

Directors' Report

On behalf of the Board of Directors, I am pleased to present Annual report on the affairs of Sindh Microfinance bank along with audited financial statements and Auditors' Report for the year ended 31st December, 2017.

Economic Review

The country's economy maintained its momentum towards a high growth trajectory over the course of FY17, highest in the last eleven years with GDP reaching at 5.3 percent, While, foreign exchange reserves stood at \$20.7 billion in December against the previous year's \$24 billion. Average heading inflation remains within the forecast range of SBP, but core inflation has continued to increase. Pakistan's outlook for economic growth is favorable, with GDP estimated to strengthen at 6 percent over the medium term on the back of stepped-up China Pakistan Economic Corridor investments, improved availability of energy, and growth-supporting structural reforms.

Operating and Financial Review

Sindh Microfinance bank (bank) is a wholly owned subsidiary of Sindh Bank. The Bank obtained Province-wide Microfinance Banking License from State Bank of Pakistan (SBP) on 16 October 2015 to operate in the province of Sindh. On 15 April 2016, the Bank received Certificate of Commencement of Microfinance Banking Business from SBP and started its operations from its MACHS branch on May 03, 2016.

| Key figures | 2017 | 2016 | Growth% |
|-----------------------|--------|--------|---------|
| Interest / Mark up | 119.6M | 60.1M | 99% |
| Admin Expenses | 85.5M | 39.3 M | 118% |
| Profit after Taxation | 21.7M | 12.4 M | 75% |
| Advances | 338.3M | 68.6M | 393% |
| No. of Borrowers | 23,221 | 3,837 | 505% |
| No. of Br. / Sc. | 50 | 24 | 108% |

Amidst the challenges of an ever increasing competitive financial landscape, SMFB continued its growth and expansion in outreach in the second year of its operations in 2017, the principal activity of the bank continues to be the provision of banking services to

support self-employment and job generation for underprivileged women to build their capacity to attain financial sustainability and achieve overall growth. During the year 2017, bank was able to increase its microfinance loans by nearly 550% to Rs.511.83 M and served 23,085 customers, an increase of 502 percent from 3,837 borrowers in 2016.

SMFB remained active in reaching out to new regions and in line with Annual Branch Expansion Plan (ABEP) expanded its network from 5 branches and 19 service centres in 2016 to 10 branches and 40 service centers as on December 31, 2017. Bank opened its outlets in remote areas of the province like Daur, Mehrabpur & Shahdadpur.

Sindh Microfinance Bank has reported a strong financial and operating performance during the year 2017 and with the earnest efforts of dedicated staff, The Bank recorded a higher

pre-tax profit of Rs.30.95 million for the financial year ended December 31, 2017, compared to the Rs.20.74 million pre-tax profit recorded in the previous year.

In 2017, bank employed more staff to drive its expansion plan. The total staff of the Bank increased from 94 in 2016 to 215 as at December 2017. Most of the new recruitments were of field staff to meet business and operational requirements.

Meetings of the Board

During the year 2017, our Board met 4 times and the detail of the Board meeting and the No. of Directors who attended the Meeting is as follows:

| S. No. | Name | Meetings Attended |
|--------|---------------------|-------------------|
| 1 | Shamsuddin Khan | 4 |
| 2 | Naila Masood | 2 |
| 3 | Masooma Hussain | 2 |
| 4 | Liaquat Ali | 4 |
| 5 | Farooq Ahmed | 4 |
| 6 | Fazal Illahi Memon | - |
| 7 | Muhammad ShoaibArif | 4 |

Auditors

M/s Grant Thornton Anjum Rehman, External Auditors of the bankhas audited the accounts of the bank for the year 2017 as per accounting standards.

New Initiatives:

During the year 2017, SMFB as one of its commitment to outreach microfinance at the doorstep of rural population in Sindh, in addition to previously launched product of "Sujag Aurat", has also started Fisheries loans through our existing network and resources which will flourish further during the current year with added resources and technology.

SMFB within its objective of economically active women empowerment in addition to its existing products of Sujag Aurat and Fisheries loan, is also planning to launch products like small agricultural loans, livestock loans, karobar loans, vehicle and asset leasing (Sawari loans) for catering the needs of lower strata of our society. The Bank's five year plan envisages to reach at portfolio in excess of PKR 2 billion represented by more than 100,000 clients by the end of year 2020.

Future Outlook

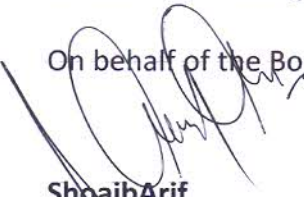
Moving ahead in 2018, bank will remain prudent in its approach and focused on building the quality and the diversification of our portfolio. Bank's long-term ambition is to have consistent, competitive, profitable and responsible growth – year in and year out.

The year 2018 is expected to see economic activity gaining further momentum, we expect to see improvements in rural life styles and savings habits and greater entrepreneurship leading to enhanced capacities for livelihoods and small businesses in microfinance under rural sectors. We are thus buoyant on the prospects for our business growth and will continue to optimize and reallocate our resources to utilize their full potential. Appreciating that technology is an imperative to enhance value creation and sustain our competitiveness amidst rapidly changing life styles and landscapes of the microfinance i.e. latest IT solutions; we will continue to leverage technology to enhance customer convenience and satisfaction, innovating how and what we deliver. Funding cost will remain a key determinant to growing profitability. The pickup in economic activity during the year ahead will also see rise in demand for microfinance, particularly low income group in rural areas of Sindh; SMFB business segment is well positioned to harness this growth through launching of products like small agricultural loans, livestock loans, karobar loans, vehicle and asset leasing (Sawari loans) for catering the needs of lower strata of our society. Leveraging on our expanding network, we will continue to differentiate ourselves, really connect with our customers in furtherance of our aim to make SMFB as one of the most efficient microfinance bank in Pakistan.

Acknowledgement

The Directors of the bank takes this opportunity to express their deep and sincere gratitude towards the support, guidance and co-operation received from State Bank of Pakistan and other Regulatory Authorities. The Board would also like to acknowledge and appreciate commitment and contribution shown by the employees of the bank in its endeavor to achieve its targets and objective. Directors would also like to express their gratitude towards our customers, business partners especially Sindh Bank and other stakeholders for their continued patronage and trust.

On behalf of the Board of Directors,



Shoaib Arif
President / CEO
March 03, 2018
Karachi.

