u>5,828,014</u>
Break-up of investments		
TDR's	<u>6,287,000</u>	<u>5,828,014</u>
Receivable from Sindh Microfinance Bank Limited	<u>512,490</u>	<u>396,848</u>
Bank balances	<u>2,087,707</u>	<u>18,703</u>
	<u>8,887,197</u>	<u>6,243,565</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.

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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. General Provision for loan losses is maintained as required by the Prudential Regulation.

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.

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.

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).

The Bank performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations.

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

Financial instruments included in level 3 comprise of Term deposit certificates.

SINDH MICROFINANCE BANK LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

34 MATURITIES OF ASSETS AND LIABILITIES

2018	Total	Upto one month	Over one month upto six months	Over six months upto one year	Over one year
-----Rupees-----					
Market rate assets					
Advances	589,666,316	80,805,603	289,241,517	187,211,677	32,407,519
Investments	100,000,000	100,000,000	-	-	-
Other earning assets	255,910,462	255,910,462	-	-	-
Total market rate assets	945,576,778	436,716,065	289,241,517	187,211,677	32,407,519
Other non-earning assets	64,441,704	13,416,112	-	-	51,025,592
Total assets	1,010,018,482	450,132,177	289,241,517	187,211,677	83,433,111
Market rate liabilities					
Time deposits of Rs.100,000 and above	76,998,267	26,898,267	50,000,000	100,000	-
Time deposits below Rs.100,000	770,846	-	-	770,846	-
Borrowing	76,522,815	76,522,815	-	-	-
Other cost bearing liabilities	-	-	-	-	-
Total market rate liabilities	154,291,928	103,421,082	50,000,000	870,846	-
Other non- cost bearing liabilities	11,175,708	11,175,708	-	-	-
Total liabilities	165,467,636	114,596,790	50,000,000	870,846	-

SINDH MICROFINANCE BANK LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

2017	Total	Upto one month	Over one year upto six months	Over six months upto one year	Over one year
	-----Rupees-----				
Market rate assets					
Advances	341,806,999	-	-	341,806,999	-
Investments	400,000,000	-	400,000,000	-	-
Other earning assets	680,005,055	580,005,055	100,000,000	-	-
Total market rate assets	1,421,812,054	580,005,055	500,000,000	341,806,999	-
Other non-earning assets	31,085,813	1,005,398	-	-	30,080,415
Total assets	1,452,897,867	581,010,453	500,000,000	341,806,999	30,080,415
Market rate liabilities					
Time deposits of Rs.100,000 and above	-	-	-	-	-
Time deposits below Rs.100,000	1,373,112	-	-	1,373,112	-
Other cost bearing liabilities	-	-	-	-	-
Total market rate liabilities	1,373,112	-	-	1,373,112	-
Other non- cost bearing liabilities	2,729,942	2,729,942	-	-	-
Total liabilities	4,103,054	2,729,942	-	1,373,112	-

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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 shareholders 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 on 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, 2018, the paid up share capital of the Bank stood at Rs. 750 million (2017: Rs. 750 million).

The capital of the Bank is managed keeping in view the minimum 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, 2018, the Bank's Capital adequacy ratio (CAR) is approximately 114.88% (2017: 170.32%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

36 COMPARATIVE FIGURES

Comparative figures have been reclassified for the purposes of better comparison and presentation as follows:

Nature of reclassification	Note	Reclassification from	Reclassification to	2017 Amount Rupees
Statement of financial position	9 & 10	Balances with other banks	Investments	400,000,000
Administrative expenses	22	Salaries, wages and other allowances	Provident fund contribution	2,039,101

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 February 20, 2019 by the Board of Directors of the Bank.



 President & Chief Executive



 Chief Financial Officer



 Chairman



 Director



 Director

**STATEMENT OF COMPLIANCE WITH THE PUBLIC SECTOR COMPANIES
(CORPORATE GOVERNANCE) RULES, 2013**

Name of Company: Sindh Microfinance Bank Limited
Name of Line Ministry: Not Applicable
For the year ended: December 31, 2018

This statement presents the overview of the compliance with the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "the Rules") issued for the purpose of establishing a framework of good governance, whereby a public sector company is managed in compliance with the best practices of public sector governance.

