

## DIRECTORS' REPORT TO THE MEMBERS

**Dear Members,**

It is my pleasure to present, on behalf of the Board of Directors, the Audited Financial Statements of the Sindh Microfinance Bank Ltd. (*The bank*) for the year ended December 31, 2015. The year under review is the first year since incorporation of the Bank on March 27 2015.

### **Economic Review**

Pakistan remained relatively unaffected from the recent troubles of the world economy, due to the decrease in oil prices and slow growth of Chinese economy and consequent deflation worldwide. The decrease in oil prices has led to reversal of the previous high inflation (2014: 7.2%, 2015: 1.86%) and buildup of FOREX reserves to USD 21 Billion from USD 14.9 billion in 2014. The State Bank of Pakistan in view of these fundamental changes decreased the policy rate from a high of 9.5% in 2014 to 6.0% in 2015 in order to stimulate credit off-take in the Country. The key question remains if Pakistan's economy will be able to bear the consequence of lower foreign direct investments in future and decrease in global demand which has resulted in continuous decline in our exports.

Increased money supply and stimulation of demand in the economy coupled with a concerted effort to address the power supply problem would however lead to better growth opportunities for micro-entrepreneurs.

### **State of Affairs of the Bank**

The Bank received its certificate of incorporation on March 27, 2015 from Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) granted license on October 16, 2015. The certificate of commencement of business issued by SECP on November 30, 2015.

The Bank is poised to commence operations after completion of "pre-commencement inspection" and consequent go ahead from the SBP for commencement of banking operations. The management of Bank; has reached to readiness for operations as the core banking application has been deployed, a branch has been established and is duly equipped with the necessary infrastructure and staffing for head office and branch.

### **Financial Position**

The Bank was incorporated with a total equity of PKR 750 million and as at December 31, 2015 which is standing at PKR 765.2 million. A profit after tax of PKR 15.2 million (Earnings per share of was PKR 0.2) comprised of income from treasury activities and a conservative approach toward expenses. 20% of the net profit from the year ended was transferred to a statutory reserve as per the requirements of the prudential regulations for microfinance banks.



Total assets of the Bank at year end was PKR 767.6 million, of which 98% comprised of Cash and Balances with Banks and FIs, 0.3% in fixed assets, 1.1% in accrued interest and prepaid expenses and 0.1% in deferred tax assets.

During the year the Bank earned PKR 38.5 million in interest income from investments. Administrative expenses of PKR 15.1 million were incurred during the year of which major expenses were 56% in salaries, 27% regulatory related expenses and 7% in office rent. Hence profit before taxation was PKR 23.4 million.

#### **Future Outlook**

The future of microfinance in Pakistan is very much promising. The industry has witnessed an impressive growth of over 30% in 2015. Therefore, we are very much confident that the Bank has a bright future. However, in initial years the bank will be focusing on building infrastructure especially human capital which will help in achieving high growth in later years at an accelerated pace.

The Bank plans to have its presence in all major areas of Sindh in the next three years with 15 branches and 60 service centers with loan portfolio/outreach of over PKR 1000 million and 40,000 borrowers comprising mostly women, who would be catered through the Bank's flagship product "SUJAG AURAT"

#### **Paid-up Capital**

The Bank's equity free of losses is PKR 765.2 million as at December 31, 2015 which adequately meets the minimum capital requirement for microfinance banks operating in a province as of December 31, 2015.

#### **Credit Rating**

As per the requirements of the prudential regulations for microfinance banks, we will have our Bank rated in the year 2017, after completion of one year of commencement of deposit mobilization services.

#### **Transfer Pricing**

All transactions with the related parties undertaken during the financial year were at arm's length price and in the best interest of the Bank.

#### **Auditors**

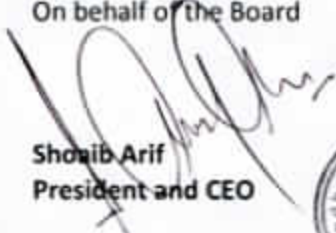
The present auditors M/s Grant Thornton Anjum Rahman Chartered Accountants stand retired after completing their first annual audit of the Bank and being eligible to be reappointed as their consent for reappointment has duly been received. The Board on recommendation of the Audit Committee approved their appointment for the year ending December 31, 2016.



**Acknowledgement**

The Board of Directors wishes to place on record their gratitude to the Sindh Bank Ltd., for their un-conditional and valuable cooperation and support at all times as well as to the regulators, its bankers and business partners for their cooperation and support. Board also appreciates the valuable, loyal and commendable services rendered by its employees.

On behalf of the Board



**Shoaib Arif**  
**President and CEO**



**Karachi: February 24<sup>th</sup>, 2016**

# Financial Statements and Independent Auditors' Report

## Sindh Microfinance Bank Limited

*For the period ended December 31, 2015*



**Grant Thornton Anjum Rahman**

*Chartered Accountants*





# Grant Thornton

An instinct for growth™

**GRANT THORNTON ANJUM RAHMAN**

1st & 3rd Floor,  
Modern Motors House  
Beaumont Road,  
Karachi 75500

T +92 021 3567 2951-56

F +92 021 3568 8834

[www.gtpk.com](http://www.gtpk.com)

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Sindh Microfinance Bank Limited** (the Bank) as at December 31, 2015 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in after referred to as the 'financial statements'), for the period (*from March 27, 2015 to December 31, 2015*) then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.


