



***SME Bank Ltd***

small business - Big opportunities

# ANNUAL REPORT

small business - Big opportunities

# 2019

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## Corporate Information

### Board of Directors

1. Mr. Dilshad Ali Ahmad
2. Mr. Hashim Raza
3. Mr. Omar Farooq
4. Mr. Niaz Muhammad Khan
5. Mr. Muhammad Waqas Azeem
6. Mr. Rauf Ahmad
7. Mr. Enamullah Khan

### President and Chief Executive Officer

Mr. Dilshad Ali Ahmad

### A.CFO & Company Secretary

Ms. Sameena Gul

### Legal Advisors

Bhatti Law Associates

### Registered Office

56-F, Nazim-ud-Din Road,  
F-6/1, Blue Area,  
Islamabad  
Tel.: 051-9217000  
Fax: 051-9217001  
UAN: 111- 11 0-0 11  
Email: [info@smebank.org](mailto:info@smebank.org)  
Website: [www.smebank.org](http://www.smebank.org)

### Auditors

M/s Grant Thornton Anjum Rahman  
Chartered Accountant  
302-B, 3rd Floor, Evacuee Trust Complex  
Agha Khan Road, F-5/1, Islamabad  
Ph# 92 51 2271906, 2274665 Fax 2273874

## Vision Statement

- We will be the leading institution for providing financial assistance for the development and support of Small and Medium Enterprises (SMEs) in Pakistan.
- We will respond to the needs of Small and Medium Enterprises by providing them with necessary financial assistance and business support services in the form of short to long term funds.
- Will, through support of SME sector, contribute to the growth of local entrepreneurs, develop export markets and provide employment opportunities in the country.



## Mission Statement

- To support and develop SME sector by providing necessary financial and technical assistance on a sustainable basis.
- To enable SME sector to contribute to economic development through value addition and exports, promote entrepreneurship and create employment opportunities.

## President's Message

It is my pleasure to present the 18<sup>th</sup> Annual Report of SME Bank for the year ended December 31, 2019.

The world has changed after global crisis of the COVID-19 pandemic. The social, political, economic, and financial structure of the whole world has been massively disturbed. Country-wide lockdowns take effect across the world including Pakistan, businesses and other companies are coming under increasing financial strain. In order to ensure that liquidity issues do not translate into solvency issues, from time to time SBP has taken different measures to mitigate the impact of COVID-19 on economic growth by improving access to credit and easing certain regulatory controls in the financial sector. This situation affects borrower's repayment capacity that will cause substantial increase in impairment of advances even though SBP has taken different measures to reduce the impact by deferment in payment of principle up to one year and also by providing facility of restructuring/rescheduling of performing advances.

The spread of COVID-19 World over posing severe challenges to economic development, and it might affect to China-Pakistan Economy Corridor (CPEC) as well.

SME Bank has continued to work with a limited equity base, bank is operating with paid-up capital of Rs 2.39 billion since 2007 and State Bank has granted exemption to meet the requirement of minimum paid-up capital which otherwise should have been Rs 10 billion by the end of December 2019.

With a network of 13 branches the Bank has very limited outreach. Permission to open new branches is not granted by State Bank due to low equity and pending privatization.

Even under constrained circumstances there is no let up in the Bank's primary operations, albeit at a slower than desired pace for reasons stated. In these circumstances we have been able to increase deposit by Rs 1,780 million and stood at Rs. 7,501 million as on December 31, 2019 as compared to last year Rs. 5,721 million. The bank made disbursement of Rs. 1,378 million during the year under review as compared to Rs. 1,780 million.

As business & economic activities remained depressed, repayment commitments were dishonoured by many borrowers, however due to the management's focus and strenuous efforts by the field staff, there is insignificant increase in non-performing portfolio and stood at Rs. 505 million at the year-end December 31, 2019 from Rs. 479 million last year.

We are hopeful that the process of privatization will complete soon and this will cause further expansion in business and enhance operations to the advantage of all stakeholders.

It is the Management's vision to build an image of SME Bank as the bank which is a friend of the Small & Medium Enterprises; a bank totally trusted with their deposits, ability and resources to cater to their business needs. Customers' will see SME Bank as the bedrock integral to their business growth

and sustainability and as a national institution ably playing its crucial role in the country's economic growth & development.

On behalf of the management, I would like to take this opportunity to thank the State Bank of Pakistan, the Ministry of Finance and the Board of Directors for their continued support and guidance.



**President**

Dilshad Ali Ahmad

## Financial Highlights

for the year

(Rs. in million)

### PROFITABILITY

#### Income

Total Income	789.5	753.6	674.0	662.3	753.2	876.3
Interest Income	776.3	741.4	649.3	615.1	705.3	788.8

#### Expenses

Total Expenses	2,076.9	1,629.8	1,395.0	1,119.2	1,027.8	1,254.6
Interest Expenses	1,149.6	520.4	520.4	441.2	436.3	542.6
Spread (Net interest income / Gross interest income)	(0.5)	0.3	0.2	0.3	0.4	0.3
Loss before tax	(1,287.4)	(876.3)	(721.0)	(456.8)	(274.6)	(378.3)
Loss after tax	(1,072.3)	(825.9)	(294.0)	(199.2)	(282.2)	(387.1)

### FINANCIAL POSITION

Shareholder's Funds	2,392.5	2,392.5	2,392.5	2,392.5	2,392.5	2,392.5
Net Equity	(2,512.4)	(1,693.9)	(434.3)	20.6	356.3	689.4

#### Liabilities

Total Liabilities	12,664.4	11,332.4	11,429.4	9,357.6	8,260.2	4,611.0
Borrowing from financial institutions	3,654.8	4,739.9	5,308.3	3,460.3	2,888.7	776.2
Deposits	7,500.7	5,721.0	5,343.7	5,228.7	4,770.2	3,343.1

#### Assets

Total Assets	10,152.0	9,638.5	10,995.1	9,378.2	8,616.5	5,300.4
Advances (net of provisions)	1,908.0	2,230.8	2,505.5	2,771.7	2,751.7	2,928.7
Investment	5,740.0	5,765.2	6,911.3	4,869.5	4,117.5	1,446.5

### RATIOS

Return on Assets	-10.84%	-8.01%	-2.89%	-2.21%	-4.05%	-6.28%
Capital Adequacy Ratio (Required 10%)	-71.83%	-52.19%	-13.65%	-2.75%	6.79%	21.17%
Earning/(Loss) per share	(4.48)	(3.45)	(1.23)	(0.83)	(1.18)	(1.62)

### BUSINESS ACHIEVEMENTS

Recoveries of New portfolio	632.9	623.2	694.6	659.8	767.7	724.0
Advances disbursed during the Year	1,377.7	1,622.5	1,956.5	1,956.2	1,993.6	1,835.6
Number of SMEs Finances	219	366	397	481	447	552

### OTHER INFORMATION

Number of Employees	480	486	497	490	495	462
Number of Banking branches	13	13	13	13	13	13
Total Branches/Recovery Offices	18	18	18	18	21	21

## Directors' Report to the Shareholders

We are pleased to present the 18th annual report of SME Bank Limited with the audited accounts and auditors' report thereon for the year ended December 31, 2019.

### Economic Review

#### CPI Inflation and Market expectation

Pakistan's economy remains in a crossroad trying to bottom-out as policy adopted by present government is showing positive signs. Although budget deficit has escalated to 3.45tr or 8.9%, highest in 8Y, efforts to increase tax base documentation (under time consuming mechanism) & better governance with a mix of improved FCY remittances & check on FCY TTs will echo more clarity once FATF issue is resolved (by October 2019).

Pakistan's inflation rate slightly eased to 12.63 percent (pc) in December from 12.7pc but still scaled the highest level in nine years as said by the Pakistan Bureau of Statistics (PBS) report. Inflation, measured by the Consumer Price Index (CPI) lowered 0.34pc over the previous month. The data released shows that higher food prices have been the largest driver in overall inflation in December. It has also been observed that the prices of essential food items are higher in rural areas than in urban areas. Food inflation in urban areas rose by 16.7pc in December on a yearly basis but declined 1.7pc on a monthly basis whereas it increased by 19.7pc in rural areas and declined 1.1pc respectively.

Monetary authority has been taking stabilization measures during FY19 to control inflation. Lagged impact of increase in policy rates and likely deceleration in global food and oil prices are expected to play a positive role in curbing inflation. Despite these positives, exchange rate depreciation, upward adjustments in gas and electricity tariffs, and higher government borrowings from SBP may cause inflationary pressures. In this context, average inflation is expected to remain at around 8.5 percent during 2019-2020.

Despite the fact that currency adjustment has majorly been carried, one-time shock absorption of change in utility (gas and electricity) prices in the prior year has taken place, and higher base effect post recent rebasing, CPI reading has remained elevated in FY20. This was due to seasonal factor as prices of perishable food items skyrocketed given supply constraints. We expect inflation to continue remaining elevated during FY20, at an average of 11.0% while for CY20 it is projected to clock-in at 9.5%. After considering forecasted inflation, we expect rate cut scenario to begin from March 2020 onwards.

#### Foreign Exchange

Pakistan's foreign exchange reserves have surged to \$15.58 billion after receiving loan from the Asian Development Bank (ADB).

The country's overall foreign exchange reserves have recorded at \$15.58 billion, which included \$7.3 billion net foreign reserves held by commercial banks. Pakistan's foreign exchange reserves had started

increasing after receiving loans from Qatar, International Monetary Fund and now ADB. The IMF had already released one billion dollars for Pakistan under extended fund facility. It was decided the IMF would release the second tranche of around one billion dollars during current fiscal year if Pakistan meets the structural benchmarks of the Fund. The SBP had already received inflow of \$500 million from Qatar as placement of funds. Qatar had committed to place \$3 billion in SBP's account on the request of government of Pakistan.

According to the ministry of finance officials, the reserves would further increase in the months to come. The government has decided to issue short term bonds and Sukuks to raise resources from the international market to build foreign exchange reserves of the country.

### **Money Market**

In 2019, government achieved some economic stabilization after averting a possible default & had successfully controlled soaring CAD & budget deficit. Its improved forex reserves by taking new FCY loans, increased new tax filers & slightly enhanced exports. However, government failed to control increasing inflation, achieve tax collection targets & seem to have no credible plans to tackle 1.7tr monster of circular debt.