Auditor's Report and Financial Statement

Sindh Microfinance Bank Limited

For the year ended December 31, 2017



Grant Thornton

An instinct for growth™

Grant Thornton Anjum Rahman

Chartered Accountants



Grant Thornton

An instinct for growth™

AUDITORS' REPORT TO THE MEMBERS

GRANT THORNTON ANJUM RAHMAN

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We have audited the annexed balance sheet of **Sindh Microfinance Bank Limited** (the Bank) as at December 31, 2017 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 year 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.

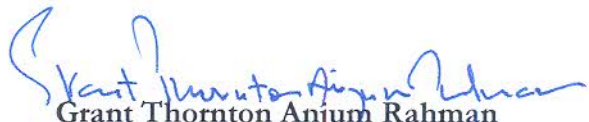
It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984, and the Microfinance Institutions Ordinance, 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 consistently applied therein;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and

- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;
- (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, statement of comprehensive income, 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, 2017 and of the profit, its comprehensive income, its cash flows and changes in equity for the year 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 8, 2018
Karachi


Grant Thornton Anjum Rahman
Chartered Accountants
Muhammed Shaukat Naseeb
Engagement Partner

Sindh Microfinance Bank Limited

Financial Statement

For the year ended December 31, 2017

SINDH MICROFINANCE BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2017

| | Note | 2017 -----Rupees----- | 2016 |
|--|------|--------------------------|--------------------|
| ASSETS | | | |
| Cash and balances with SBP and NBP | 7 | 1,005,398 | 516,805 |
| Balances with other banks | 8 | 423,921,212 | 581,437,850 |
| Lending to financial institutions | 9 | - | 100,000,000 |
| Investment - net of provisions | | - | - |
| Advances - net of provisions | 10 | 338,388,828 | 68,657,071 |
| Operating fixed assets | 11 | 9,012,416 | 7,399,608 |
| Other assets | 12 | 31,577,415 | 22,680,807 |
| Deferred tax asset-net | | - | - |
| Total assets | | 803,905,269 | 780,692,141 |
| LIABILITIES | | | |
| Deposits and other accounts | 13 | 1,373,112 | 1,138,626 |
| Borrowings | | - | - |
| Subordinated debt | | - | - |
| Other liabilities | 14 | 2,729,942 | 1,472,269 |
| Deferred tax liabilities-net | 15 | 403,533 | 407,907 |
| Total liabilities | | 4,506,587 | 3,018,801 |
| NET ASSETS | | 799,398,682 | 777,673,339 |
| REPRESENTED BY: | | | |
| Share capital | 16 | 750,000,000 | 750,000,000 |
| Statutory and General Reserves | | 9,879,735 | 5,534,666 |
| Depositors' protection fund | | 2,469,934 | 1,383,667 |
| Unappropriated profit | | 37,049,013 | 20,755,006 |
| | | 799,398,682 | 777,673,339 |
| Surplus/(deficit) on revaluation of assets | | - | - |
| Deferred grants | | - | - |
| TOTAL EQUITY | | 799,398,682 | 777,673,339 |

MEMORANDUM / OFF BALANCE SHEET ITEMS 17

The annexed notes from 1 to 35 form an integral part of these financial statements. *gm*



 President & Chief Executive



 Chairman



 Director



 Director

SINDH MICROFINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Note | 2017 -----Rupees----- | 2016 |
|---|------|--------------------------|---------------------|
| Mark-up / return / interest earned | 18 | 119,668,435 | 60,809,161 |
| Mark-up / return / interest expensed | 19 | (5,290) | (236) |
| Net mark-up / interest income | | 119,663,145 | 60,808,925 |
| Provision against non-performing loans and advances | 10.2 | (2,724,665) | (693,506) |
| Provision for diminution in the value of investments | | - | - |
| Bad debts written off directly | 10.3 | (469,926) | - |
| | | (3,194,591) | (693,506) |
| Net mark-up / interest income after provisions | | 116,468,554 | 60,115,419 |
| NON MARK-UP/ NON INTEREST INCOME | | | |
| Fee, commission and brokerage income | | - | - |
| Dividend income | | - | - |
| Other income | | 9,725 | 16,000 |
| | | 9,725 | 16,000 |
| Total non mark-up / non interest income | | 116,478,279 | 60,131,419 |
| NON MARKUP/ NON INTEREST EXPENSE | | | |
| Administrative expenses | 20 | (85,524,686) | (39,390,100) |
| Other provisions/write offs | | - | - |
| Other charges | | - | - |
| Total non mark-up / non interest expenses | | (85,524,686) | (39,390,100) |
| Extra ordinary / unusual items | | - | - |
| Profit before taxation | | 30,953,593 | 20,741,319 |
| Taxation | | | |
| - current | 21 | 9,232,624 | 6,900,501 |
| - prior | | - | (110,092) |
| - deferred | 15.1 | (4,374) | 1,490,392 |
| | | (9,228,250) | (8,280,801) |
| Profit after taxation | | 21,725,343 | 12,460,518 |
| Unappropriated profit - brought forward | | 20,755,006 | 11,409,618 |
| Profit available for appropriation | | 42,480,349 | 23,870,136 |
| APPROPRIATIONS: | | | |
| Transfer to | | | |
| - statutory reserve | | 4,345,069 | 2,492,104 |
| - capital reserve | | - | - |
| - contribution to depositors' protection fund | | 1,086,267 | 623,026 |
| - revenue reserve | | - | - |
| - proposed dividend | | - | - |
| Unappropriated profit - carried forward | | 37,049,013 | 20,755,006 |
| EARNINGS PER SHARE | | | |
| | 23 | 0.29 | 0.17 |

The annexed notes from 1 to 35 form an integral part of these financial statements.