It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984, and the Microfinance Institutions Ordinance, 2001. Our responsibility is to express an opinion on these financial statements based on our audit.

We conduct our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001;
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan (SBP), and are in agreement with the books of account and are further in accordance with accounting policies stated therein;

- (ii) the expenditure incurred during the period was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the period were in accordance with the objects of the Bank and the directives issued by the SBP;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001 and the directives issued by the SBP 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, 2015 and of the profit, its cash flows and changes in equity for the period then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Date: March 7, 2016  
Karachi

  
Grant Thornton Anjum Rahman  
Chartered Accountants  
**Muhammad Shaukat Naseeb**  
Engagement Partner

Sindh Microfinance Bank Limited  
**Financial statements**  
For the year ended December 31, 2015

**SINDH MICROFINANCE BANK LIMITED**  
**BALANCE SHEET**  
**AS AT DECEMBER 31, 2015**

	Note	December 31, 2015 Rupees
<b>ASSETS</b>		
Cash and balances with SBP and NBP	4	10,022
Balances with other banks / NBFIs / MFBs	5	155,843,727
Lending to financial institutions	6	600,000,000
Investment - net of provisions		-
Advances - net of provisions		-
Operating fixed assets	7	2,524,053
Other assets	8	8,182,149
Deferred tax asset		1,082,485
<b>Total assets</b>		<b>767,642,436</b>
<b>LIABILITIES</b>		
Deposits and other accounts		-
Borrowings		-
Subordinated debt		-
Other liabilities	9	2,429,615
Deferred tax liabilities		-
<b>Total liabilities</b>		<b>2,429,615</b>
<b>NET ASSETS</b>		<b>765,212,821</b>
<b>REPRESENTED BY:</b>		
Share capital	10	750,000,000
Statutory and General Reserves		3,042,562
Depositors' protection fund		760,641
Unappropriated profit		11,409,618
		<b>765,212,821</b>
Surplus/(deficit) on revaluation of assets		-
Deferred grants		-
<b>Total capital</b>		<b>765,212,821</b>
<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>	11	

The annexed notes from 1 to 25 form an integral part of these financial statements. *Qiam*

  
 \_\_\_\_\_  
 President / Chief Executive

  
 \_\_\_\_\_  
 Chairman

   
 \_\_\_\_\_  
 Director Director



**SINDH MICROFINANCE BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

	Note	December 31, 2015 Rupees
Mark-up / return / interest earned	12	38,501,984
Mark-up / return / interest expensed		-
Net mark-up / interest income		38,501,984
Provision against non-performing loans and advances		-
Provision for diminution in the value of investments		-
Bad debts written off directly		-
Net mark-up / interest income after provisions		38,501,984
<b>Non mark-up/non interest income</b>		
Fee, commission and brokerage income		-
Dividend income		-
Other income		-
Total non mark-up / non interest income		-
		38,501,984
<b>Non mark-up / non interest expenses</b>		
Administrative expenses	13	(15,097,644)
Other provisions/write offs		-
Other charges		-
Total non mark-up / non interest expenses		(15,097,644)
Extra ordinary / unusual items		-
<b>Profit before taxation</b>		23,404,340
Taxation		
- current	14	9,274,004
- prior		-
- deferred		(1,082,485)
		(8,191,519)
<b>Profit after taxation</b>		15,212,821
Unappropriated profit - brought forward		-
<b>Appropriations:</b>		
Transfer to		
- statutory reserve		3,042,562
- capital reserve		-
- contribution to depositors' protection fund		760,641
- revenue reserve		-
- dividend		-
- others		-
<b>Unappropriated profit - carried forward</b>		11,409,618
<b>Earnings per share - basic and diluted - Rupees</b>	16	0.20

The annexed notes from 1 to 25 form an integral part of these financial statements.

  
 President / Chief Executive

  
 Chairman

  
 Director

  
 Director

SINDH MICROFINANCE BANK LIMITED  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED DECEMBER 31, 2015  
(From March 27, 2015 to December 31, 2015)

	December 31, 2015 Rupees
Profit after taxation for the period	15,212,821
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 period transferred to equity	<u>15,212,821</u>
Components of comprehensive income not reflected in equity:	
- Surplus / (deficit) on revaluation of assets	-
Total comprehensive income for the period	<u><u>15,212,821</u></u>

The annexed notes from 1 to 25 form an integral part of these financial statements. *S.P. Khan*

  
\_\_\_\_\_  
President / Chief Executive

  
\_\_\_\_\_  
Chairman

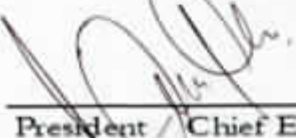
  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**SINDH MICROFINANCE BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

	Reserve				Total equity
	Share capital	Capital		Revenue	
		Statutory reserve	Depositors' protection fund	Unappropriated profit	
-----Rupees-----					
<b>Total comprehensive income</b>					
- Profit after taxation	-	-	-	15,212,821	15,212,821
- Other comprehensive income	-	-	-	-	-
	-	-	-	15,212,821	15,212,821
Transfer to statutory reserve	-	3,042,562	-	(3,042,562)	-
Transfer to depositors' protection fund					
- 5% of the profit after tax for the period	-	-	760,641	(760,641)	-
- return on investments - net of tax	-	-	-	-	-
<b>Transaction with owner:</b>					
Issue of share capital	750,000,000	-	-	-	750,000,000
<b>Balance as at December 31, 2015</b>	<u>750,000,000</u>	<u>3,042,562</u>	<u>760,641</u>	<u>11,409,618</u>	<u>765,212,821</u>

The annexed notes from 1 to 25 form an integral part of these financial statements.