By watching upper trend of the interest rate in FY19, this was the big opportunity for the banks to bring and convert the portfolio into profit by developing new portfolio to keep the book into positive.

### **The State Bank Diversion**

The record economic growth of 5.8 percent of the last fiscal year is expected to slow down to 4pc. The rupee has lost 26pc value in a year, coming down to 138.87 per dollar at the end of 2018 from 110.42 at the end of 2017. The State Bank of Pakistan's main policy interest rate has shot up to 10pc from 6pc, an increase of 4pc points in the outgoing year.

“According to one of the senior banker, CEO & President of a bank, there are at least three key challenges for banks this year: meeting economic and market risks with greater internal controls, ensuring growing regulatory compliance without letting operational slowdowns and innovating financial products on both asset and liability sides with more but careful applications of fin-tech.”

“Further, overcoming these challenges would expose some small, less efficient banks to a make-or-break situation. For most of the others, meeting such challenges may determine how effective their strategies could become and whether improved strategies could also keep them profitable in the short run.”

Take the example of the recent hiking of rates of return on National Savings Schemes (NSS). The upward revision in NSS rates is aimed at promoting domestic investment and enabling the government to borrow more from non-bank sources. “This hiking — up to 2.75 percentage points — means more competition for banks in deposit mobilization in an environment where, due to the ongoing crackdown on money laundering, banks need to be extra careful in implementing the know-your-customer (KYC) regime.” “Quite difficult, isn't it?”

### **Challenges for Banks**

The banking outlook depends a lot on the future economic prospects and the corresponding policy

responses. The monetary tightening towards the end of the year ended December 2018 and first half (January-July) of current year 2019 may lead to re-pricing of loans, according to SBP Financial System Review 2018.

“This may improve the net interest income and, thus, profitability and solvency of the banking sector. On the other hand, it may dent the repayment capacity of the borrowers, thus, escalating the credit risk. Further, considering the contraction in large scale manufacturing (LSM) sector during July-March FY19 reflecting the dwindling performance of non-financial corporate sector, suggest that the odds of defaults are increasing. Further, any downgrade of a sizeable portion of non-performing loans (NPLs) parked under ‘doubtful’ and ‘substandard’ categories could raise the provisioning expense for the banks. Thus, the credit risk remains paramount going forward,”

Besides implications arising from the realization of credit risk, the profitability of the banking sector depends upon the costs associated with mitigating the emerging operational risks and the interest rate dynamics.

### **Policy Rate Scenario**

The central bank has aggressively increased the benchmark interest rate by 7.5 percentage points since January 2018 to an eight-year high at 13.25% at present.

“The banks’ investment behavior in government securities and the interest earned there against are largely dependent on interest rate dynamics,”

According to the interbank market projection SBP to further raise interest rate FY19, to increase the profitability of the bank, most of the banks re-built their portfolio with better yield.

### **Operational Highlights**

The Bank is operating with paid up capital of Rs 2.39 billion since 2007. State Bank has granted exemption to meet the requirement of minimum paid up capital of Rs 10 billion up till December 31, 2019. Shareholders in their meeting on October 7, 2009, advised to recapitalize the bank by increasing its paid-up capital and management has approached Ministry of Finance for the same. The Board noted that in view of impending privatization of the bank, SBP’s constraints on business expansion, and very narrow equity base of less than Rs 2 billion, it is a challenge to operate the bank on self sustainable basis.

In view of restrictions placed by State Bank of Pakistan there was no change in branch network during the year 2019 and the Bank continued to operate with 13 commercial banking branches and five recovery offices.

### **Interest Rate Scenario**

SBP discount rate at the beginning of the year 2019 was 10.50 percent. During the year the net increase in discount rate was 3.25 percent to bring the discount rate to 13.75 percent at the year end.

## Credit Rating

Bank was assigned a long term credit rating of CCC and short term rating of B (Single B) by PACRA credit rating agency on November 22, 2018. The credit rating company has expressed that the bank's operational performance is significantly under pressure because of delay in capital injection by GoP. Thus continuation of the bank's operations going forward is dependent on either of the two factors: (i) fresh capital injection by GoP or (ii) development on the privatization front, as growth in the bank's operations is restricted due to these two factors although the management is taking measures to improve business functions, operational sustainability is dependent upon equity injection by the primary sponsor.

## Operational Results

In the backdrop of narrow equity base and shortage of funds, management has been able to meet day to day liquidity needs and maintenance of statutory liquidity requirements (SLR) set by the State Bank of Pakistan. Despite enormous pressure of liquidity crunch, SME loans and advances portfolio stood at Rs 2,195 million. During the year under review income from SME lending operations increased by an amount of Rs 43.51 million. The cost of deposits and borrowing increased by an amount of Rs 425.95 million. The average cost of deposits increased to 9.95% as compared to 6.13% in 2018.

The deposits of the bank has been increased by Rs. 1,780 million and stand at Rs 7,501 million as on December 31, 2019 as compared to last year Rs. 5,721 million as on December 31, 2018.

During the year 2019, the bank charged net provision of Rs 0.6 million against non-performing loans as against charged net of provision of Rs 20.2 million in 2018. Loans and advances on account of the bank's lending operation were Rs 2,195 million in 2019 to Rs 2,500 million in 2018.

The macro economic factors such as increase in inflation and interest rate seriously dampened the business activities in the country and down the growth rate to a great extent, which in turn affected the repayment capacity and behaviour of the bank's borrowers but despite these hindrances the management of the bank made persistent efforts to reduce the non-performing loans of the bank. Non-performing loans of the bank on December 31, 2019 was Rs 506 million whereas on December 31, 2018 was Rs 479 million.

The Bank has investment of Rs 215.46 million in SME Leasing Limited (SMEL) which is carried in these financial statements at Rs 80.75 million and has outstanding running finance exposure of Rs. 142.16 million as at December 31, 2019. The company during the year has mainly focused on internal cash generation through recoveries from its portfolio and investing these to build-in new quality business. The company has managed to write fresh net leases worth Rs. 64.46 million. Total recoveries aggregated to Rs. 113 million (including Rs. 17.61 million from non-performing portfolio). The percentage of default in new business written over last 3 years has been negligible. Market value of its share ranged between Rs 1.30 to Rs 4.45 per share over last 52 weeks. The Bank periodically reviews its investment in SMEL for evidence of any impairment. The recoverable amount of investment in SMEL is determined with reference to its value in use. The Bank uses present value techniques and financial projections of SMEL to calculate its value in use.

The bank has booked loss before tax of Rs 1,287.41 million during the year 2019 as compared to



loss before tax of Rs 876.28 million in 2018, and Net loss of Rs 1,072.31 million as compared to Net loss of Rs 825.94 million in 2018. The reason for incurring losses were due to pending privatization, restructuring, limited outreach, inadequate level of equity and economic condition. In future, we expect to decrease the losses by enhancing revenues and reducing volume of our non-performing loans.

With regard to the exposure granted to SME Leasing Limited, SME Bank applied for exemption from single related party exposure limit to the SBP. The SBP granted relaxation to SME Bank Ltd in single related party exposure limit under Prudential Regulation R-1 regarding the financing of Rs 150 million to SME Leasing Ltd for the period up to December 31, 2019 or completion of restructuring / privatization, whichever is earlier.

### **Paid-up Capital**

The Bank is operating with paid up capital of Rs 2.39 billion since 2007. In line with the SBP guidelines banks are required to raise paid up capital to minimum capital requirements of Rs 10 billion. However, the State Bank of Pakistan has granted exemption to meet the requirements of minimum paid up capital till December 31, 2019.

### **Financial Statements**

Financial statements have been prepared in accordance with International Accounting Standards as applicable in Pakistan, SBP Prudential Regulations and Companies Act 2017. The disclosures in notes to financial statements correspond to the requirement of law and guidelines issued by the regulatory authorities.

### **Internal Control over financial reporting**

The board is fully committed to ensure the existence of an effective system of internal control in the bank and continuously reviews and evaluates the adequacy and integrity of those systems. However, the board recognizes that such systems are designed to manage rather than eliminate the risks identified to acceptable levels. Therefore, the systems implemented can provide only reasonable and not absolute assurance against the occurrence of any material misstatement and loss.

Whilst the Board has overall responsibility for the bank's system of internal controls, it has delegated the implementation of these internal control systems to the management in order to identify risk and take action to mitigate the risk. These internal control systems are subject to the board's regular review with a view towards appraising the effectiveness of these systems in the bank.

### **Deposits**

Despite all the impediments, the deposit portfolio of the Bank was increased to Rs. 7,501 million as on December 31, 2019.

### **Disbursements**

Liquidity constraints notwithstanding, the bank was able to achieve disbursement of Rs 1,378 million during the year as compared to Rs 1,623 million in the previous year. The number of clients served

during the year was 219 and total number of outstanding borrowers stood at 1,239 at the year end.

### **Leasing Business**

SME Leasing Limited, a subsidiary of the Bank incorporated in 2002, has posted a loss before tax of Rs. 35.38 million as compared to loss of Rs. 21.01 million from last year. The increase in loss resulted from maturing leases, as pace of new leases written was slow and increased in finance cost. Net equity of the company is Rs 77.11 million (2018: Rs 111.68 million). PACRA has assigned the long-term rating of B (2018: B+) and a short term rating of B (2018: B).

SME Leasing disbursed Rs 64.46 million (2018: Rs. 83.02 million) to 10 clients in 2019 (2018: 16). Outstanding lease portfolio stands at Rs 378 million with 251 clients.

### **Customer Complaint Management**

A comprehensive Complaint Resolution Mechanism has been designed and is in place. For effective management of complaints, a complaint management system (CMS) has been designed and implemented in the bank. It provides more than one channels to the clients for lodging their complaints to the bank. It outlines detail guidelines for receipt, recording, probing, resolving and responding to the complainants. Most of the complaints have been properly responded and ultimately resolved timely. An assessment survey also reflects the encouraging response from the banks' customers.

### **Training & HR Development**

For enhancement of skill/knowledge base of human capital available for specialised tasks, necessary training and skill development activities were carried out for the staff on the basis of training need assessment.