President & Chief Executive

Chairman

Director

Director

SINDH MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Note | 2017 -----Rupees----- | 2016 |
|---|------|--------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 30,953,593 | 20,741,319 |
| Adjustments for non cash items: | | | |
| Depreciation | 11.1 | 1,488,447 | 766,006 |
| Amortization | 11.2 | 341,250 | 313,672 |
| Provision against non performing advances | | 2,724,665 | 693,506 |
| Bad debts written off directly | 10.3 | 469,926 | - |
| Operating cash flows before changes in working capital | | 35,977,881 | 22,514,503 |
| Working capital changes | | | |
| (Increase)/decrease in operating assets | | | |
| Advances | | (272,926,349) | (69,350,577) |
| Other assets (excluding advance taxation) | | (6,844,738) | (9,976,413) |
| | | (279,771,087) | (79,326,990) |
| Increase in operating liabilities | | | |
| Other liabilities | | 1,257,673 | 777,505 |
| Deposits | | 234,487 | 1,138,626 |
| | | 1,492,160 | 1,916,131 |
| | | (242,301,046) | (54,896,356) |
| Income tax paid | | (11,284,494) | (13,047,505) |
| Net cash flows/ (used in) operating activities | | (253,585,540) | (67,943,861) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net investments in letter of placement | | - | 400,000,000 |
| Net maturity / investments in certificate of deposit | | 100,000,000 | (100,000,000) |
| Purchase of operating fixed assets | 11.1 | (3,442,505) | (5,955,233) |
| Net cash flow from investing activities | | 96,557,495 | 294,044,767 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net (decrease) / increase in cash and cash equivalents | | (157,028,045) | 226,100,906 |
| Cash and cash equivalents at beginning of the year | | 581,954,655 | 355,853,749 |
| Cash and cash equivalents at the end of the year | 24 | 424,926,610 | 581,954,655 |

The annexed notes from 1 to 35 form an integral part of these financial statements. *CSM*



 President & Chief Executive



 Chairman



 Director



 Director

SINDH MICROFINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

| | Share capital | Statutory reserve | Depositors' protection fund | Unappropriated profit | Total |
|--|---------------|-------------------|-----------------------------|-----------------------|-------------|
| Balance as at January 1, 2016 | 750,000,000 | 3,042,562 | 760,641 | 11,409,618 | 765,212,821 |
| Total comprehensive income for the year | | | | | |
| - Profit after taxation | - | - | - | 12,460,518 | 12,460,518 |
| - Other comprehensive income | - | - | - | - | - |
| Transfer to statutory reserve | - | - | - | 12,460,518 | 12,460,518 |
| Transfer to depositors' protection fund | - | 2,492,104 | - | (2,492,104) | - |
| - 5% of the profit after tax for the year | - | - | 623,026 | (623,026) | - |
| Balance as at December 31, 2016 | 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 | - | - | - | - | - |
| Transfer to statutory reserve | - | - | - | 21,725,343 | 21,725,343 |
| Transfer to depositors' protection fund | - | 4,345,069 | - | (4,345,069) | - |
| - 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 |

The annexed notes from 1 to 35 form an integral part of these financial statements.




 President & Chief Executive


 Chairman


 Director


 Director

SINDH MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

| | 2017 | 2016 |
|---|--------------------------|--------------------------|
| | -----Rupees----- | |
| Profit after taxation | 21,725,343 | 12,460,518 |
| Other comprehensive income | | |
| - Items that may be reclassified to profit and loss account | - | - |
| - Items that will not reclassified to profit and loss account subsequently | - | - |
| | - | - |
| Comprehensive income for the year transferred statement of changes to equity | <u>21,725,343</u> | <u>12,460,518</u> |
| Total comprehensive income for the year | <u><u>21,725,343</u></u> | <u><u>12,460,518</u></u> |

The annexed notes from 1 to 35 form an integral part of these financial statements.

CFM



 President & Chief Executive



 Chairman



 Director



 Director

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 State Bank of Pakistan on October 16, 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 30, 2015. 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 comprises of 10 (2016: 5) branches and 40 (2016: 19) 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 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.

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

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

4.3 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

| | Note |
|--|-------------|
| a) Provision against non performing advances | 6.2 |
| b) Useful life of depreciable assets | 6.3 |
| c) Provision for taxation | 6.5 |

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.

5 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO APPROVED ACCOUNTING STANDARDS

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

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

| Standard or Interpretation | Effective Date |
|--|-----------------------|
| IAS 7 - Disclosure Initiative (Amendments to IAS 7) | January 1, 2017 |
| IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12) | January 1, 2017 |

Adoption of the above revisions, amendments and interpretations of the standards have no significant effect on the amounts for the year ended December 31, 2016 and 2017.

5.2 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, 2017 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.

5.3 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.

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

| Standard or Interpretation | Effective Date |
|---|-----------------------|
| IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) | Postponed |
| IFRS 2 - Classification and Measurement of Share-based Payment Transaction (Amendments to IFRS 2) | January 1, 2018 |
| IFRS 1 and IAS 28 - Annual Improvements to IFRSs 2014-2016 | January 1, 2018 |
| IFRIC 22 - Foreign Currency Transactions and Advance Consideration | January 1, 2018 |
| IFRS 15 - Revenue from Contracts with Customers | July 1, 2018 |
| IFRS 9 - Financial Instruments | July 1, 2018 |
| IFRIC 23 - Uncertainty over Income Tax Treatments | January 1, 2019 |
| IAS 28 - Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) | January 1, 2019 |
| Annual Improvements to IFRSs 2015 - 2017 Cycle | January 1, 2019 |
| IFRS 9 - Prepayment Features with Negative Compensation (Amendments to IFRS 9) | January 1, 2019 |

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

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

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

| Standard or Interpretation | IASB effective date (Annual periods beginning) |
|--|--|
| IFRS 14 - Regulatory Deferral Accounts | January 1, 2016 |
| IFRS 16 - Leases | January 1, 2019 |
| IFRS 17 - Insurance Contracts | January 1, 2021 |

6 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.

6.1 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 with maturities of less than three months.

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

6.2 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 gold and other cash collaterals with appropriate margin.

In addition the bank maintains watch list of all accounts delinquent by 5- 29 days.

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 and gold collected 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.

6.3 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.

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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.

6.4 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.

6.5 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.

6.6 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.

6.7 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.

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

6.8 Borrowings

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

6.9 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.

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.

6.10 Statutory reserve

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

6.11 Depositors' protection fund

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

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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6.12 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.

6.13 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.

6.14 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.

6.15 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, borrowings, deposits and other liabilities. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

6.16 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.

6.17 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.

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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6.18 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).

6.19 General

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

Corresponding figures have been rearranged / reclassified for the purpose of better presentation / comparison. However, no material rearrangement / reclassification have been made in these financial statements.

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.