  
 \_\_\_\_\_  
 President / Chief Executive

  
 \_\_\_\_\_  
 Chairman

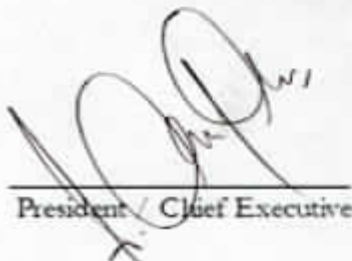
  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

SINDH MICROFINANCE BANK LIMITED  
 CASH FLOW STATEMENT  
 FOR THE PERIOD ENDED DECEMBER 31, 2015  
 (From March 27, 2015 to December 31, 2015)

	Note	December 31, 2015 Rupees
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation		23,404,340
<b>Adjustments:</b>		
Depreciation	13	295,193
<b>Operating cash flows before changes in working capital</b>		<u>23,699,533</u>
<b>Working capital changes</b>		
Increase in other assets		(8,182,149)
Increase in other liabilities		694,763
<b>Cash generated from operations</b>		<u>(7,487,386)</u> 16,212,147
Income tax paid		(7,539,152)
<b>Net cash flow from operating activities</b>		<u>8,672,995</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in term deposit receipts		(200,000,000)
Net investments in certificate of investment		(50,000,000)
Net investments in letter of placement		(400,000,000)
Disposal of certificate of investments		50,000,000
Purchase of operating fixed assets	7.1	(2,819,246)
<b>Net cash (used in) investing activities</b>		<u>(602,819,246)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Receipts from issue of share capital		750,000,000
<b>Net cash generated from financing activities</b>		<u>750,000,000</u>
<b>Net increase in cash and cash equivalents</b>		155,853,749
Cash and cash equivalents at the beginning of the period		-
<b>Cash and cash equivalents at the end of the period</b>	19	<u><u>155,853,749</u></u>

The annexed notes from 1 to 25 form an integral part of these financial statements. *Sim*

  
 President / Chief Executive

  
 Chairman

  
 Director

  
 Director

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

---

**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 Companies Ordinance, 1984. The Bank obtained Microfinance banking license from SBP on October 16th, 2015, to operate in Sindh Province. Subsequently the Bank has received the certificate of commencement of business from Securities & Exchange Commission of Pakistan (SECP) on November 30th, 2015. The Bank's registered office is situated at 39/F, 2nd Floor, Muhammad Ali Cooperative Housing Society, Karachi. The Bank's principal business will be to provide microfinance services to the poor and underserved segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001.

The Bank is the wholly owned subsidiary of Sindh Bank Limited.

- 1.2** To start the operations, the Bank is in the process of complying inspection requirements from SBP as per normal procedures.

**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).

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with the directives issued by SECP and SBP, the requirements of the Microfinance Institutions Ordinance, 2001 (the MFI Ordinance), the Companies Ordinance, 1984 (the Companies Ordinance) 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 Ordinance differ with the requirements of these standards, such provisions of SBP directive, the MFI Ordinance and the Companies Ordinance shall prevail.

SBP vide BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39 'Financial Instruments: Recognition and Measurement' and International Accounting Standard 40 'Investment Property', till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of the financial statements. Further, the SECP vide S.R.O. No. 411(I)/2008 dated April 28, 2008 has deferred the applicability of International Financial Reporting Standards (IFRS) 7 'Financial Instruments', till further instructions. However, investments have been measured in accordance with the requirements of SBP's BSD Circular No. 11 dated December 30, 2003 and Prudential Regulations for Microfinance Banks (the Regulations).

This is the first set of financial statements of the Bank prepared from March 27, 2015 to 31 December, 2015. Therefore, comparative figures have not been presented.

**2.2 Basis of measurement**

**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.

SINDH MICROFINANCE BANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED DECEMBER 31, 2015  
(From March 27, 2015 to December 31, 2015)

---

**2.3 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.

**2.4 Standards, Amendments and Interpretations to Approved Accounting Standards**

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

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

<u>Standards, amendments and interpretations</u>	<u>Effective Date</u>
IFRS 12 - Disclosure of Interests in other Entities	January 1, 2015
IFRS 13 - Fair Value Measurement	January 1, 2015

Adoption of the above revisions, amendments and interpretations of the standards have no significant effect on the amounts for the year ended December 31, 2015.

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

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 01, 2015 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.