### **Information Technology**

SME Bank has joined the leading shared ATM Network, 1Link, and is in the process of rolling out its domestic payment scheme - PayPak cards that will provide its customers efficient, low cost & robust payment solution. SME Bank has launched 1-Link's OTC Bill Collection application at its branches that has enabled its customers to pay utility bills, credit cards bills, Government bills, Education fee voucher etc. through SME Bank branches. SME Bank has successfully participated in joint industry-wide BCP Drill and found its BCP arrangements adequate.

SME Bank's Management, while realizing the ever-increasing importance of Cyber Security in Banking industry, has made considerable effort to secure its digital infrastructure from malicious attacks. SME Bank has conducted comprehensive internal & external Vulnerability Assessment and Penetration Testing and Compromise Assessment of its digital infrastructure.

### **Basel II & III**

In 2012, State Bank of Pakistan advised all banks to submit their information for Quantitative Impact Study (QIS) – Basel III. SME Bank has applied for exemption from submission of this statement on the basis of already granted exemption from Basel II; Now State Bank has granted exemption to the

Bank from implementation of Basel II & III till its Restructuring/Privatization due to large investment required in software, human resource, training, etc.

### **Capital Adequacy Return**

Bank is required to maintain CAR ratio at 10%. During the year ended on December 31, 2015 the CAR of the bank has reduced from prescribed limit. Bank has applied for exemption from maintaining the CAR below benchmark. SBP has granted the exemption in meeting the minimum CAR requirements up till December 31, 2019.

### **Income Taxes**

Tax Department served notices regarding Income Tax pertaining to tax years 2001-2002, 2002-2003, 2003, 2004, 2005, 2006, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2016, 2017 & 2019.

The Tax Department filed references in Islamabad High Court (IHC) for the Tax Year 2001-02 & 2002-03 among which 2002-03 has been dismissed upon non-prosecution by the Tax Department on December 17, 2018. Meanwhile Notice for hearing has been received from IHC for the Tax Year 2001-02 which is being contested.

Whereas for the tax years 2003 and 2004 Tax Department has filed reference in The Islamabad High Court against decisions of the Appellate Tribunal & for the tax year 2005 tax department has filed an appeal with Appellate Tribunal against the decision.

The Bank has filed appeals with Appellate Tribunal for the Tax years 2008 & 2010 which were remanded back to Assessing Officer for verification of evidences, meanwhile demand for the Tax Year 2008 is reduced in lieu of rectification application which has been requested for adjustment against refunds for the tax year 2009.

For the tax year 2012 appeal filed by the bank with the Commissioner (Appeals) who remanded the case back to DCIR for fresh consideration, whereas Order under section 221/113 for the same year is being contested in ATIR. Tax Year 2014 is assessed u/s 122(1) / 122(5) of the ITO, 2001. Tax Years 2016, 2017 & 2018 are deemed to be assessed u/s 120 of the ITO, 2001. Meanwhile notices under section 161 read with 205 are also issued for the tax years 2013, 2016 & 2017 which are being contested.

The Tax Department created tax demand U/S 161/205 for the Tax Years 2005, 2006, 2008, 2009, 2010, 2011 & 2013 which is being contested in ATIR.

The Tax Department show caused for amendment of the assessment of the Tax Year 2019, U/S 122(5A) by raising several questions pertaining to turnover amount, clarification for huge amount of unabsorbed Tax Depreciation and Amortization for prior years, Sources of Investments etc. The case is being contested at Assessing Officer level.

### **Sales Tax**

Tax Department also served notices regarding FED/sales tax pertaining to Tax Periods Jan'2008 - Dec'2008, Jan'2009-Dec'2009, Jan'2010-Dec'2010, Jul'2011-Jun'2012, Jan'2014-Dec'2014, Jan'2015-

Dec'2015 and Jul'2015-Jun'2016. Bank replied these notices and contested the cases.

Resultantly Tax Periods Jan'2008 - Dec'2008 and Jan'2010-Dec'2010 have been remanded back for fresh consideration of the cases, meanwhile the bank has filed appeals with the Appellate Tribunal Inland Revenue for the Tax Periods Jan'2009-Dec'2009 and Jul'2011-Jun'2012.

Show Cause pertaining to Tax Periods Jan'2014-Dec'2014 and Jan'2015-Dec'2015 for short Levying/ collection/ Payment of sales tax on disposal of fixed assets was contested and disposed of on merit.

Sales Tax Audit for the Tax Period Jul'2015-Jun'2016 was contested and the case was disposed of with fidelity.

Punjab Revenue Authority (PRA) noticed and passed an order for short collection and payment of Sales Tax. The case is being contested.

### **Risk Management Framework**

Risk Management Division (RMD) has been established for performing risk functions relating to various risk; particularly Credit Risk, Liquidity Risk, Interest Rate Risk & Operational Risk. The SBP guidelines issued time to time on Risk Management are being followed in letter and spirit and the implementation of Basel-II for the bank has been exempted by SBP till its privatization.

Moreover, lending decisions are subjected to extensive and diligent credit risk evaluation and assessment process. Obligor, facility and guarantor internal credit risk rating system is in place and regular part of credit processing. In compliance of SBP Guidelines of Green Banking, Environmental Risk Rating has also been included in credit procedure. Keeping in view the nature of SME lending, quick turnaround time and efficiency and to ensure Bank's own credit policies, credit risk managers/officers have been posted at branch level where ever feasible. Above a certain limit fixed, proposals are being reviewed and sanctioned at Head Office.

The management endeavors that bank's operation and credit activities conform to the Prudential Regulations / SBP instructions and consistent efforts are made to incorporate good business practices for an effective risk management strategy.

The coronavirus pandemic and the measures to reduce its spread have significantly impacted Pakistan's economy. The SBP has responded to the crisis by taking various measures to maintain banking system soundness and to sustain economic activity. The risk management function of the Bank is regularly conducting assessments to identify borrowers operating in various economic sectors which are most likely to get adversely affected. The Bank has further strengthened its credit review procedures in the light of COVID-19. The situation will continue to be closely monitored and due measures will be initiated to mitigate the risk of potential defaults. The Bank has received applications for deferral of principal amounts of loan obligations and is expected to receive further such applications. These applications are being reviewed by the Bank as per its established policies. The above will have an impact on the maturity profile. The Bank is continuously monitoring the liquidity position and is taking due precautionary measures where needed. The Bank is confident that the liquidity buffer currently maintained by the Bank is sufficient to cater any adverse movement in cash flow maturity profile.

Under the current scenario, the banks are under pressure to extend further credit to its borrowers, while overall deteriorating credit risk and increased NPL.

### **Privatization of Bank**

Government of Pakistan (GOP) decided in their meeting held on November 19, 2018 to relaunch the privatization transaction of the Bank through Privatization Commission (PC). Cabinet Committee on Privatization (CCOP) approved the new privatization program of the Bank on March 06, 2019. The privatization program of the Bank has been required to be completed by 30th June 2020 to divest GOPs equity stake in the Bank along with management control to a strategic investor. Accordingly, PC recommended the transaction structure for the privatization of the Bank to CCOP who approved the referred transaction structure on November 15, 2019. Thereafter through a due process invitation for expression of interest for acquisition of 93.88% shares of the Bank were advertised in newspapers on December 13, 2019. The last date for submission of EOIs and Statement of Qualifications (SOQs) was February 28, 2020. Five prospective investors have submitted their SOQs against the advertisement, out of that Four have been cleared by SBP. Due diligence of Buyers side is in progress, Privatization Commission has opened data room for the prospective Buyers up to August 24, 2020.

### **Board of Directors**

Board of Directors consists of seven directors nominated by the Federal Government; however, two independent directors and four non-executive director remained vacant during the year.

### **No Board meeting held during 2019**

Board constituted sub-committees however there was no Board meeting during the year 2019 hence no sub-committee has been constituted during the year.

### **Corporate Governance and Financial Reporting Framework**

SME Bank is committed to observe good corporate governance and has adopted the recently promulgated governance framework for public sector companies. The Directors have ensured that adequate arrangements are made to meet the financial recording and reporting parameters and are pleased to state that:

- proper books of accounts as required by Companies Ordinance have been maintained;
- applicable international financial reporting standards have been followed in preparation of annual accounts;
- the accounts have been prepared on going concern basis and the Bank has adopted prudent accounting policies and used sound accounting estimates;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates. Any departure has been adequately disclosed and explained;
- the financial statements prepared by the management of the Bank present fairly, state of affairs of the Bank as at December 31, 2019, the results of its operations for the period then ended, cash flow and changes in equity;

- the appointment of chairman and other members of board and the terms of their appointment along with the fee/remuneration adopted are in the best interests of the Bank as well as in line with the best practices.
- appropriate systems of internal control have been put in place for managing significant risks, with adequate arrangements for its effective implementation, continuous review and monitoring;
- the Board of Directors is satisfied with Bank's ability to continue as a going concern; on the basis explained in note 6.2.
- there are no outstanding statutory payments on account of taxes, duties and levies as on December 31, 2019, except as disclosed in the financial statements;
- the value of investments held for staff funds is reflected in note 34 of notes to the accounts;
- Bank has complied with the provisions of Public Sector Companies (Corporate Governance) Rules, 2013 and there has been no material departure from the best practices of Corporate Governance.
- Key Operating and financial data of last six years is available in annual Reports.

### **Shareholding Pattern**

The statement showing pattern of shareholding as at December 31, 2019, as required under Code of Corporate Governance is annexed.

### **Loss per share**

The basic and diluted after tax loss per share for the year 2019 is Rs. (4.48). (2018: Rs. (3.45))

### **Auditors**

The present auditors, M/s Grant Thornton Anjum Rehman, Chartered Accountants, have completed their assignment for the year ended December 31, 2018. Being eligible, they have offered themselves for reappointment. As advised by Board Audit Committee, Board appointed M/s Grant Thornton Anjum Rehman as auditors for the year 2020 and for the year 2019 on post facto basis.

### **Appreciation**

While the Board appreciates the efforts of the management and staff trying to steer the Bank out of the current situation, it also highlights the need of more efforts for improving the recovery drive and for enhancing disbursements. The Board would also like to thank State Bank of Pakistan and other regulatory authorities for their continued support and guidance and the shareholders for the trust and confidence reposed in us.