6.20 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.

| | | 2017 | 2016 |
|---|------|------------------|---------|
| | | -----Rupees----- | |
| 7 CASH AND BALANCES WITH SBP AND NBP | Note | | |
| Cash in hand | | 280,262 | 185,040 |
| Balances with State Bank of Pakistan in local currency | | 725,136 | 331,765 |
| Balances with National Bank of Pakistan in local currency | | - | - |
| | 7.1 | 725,136 | 331,765 |
| | | 1,005,398 | 516,805 |

7.1 This represents balance held with SBP to meet the requirement of maintaining a minimum balance equivalent to 5% (2016: 5%) and 10% (2016: 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.

| | | 2017 | 2016 |
|------------------------------------|------|------------------|-------------|
| | | -----Rupees----- | |
| 8 BALANCES WITH OTHER BANKS | Note | | |
| In Pakistan | | | |
| - Local currency current account | | - | - |
| - Local currency deposit account | 8.1 | 23,921,212 | 181,437,850 |
| - Term deposit receipts | 8.2 | 400,000,000 | 400,000,000 |
| | | 423,921,212 | 581,437,850 |

SINDH MICROFINANCE BANK LIMITED
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FOR THE YEAR ENDED DECEMBER 31, 2017

8.1 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 5.25% to 6.15% (2016: 6.15% to 6.40% per annum) and balances with National Bank of Pakistan carrying mark-up at rate of 3.75% (2016: 3.85%).

8.2 This includes Term deposit receipts (TDRs) placed with NRSP Microfinance Bank Limited having maturity of 1 year from the date of investment carrying interest at the rate of 9.50% (2016: 11.25%), Telenor Microfinance Bank having maturity of 1 year at the rate of 9% and 6 months at the rate of 7.5% and Khushhali Bank limited having maturity of 6 months from the date of investment carrying interest at the rate of 7.5% (2016: 7%-7.3% per annum).

| | 2017 | 2016 |
|-------------------------------------|------------------|-------------|
| | -----Rupees----- | |
| 9 LENDING TO FINANCIAL INSTITUTIONS | | |
| Certificate of deposit | - | 100,000,000 |

10 ADVANCES - NET OF PROVISIONS

| | Note | 2017 | | 2016 | |
|----------------------|------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | Number of loans outstanding | Amount outstanding (Rupees) | Number of loans outstanding | Amount outstanding (Rupees) |
| Micro Credit | | | | | |
| -Unsecured | | 23,221 | 341,806,999 | 3,837 | 69,350,577 |
| -Secured | | - | - | - | - |
| | | 23,221 | 341,806,999 | 3,837 | 69,350,577 |
| Less: Provision held | | | | | |
| - General | 10.1 | - | (3,418,171) | - | (693,506) |
| - Specific | | - | - | - | - |
| | | - | (3,418,171) | - | (693,506) |
| | | 23,221 | 338,388,828 | 3,837 | 68,657,071 |

10.1 This represents general provision equivalent to 1% of outstanding unsecured advances held in accordance with the requirements of prudential regulations for microfinance banks.

10.2 Particulars of provision against non-performing advances

| | 2017 | | | 2016 | | |
|---------------------|----------|-----------|-----------|----------|---------|---------|
| | Specific | General | Total | Specific | General | Total |
| Opening balance | - | 693,506 | 693,506 | - | - | - |
| Charge for the year | - | 2,724,665 | 2,724,665 | - | 693,506 | 693,506 |
| Reversals | - | - | - | - | - | - |
| Closing balance | - | 3,418,171 | 3,418,171 | - | 693,506 | 693,506 |

10.3 Particulars of written-off

| | Note | 2017 | | 2016 | |
|---|--------|---------------------|-----------------|---------------------|-----------------|
| | | Number of customers | Amount (Rupees) | Number of customers | Amount (Rupees) |
| Directly charged to profit and loss account | 10.3.1 | 35 | 469,926 | - | - |

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

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

II OPERATING FIXED ASSETS

Property and equipment
Intangible assets

11.1 PROPERTY AND EQUIPMENT

| | | |
|------|------------------|------------------|
| | 2017 | 2016 |
| | -----Rupees----- | |
| Note | | |
| 11.1 | 7,956,400 | 6,002,342 |
| 11.2 | 1,056,016 | 1,397,266 |
| | <u>9,012,416</u> | <u>7,399,608</u> |

| | 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 | Charged 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 | 1,066,532 | 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 | 7,063,541 | 3,442,505 | 10,506,046 | 1,061,198 | 1,488,447 | 2,549,646 | 7,956,400 | |

| | COST | | ACCUMULATED DEPRECIATION | | | Net book value at Dec 31, 2016 | Rate of Depreciation | |
|-----------------------|-------------------|-----------|--------------------------|-------------------|----------------------|--------------------------------|----------------------|--------------------|
| | As at Jan 1, 2016 | Additions | As at Dec 31, 2016 | As at Jan 1, 2016 | Charged for the year | | | As at Dec 31, 2016 |
| | Rupees----- | | | | | | | |
| Office equipment | 57,190 | 3,763,545 | 3,820,735 | 940 | 232,656 | 233,596 | 3,587,139 | 20% |
| Office improvement | 121,101 | 316,750 | 437,851 | 400 | 8,310 | 9,210 | 428,641 | 5% |
| Furniture and fixture | 183,455 | 164,000 | 347,455 | 1,646 | 34,051 | 35,697 | 311,758 | 10% |
| Vehicles | 2,457,500 | - | 2,457,500 | 292,207 | 490,489 | 782,696 | 1,674,804 | 20% |
| Total | 2,819,246 | 4,214,295 | 7,063,541 | 295,193 | 766,006 | 1,061,199 | 6,002,342 | |

SINDH MICROFINANCE BANK LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
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11.2 INTANGIBLE ASSETS

| | 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 |
| 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 | |
| | COST | | ACCUMULATED AMORTIZATION | | Net book value at Dec 31, 2016 | Rate of amortization | | |
| As at Jan 1, 2016 | Additions | As at Dec 31, 2016 | As at Jan 1, 2016 | Amortization | | | As at Dec 31, 2016 | |
| Software | 1,710,938 | - | 1,710,938 | - | 313,672 | 313,672 | 1,397,266 | 20% |
| Total | 1,710,938 | - | 1,710,938 | - | 313,672 | 313,672 | 1,397,266 | |