**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.

<u>Standards, amendments and interpretations</u>	<u>Effective Date</u>
IAS 1 - Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	January 1, 2016

<u>Standards, amendments and interpretations</u>	<u>Effective Date</u>
Annual Improvements to IFRS 2012 - 2014 Cycle	January 1, 2016
IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)	January 1, 2016

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

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

---

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

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

	<b>IASB effective date (annual periods beginning on or after)</b>
IFRS 14 'Regulatory Deferral Accounts'	January 1, 2016
IFRS 15 'Revenue from Contracts with Customers'	January 1, 2018
IFRS 09 'Financial Instruments (revised 2014)'	January 1, 2018
IFRS 16 'Leases'	January 1, 2019

## **2.5 Significant accounting estimates and judgments**

The preparation of financial statements in conformity with the Accounting and Financial Reporting Standards for Small-Sized Entities issued by the Institute of Chartered Accountant of Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

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

	<b>Note</b>
a) Useful life of depreciable assets	3.3
b) Provision for taxation	3.5

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.

## **2.6 General**

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

Where there are no amounts to be disclosed in the amount 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.

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

---

**3 SIGNIFICANT ACCOUNTING POLICIES**

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

**3.1 Cash and cash equivalents**

Cash and 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.

**3.2 Advances**

These are stated net of provisions for non-performing advances, (if any). The outstanding portion of the advances, payments against which are overdue for 30 days or more, are classified as non-performing and divided into the following four categories as prescribed in Prudential Regulations for Microfinance Banks issued by the SBP:

- a) Other assets especially mentioned (OESM): 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% (2013: 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 gold and other cash collaterals with appropriate margin.

Specific and general provisions are charged to income for the year.

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.

**3.3 Operating fixed assets**

*Tangible assets - owned*

These are stated at cost less accumulated depreciation and any identified impairment losses (if any). Cost of operating fixed assets 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.



SINDH MICROFINANCE BANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED DECEMBER 31, 2015  
(From March 27, 2015 to December 31, 2015)

---

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 balance sheet date.

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

The carrying amount of assets are reviewed at each balance sheet 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 except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

### **3.5 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 income statement, except in the case of items credited or charged to equity in which case it is included in equity.

### **3.6 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.

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

---

**3.7 Borrowings**

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

**3.8 Investments**

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

**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.

**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.

**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 balance sheet 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.

**3.9 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 MFB and thereafter, a sum not less than 5% of its annual profit after taxes.

**3.10 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.

SINDH MICROFINANCE BANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED DECEMBER 31, 2015  
(From March 27, 2015 to December 31, 2015)

---

### 3.11 Revenue recognition

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

#### *Balances with other banks*

Income on balances with SBP, NBP and other banks is recognized in profit and loss account when it is earned.

#### *Mark-up income*

Mark up/ return/ interest on performing advances is recognized on accrual basis using effective interest method. Mark up on advances classified under Prudential Regulations is recognized on receipt basis.

#### *Investment income*

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

#### *Fee, commission, brokerage*

Fee, commission, brokerage income is recognized when services are performed.

#### *Other income*

Other income is recognized on accrual basis.

### 3.12 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 balance sheet 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.

### 3.13 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.

### 3.14 Financial assets and financial liabilities

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

### 3.15 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet 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.

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

---

**3.16 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 balance sheet date and adjusted to reflect current best estimate.

**3.17 Earnings per shares**

The Bank presents earning 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).

**3.18 Foreign currency transactions**

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rate prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak Rupees at spot rate. A non-monetary item is translated into Rupees at exchange rate prevailing on the date of transaction or on the date when fair values are determined.

SINDH MICROFINANCE BANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED DECEMBER 31, 2015  
 (From March 27, 2015 to December 31, 2015)

	Note	December 31, 2015 Rupees
<b>4 CASH AND BALANCES WITH SBP AND NBP</b>		
Cash in hand – local currency		<u>10,022</u>
<b>5 BALANCES WITH OTHER BANKS</b>		
In Pakistan		
On deposit accounts - local currency	5.1	<u>155,843,727</u>
5.1 It represents the amount placed with the Sindh Bank Limited (the Holding Company) in daily product saving account carrying mark-up at rate ranging from 6.4% to 7.9% per annum.		
	Note	December 31, 2015 Rupees
<b>6 LENDING TO FINANCIAL INSTITUTIONS</b>		
Term deposit receipts	6.1	200,000,000
Letters of placement	6.2	<u>400,000,000</u>
		<u>600,000,000</u>
6.1 This includes Term Deposit Receipts (TDRs) placed with BankIslami Pakistan Limited, having maturity of 3 months from the date of investment on a monthly roll over basis. The TDRs currently carrying mark-up at a rate of 7.2% per annum.		
6.2 This includes amount of Rs. 200 million invested in letters of placement (LOP) with Pak Brunci Investment Company Limited, having maturity of 3 months from the date of investment on a monthly roll over basis. The LOPs currently carrying mark-up at a rate of 7.0% per annum.		
The balance of Rs. 200 million represents investment in letters of placement (LOPs) with JS Bank Limited, having maturity of 3 months from the date of investment on a monthly roll over basis. The LOPs currently carrying mark-up at a rate of 7.5% per annum.		
	Note	December 31, 2015 Rupees
<b>7 OPERATING FIXED ASSETS</b>		
Property and equipment	7.1	<u>2,524,053</u>