I. The Company has complied with the provisions of the Rules in the following manner.

S. No.	Provision of the Rules	Rule No.	Y	N																				
1.	The independent directors meet the criteria of independence, as defined under the Rules.	2(d)	✓																					
2.	The Board has the requisite percentage of independent directors. At present the Board includes: <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th>Category</th> <th>Names</th> <th>Date of appointment</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Independent Directors</td> <td>Mr. Liaquat Ali</td> <td>March 30, 2016</td> </tr> <tr> <td>Mr. Farooq Ahmed</td> <td>March 30, 2016</td> </tr> <tr> <td>Mrs. Naila Masood</td> <td>March 30, 2016</td> </tr> <tr> <td>Executive Directors</td> <td>Mr. Shoaib Arif</td> <td>March 30, 2016</td> </tr> <tr> <td rowspan="3">Non-Executive Directors</td> <td>Mr. Shamsuddin khan</td> <td>March 30, 2016</td> </tr> <tr> <td>Dr. Noor Muhammad Soomro</td> <td>March 03, 2018</td> </tr> <tr> <td>Mr. Asad Rauf Chandio</td> <td>August 17, 2018</td> </tr> </tbody> </table>	Category	Names	Date of appointment	Independent Directors	Mr. Liaquat Ali	March 30, 2016	Mr. Farooq Ahmed	March 30, 2016	Mrs. Naila Masood	March 30, 2016	Executive Directors	Mr. Shoaib Arif	March 30, 2016	Non-Executive Directors	Mr. Shamsuddin khan	March 30, 2016	Dr. Noor Muhammad Soomro	March 03, 2018	Mr. Asad Rauf Chandio	August 17, 2018	3(2)	✓	
Category	Names	Date of appointment																						
Independent Directors	Mr. Liaquat Ali	March 30, 2016																						
	Mr. Farooq Ahmed	March 30, 2016																						
	Mrs. Naila Masood	March 30, 2016																						
Executive Directors	Mr. Shoaib Arif	March 30, 2016																						
Non-Executive Directors	Mr. Shamsuddin khan	March 30, 2016																						
	Dr. Noor Muhammad Soomro	March 03, 2018																						
	Mr. Asad Rauf Chandio	August 17, 2018																						
3.	The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.	3(5)	✓																					
4.	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Act.	3(7)	✓																					
5.	The chairman of the board is working separately from the chief executive of the Company.	4(1)	✓																					

6.	The chairman has been elected by the board of directors except where Chairman of the Board is appointed by the Government.	4(4)	✓	
7.	The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission.	5(2)	✓	
8.	(a) The company has prepared a "Code of Conduct" to ensure that professional standards and corporate values are in place. (b) The Board has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures, including posting the same on the company's website. www.sindhmf.com (c) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.	5(4)	✓	
9.	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.	5(5)	✓	
10.	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	5(5)(b) (ii)	✓	
11.	The Board has developed and implemented a policy on anti-corruption to minimize actual or perceived corruption in the company.	5(5)(b) (vi)	✓	
12.	The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.	5(5)(c) (ii)	✓	
13.	The Board has ensured compliance with the law as well as the company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services.	5(5)(c) (iii)	✓	
14.	The Board has developed a vision or mission statement and corporate strategy of the company.	5(6)	✓	
15.	The Board has developed significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended, has been maintained.	5(7)	✓	
16.	The Board has quantified the outlay of any action in respect of any service delivered or goods sold by the Company as a public service obligation, and has submitted its request for appropriate compensation to the Government for consideration.	5(8)	✓	

17.	The board has ensured compliance with policy directions requirements received from the Government.	5(11)	✓	
18.	a) The board has met at least four times during the year. b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. c) The minutes of the meetings were appropriately recorded and circulated.	6(1) 6(2) 6(3)	✓ ✓ ✓	
19.	The board has also monitored and assessed the performance of senior management on annual basis and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose.	8 (2)	✓	
20.	The Board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9	✓	
21.	(a) The Board has approved the profit and loss account for, and statement of financial position as at the end of, the first, second and third quarter of the year as well as the financial year end. (b) In case of listed PSCs, the Board has prepared half yearly accounts and undertaken limited scope review by the auditors. (c) The Board has placed the annual financial statements on the company's website.	10	✓	
22.	All the Board members underwent an orientation course arranged by the company to apprise them of the material developments and information as specified in the Rules.	11	✓	