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | | 2017 | 2016 |
|-----------|-------------------------------------|-------------------|-------------------|
| | | -----Rupees----- | |
| 12 | OTHER ASSETS | | |
| | Income/ mark-up accrued on advances | 6,239,865 | 1,176,814 |
| | Profit receivable on TDR's | 6,437,325 | 8,671,035 |
| | Advances, prepayments and deposits | 12,326,111 | 8,310,714 |
| | Advance tax - net of provision | 6,574,114 | 4,522,244 |
| | | <u>31,577,415</u> | <u>22,680,807</u> |

| 13 | DEPOSITS AND OTHER ACCOUNTS | Note | 2017 | | 2016 | |
|----|--------------------------------|------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|
| | | | Number of accounts | Amount outstanding (Rupees) | Number of accounts | Amount outstanding (Rupees) |
| | Current | | 2 | 1,100,075 | 1 | 1,100,100 |
| | Savings | 13.1 | 24,414 | 273,037 | 3,852 | 38,526 |
| | | | <u>24,416</u> | <u>1,373,112</u> | <u>3,853</u> | <u>1,138,626</u> |

13.1 All the deposits pertains to individual loan holders carrying interest rate of 4% per annum (2016: 4%).

| | | 2017 | 2016 |
|-----------|----------------------------------|------------------|------------------|
| | | -----Rupees----- | |
| 14 | OTHER LIABILITIES | | |
| | EOBI payable | 135,749 | 70,979 |
| | Withholding tax payable | 291,580 | 288,083 |
| | Employees provident fund payable | 396,848 | 251,636 |
| | Audit fee payable | 175,000 | 147,000 |
| | Other payable | 1,730,765 | 714,571 |
| | | <u>2,729,942</u> | <u>1,472,269</u> |

| | | | |
|-----------|--------------------------------|----------------|----------------|
| 15 | DEFERED TAX LIABILITIES | | |
| | Opening balance | 407,907 | (1,082,485) |
| | Charged during the year | (4,374) | 1,490,392 |
| | Closing balance | <u>403,533</u> | <u>407,907</u> |

| | | | |
|-------------|--|----------------|----------------|
| 15.1 | Movement in temporary differences during the year | | |
| | Opening | 407,907 | (1,082,485) |
| | Deferred tax liabilities arising in respect of: | | |
| | Recognized in profit and loss account | | |
| | Accelerated tax depreciation allowance | (4,374) | 1,490,392 |
| | | <u>403,533</u> | <u>407,907</u> |

| 16 | | SHARE CAPITAL | | | |
|---|-------------|--------------------------|---------------|--|--|
| | | Authorized share capital | | | |
| 2017 | 2016 | 2017 | 2016 | | |
| -----Number of Shares----- | | -----Rupees----- | | | |
| 100,000,000 | 100,000,000 | 1,000,000,000 | 1,000,000,000 | Ordinary shares of Rs. 10 each | |
| Issued, subscribed and paid-up share capital | | | | | |
| 2017 | 2016 | 2017 | 2016 | | |
| -----Number of Shares----- | | -----Rupees----- | | | |
| 75,000,000 | 75,000,000 | 750,000,000 | 750,000,000 | Ordinary shares of Rs. 10 each fully paid in cash | |

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

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

17 MEMORANDUM / OFF BALANCE SHEET ITEMS

There are no contingencies and undisbursed loans as at year end (2016: Nil).

| 18 MARK-UP / RETURN / INTEREST EARNED | Note | 2017 | 2016 |
|---------------------------------------|------|--------------------|-------------------|
| | | -----Rupees----- | |
| On: | | | |
| - Advances | | 71,764,965 | 4,821,033 |
| - Deposits on daily savings account | | 4,474,334 | 11,557,578 |
| - Certificate of deposits | | 1,497,945 | 5,271,282 |
| - Term deposit receipts | | 41,931,191 | 21,475,589 |
| - Letter of placements | | - | 17,683,679 |
| | | <u>119,668,435</u> | <u>60,809,161</u> |

19 MARK-UP / RETURN / INTEREST EXPENSED

| | | | |
|-------------|--|--------------|------------|
| On deposits | | <u>5,290</u> | <u>236</u> |
|-------------|--|--------------|------------|

20 ADMINISTRATIVE EXPENSES

| | | | |
|--------------------------------------|------|-------------------|-------------------|
| Salaries, wages and other allowances | | 59,250,042 | 26,956,865 |
| Staff welfare | | 306,508 | 268,128 |
| Rent and taxes | | 8,478,285 | 3,553,171 |
| Directors' fee | | 210,000 | 165,000 |
| Printing and stationery | | 1,038,285 | 272,703 |
| Communication | | 1,762,236 | 512,816 |
| Office supplies | | 153,749 | 306,279 |
| Travelling and conveyance | | 1,607,483 | 517,712 |
| Insurance | | 913,463 | 132,887 |
| Training and development | | 198,442 | 43,324 |
| Utilities | | 1,633,458 | 887,783 |
| Branch setup cost | | 1,929,783 | 589,975 |
| Advertisement | | 207,330 | 205,533 |
| Depreciation | 11.1 | 1,488,447 | 766,006 |
| Amortization | 11.2 | 341,250 | 313,672 |
| Auditor's remuneration | 20.1 | 478,200 | 283,400 |
| Bank charges | | 691,976 | 57,550 |
| Office cleaning and maintenance | | 1,699,397 | 706,748 |
| Legal and professional fee | | 548,510 | 48,878 |
| Fee and subscription | | 2,325,056 | 2,771,898 |
| Others | | 262,786 | 29,772 |
| | | <u>85,524,686</u> | <u>39,390,100</u> |

20.1 AUDITORS' REMUNERATION

| | | | |
|------------------------|--|----------------|----------------|
| Audit fee | | 175,000 | 90,000 |
| Half yearly review fee | | 80,000 | 40,300 |
| Tax services | | 109,200 | - |
| Certification fee | | 54,000 | 96,100 |
| PSCG- report fee | | 35,000 | 35,000 |
| Out of pocket | | 25,000 | 22,000 |
| | | <u>478,200</u> | <u>283,400</u> |

SINDH MICROFINANCE BANK LIMITED
 NOTES TO THE FINANCIAL STATEMENTS
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| | 2017 | 2016 |
|--------------------|------------------|------------------|
| | -----Rupees----- | |
| 21 TAXATION | | |
| - Current | 9,232,624 | 6,900,501 |
| - Prior | - | (110,092) |
| - Deferred | (4,374) | 1,490,392 |
| | <u>9,228,250</u> | <u>8,280,801</u> |