SINDH MICROFINANCE BANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED DECEMBER 31, 2015  
 (From March 27, 2015 to December 31, 2015)

7.1 PROPERTY AND EQUIPMENT

	COST			DEPRECIATION			Net book value at Dec 31, 2015	Rate of Depreciation %
	As at Mar 27, 2015	Additions/ (Deletions)	As at Dec 31, 2015	As at Mar 27, 2015	Charge for the period	As at Dec 31, 2015		
	-----Rupees-----							
Office equipment	-	57,190	57,190	-	940	940	56,250	20%
Office improvement	-	121,101	121,101	-	400	400	120,701	5%
Furniture and fitting	-	183,455	183,455	-	1,646	1,646	181,809	10%
Vehicles	-	2,457,500	2,457,500	-	292,207	292,207	2,165,293	20%
Total 2015	-	2,819,246	2,819,246	-	295,193	295,193	2,524,053	

SINDH MICROFINANCE BANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED DECEMBER 31, 2015  
 (From March 27, 2015 to December 31, 2015)

		December 31, 2015 Rupees
8	<b>OTHER ASSETS</b>	
	Income/ mark-up accrued	966,574
	Advances, deposits, advance rent and other prepayments	7,215,575
		<u>8,182,149</u>
9	<b>OTHER LIABILITIES</b>	
	Accrued expenses	326,264
	Current taxation	1,734,852
	Withholding tax payable	147,556
	Employees provident fund payable	220,943
		<u>2,429,615</u>
10	<b>SHARE CAPITAL</b>	
	<b>Authorized share capital</b>	
	<u>December 31, 2015</u>	December 31, 2015
	<b>Number of shares</b>	<b>Rupees</b>
	<u>100,000,000</u> Ordinary shares of Rs. 10 each	<u>1,000,000,000</u>
	<b>Issued, subscribed and paid-up share capital</b>	
	<u>75,000,000</u> Ordinary shares of Rs. 10 each fully paid in cash	<u>750,000,000</u>
	Sindh Bank Limited is the parent company holding 99.99% shares of the Bank.	
11	<b>MEMORANDUM / OFF BALANCE SHEET ITEMS</b>	
	There are no contingencies and commitments as at period end.	
12	<b>MARK-UP / RETURN / INTEREST EARNED</b>	December 31, 2015 Rupees
	Interest / mark-up - bank account	18,444,519
	Interest / mark-up - certificate of investments	916,232
	Interest / mark-up - term deposit receipts	18,253,562
	Interest / mark-up - letter of placements	887,671
		<u>38,501,984</u>

SINDH MICROFINANCE BANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED DECEMBER 31, 2015  
 (From March 27, 2015 to December 31, 2015)

	Note	December 31, 2015 Rupees
<b>13 ADMINISTRATIVE EXPENSES</b>		
Salaries and allowances	13.1	8,415,144
Advertisement		253,524
Conveyance		234,710
Directors' fee		120,000
Communication		9,504
Repairs and maintenance		259,157
Insurance		28,665
Utilities		46,706
Rent, rates & taxes		1,035,096
Printing and stationery		52,594
Entertainment		72,711
Travel and transportation		18,000
Legal and professional		118,650
Regulatory		4,025,635
Auditors' remuneration	13.2	110,000
Depreciation		295,193
Bank charges		2,355
		<u>15,097,644</u>

**13.1 REMUNERATION OF DIRECTORS AND EXECUTIVES**

	December 31, 2015 Rupees	
	Chief Executive	Executives
- Managerial remuneration	3,322,177	703,248
- House rent allowance	1,494,980	316,462
- Conveyance	-	10,205
- Medical allowance	332,218	70,325
- Utilities allowance	332,218	70,325
- Others	666,666	19,065
	<u>6,148,259</u>	<u>1,189,630</u>
Number of persons at year end	<u>1</u>	<u>4</u>

**13.1.1** Executive means employees, other than the chief executive and directors, whose basic salary exceed Rs. 500,000 per year.

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



SINDH MICROFINANCE BANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED DECEMBER 31, 2015  
 (From March 27, 2015 to December 31, 2015)