23.	<p>a) The Board has formed the requisite committees, as specified in the Rules.</p> <p>b) The committees were provided with written term of reference defining their duties, authority and composition.</p> <p>c) The minutes of the meetings of the committees were circulated to all the Board members.</p> <p>d) The committees were chaired by the following non –executive directors:</p> <table border="1" data-bbox="200 549 957 1153"> <thead> <tr> <th data-bbox="200 549 415 646">Committee</th> <th data-bbox="415 549 615 646">Number of members</th> <th data-bbox="615 549 957 646">Name of chair</th> </tr> </thead> <tbody> <tr> <td data-bbox="200 646 415 743">Audit Committee</td> <td data-bbox="415 646 615 743">3</td> <td data-bbox="615 646 957 743">Mr. Liaquat Ali</td> </tr> <tr> <td data-bbox="200 743 415 873">Risk Management Committee</td> <td data-bbox="415 743 615 873">3</td> <td data-bbox="615 743 957 873">Mrs. Naila Masood</td> </tr> <tr> <td data-bbox="200 873 415 948">HR Committee</td> <td data-bbox="415 873 615 948">3</td> <td data-bbox="615 873 957 948">Mrs. Naila Masood</td> </tr> <tr> <td data-bbox="200 948 415 1045">Procurement Committee</td> <td data-bbox="415 948 615 1045">3</td> <td data-bbox="615 948 957 1045">Mr. Liaquat Ali</td> </tr> <tr> <td data-bbox="200 1045 415 1153">Nomination Committe</td> <td data-bbox="415 1045 615 1153">3</td> <td data-bbox="615 1045 957 1153">Mr. Farooq Ahmed</td> </tr> </tbody> </table>	Committee	Number of members	Name of chair	Audit Committee	3	Mr. Liaquat Ali	Risk Management Committee	3	Mrs. Naila Masood	HR Committee	3	Mrs. Naila Masood	Procurement Committee	3	Mr. Liaquat Ali	Nomination Committe	3	Mr. Farooq Ahmed	12	✓
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24.	e) The Board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, by whatever name called, with their remuneration and terms and conditions of employment.	13	✓																		
25.	f) The Chief Financial Officer and the Company Secretary have requisite qualification prescribed in the Rules.	14	✓																		
26.	g) The company has adopted International Financial Reporting Standards notified by the Commission in terms of sub-section (1) of section 225 of the Act.	16	✓																		
27.	h) The directors' report for this year has been prepared in compliance with the requirements of the Act and the Rules and fully describes the salient matters required to be disclosed.	17	✓																		
28.	i) The directors, CEO and executives, or their relatives, are not, directly or indirectly, concerned or interested in any contract or arrangement entered into by or on behalf of the company except those disclosed to the company.	18	✓																		
29	<p>a) A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place and no director is involved in deciding his own remuneration.</p> <p>(b) The annual report of the company contains criteria and details of remuneration of each director.</p>	19	✓																		

30	The financial statements of the company were duly endorsed by the chief executive and chief financial officer before consideration and approval of the audit committee and the Board.	20	✓													
31.	The Board has formed an Audit Committee, with written terms of reference, and having the following members:	21(1) & 21(2)	✓													
<table border="1"> <thead> <tr> <th>Name of Member</th> <th>Category</th> <th>Professional Background</th> </tr> </thead> <tbody> <tr> <td>Mr. Liaquat Ali</td> <td>Chairman</td> <td>Chartered Accountant</td> </tr> <tr> <td>Mr. Farooq Ahmed</td> <td>Member</td> <td>IT professional</td> </tr> <tr> <td>Mr. Noor Muhammad Soomro</td> <td>Member</td> <td>Professor / Dean</td> </tr> </tbody> </table>					Name of Member	Category	Professional Background	Mr. Liaquat Ali	Chairman	Chartered Accountant	Mr. Farooq Ahmed	Member	IT professional	Mr. Noor Muhammad Soomro	Member	Professor / Dean
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The Chief Executive and Chairman of the Board are not members of the Audit Committee.																
32.	(a) The chief financial officer, the chief internal auditor, and a representative of the external auditors attended all meetings of the audit committee at which issues relating to accounts and audit were discussed. (b) The audit committee met the external auditors, at least once a year, without the presence of the chief financial officer, the chief internal auditor and other executives. (c) The audit committee met the chief internal auditor and other members of the internal audit function, at least once a year, without the presence of chief financial officer and the external auditors.	21(3)	✓													
33	(a) The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee. (b) The chief internal auditor has requisite qualification and experience prescribed in the Rules. (c) The internal audit reports have been provided to the external auditors for their review.	22	✓													
34.	The external auditors of the company have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	23(4)	✓													
35.	The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services.	23(5)	✓													



CHIEF EXECUTIVE OFFICER



CHAIRMAN/ DIRECTOR