21.1 Relationship between tax expense and accounting profit

| | | |
|---|------------------|------------------|
| Profit before tax | 30,953,593 | 20,741,319 |
| Tax at the applicable tax rate | 9,286,078 | 7,259,462 |
| Effects of: | | |
| -Prior year | - | (48,946) |
| - Taxable temporary difference - operating fixed assets | (4,374) | 407,907 |
| - Permanent difference - precommencement expenditure | - | 662,379 |
| - Reduce rate difference | (53,454) | - |
| Tax expense | <u>9,228,250</u> | <u>8,280,801</u> |

22 NUMBER OF EMPLOYEES

| | Credit /Sales Staff | Banking Staff | Total |
|-------------|------------------------|---------------|------------|
| 2017 | | | |
| Permanent | 193 | 22 | 215 |
| Contractual | - | - | - |
| | <u>193</u> | <u>22</u> | <u>215</u> |
| 2016 | | | |
| Permanent | 76 | 18 | 94 |
| Contractual | - | - | - |
| | <u>76</u> | <u>18</u> | <u>94</u> |

23 BASIC AND DILUTED EARNING 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.

| | | 2017 | 2016 |
|----------------------------------|------------|-------------------|-------------------|
| | | -----Rupees----- | |
| 23.1 Profit for the year | A | <u>21,725,343</u> | <u>12,460,518</u> |
| | | (Number) | (Number) |
| Weighted average ordinary shares | B | <u>75,000,000</u> | <u>75,000,000</u> |
| | | (Rupees) | (Rupees) |
| Earning per share | A/B | <u>0.29</u> | <u>0.17</u> |

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Diluted

There is no dilution effect on the basic earnings per share of the Bank as on December 31, 2017 (2016: Nil).

| | | 2017 | 2016 |
|-------------------------------------|------|--------------------|--------------------|
| | | -----Rupees----- | |
| 24 CASH AND CASH EQUIVALENTS | Note | | |
| Cash in hand | 7 | 280,262 | 185,040 |
| Cash and balances with SBP and NBP | 7 | 725,136 | 331,765 |
| Balances with other banks | 8 | 423,921,212 | 581,437,850 |
| | | <u>424,926,610</u> | <u>581,954,655</u> |

25 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties comprise of Sindh Bank Limited (holding bank) it's subsidiary, associates, 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 | 2017 | 2016 |
|--|------|------------------|--------------------|
| | | -----Rupees----- | |
| Balances with Sindh Bank Limited - Holding bank | | | |
| - Deposit account | | <u>4,338,692</u> | <u>180,005,055</u> |
| Balances with Sindh Insurance Limited | | | |
| Prepaid insurance | 12 | <u>127,836</u> | <u>151,591</u> |
| Transactions with Sindh Bank Limited | | | |
| Mark-up on deposits accounts | 18 | <u>4,474,334</u> | <u>11,557,578</u> |
| Mark-up on term deposit receipts | 18 | <u>-</u> | <u>21,475,589</u> |
| Transactions with Sindh Insurance Limited | | | |
| Insurance expense | 20 | <u>808,210</u> | <u>132,887</u> |

| | | 2017 | 2016 |
|------------------------------|--|-------------------|----------|
| | | -----Numbers----- | |
| 26 NUMBER OF BRANCHES | | | |
| At the beginning of the year | | 5 | - |
| Add: Opened during the year | | 5 | 5 |
| Less: Closed during the year | | - | - |
| Total | | <u>10</u> | <u>5</u> |

27 NUMBER OF SERVICE CENTERS

| | | | |
|------------------------------|--|-----------|-----------|
| At beginning of the year | | 19 | - |
| Add: Opened during the year | | 21 | 19 |
| Less: Closed during the year | | - | - |
| Total | | <u>40</u> | <u>19</u> |

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

28 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| | December 31, 2017 | | | December 31, 2016 | | |
|-------------------------------|----------------------|----------------|-------------------|----------------------|----------------|------------------|
| | Rupees | | | Rupees | | |
| | Chief Executive | Directors | Executives | Chief Executive | Directors | Executives |
| -Managerial remuneration | 6,066,665 | - | 6,346,667 | 4,899,999 | - | 3,448,486 |
| -House rent allowance | 2,729,999 | - | 2,856,000 | 2,204,999 | - | 1,551,813 |
| -Medical allowance | 606,667 | - | 634,667 | 489,999 | - | 344,849 |
| -Utilities allowance | 606,667 | - | 634,667 | 490,008 | - | 344,849 |
| -Contribution to PF | 606,667 | - | 634,667 | 490,000 | - | 298,186 |
| -Bonus | 866,666 | - | 648,485 | - | - | - |
| -Directors fee | - | 210,000 | - | - | 165,000 | - |
| | 11,483,331 | 210,000 | 11,755,153 | 8,575,005 | 165,000 | 5,988,183 |
| Number of persons at year end | 1 | 3 | 7 | 1 | 3 | 6 |

28.1 Executive means employees, other than the chief executive and directors, whose basic salary exceed Rs. 500,000 in a financial year.

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

29 DEFINED CONTRIBUTION PLAN

29.1 Disclosures relating to Provident fund

| | 2017 (un-audited) | 2016 (un-audited) |
|--------------------------------|----------------------|----------------------|
| | -----Rupees----- | |
| Size of the fund | 5,846,717 | 1,895,621 |
| Cost of the investments made | 5,846,717 | 1,895,621 |
| Percentage of investments made | 100% | 100% |
| Fair value of investments | 5,846,717 | 1,895,621 |
| Break-up of investments | | |
| TDR's | 5,828,014 | - |
| Bank balances | 18,703 | 1,895,621 |
| | 5,846,717 | 1,895,621 |

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, 2017

30.2 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.

30.3 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.

30.4 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.