		December 31, 2015																		
		Rupees																		
<b>13.2</b>	<b>AUDITORS' REMUNERATION</b>																			
	Audit fee	75,000																		
	Review fee	25,000																		
	Out of pocket expenses	10,000																		
		<u>110,000</u>																		
<b>14</b>	<b>TAXATION</b>																			
	- Current	9,274,004																		
	- Deferred	(1,082,485)																		
		<u>8,191,519</u>																		
<b>14.1</b>	<b>Relationship between tax expense and accounting profit</b>																			
	Profit before tax	<u>23,404,340</u>																		
	Tax at the applicable tax rate of 35%	8,191,519																		
	Effects of:																			
	- Taxable temporary difference - operating fixed assets	(44,693)																		
	- Deductible temporary difference - precommencement expenditure	1,127,178																		
	<b>Tax expense</b>	<u>9,274,004</u>																		
<b>15</b>	<b>NUMBERS OF EMPLOYEES</b>																			
		<b>December 31, 2015</b>																		
		<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Credit / Sales staff</th> <th style="text-align: center;">Banking / Support staff</th> <th style="text-align: center;">Total</th> </tr> <tr> <th colspan="3" style="text-align: center;">-----Number-----</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Permanent</td> <td style="text-align: center;">2</td> <td style="text-align: center;">4</td> <td style="text-align: center;">6</td> </tr> <tr> <td style="text-align: center;">Contractual</td> <td style="text-align: center;">-</td> <td style="text-align: center;">3</td> <td style="text-align: center;">3</td> </tr> <tr> <td></td> <td style="text-align: center;"><u>2</u></td> <td style="text-align: center;"><u>7</u></td> <td style="text-align: center;"><u>9</u></td> </tr> </tbody> </table>	Credit / Sales staff	Banking / Support staff	Total	-----Number-----			Permanent	2	4	6	Contractual	-	3	3		<u>2</u>	<u>7</u>	<u>9</u>
Credit / Sales staff	Banking / Support staff	Total																		
-----Number-----																				
Permanent	2	4	6																	
Contractual	-	3	3																	
	<u>2</u>	<u>7</u>	<u>9</u>																	
	Permanent	2	4	6																
	Contractual	-	3	3																
		<u>2</u>	<u>7</u>	<u>9</u>																
<b>16</b>	<b>BASIC AND DILUTED EARNING PER SHARE</b>	<b>December 31, 2015</b>																		
		<b>Rupees</b>																		
<b>16.1</b>	Profit for the period	A	<u>15,212,821</u>																	
			(Number)																	
	Weighted average ordinary shares	B	<u>75,000,000</u>																	
			(Rupees)																	
	Basic and diluted earning per share	A/B	<u>0.20</u>																	
<b>16.2</b>	There is no dilutive effect on the basic earning per share of the Bank																			

SINDH MICROFINANCE BANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED DECEMBER 31, 2015  
 (From March 27, 2015 to December 31, 2015)

17 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise Sindh Bank Limited, Sindh Insurance Limited, directors and key management personnel. Detail of transactions with related parties other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	Note	2015 Rupees
<b>Balances with Sindh Bank Limited - Holding company</b>		
Balances in deposit accounts	5	<u>155,843,727</u>
<b>Balances with Sindh Insurance Limited - Group company</b>		
Prepaid insurance	8	<u>20,485</u>
		<b>December 31, 2015</b>
<b>Transactions with Sindh Bank Limited</b>		
Mark-up on deposits accounts	12	<u>18,444,519</u>
Mark-up on term deposit receipts	12	<u>18,174,658</u>
<b>Director</b>		
Directors' fee	13	<u>120,000</u>
<b>Transactions with Sindh Insurance Limited</b>		
Insurance expense	13	<u>28,665</u>
<b>18 NUMBER OF BRANCHES</b>		
Branches at beginning of the period		-
Add: Opened during the period		-
Less: Closed during the period		-
<b>Total Branches at the end of the period</b>		<u>-</u>
<b>19 CASH AND CASH EQUIVALENTS</b>		
Cash and balances with SBP and NBP	4	10,022
Balances with other banks / NBFIs / MFBs	5	<u>155,843,727</u>
		<u>155,853,749</u>
<b>20 CAPITAL RISK MANAGEMENT</b>		

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 ambassadors, 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.

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

---

**20.1 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. However, the Bank has not yet disbursed any advances to customer and, is not exposed to credit risk.

**20.2 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.

**20.3 Interest rate risk management**

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



SINDH MICROFINANCE BANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE PERIOD ENDED DECEMBER 31, 2015  
 (From March 27, 2015 to December 31, 2015)

22 MATURITIES OF ASSETS AND LIABILITIES

	Total	Upto one month	Over one year upto six months	Over six months upto one year	Over one year
	-----Rupees-----				
<b>Market rate assets</b>					
Advances	-	-	-	-	-
Investments	-	-	-	-	-
Other earning assets	755,843,727	155,843,727	600,000,000	-	-
<b>Total market rate assets</b>	<b>755,843,727</b>	<b>155,843,727</b>	<b>600,000,000</b>	-	-
Other non-earning assets	8,192,171	10,022	966,574	-	7,215,575
<b>Total assets</b>	<b>764,035,898</b>	<b>155,853,749</b>	<b>600,966,574</b>	-	<b>7,215,575</b>
<b>Market rate liabilities</b>					
Time deposits of Rs.100,000 and above	-	-	-	-	-
Time deposits below Rs.100,000	-	-	-	-	-
Other cost bearing liabilities	-	-	-	-	-
<b>Total market rate liabilities</b>	-	-	-	-	-
Other non- cost bearing liabilities	2,429,615	2,429,615	-	-	-
<b>Total liabilities</b>	<b>2,429,615</b>	<b>2,429,615</b>	-	-	-

**SINDH MICROFINANCE BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2015**  
**(From March 27, 2015 to December 31, 2015)**

**23 FAIR VALUE MEASUREMENT**

Assets and liabilities measured at fair value in the balance sheet 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 following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2015:

December 31, 2015	Note	Level 1	Level 2	Level 3	Book value	Total Book value
-----Rupees-----						
<b><u>Financial Assets</u></b>						
Term deposit certificates	6	-	-	200,000,000	-	200,000,000
Letter of placements	6	-	-	400,000,000	-	400,000,000
<b><u>Non Financial Assets</u></b>						
Operating fixed assets	7	-	-	-	2,524,053	2,524,053
Other assets	8	-	-	-	8,182,149	8,182,149
		-	-	600,000,000	10,706,202	610,706,202

The Company 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 and Letters of placements.