**Chairman**  
(of the meeting)

☆ کوئی بھی مادی انحراف نہیں رہا ہے۔  
گزشتہ چھ سالوں پر مشتمل اہم آپریٹنگ اور مالیاتی ڈیٹا سالانہ رپورٹس میں دستیاب ہے۔

**شیئر ہولڈنگ پیٹرن**  
31 دسمبر 2019 کی اسٹیٹمنٹ جو شیئر ہولڈنگ کے طور طریقہ کو ظاہر کرتی ہے، جس طرح کوڈ آف کارپوریٹ گورننس کی ضرورت ہے، منسلک ہے۔

**حصص میں نقصان**  
سال 2019 کیلئے بعد از ٹیکس خسارہ مبلغ 4.48 روپے (2018: 3.45 روپے) ہے۔

**آڈیٹر**  
موجودہ آڈیٹر میسرز گرانٹ تھورنٹن انجم رحمان، چارٹرڈ اکاؤنٹینٹس نے 31 دسمبر 2018 تک کے لیے اپنی ذمہ داری مکمل کر لی ہے۔ اہل ہونے کی وجہ سے، انہوں نے خود کو دوبارہ تقرری کے لئے پیش کیا ہے۔ جیسا کہ بورڈ آڈٹ کمیٹی نے مشورہ دیا ہے، بورڈ نے میسرز گرانٹ تھورنٹن انجم رحمان کو سال 2019 اور سال 2020 کو پوسٹ فیکو بنیاد پر آڈیٹر مقرر کر لیا ہے۔

**اظہار تشکر**  
جبکہ بورڈ انتظامیہ اور تمام اسٹاف کی کوششوں کو سراہتا ہے کہ وہ بینک کو موجودہ صورتحال سے باہر نکالنے کے لیے کوشاں ہیں، اس سے یہ بھی ظاہر ہوتا ہے کہ وصولی مہم کو بہتر کرنے اور ادائیگیوں میں اضافہ کے لیے زیادہ کوششوں کی ضرورت ہے۔ بورڈ اسٹیٹ بینک آف پاکستان اور دیگر قانونی اتھارٹیز کا ان کی جانب سے مستقل سپورٹ، رہنمائی اور شیئر ہولڈرز کے ہم پر بھروسے اور اعتماد کیلئے بے حد مشکور ہے۔



چیرمین برائے میننگ



## 2019 کے دوران بورڈ کا کوئی اجلاس نہیں ہوا

بورڈ نے ذیلی کمیٹیوں کی تشکیل کی تاہم سال 2019 کے دوران بورڈ کا کوئی اجلاس نہیں ہوا لہذا اس سال کے دوران کوئی ذیلی کمیٹی تشکیل نہیں دی گئی۔

## کارپوریٹ گورننس اور مالی رپورٹنگ کا فریم ورک

ایس ایم ای بینک اچھی کارپوریٹ گورننس کو جائزہ لینے کا پابند ہے اور اس نے پبلک سیکٹر کمپنیز کے لیے بنایا گیا حالیہ گورننس فریم ورک اختیار کیا ہے۔ ڈائریکٹرز نے اس بات کو یقینی بنایا ہے کہ مالی ریکارڈنگ اور رپورٹنگ پیرامیٹرز کی تکمیل کے لئے خاطر خواہ انتظامات کیے گئے ہیں اور یہ بیان کرتے ہوئے خوشی محسوس ہوتی ہے کہ:

- ☆ کمپنیز ایکٹ کی ضرورت کے تحت مناسب بک آف اکاؤنٹس مرتب کی گئی ہیں۔
- ☆ سالانہ اکاؤنٹس کی تیاری میں نافذ العمل عالمی مالیاتی رپورٹنگ معیار کی پابندی کی گئی ہے۔
- ☆ تمام اکاؤنٹس رواں (موجودہ) کاروبار کی بنیاد پر مرتب کئے گئے ہیں اور بینک نے اس سلسلے میں محتاط اکاؤنٹنگ پالیسیز کو اختیار کیا ہے اور جامع اکاؤنٹنگ تخمینے استعمال کیے ہیں۔
- ☆ مالیاتی حسابات اور مالیاتی تخمینہ کی تیاری میں موزوں اکاؤنٹنگ پالیسیاں مستقل طور پر استعمال کی جاتی ہیں۔ کسی قسم کا بھی انحراف ہو تو وہ سامنے لایا جاتا ہے اور اسکی وضاحت کی جاتی ہے۔
- ☆ مالیاتی حسابات جو کہ بینک کی انتظامیہ تیار کرتی ہے، 31 دسمبر 2017 تک کے کاروباری معاملات کی صورت حال، اسکے آپریشن کے نتائج کو ختم ہونے والی مدت تک، کمیشن فلو اور ایکویٹی میں تبدیلی کو واضح طور پر پیش کرتے ہیں۔
- ☆ چیئرمین اور بورڈ کے دیگر ممبران کی تقرری، ان کی فیس/ معاوضہ کے ساتھ انکی تقرری کے لیے اختیار کردہ شرائط بینک کے بہترین فائدے کے لیے اور اسی طرح بہترین پریکٹس کے مطابق ہوتی ہیں۔
- ☆ اہم خطرات سے نمٹنے کے لیے داخلی کنٹرول کا موزوں نظام موجود ہے اور اس کے مؤثر نفاذ کے لیے مناسب بندوبست ہے، مسلسل نظر ثانی اور نگرانی کی جاتی ہے۔
- ☆ بورڈ آف ڈائریکٹرز بینک کو رواں کاروبار کے طور پر چلانے سے مطمئن ہے۔ نوٹ 6.2 کی بنیاد پر بیان کیا گیا ہے۔
- ☆ ٹیکسز، ڈیویڈنڈ اور لگان وغیرہ کی مد میں 31 دسمبر 2017 تک کوئی قانونی رقم واجب الادا نہیں ہے ماسوائے وہ جس کا ذکر مالیاتی حسابات میں کیا گیا ہے۔
- ☆ سرمایہ کاری کی ویلیو جو اسٹاف فنڈز کے لئے رکھی گئی ہے وہ اکاؤنٹس نوٹس میں نوٹ 33 میں دی گئی ہے۔
- ☆ بینک پبلک سیکٹر کمپنیز (کارپوریٹ گورننس) کے قوانین 2013 پر عملدرآمد کرتا ہے اور کارپوریٹ گورننس کی بہترین پریکٹس سے یہاں



کورونا وائرس وبائی مرض اور اس کے پھیلاؤ کو کم کرنے کے اقدامات نے پاکستان کی معیشت کو نمایاں طور پر متاثر کیا ہے۔ اسٹیٹ بینک نے بینکاری نظام کو مستحکم رکھنے اور معاشی سرگرمی کو برقرار رکھنے کے لئے مختلف اقدامات کر کے بحران کا جواب دیا ہے۔ بینک کارسک مینجمنٹ کانفرنشن مختلف معاشی شعبوں میں کام کرنے والے قرض دہندگان کی نشاندہی کرنے کے لئے باقاعدگی سے جائزہ لے رہا ہے جن کے زیادہ متاثر ہونے کا امکان ہے۔ بینک نے COVID-19 کی تناظر میں اپنے کریڈٹ نظر ثانی کے طریقہ کار کو مزید تقویت بخشی ہے۔ اس صورتحال کی بغور نگہ رانی کی جائے گی اور ممکنہ نادر دہندگان کے خطرے کو کم کرنے کے لئے ضروری اقدامات کیے جائیں گے۔ بینک کو قرض کی ذمہ داریوں کی اصل مقدار موخر کرنے کے لئے درخواستیں موصول ہوئی ہیں اس طرح کی مزید درخواستیں موصول ہونے کی توقع ہے۔ ان درخواستوں کا بینک اپنی قائم کردہ پالیسیوں کے مطابق جائزہ لے رہا ہے۔ مذکورہ بالا صورت حال کا اثر قرض کی مقرر تاریخ ادائیگی پر پڑے گا۔ بینک مستقل طور پر لیکویڈیٹی پوزیشن پر نظر رکھے ہوئے ہے اور جہاں ضرورت ہو احتیاطی تدابیر اختیار کی جا رہی ہیں۔ بینک پر اعتماد ہے کہ اس وقت بینک کا لیکویڈیٹی بفر نقد بہاؤ کے پختگی پر فائل میں کسی بھی قسم کی منفی صورت حال کا مقابلہ کرنے کے لئے کافی ہے۔ موجودہ منظر نامے کے تحت، بینکوں پر دباؤ ہے کہ وہ اپنے قرض دہندگان کو مزید کریڈٹ فراہم کرے، جبکہ مجموعی طور پر بگڑتے ہوئے کریڈٹ رسک اور این پی ایل میں اضافہ ہوا۔

## بینک کی نجکاری

حکومت پاکستان (جی او پی) نے 19 نومبر 2018 کو منعقدہ اپنے اجلاس میں نجکاری کمیشن (پی سی) کے ذریعہ بینک کی نجکاری کا کام دوبارہ شروع کرنے کا فیصلہ کیا۔ کابینہ کمیٹی برائے نجکاری (سی سی او پی) نے 06 مارچ، 2019 کو بینک کے نئے نجکاری پروگرام کی منظوری دے دی ہے۔ بینک میں نجکاری کے پروگرام کو 30 جون 2020 تک مکمل کرنے کی ضرورت ہے تاکہ بینک سب کو حکومت کی ایکویٹی حصص کو نکالنے کے ساتھ انتظامی اختیار ایک حکمت عملی کے تحت سرمایہ کار کو دیا جائے۔ لہذا پی سی نے بینک کی نجکاری کی سفارش سی سی او پی کو کی جس نے 15 نومبر، 2019 کو تفویض کردہ لین دین کی منظوری دی تھی۔ اس کے بعد بینک کے 93.88 فیصد حصص کے حصول کے لیے اظہار دلچسپی کے لیے 13 دسمبر، 2019 کو اخبارات میں اشتہار دیا تھا۔ اظہار دلچسپی اور سٹیٹمنٹ آف لیکویڈیشن (ایس او کیوز) جمع کروانے کی آخری تاریخ 28 فروری 2020 تھی۔ پانچ متوقع سرمایہ کاروں نے اشتہار کے مقابلے میں اپنے ایس او کیوز جمع کروائے ہیں، ان میں سے چار کو اسٹیٹ بینک نے کلیئر کر دیا ہے۔ خریداروں کی طرف سے مستعدی سے کام جاری ہے، نجکاری کمیشن نے 24 اگست 2020 تک ممکنہ خریداروں کے لئے ڈیٹا روم کھول دیا ہے۔