30.5 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, 2017:

| | Note | Level 1 | Level 2 | Level 3 | Total Book value |
|---------------------------|------|---------|---------|-------------|------------------|
| -----Rupees----- | | | | | |
| 2017 | | | | | |
| Financial Assets | | | | | |
| Term deposit certificates | 8 | - | - | 400,000,000 | 400,000,000 |
| Certificate of deposits | 9 | | | - | - |
| | | - | - | 400,000,000 | 400,000,000 |
| | Note | Level 1 | Level 2 | Level 3 | Total Book value |
| -----Rupees----- | | | | | |
| 2016 | | | | | |
| Financial Assets | | | | | |
| Term deposit certificates | 8 | - | - | 400,000,000 | 400,000,000 |
| Certificate of deposits | 9 | | | 100,000,000 | 100,000,000 |
| | | - | - | 500,000,000 | 500,000,000 |

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 and Letters of placements.

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

31 MATURITIES OF ASSETS AND LIABILITIES

| | 2017 | Rupees | | | |
|---------------------------------------|--------------------|--------------------|----------------|--------------------------------|-------------------------------|
| | | Total | Upto one month | Over one month upto six months | Over six months upto one year |
| Market rate assets | | | | | |
| Advances | 341,806,999 | - | - | 341,806,999 | - |
| Investments | - | - | - | - | - |
| Other earning assets | 423,921,212 | 423,921,212 | - | - | - |
| Total market rate assets | 765,728,211 | 423,921,212 | - | 341,806,999 | - |
| Other non-earning assets | 41,595,229 | 1,005,398 | - | - | 40,589,831 |
| Total assets | 807,323,440 | 424,926,610 | - | 341,806,999 | 40,589,831 |
| 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, 2017

| | Total | Upto one month | Over one month upto six months | Over six months upto one year | Over one year |
|---------------------------------------|------------------|-------------------|-----------------------------------|-------------------------------------|---------------|
| 2016 | -----Rupees----- | | | | |
| Market rate assets | | | | | |
| Advances | 69,350,577 | - | - | 69,350,577 | - |
| Investments | - | - | - | - | - |
| Other earning assets | 680,005,055 | 580,005,055 | 100,000,000 | - | - |
| Total market rate assets | 749,355,632 | 580,005,055 | 100,000,000 | 69,350,577 | - |
| Other non-earning assets | 32,030,015 | 1,949,600 | - | - | 30,080,415 |
| Total assets | 781,385,647 | 581,954,655 | 100,000,000 | 69,350,577 | 30,080,415 |
| Market rate liabilities | | | | | |
| Time deposits of Rs.100,000 and above | - | - | - | - | - |
| Time deposits below Rs.100,000 | 1,138,626 | - | - | 1,138,626 | - |
| Other cost bearing liabilities | - | - | - | - | - |
| Total market rate liabilities | 1,138,626 | - | - | 1,138,626 | - |
| Other non- cost bearing liabilities | 1,472,269 | 1,472,269 | - | - | - |
| Total liabilities | 2,610,895 | 1,472,269 | - | 1,138,626 | - |

32 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, 2017. As at December 31, 2017, the paid up share capital of the Bank stood at Rs. 750 million (2016: 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, 2017, the Bank's Capital adequacy ratio (CAR) is approximately 170.32% (2016: 369.25%) of its weighted exposure, as against the minimum requirement of 15% prescribed by SBP.

33 COMPARATIVE FIGUERS

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

| Nature of reclassification | Note | Reclassification from | Reclassification to | Rupees |
|--------------------------------------|-------------|------------------------------------|--------------------------------------|---------------|
| Cash and balances with SBP and NBP | 7 | Cash and balances with SBP and NBP | Balances with other banks | 1,432,795 |
| Mark-up / return / interest expensed | 19 | Others | Mark-up / return / interest expensed | 236 |

34 SUBSEQUENT EVENTS

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

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

35 DATE OF AUTHORIZATION

These financial statements were authorized for issue on March 3, 2018 by the Board of Directors of the Bank.

sim



President & Chief Executive



Chairman



Director



Director



Grant Thornton

An instinct for growth™

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

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We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors of Sindh Microfinance Bank Limited (the Bank) for the year ended December 31, 2017 to comply with the provisions of Public Sector Companies (Corporate Governance) Rules, 2013.

The responsibility for compliance with the Rules is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Rules. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Rules.

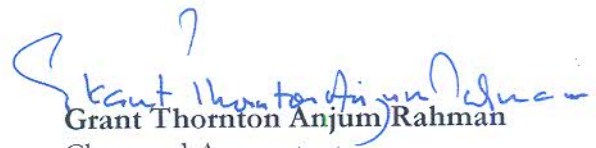
As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

The Rules requires the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Moreover, the rules of Public Sector Companies (Corporate Governance) Rules 2013, requires the Board to ensure compliance with the law as well as the Bank's internal rules and procedures relating to procurement, tender verification, purchasing and technical standards when dealing with suppliers of goods and services in accordance with Sindh Public Procurement Rules, 2010. We hereby only performed our procedures to client's compliance with above mentioned rules on a test basis as a part of our audit of the financial statements of the Bank.

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 Bank's compliance, in all material respects, with the best practices contained in the Rules as applicable to the Bank for the year ended December 31, 2017.

Dated: **March 8, 2018**
Karachi


Grant Thornton Anjum Rahman
Chartered Accountants
Muhammad Shaukat 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, 2017

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. | Y | N | | | | | | | | | | | | | | | | | | | | |
|-------------------------|---|---------------------|-----------------------|---------------------|-----------------------|-----------------|---------------|-----------------|---------------|------------------|---------------|---------------------|-----------------|---------------|-------------------------|---------------------|---------------|---------------------|---------------|--------------------------|------------------|------|---|---|
| | | | Tick the relevant box | | | | | | | | | | | | | | | | | | | | | |
| 1. | The independent directors meet the criteria of independence, as defined under the Rules. | 2(d) | ✓ | - | | | | | | | | | | | | | | | | | | | | |
| 2. | <p>The Board has at least one-third of its members as independent directors. At present the Board includes:</p> <table border="1"> <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>Ms. 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>Ms. Masooma Hussain</td> <td>March 30,2016</td> </tr> <tr> <td>Dr. Noor Muhammad Soomro</td> <td>December 27,2017</td> </tr> </tbody> </table> | Category | Names | Date of appointment | Independent Directors | Mr. Liaquat Ali | March 30,2016 | Mr.Farooq Ahmed | March 30,2016 | Ms. Naila Masood | March 30,2016 | Executive Directors | Mr. Shoaib Arif | March 30,2016 | Non-Executive Directors | Mr. Shamsuddin Khan | March 30,2016 | Ms. Masooma Hussain | March 30,2016 | Dr. Noor Muhammad Soomro | December 27,2017 | 3(2) | ✓ | - |
| Category | Names | Date of appointment | | | | | | | | | | | | | | | | | | | | | | |
| Independent Directors | Mr. Liaquat Ali | March 30,2016 | | | | | | | | | | | | | | | | | | | | | | |
| | Mr.Farooq Ahmed | March 30,2016 | | | | | | | | | | | | | | | | | | | | | | |
| | Ms. Naila Masood | March 30,2016 | | | | | | | | | | | | | | | | | | | | | | |
| Executive Directors | Mr. Shoaib Arif | March 30,2016 | | | | | | | | | | | | | | | | | | | | | | |
| Non-Executive Directors | Mr. Shamsuddin Khan | March 30,2016 | | | | | | | | | | | | | | | | | | | | | | |
| | Ms. Masooma Hussain | March 30,2016 | | | | | | | | | | | | | | | | | | | | | | |
| | Dr. Noor Muhammad Soomro | December 27,2017 | | | | | | | | | | | | | | | | | | | | | | |
| 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 to the Rules 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 has been 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. (Not applicable where the chief executive has been nominated by the Government) | 5(2) | ✓ | - | | | | | | | | | | | | | | | | | | | | |