SINDH MICROFINANCE BANK LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED DECEMBER 31, 2015  
(From March 27, 2015 to December 31, 2015)

---


24 SUBSEQUENT EVENTS

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

25 DATE OF AUTHORIZATION

These financial statements were authorized for issue on 24 Feb 2016 by the Board of Directors of the Bank.

*Signature*

  
\_\_\_\_\_  
President / Chief Executive

  
\_\_\_\_\_  
Chairman

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director



**Grant Thornton**

An instinct for growth™

**Review Report to the Members  
On Statement of Compliance with  
the Public Sector Companies  
(Corporate Governance) Rules, 2013**

**GRANT THORNTON ANJUM RAHMAN**

1st & 3rd Floor,  
Modern Motors House  
Beaumont Road,  
Karachi 75530

T +92 021 3567 2951-56

F +92 021 3568 8834


[www.gtباك.com](http://www.gtباك.com)

We have reviewed the Statement of Compliance ("the Statement") with the Public Sector Companies (Corporate Governance) Rules, 2013 for the year ended December 31, 2015 prepared by the Board of Directors of Sindh Microfinance Bank Limited ("the Bank") to comply with the provisions of the Rules.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material aspects with the Public Sector Companies (Corporate Governance) Rules, 2013, as applicable to the Bank for the year ended December 31, 2015.

We draw attention to the points 2, 11, 12, 18 & 21 of the Statement which describes the non-compliances with the requirements of the Public Sector Companies (Corporate Governance) Rules, 2013.

Dated: March 7, 2016  
Karachi

  
**Grant Thornton Anjum Rahman**  
Chartered Accountants  
**Muhammad Shuakat Naseeb**  
Engagement Partner



**SCHEDULE I [See paragraph 2(1)]**  
**Statement of Compliance with the**  
**Public Sector Companies (Corporate Governance) Rules, 2013**

Name of company : Sindh Microfinance Bank Ltd.

Name of the line ministry:

For the year ended : December 31, 2015

I. This statement is being presented to comply 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.

II. The company has complied with the provisions of the Rules in the following manner:

S.No.	Provision of the Rules	Rule No.	Tick the relevant box																			
			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%; border-collapse: collapse;"> <thead> <tr> <th>Category</th> <th>Names</th> <th>Date of appointment</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Independent Directors</td> <td>Mr. Liaquat Ali</td> <td>April 8<sup>th</sup>, 2015</td> </tr> <tr> <td>Mr. Farooq Ahmed</td> <td>April 8<sup>th</sup>, 2015</td> </tr> <tr> <td>Executive Directors</td> <td>Mr. Shoaib Arif</td> <td>April 8<sup>th</sup>, 2015</td> </tr> <tr> <td rowspan="3">Non-Executive Directors</td> <td>Mr. Fazal Illahi Memon</td> <td>April 8<sup>th</sup>, 2015</td> </tr> <tr> <td>Mr. Javed Iqbal</td> <td>April 8<sup>th</sup>, 2015</td> </tr> <tr> <td>Ms. Masooma Hussain</td> <td>April 8<sup>th</sup>, 2015</td> </tr> </tbody> </table>	Category	Names	Date of appointment	Independent Directors	Mr. Liaquat Ali	April 8 <sup>th</sup> , 2015	Mr. Farooq Ahmed	April 8 <sup>th</sup> , 2015	Executive Directors	Mr. Shoaib Arif	April 8 <sup>th</sup> , 2015	Non-Executive Directors	Mr. Fazal Illahi Memon	April 8 <sup>th</sup> , 2015	Mr. Javed Iqbal	April 8 <sup>th</sup> , 2015	Ms. Masooma Hussain	April 8 <sup>th</sup> , 2015	3(2)	-	✓
Category	Names	Date of appointment																				
Independent Directors	Mr. Liaquat Ali	April 8 <sup>th</sup> , 2015																				
	Mr. Farooq Ahmed	April 8 <sup>th</sup> , 2015																				
Executive Directors	Mr. Shoaib Arif	April 8 <sup>th</sup> , 2015																				
Non-Executive Directors	Mr. Fazal Illahi Memon	April 8 <sup>th</sup> , 2015																				
	Mr. Javed Iqbal	April 8 <sup>th</sup> , 2015																				
	Ms. Masooma Hussain	April 8 <sup>th</sup> , 2015																				
3	A casual vacancy occurring on the board was filled up by the directors within ninety days.	3(4)	✓	-																		
4	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)	✓	-																		
5	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 Ordinance.	3(7)	✓	-																		
6	The chairman of the board is working separately from the chief executive of the Company.	4(1)	✓	-																		
7	The chairman has been elected from amongst the independent directors.	4(4)	✓*	-																		