## بورڈ آف ڈائریکٹرز

بورڈ آف ڈائریکٹرز سات ڈائریکٹرز پر مشتمل ہے جن کو وفاقی حکومت نے نامزد کیا ہے۔ تاہم سال کے دوران دو انفرادی ڈائریکٹر اور چار نان ایگزیکٹو ڈائریکٹر کی اسمبلیاں خالی رہیں۔

اس کے نتیجے میں ٹیکس کی مدت جنوری-2008-دسمبر-2008 اور جنوری-2010-دسمبر-2010 کو دوبارہ غور کے لیے واپس بھیج دیا گیا ہے، اس دوران بینک نے اپیلیٹ ٹریبونل ان لینڈ ریونیو کے ساتھ ٹیکس کی مدت جنوری-2009-دسمبر-2009 اور جولائی-2011-جون-2012 کے لیے اپیلیس دائر کی ہیں۔

جنوری-2014-دسمبر-2014 اور جنوری-2015-دسمبر-2015 کے متعلقہ شکوک کے لیے مختصر لیوی/ وصولی/ مقررہ اثاثوں کے تصرف پر سیلز ٹیکس کی ادائیگی کے لئے مقابلہ کیا گیا جسے میرٹ پر نمٹا دیا گیا۔

ٹیکس کی مدت جولائی-2015-جون-2016 کے لئے سیلز ٹیکس آڈٹ کا مقابلہ کیا گیا اور اس کیس کو پوری ایمانداری سے نمٹا گیا تھا۔

پنجاب ریونیو اتھارٹی (پی آر اے) نے سیلز ٹیکس کی مختصر وصولی اور ادائیگی کے لئے نوٹس لیا اور منظور کر لیا ہے۔ اور مقدمہ کی پیروی کی جا رہی ہے۔

## رسک مینجمنٹ فریم ورک

متفرق خطرات خصوصاً، قرضہ جات سے منسلک خطرہ جات، شرح سود سے منسلک خطرہ جات، اور مالی ماہیت سے منسلک خطرہ جات کو دیکھنے اور نگرانی کے لیے رسک مینجمنٹ ڈیویژن بنایا گیا ہے۔ رسک مینجمنٹ کے بارے میں وقتاً فوقتاً جاری کردہ اسٹیٹ بینک کے رہنما اصول پر پوری طرح عمل کیا جا رہا ہے اور بینک کے لئے پسیل II کے نفاذ کو اس کی نجکاری تک مستثنیٰ قرار دیا گیا ہے۔

مزید کریڈٹ کے امور رسک کے جامع اور گہرے تخمینہ اور آزمائش کے عمل سے مشروط ہیں۔ معاندہ کرنے والا، قرض اور ضامن کے لیے داخلی کریڈٹ رسک ریٹنگ سسٹم موجود ہے اور کریڈٹ پراسسنگ کا باقاعدہ حصہ ہیں۔ گرین بینکنگ میں ایس بی پی کے رہنما اصولوں کی تعمیل میں، ماحولیاتی رسک ریٹنگ کو بھی کریڈٹ طریقہ کار میں شامل کیا گیا ہے۔ ایس ایم ای قرض دینے کی نوعیت، فوری کارروائی اور کارکردگی کو مد نظر رکھتے ہوئے۔ ایس ایم ای قرض دینے کی نوعیت، فوری ٹرن اراؤنڈ ٹائم اور کارکردگی کو مد نظر رکھتے ہوئے اور بینک کی اپنی کریڈٹ پالیسیوں کو یقینی بنانے کے لئے، برانچ کی سطح پر جہاں ممکن ہے کریڈٹ رسک مینیجرز/ افسران کو تعینات کیا گیا ہے۔ مقررہ حد سے بڑی قرض کی تجاویز کا جائزہ اور منظوری ہیڈ آفس سے دی جا رہی ہے۔

بینک کی انتظامیہ اس بات کے لیے سخت کوشش کرتی ہے کہ بینک کی آپریشن اور کریڈٹ کی سرگرمیوں میں پروڈیوشل ریگولیشنز اور اسٹیٹ بینک آف پاکستان کی ہدایات پر سختی سے عمل کیا جائے۔ ایک موثر رسک مینجمنٹ کے طریقہ کار کو اپنانے کے لیے بہترین کاروباری پیکٹس پر عمل کرنے کی مسلسل کوشش کی جائے۔

بینک نے ٹیکس سال 2008 اور 2010 کے لئے ایبلٹ ٹریبونل کے پاس اپیلیں دائر کی ہیں جن کو شواہد کی تصدیق کے لئے دوبارہ جائزہ آفیسر کو بھیجا دیا گیا ہے، دریں اثناء اصلاحی درخواست کے بدلے ٹیکس سال 2008 کی مانگ کم کر دی گئی ہے، جس میں یہ درخواست کی گئی کہ سال 2009 کے ٹیکس کو ادا کرتے وقت ٹیکس کو مطابقت کر کے بقایا رقم واپس ادا کر دی جائے گی۔

ٹیکس سال 2012 کے لئے بینک کی طرف سے کمشنر (اپیل) کے پاس دائر کی گئی اپیل جس نے اس معاملے کو دوبارہ غور کے لئے ڈی سی آء آر کو واپس کر دیا، جبکہ اسی سال کے لئے سیکشن 113/221 کے تحت آرڈر رے ٹی آء آر میں تکرار کیا جا رہا ہے۔ ٹیکس سال 2014 کا اندازہ آئی ٹی او 2001 کے تحت سیکشن 122(1)/(5) لگایا گیا ہے۔ ٹیکس سال 2016، 2017 اور 2018 کو آئی ٹی او 2001 کی سیکشن 122 کے تحت کیے جانے کی امید ہے۔ دریں اثناء دفعہ 161 کے تحت کیے گئے نوٹسز کو 205 کے ساتھ ملا کر پڑھیں جو کہ ٹیکس سال 2013، 2016 اور 2017 کے لئے جاری کیے جا رہے ہیں، جن کی پیروی کی جا رہی ہے۔

محکمہ ٹیکس نے ٹیکس سال 2005، 2006، 2006، 2008، 2009، 2010، 2011 اور 2013 کے لئے ٹیکس کا مطالبہ زیر دفعہ 161/205 تشکیل دیا جس کی پیروی آء آر میں کی جا رہی ہے۔

محکمہ ٹیکس نے ٹیکس سال 2019، زیر دفعہ 122(5A) کے لیے تخمینہ کی ترمیم کی ہے جس میں کاروبار کی رقم سے متعلق متعدد سوالات اٹھائے گئے، پچھلے سالوں میں ٹیکسوں کی بھاری کوتاہی کی وضاحت، اور سرمایہ کاری کے ذرائع وغیرہ پر۔ کیس کی پیروی جائزہ آفیسر کے درجہ تک جا رہی ہے۔

## سیلز ٹیکس

ٹیکس ڈپارٹمنٹ نے ٹیکس سال 2008، 2009 اور 2010-2011 سے متعلق ایف ای ڈی/سیلز ٹیکس کی نوٹسز جاری کئے ہیں۔ بینک نے ان نوٹسز کا جواب دیا ہے اور ان کیسز کو کنسٹ کیا ہے۔ ٹیکس سال 2008 اور 2010 کی کیسز پر نئے سرے سے غور و فکر کے لیے واپس بھیج دیا گیا ہے جبکہ اسی دوران بینک نے باقی ماندہ کیسز کے بارے میں ایبلٹ ٹریبونل ان لینڈ ریونیو میں اپیلیں داخل کی ہیں۔

محکمہ ٹیکس نے ٹیکس کی مدت جنوری-2008، دسمبر-2008، جنوری-2009، دسمبر-2009، جنوری-2010، دسمبر-2010، جولائی-2011، جون-2012، جنوری-2014 سے متعلق ایف ای ڈی/سیلز ٹیکس سے متعلق نوٹسز بھی پیش کیے۔ بینک نے ان نوٹسز کا جواب دیا اور مقدمات کا سامنا کیا۔

ایس ایم ای بینک کی انتظامیہ نے، بینکاری کی صنعت میں سائبر سیکورٹی کی بڑھتی ہوئی ضرورت کے مد نظر، اپنے جدید بنیادی ڈھانچے کو خطرناک حملوں سے بچانے کے لیے قابل ذکر کوششیں کی ہیں۔ ایس ایم ای بینک نے اپنے جدید بنیادی ڈھانچے میں اندرونی اور بیرونی خرابی کے تعین تک رسائی اور اس کو حل کرنے کے لیے ایک جامع طریقہ کار وضع کیا ہے۔

### بیسل III اور III

2012 میں اسٹیٹ بینک آف پاکستان نے تمام بینکوں کو ہدایت کی کہ وہ کوانٹیلو امپیکٹ اسٹڈی (کیو آئی ایس) بیسل III - کیلئے اپنی معلومات جمع کروائیں۔ ایس ایم ای بینک نے اس سٹیٹمنٹ کو جمع کروانے سے معافی کی درخواست اس بنیاد پر دی کہ بیسل II سے پہلے ہی معافی حاصل کر لی گئی تھی۔ اب اسٹیٹ بینک نے بیسل III اور III پر عملدرآمد کے سلسلے میں سافٹ ویئر، انسانی وسائل اور تربیت میں بڑی سرمایہ کاری سے اسکی تعمیر نو / نجاتی تک چھوٹ دے دی ہے۔

### سرمایہ کی ممکنہ واپسی:

بینک یہ چاہتا ہے کہ 10 فیصد کی شرح پر سرمایہ کی واپسی کے تناسب کو مرتب کیا جائے۔ 31 دسمبر 2015 پر ختم ہونے والے سال کے دوران بینک کی سرمایہ کی واپسی میں مطلوبہ حد تک کمی آئی۔ بینک نے سرمایہ کی ممکنہ واپسی کو بیج مارک سے نیچے قائم رکھنے کے لیے استثنائی درخواست دی ہے۔ اسٹیٹ بینک آف پاکستان نے 31 دسمبر 2019 تک کم سے کم سرمایہ کی ضروریات کو پورا کرنے میں چھوٹ دی ہے