| | | | | |
|-----|---|----------------------|------|---|
| 8. | <p>(a) The company has prepared a "Code of Conduct" to ensure that professional standards and corporate values are in place.</p> <p>(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.sindhmfcb.com)</p> <p>(b) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from Unethical practices.</p> | 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, 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 have submitted its request for appropriate compensation to the Government for consideration. | 5(8) | ✓ | - |
| 17. | The Board has ensured compliance with policy directions requirement received from Government. | 5(11) | N.A. | - |
| 18. | <p>(a) The board has met at least four times during the year.</p> <p>(b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings.</p> <p>(c) The minutes of the meetings were appropriately recorded and circulated.</p> | 6(1) 6(2) 6(3) | ✓ | - |
| 19. | <p>The board has monitored and assessed the performance of senior management on Annual/half-yearly/quarterly basis* and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose.</p> <p>* Strike out whichever is not applicable.</p> | 8(2) | ✓ | - |
| 20. | The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party | 9 | ✓ | - |

| | wise record of transactions entered into with the related parties during the year has been maintained. | | | | | | | | | | | | | | | | | | | | | |
|---------------------------|--|------------------|-------------------|---------------|-----------------|----|-----------------|---------------------------|----|------------------|---------------------------|----|------------------|-----------------------|----|-----------------|----------------------|----|------------------|--|--|--|
| 21. | (a) 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. (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. | (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>Ms. Naila masood</td> </tr> <tr> <td>Human Resources Committee</td> <td>03</td> <td>Ms. Naila masood</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>Mr. Farooq Ahmed</td> </tr> </tbody> </table> | Committee | Number of members | Name of Chair | Audit Committee | 03 | Mr. Liaquat Ali | Risk Management Committee | 03 | Ms. Naila masood | Human Resources Committee | 03 | Ms. Naila masood | Procurement Committee | 03 | Mr. Liaquat Ali | Nomination Committee | 03 | Mr. Farooq Ahmed | | | |
| Committee | Number of members | Name of Chair | | | | | | | | | | | | | | | | | | | | |
| Audit Committee | 03 | Mr. Liaquat Ali | | | | | | | | | | | | | | | | | | | | |
| Risk Management Committee | 03 | Ms. Naila masood | | | | | | | | | | | | | | | | | | | | |
| Human Resources Committee | 03 | Ms. Naila masood | | | | | | | | | | | | | | | | | | | | |
| Procurement Committee | 03 | Mr. Liaquat Ali | | | | | | | | | | | | | | | | | | | | |
| Nomination Committee | 03 | Mr. Farooq Ahmed | | | | | | | | | | | | | | | | | | | | |
| 24. | 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. | The Chief Financial Officer and Company Secretary have requisite qualification prescribed in the Rules. | 14 | ✓ | | | | | | | | | | | | | | | | | | | |
| 26. | The company has adopted International Financial Reporting Standards notified by the Commission in terms of sub-section (1) 225 of the Act. | 16 | ✓ | - | | | | | | | | | | | | | | | | | | |
| 27. | 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. | 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. | (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. (b) The annual report of the company contains criteria and details of remuneration of each director. | 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. | <p>The board has formed an audit committee, with defined and written terms of reference, and having the following members:</p> <table border="1" data-bbox="202 133 1085 279"> <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>Dr. Noor M. Soomro</td> <td>Member</td> <td>Professor/Dean</td> </tr> </tbody> </table> <p>The chief executive and chairman of the Board are not members of the audit committee.</p> | Number of members | Category | Professional Background | Mr. Liaquat Ali | Chairman | Chartered Accountant | Mr. Farooq Ahmed | Member | IT Professional | Dr. Noor M. Soomro | Member | Professor/Dean | 21(1) and 21(2) | ✓ | - |
|--------------------|--|-------------------------|----------|-------------------------|-----------------|----------|----------------------|------------------|--------|-----------------|--------------------|--------|----------------|-----------------------|---|---|
| Number of members | Category | Professional Background | | | | | | | | | | | | | | |
| Mr. Liaquat Ali | Chairman | Chartered Accountant | | | | | | | | | | | | | | |
| Mr. Farooq Ahmed | Member | IT Professional | | | | | | | | | | | | | | |
| Dr. Noor M. Soomro | Member | Professor/Dean | | | | | | | | | | | | | | |
| 32. | <p>(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.</p> <p>(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.</p> <p>(c) The audit committee met the chief internal auditor and other members of the internal audit functions, at least once a year, without the presence of the chief Financial officer and external auditors.</p> | 21(3) | ✓ | | | | | | | | | | | | | |
| 33. | <p>(a) The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee.</p> <p>(b) The chief internal auditor has requisite qualification and experience prescribed in the Rules.</p> <p>(c) The internal audit reports have been provided to the external auditors for the review.</p> | 22 | ✓ | - | | | | | | | | | | | | |
| 34. | <p>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.</p> | 23(4) | ✓ | - | | | | | | | | | | | | |
| 35. | <p>The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regards to provision of non-audit services.</p> | 23(5) | ✓ | - | | | | | | | | | | | | |


Shoaib Arif
 Chief Executive Officer


Liaquat Ali
 Independent Director