8	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)	✓	-
9	(a) The company has prepared a "Code of Conduct" and 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. (Address of website to be indicated <a href="http://www.sindhmf.com">www.sindhmf.com</a> )  (b) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from Unethical practices.	5(4)	✓	-
10	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)	✓	-
11	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)	-	✓
12	The Board has developed and implemented a policy on anti- corruption to minimize actual or perceived corruption in the company.	5(5)(b)(vi)	-	✓
13	(a) The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.  (b) A Committee has been formed to investigating deviations from the company's code of conduct.	5(5)(c)(ii)	✓	-
14	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, in accordance with the PPRA Rules.	5(5)(c)(iii)	✓	-
15	The board has developed a vision or mission statement, corporate strategy and 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(6)	✓	-
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 have submitted its request for appropriate compensation to the Government for consideration.	5(8)	✓**	-
17	(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	6(1) 6(2)	✓	-

	meetings. (c) The minutes of the meetings were appropriately recorded and circulated.	6(3)																				
18	The board has carried out performance evaluation of its members, including the chairman and the chief executive, on the basis of a process, based on specified criteria, developed by it. The board has also monitored and assessed the performance of senior management on annual/half-yearly/quarterly basis *. Strike out whichever is not applicable	8	-	✓																		
19	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	✓	-																		
20	The board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end, and has placed the annual financial statements on the company's website. Monthly accounts were also prepared and circulated amongst the board members.	10	✓	-																		
21	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	-	✓																		
22	(a) The board has formed the requisite committees, as specified in the Rules. (b) The committees were provided with written term of reference defining their duties, authority and composition. (c) The minutes of the meetings of the committees were circulated to all the board members. (d) The committees were chaired by the following non-executive directors:	12	✓	-																		
	<table border="1"> <thead> <tr> <th>Committee</th> <th>Number of members</th> <th>Name of Chair</th> </tr> </thead> <tbody> <tr> <td>Audit Committee</td> <td>03</td> <td>Mr. Liaquat Ali</td> </tr> <tr> <td>Risk Management Committee</td> <td>03</td> <td>Mr. Farooq Ahmed</td> </tr> <tr> <td>Human Resources Committee</td> <td>03</td> <td>Mr. Liaquat Ali</td> </tr> <tr> <td>Procurement Committee</td> <td>03</td> <td>Mr. Liaquat Ali</td> </tr> <tr> <td>Nomination Committee</td> <td>03</td> <td>Ms. Masooma Hussain</td> </tr> </tbody> </table>	Committee	Number of members	Name of Chair	Audit Committee	03	Mr. Liaquat Ali	Risk Management Committee	03	Mr. Farooq Ahmed	Human Resources Committee	03	Mr. Liaquat Ali	Procurement Committee	03	Mr. Liaquat Ali	Nomination Committee	03	Ms. Masooma Hussain			
Committee	Number of members	Name of Chair																				
Audit Committee	03	Mr. Liaquat Ali																				
Risk Management Committee	03	Mr. Farooq Ahmed																				
Human Resources Committee	03	Mr. Liaquat Ali																				
Procurement Committee	03	Mr. Liaquat Ali																				
Nomination Committee	03	Ms. Masooma Hussain																				
23	The board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, with their remuneration and terms and conditions of employment, and as per their prescribed qualifications.	13/14	✓	-																		
24	The company has adopted International Financial Reporting Standards notified by the Commission under clause (i) of subsection (3) of section	16	✓	-																		

	234 of the Ordinance.															
25	The directors' report for this year has been prepared in compliance with the requirements of the Ordinance and the Rules and fully describes the salient matters required to be disclosed.	17	✓	-												
26	The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.	18	✓	-												
27	A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place. The annual report of the company contains criteria and details of remuneration of each director	19	✓	-												
28	The financial statements of the company were duly endorsed by the chief executive and chief financial officer, before approval of the board.	20	✓	-												
29	The board has formed an audit committee, with defined and written terms of reference, and having the following members: <table border="1" data-bbox="250 827 1122 974"> <thead> <tr> <th>Number of members</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. Javed Iqbal</td> <td>Member</td> <td>Banker</td> </tr> </tbody> </table> The chief executive and chairman of the Board are not members of the audit committee.	Number of members	Category	Professional Background	Mr. Liaquat Ali	Chairman	Chartered Accountant	Mr. Farooq Ahmed	Member	IT Professional	Mr. Javed Iqbal	Member	Banker	21	✓	-
Number of members	Category	Professional Background														
Mr. Liaquat Ali	Chairman	Chartered Accountant														
Mr. Farooq Ahmed	Member	IT Professional														
Mr. Javed Iqbal	Member	Banker														
30	The board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee, and which worked in accordance with the applicable standards.	22	✓	-												
31	The company has appointed its external auditors in line with the requirements envisaged under the Rules.	23	✓	-												
32	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)	✓	-												
33	The external auditors have not been appointed to provide non audit services and the auditors have confirmed that they have observed applicable guidelines issued by IFAC in this regard.	23(5)	✓	-												
34	The company has complied with all the corporate and financial reporting requirements of the Rules.		✓	-												

\* SECP has granted exemption for non-compliance of this Rule.

\*\* Not Applicable.

  
Shoaib Arif  
Chief Executive Officer

  
Farooq Ahmed  
Independent Director