### انکم ٹیکس

محکمہ ٹیکس نے ٹیکس سالوں 2001، 2002، 2003، 2004، 2005، 2006، 2008، 2009، 2010، 2011، 2012، 2013، 2014، 2016، 2017 اور 2019 سے متعلق انکم ٹیکس سے متعلق نوٹسز بھیجے تھے۔

محکمہ ٹیکس نے ٹیکس سال -022001 اور -032002 کے لئے اسلام آباد ہائیکورٹ (IHC) میں ریفرنسز دائر کیے جن میں 03-2002 کو محکمہ ٹیکس نے عدم پیروی کے باعث 17 دسمبر، 2018 کو مسترد کر دیا ہے۔ دریں اثنا اسلام آباد ہائی کورٹ سے سماعت کے لئے ٹیکس سال 02-2001 کے لئے نوٹس موصول ہوا ہے، جسکی پیروی کی جا رہی ہے۔

جبکہ ٹیکس سال 2003 اور 2004 کیلئے محکمہ ٹیکس نے ایپیلٹ ٹریبونل کے فیصلوں کے خلاف اسلام آباد ہائی کورٹ میں ریفرنس دائر کیا ہے اور ٹیکس سال 2005 کے لئے محکمہ ٹیکس نے اس فیصلے کے خلاف ایپیلٹ ٹریبونل میں اپیل دائر کی ہے۔

## لیزنگ کاروبار

ایس ایم ای لیزنگ لمیٹڈ، جو کہ بینک کا ایک ذیلی ادارہ ہیا اور سال 2002ء میں بنایا گیا، نے گزشتہ سال 35.38 ملین روپے کے مقابلے میں قبل از ٹیکس خسارہ 21.01 ملین روپے پوسٹ کیا۔ اجاروں کی تکمیل، نئے اجاروں کے اجرا میں سست روی اور مالی لاگت زیادہ تھی۔ کمپنی کی صافی ایکویٹی 77.11 ملین (2018: 111.68 ملین) ہے۔ پا کرانے طویل مدتی درجہ بندی B (2018: B+) اور قلیل مدتی درجہ بندی B (2018: B) دی۔

ایس ایم ای لیزنگ نے 64.46 ملین روپے (2018: 83.02 ملین روپے) کی لیزنگ 10 صارفین کو 2019 میں کی (2018: 16)۔ اس طرح سے واجب الادا لیز پورٹ فولیو کا تناسب 251 صارفین کے ساتھ 378 ملین روپے رہا۔

## صارفین شکایات کا انتظام

شکایات کے ازالہ کے لئے ایک جامع طریقہ کار موجود ہے۔ شکایات کے موثر ازالہ کے لیے شکایات کے ازالہ کا نظام: کمپلینٹ مینجمنٹ سسٹم (سی ایم ایس) تیار کیا گیا ہے اور بینک میں لاگو کیا گیا ہے۔ یہ صارفین کو اپنی شکایات بینک میں درج کروانے کے لئے ایک سے زیادہ ذرائع فراہم کرتا ہے۔ اس میں شکایت دہندگان کی رسید، ریکارڈنگ، تفتیش، ازالہ اور جواب دینے کے لئے مفصل رہنما اصول کا خاکہ پیش کیا گیا ہے۔ زیادہ تر شکایات کا مناسب طور پر جواب دیا گیا ہے اور بالآخر بروقت حل کیا گیا ہے۔ ایک مشاہدے کے ذریعے جائزہ لیا گیا ہے کہ بینکوں کے صارفین کی حوصلہ افزائی کے ردعمل کی بھی عکاسی کرتا ہے۔

## ترتیب اور ایچ آر ڈویلپمنٹ

خصوصی کاموں کے لیے دستیاب انسانی سرمایہ کی مہارت/معلومات میں اضافہ کیلئے عملہ کو تربیت کی ضرورت کی بنیاد پر ضروری تربیت اور مہارت فراہم کی گئیں۔

## انفارمیشن ٹیکنالوجی

ایس ایم ای بینک معروف مشترکہ اے ٹی ایم نیٹ ورک، 1 لنک، میں شامل ہو چکا ہے اور وہ اپنی گھریلو ادائیگی اسکیم پے پاک کارڈز کو تشکیل دینے کی تیاری میں ہے جو اپنے صارفین کو موثر، کم لاگت اور بہترین ادائیگی کا حل فراہم کرے گی۔ ایس ایم ای بینک نے اپنی شاخوں میں 1- لنک کاؤنٹر پر (اوٹی سی) بل جمع کرنے کی سہولت کا آغاز کیا ہے جس کی مدد سے صارفین ایس ایم ای بینک کے ذریعے یوٹیلیٹی بلز، کریڈٹ کارڈ کے بلز، سرکاری بلز، تعلیمی فیس ادا کر سکتے ہیں۔ ایس ایم ای بینک نے مشترکہ صنعتی لحاظ سے کاروباری تسلسل کے منصوبے کی مشق میں کامیابی کے ساتھ حصہ لیا ہے اور کاروباری تسلسل کے منصوبے کے انتظامات مناسب پایا۔

## اداشدہ سرمایہ

بینک سال 2007 سے مبلغ 2.39 بلین روپے کے ادا کردہ سرمایہ سے آپریٹ کر رہا ہے۔ اسٹیٹ بینک آف پاکستان کی ہدایات کے تحت بینکوں کے لیے یہ ضروری قرار دیا گیا۔ ادا کردہ سرمایہ کی کم سے کم حد میں 10 بلین روپے تک اضافہ کریں۔ تاہم اسٹیٹ بینک آف پاکستان نے ادا کردہ سرمایہ کی کم از کم حد کی ضرورت کو پورا کرنے کی معافی 31 دسمبر 2019 تک دی ہے

## مالیاتی گوشوارے

مالیاتی حسابات عالمی اکاؤنٹنگ معیار کے مطابق جیسے کہ پاکستان میں نافذ العمل ہیں، اسٹیٹ آف پاکستان پروڈینشل ریگولیشن اور کمپنیز ایکٹ 2017 کے مطابق تیار کیے گئے ہیں۔ مالیاتی حسابات کے ساتھ نوٹس میں ریگولیٹری اتھارٹیز کے جاری کردہ قانون اور ہدایات کے مطابق ضروری معلومات فراہم کی گئی ہیں۔

## مالی رپورٹنگ پر داخلی کنٹرول

بورڈ اس بات کی ذمہ داری لیتا ہے کہ بینک میں داخلی کنٹرول کے موثر نظام کی موجودگی کو یقینی بنائے اور مستقل طور پر اس نظام کی استعداد اور سالمیت کا جائزہ لیتا اور اندازہ لگاتا ہے۔ تاہم بورڈ تسلیم کرتا ہے کہ اس طرح کے نظام ان خطرات کو قابل قبول حد تک منبج کرنے، نہ کہ ختم کرنے کے لیے بنائے جاتے ہیں۔ اس لیے نافذ کیے گئے نظام پر کسی واقعہ یا مواد کی غلطی اور نقصان کی صورت میں ایک مناسب حد تک ہی، نہ کہ مکمل طور پر بھروسہ کیا جاسکتا ہے۔

داخلی کنٹرول کے یہ نظام بورڈ کی جانب سے باقاعدہ جائزہ سے مشروط ہیں تاکہ بینک کے اندر اس نظام کے موثر ہونے کا اندازہ لگایا جاسکے۔ انتظامیہ کو ذمہ داری سونپی ہے کہ داخلی کنٹرول کے نظام کو لاگو کرتے ہوئے خطرات کی نشاندہی اور ان کو کم کرنے کے لئے اقدامات کرے۔ یہ اندرونی نگرانی کا نظام بینک کی موثر تخمینہ سازی کے نظام سے متعلق بورڈ کی نظر ثانی سے مشروط ہے۔

## ذخائر

تمام تر کاؤٹوں کے باوجود بینک کا ڈپازٹ پورٹ فولیو اضافے کے ساتھ 31 دسمبر 2019 کو مبلغ 7,501 ملین روپے تھا۔

## ادائیگیاں

لیکویڈٹی کے دباؤ کے باوجود، بینک نے گزشتہ سال میں 1,378 ملین روپے کے مقابلے میں اس سال مبلغ 1,623 ملین روپے قرض دیئے اس سال کے دوران قرض لینے والوں کی تعداد 219 تھی جبکہ سال کے آخر تک قرض لینے والوں کی کل تعداد 1,239 تھی۔

افراط زر اور سود کی شرح میں اضافے جیسے وسیع معاشی عوامل نے ملک میں کاروباری سرگرمیاں اور شرح نمو کو بڑی حد تک کمزور کر دیا۔ جس کے نتیجے میں بینک قرض دہندگان کی ادائیگی کی صلاحیت اور طرز عمل متاثر ہوا لیکن ان رکاوٹوں کے باوجود بینک انتظامیہ نے بینک کے ناقابل وصول قرضوں کو کم کرنے کے لیے مستقل طور پر کوشش کی۔ 31 دسمبر 2019 تک بینک کا ناقابل وصول قرضہ 506 ملین روپیہ تھا جبکہ 31 دسمبر 2018 کو 479 ملین روپے تھا۔

بینک نے ایس ایم ای لیزنگ لمیٹڈ (ایس ایم ای ایل) میں مبلغ 215.46 ملین روپے کی سرمایہ کاری کی تھی جس کا اندراج ان مالیاتی حسابات میں مبلغ 80.75 ملین روپے کیا گیا ہے اور 31 دسمبر 2019 تک واجب الادا رننگ فنانس مبلغ 142.16 ملین روپے ظاہر کیا گیا ہے۔ سال کے دوران کمپنی نے قرضہ جات کی عدم ادائیگی کی وصولی کے ذریعے رقم حاصل کرنے اور اس کو ایک بہتر اور نیا لون پورٹ فولیو بنانے پر اپنی توجہ مرکوز کی ہے۔ کمپنی نے اپنی کل رقم 64.46 ملین روپے ادائیگی کا بندوبست کیا۔ مجموعی وصولیاں 113 ملین روپے (بشمول 17.61 ملین روپیہ غیر فعال قرضہ سے وصولی) ہے۔ پچھلے تین سالوں میں نئے لیز کیے ہوئے کاروبار پر نادر ہندگی کی شرح بہت کم ہے۔ ان کے شیئرز کی مارکیٹ ویلو کی حدود پچھلے 52 ہفتوں سے 1.30 روپے سے 4.45 روپے فی شیئر کے درمیان رہی۔ کسی نقصان کی بجائے یکے لیے بینک وقفے وقفے سے ایس ایم ای ایل میں اپنی سرمایہ کاری کا جائزہ لیتا ہے۔ ایس ایم ای ایل میں قابل وصول سرمایہ کاری کی رقم کا تعین اس کی ویلو کے حساب سے کیا جاتا ہے۔ بینک ایس ایم ای ایل کی مستعمل ویلو کا حساب لگانے کے لیے موجودہ ویلو کی تکنیک اور ایس ایم ای ایل کی مالیاتی منصوبہ بندی کو استعمال کرتا ہے۔

بینک نے سال 2019 میں قبل از ٹیکس خسارہ مبلغ 1، 287.41 ملین روپے کے مقابلے میں سال 2018 کے دوران قبل از ٹیکس خسارہ 876.28 ملین روپے بک کیا ہے اور 2018 کے کل خسارہ 172.31 ملین روپے کے مقابلے میں 2018 میں کل خسارہ 825.94 ملین روپے رہا۔ ان خساروں کی وجہ زرخور پرائیویٹائزیشن، تنظیم نو، محدود پھیلاؤ، ناکافی ایکویٹی اور اقتصادی حالت تھی۔ ہم مستقبل میں آمدنی میں اضافے اور نفاذ ہونے والے قرضوں کے حجم میں کمی کے ذریعے خساروں میں تخفیف کی توقع کرتے ہیں۔

ایس ایم ای لیزنگ لمیٹڈ کو دیے گئے قرض کے متعلق، ایس ایم ای بینک نے اسٹیٹ بینک آف پاکستان کو پر پارٹی ایکسپوئیر کے حساب سے معافی کیلئے درخواست کی تھی اسٹیٹ بینک آف پاکستان نے ایس ایم ای بینک کو ایس ایم ای لیزنگ کے لیے 150 ملین روپے کی فنانسنگ کے متعلق پروڈینشل ریگولیشن R-1 کے تحت سنگل ریلیٹڈ پارٹی ایکسپوئیر کی 31 دسمبر 2019 تک یا تنظیم نو کی تکمیل/پرائیویٹائزیشن یا جو بھی پہلے ہو کی شرط پر مراعات دی گئی۔

## شرح سود کا پس منظر

اسٹیٹ بینک آف پاکستان کا ڈسکاؤنٹ ریٹ سال 2019 کے شروع میں 10.50 فیصد تھا۔ سال کے دوران ڈسکاؤنٹ ریٹ میں خالص اضافہ 3.25 فیصد بڑھا کر مجموعی اضافہ کو سال کے آخر تک 13.75 فیصد لانا تھا۔

## کریڈٹ ریٹنگ

پاکرا کریڈٹ ریٹنگ ایجنسی نے مورخہ 22 نومبر 2018 کو بینک کی طویل المیعاد سی سی سی کریڈٹ ریٹنگ اور مختصر مدتی کریڈٹ ریٹنگ (B سٹیکل) تفویض کی۔ کریڈٹ ریٹنگ کمپنی نے یہ بتایا ہے کہ بینک کی آپریشنل کارکردگی نمایاں طور پر دباؤ کا شکار رہے۔ جس کی وجہ حکومت کی طرف سے اضافی ایکویٹی ملنے میں تاخیر ہے۔

بینک آپریشن کے تسلسل کے آگے بڑھنے کا انحصار دونوں عوامل میں سے کسی ایک پر منحصر ہے (i) گورنمنٹ کی طرف سے تازہ سرمایہ کی فراہمی یا (ii) نجکاری کے محاذ پر ترقی، کیونکہ بینک آپریشن ان دونوں کی وجہ سے محدود ہے حالانکہ انتظامیہ کاروباری افعال کو بہتر بنانے کے اقدامات کر رہی ہے، آپریشنل استحکام کا انحصار بنیادی سرپرست کی طرف سے ایکویٹی کی فراہمی پر ہے۔

## آپریشنل (کارگزاری کے) نتائج

محدود ایکویٹی اور فنڈز کی کمی کے باوجود انتظامیہ اسٹیٹ بینک آف پاکستان کی طرف سے ضروری قرار دی گئی روزانہ کی لیکویڈٹی کی ضروریات پوری کرنے اور قانونی لیکویڈٹی (ایس ایل آر) کی ضروریات کو برقرار رکھنے میں کامیاب رہی ہے۔ لیکویڈٹی کے غیر معمولی بحران کے باوجود قرضہ جات اور ایڈوانسز کا تناسب 2,195 ملین روپیہ رہا۔ زیر نظر سال کے دوران ایس ایم ای لینڈنگ آپریشن سے آمدنی میں 43.51 ملین روپے کا اضافہ ہوا۔ اس کے علاوہ ڈپازٹس اور قرضہ جات کی لاگت میں مبلغ 425.95 ملین روپے کا اضافہ ہوا۔ ڈپازٹ کی اوسط لاگت 2018 میں 6.13% کے مقابلہ میں 9.95% رہی۔

بینک کے ذخائر میں 780,1 ملین روپے کا اضافہ کیا گیا ہے اور 31 دسمبر 2019 تک یہ 501,7 ملین روپیہ ہے جو گزشتہ سال 31 دسمبر 2019 کو 721,5 ملین روپے تھا۔

سال 2019 کے دوران، بینک نے ناقابل وصول قرضوں کے مقابلہ میں 0.6 ملین روپے کی خالص provision چارج کی ہے۔ جبکہ 2018 کے قرضوں میں 20.2 ملین روپے کی خالص provision تھی۔ بینک کے قرضے دینے کا حساب 2018 میں 2500 ملین کے مقابلے میں 2195 ملین رہا۔



مزید یہ کہ مالی سال جولائی تا مارچ 2019 کے دوران بڑے پیمانے پر مینوفیکچرنگ (ایل ایس ایم) کے شعبے میں تنزلی پ غور کرتے ہوئے غیر مالی کارپوریٹ کے شعبے کی گھٹتی ہوئی کارکردگی ظاہر کرتی ہے کہ عدم ادائیگیوں کی مشکلات بڑھ رہی ہیں۔ مزید برآں، نہ ادا ہونے والی قرضوں کی قسم ڈاؤنفل، اور سب سٹیڈرڈ کے قابل ذکر حصے میں کمی ہونے سے بینک کے پروویڈن اخراجات میں اضافہ ہو سکتا ہے۔ اس طرح کریڈٹ رسک میں اضافہ ہوگا جو کہ بہت اہم پہلو ہے۔

کریڈٹ رسک کے ادراک (سمجھنے) سے پیدا ہونے والے مضمرات (مشکلات) کے علاوہ، بینکنگ سیکٹر کی سود مندی کا انحصار لاگت کو منسلک ابھرتے ہوئے آپریشنل خطرات کے ذریعے کم کرنے اور شرح سود کے اتار چڑھاؤ کے ساتھ وابستہ کیا گیا ہے۔

### پالیسی کی شرح کا پس منظر

مرکزی بینک نے جنوری 2018 کے بعد بیچ مارک سود کی شرح میں جارحانہ طور پر 7.5 فیصد پوائنٹس کا اضافہ کیا ہے جو آٹھ سال کی بلند ترین سطح پر 13.25 فیصد ہے۔

سرکاری سیکورٹیز میں بینکوں کی سرمایہ کاری کا طرز عمل اور اس کے مقابلے میں حاصل کردہ سود کا زیادہ تر انحصار شرح سود کے اتار چڑھاؤ پر ہوتا ہے۔

انٹربینک مارکیٹ کیا انداز کے مطابق سٹیٹ بینک نے منافع کو بڑھانے کے لیے مالی سال 2019 میں شرح سود میں مزید اضافہ کیا ہے، جس سے بیشتر بینکوں نے بہتر کارکردگی کے ساتھ اپنے پورٹ فولیو کی تجدید (بحال کیا) کی۔

### طریقہ عمل کے اہم نکات

بینک سال 2007 سے مبلغ 2.39 بلین روپے کے پیڈ اپ کیپٹل سے کام کر رہا ہے۔ اس سے پہلے اسٹیٹ بینک نے 31 دسمبر 2019 تک پیڈ اپ کیپٹل کی کم از کم 10 بلین روپے کی ضروریات کو پورا کرنے کے لیے استثناء دیا۔ شیئر ہولڈرز نے مورخہ 7 اکتوبر 2009 کی میٹنگ میں یہ مشورہ دیا کہ بینک اپنے پیڈ اپ کیپٹل میں اضافہ کرتے ہوئے سرمایہ پر نظر ثانی کرے اور انتظامیہ نے اس سلسلے میں وزارت مالیات سے رابطہ کیا۔ بورڈ نے یہ نوٹ کیا کہ بینک کی پرائیویٹائزیشن قریب ہونے کی وجہ سے، اسٹیٹ بینک آف پاکستان کی طرف سے کاروبار میں توسیع پر پابندیوں، اور بہت محدود 2 بلین روپے سے بھی کم ایکویٹی کو مد نظر رکھتے ہوئے بینک کے لیے خود کو سہارا دیکر چلانا ایک چیلنج ہے۔

اسٹیٹ بینک آف پاکستان کی جانب سے پابندیوں کی روشنی میں سال 2017 کے دوران برانچ کے نیٹ ورک میں کوئی تبدیلی نہیں کی گئی اور بینک 13 کمرشل بینکنگ برانچز اور پانچ ریکوری آفیسز چلاتا رہا۔

## اسٹیٹ بینک آف پاکستان کا انحراف

توقع کی جارہی ہے کہ گذشتہ مالی سال کی ریکارڈ کی گئی 5.8 فیصد کی معاشی شرح نمو 4 فیصد تک کم ہو جائے گی۔ ایک سال کے دوران روپے کی قدر میں 26 فیصد کمی ہوئی۔ 2017 کے اختتام پر فی ڈالر 110.42 روپے تھا روپے کی قدر میں کمی کی وجہ سے 2018 کے اختتام پر فی ڈالر 138.87 روپے ہو گیا۔ اسٹیٹ بینک آف پاکستان کیمرکزی پالیسی شرح سود جس میں 6 فیصد سیلے کر 10 فیصد تک اضافہ ہوا، جو کہ رواں سال کے دوران 4 فیصد پوائنٹس کا اضافہ ہوا ہے۔

ایک سینئر بینکر، چیف ایگزیکٹو آفیسر اور بینک کیصدر کے مطابق، اس سال بینکوں کے لئے کم سے کم تین اہم چیلنجز موجود ہیں جن میں داخلی اختیارات کے ساتھ معاشی اور مارکیٹ کے خطرات کا مقابلہ کرنا، آپریشنل سست روی کے بغیر بڑھتے ہوئے ریگولیٹری عمل درآمد اور جدید مالی مصنوعات میں اثاثوں اور واجبات دونوں پہلوؤں پر عمل درآمد کو یقینی بنانا لیکن محتاط طریقے سے فن تک کے استعمال کے ساتھ۔

مزید برآں، ان چیلنجز پر قابو پانے سے کچھ چھوٹے اور کم موثر بینک بہتر بن کر (سداہار پیدا کر کے) یا صورت حال کو تبدیل کر کے منظر عام پر آ سکتے ہیں۔ تقریباً دوسرے سب بینکوں کے لیے ان چیلنجز کا مقابلہ کرنے سے معلوم ہوگا کہ ان کی حکمت عملی کتنی موثر ہو سکتی ہیں اور کیا مزید بہتر پالیسیاں ان کے لیے قلیل مدت میں نفع بخش ثابت ہو سکتی ہیں؟

قومی بچت اسکیم (این ایس ایس) پر شرح منافع میں حالیہ اضافے کی مثال لیں۔ این ایس ایس کے نرخوں میں اضافے سے متعلق ترمیم کا مقصد گھریلو سرمایہ کاری کو فروغ دینا اور حکومت کو دوسرے ذرائع سے زیادہ قرض لینے کے قابل بنانا ہے۔ اس بڑھتے ہوئے 2.75 فیصد پوائنٹس کا مطلب ہیکہ ایسا ماحول جہاں پیسہ اکٹھا کرنے میں متحرک بینکوں کے لیے مزید مقابلہ ہوا اور منی لانڈرنگ کے گرد گیرہ تنگ کیا جانے پر بینکوں کو اپنے صارف کے جاننے والے نظام (کے وائی سی) کو نافذ کرنے میں بہت زیادہ محتاط رہنے کی ضرورت ہے۔ کیا یہ کافی دشوار نہیں ہے؟

## بینکوں کے لیے چیلنج

بینکاری کا نقطہ نظر مستقبل کے معاشی امکانات اور اس سے متعلق پالیسی کے رد عمل پر بہت انحصار کرتا ہے۔ 2018 اسٹیٹ بینک کے مالیاتی نظام جائزہ کے مطابق، دسمبر 2018 کے اختتام پر نظام زر کے کچھاؤ اور موجودہ سال 2019 کی پہلی ششماہی (جنوری تا جولائی) میں قرضوں کی قیمتوں کے دوبارہ تعین کی راہ ہموار کی گئی۔

اس سے خالص سودی آمدنی میں بہتری آ سکتی ہے اور اس طرح منافع اور بینکاری کے شعبے کی قرض ادا کرنے کی صلاحیت بہتر ہوگی۔ دوسری طرف یہ قرض لینے والوں کی ادائیگی کی صلاحیت کو نقصان دے سکتی ہے اور اس طرح کریڈٹ رسک میں اضافہ ہوگا۔

موبی عنصر کی وجہ سے تھا کہ خراب ہونے والی اشیائے خورد و نوش کی قیمتوں میں تریلی رکاوٹوں کی وجہ سے تیزی سے اضافہ ہوا۔ ہم توقع کرتے ہیں کہ مالی سال 2020 کے دوران افراط زر کی شرح بلند رہے گی اور CY20 کے دوران اوسطاً 11.0 فیصد تک رہے گی۔ جبکہ سال 2020 کے دوران یہ 9.5 فیصد تک رہنے کی پیشن گوئی کی گئی ہے۔ پیشن گوئی شدہ افراط زر کو قیاس کرتے ہوئے، ہم توقع کرتے ہیں کہ مارچ 2020 کے بعد افراط زر کی شرح میں بتدریج کمی آنا شروع ہو جائے گی۔

## غیر ملکی زرمبادلہ

ایشین ڈیولپمنٹ بینک (اے ڈی بی) سے قرض حاصل کرنے کے بعد پاکستان کے زرمبادلہ کے ذخائر 15.58 بلین ڈالر تک بڑھ چکے ہیں۔

ملکی مجموعی زرمبادلہ کے ذخائر 15.58 بلین ڈالر ریکارڈ کیے گئے ہیں۔ جس میں تجارتی بینکوں کے پاس موجود 7.3 بلین ڈالر کے خالص غیر ملکی ذخائر شامل ہیں۔ قطر، بین الاقوامی مالیاتی فنڈ اور ایشین ڈیولپمنٹ بینک (اے ڈی بی) سے قرضے حاصل کرنے کے بعد پاکستان کے غیر ملکی ذخائر میں اضافہ ہونا شروع ہو گیا تھا۔ آئی ایم ایف نے توسیع شدہ فنڈ کی سہولت کے تحت پہلے ہی پاکستان کے لئے ایک ارب ڈالر جاری کیے تھے۔ یہ فیصلہ کیا گیا تھا کہ اگر پاکستان فنڈ کے ساختی معیار کو پورا کرتا ہے۔ تو آئی ایم ایف موجودہ مالی سال کے دوران ایک بلین ڈالر کی دوسری قسط جاری کر دے گا۔ اسٹیٹ بینک آف پاکستان پہلے ہی قطر سے فنڈز کی فراہمی کی صورت میں 500 ملین ڈالر حاصل کر چکا ہے۔ قطر نے حکومت پاکستان کی درخواست پر 3 ارب ڈالر اسٹیٹ بینک آف پاکستان کے اکاؤنٹ میں رکھنے کا وعدہ کیا تھا۔

وزارت خزانہ کے عہدیداروں کے مطابق، آنے والے مہینوں میں ذخائر میں مزید اضافہ ہوگا۔ حکومت نے ملک کے زرمبادلہ کے ذخائر کو بڑھانے کے لئے بین الاقوامی مارکیٹ سے وسائل اکٹھا کرنے کے لئے قلیل مدتی بانڈز اور سکوک (اسلامی بانڈ) جاری کرنے کا فیصلہ کیا ہے۔

## کرنسی مارکیٹ

2019 میں، حکومت نے ممکنہ ڈیفالٹ کو روکنے کے بعد کچھ معاشی اہداف حاصل کیے ہیں اور بڑی کامیابی سے بڑھتے ہوئے کرنٹ اکاؤنٹ اور بجٹ خسارے کو کنٹرول کیا۔ نئے غیر ملکی قرضے لے کر غیر ملکی ذخائر میں بہتری لائی گئی، نئے ٹیکس فائلرز اور کسی حد تک برآمدات میں اضافہ ہوا۔ تاہم حکومت بڑھتی ہوئی افراط زر کی شرح کو قابو کرنے اور ٹیکس وصولی کے اہداف کو حاصل کرنے میں ناکام رہی اور ایسا دکھائی دیتا ہے کہ 1.7 ٹریلین کے سرکلر قرضے سے نمٹنے کے لیے کوئی قابل اعتماد منصوبہ نہیں ہے۔

مالی سال 19 میں سود کی شرح کے بڑھتے ہوئے رجحان کو دیکھ کر، بینکوں کے لئے یہ ایک بہتر بنمو توقع تھا کہ وہ حساب کتاب کو مثبت رکھنے کے لیے نیا پورٹ فولیو تیار کرتے اور پورٹ فولیو کو منافع میں تبدیل کرتے۔

## ڈائریکٹر رپورٹ برائے شراکت داران (حصص یافتگان)

ایس ایم ای بینک کی آٹھارویں سالانہ رپورٹ بمعہ 31 دسمبر 2019ء کو اختتام پذیر ہونے والے سال کے آڈٹ شدہ گوشوارے اور ان سے متعلق آڈٹ رپورٹ پیش کرتے ہوئے ہم انتہائی مسرت محسوس کر رہے ہیں۔

### اقتصادی جائزہ:

صارفین کی قیمت کا اشاریہ: افراط زر اور مارکیٹ کی توقع

موجودہ حکومت کی طرف سے اہم موڑ پر موجود پاکستان معیشت کو مشکل حالات سے باہر نکالنے والی پالیسی کے تحت کی جانے والی کوششیں شہر آور ثابت ہو رہی ہیں۔ اگرچہ بجٹ خسارہ آٹھ سال کی بلند ترین سطح پر ہے اور یہ بڑھ کر 3.45 کھرب یا 8.9 فیصد ہو گیا ہے۔ تاہم (وقت کے تصرف کے طریقہ کار کے تحت) ٹیکس کی بنیاد پر بنائے گئے دستاویزات میں اضافے کی کوششوں اور عمدہ انتظام و بندوبست مع غیر ملکی کرنسی کی ٹی بی کی نگرانی اور اسکی بہتر ترسیلات کے اثرات FATF کا مسئلہ حل ہو جانے پر (اکتوبر 2019) زیادہ واضح نظر آنا شروع ہو جائیں گے۔

پاکستان کے ادارہ شماریات کی رپورٹ کے مطابق اگرچہ دسمبر میں پاکستان میں افراط زر کی شرح معمولی کمی کے ساتھ 12.7 سے 12.63 رہی مگر پھر بھی افراط زر نو سال کی بلند ترین سطح کو چھو رہی ہے۔ مزید برآں افراط زر کا جو تخمینہ اشاریہ برائے اضافی قیمت کے تحت کیا گیا اس کے مطابق افراط زر پچھلے ماہ کے مقابلے میں 0.34 فیصد کم رہی۔

جاری کردہ رپورٹ کے مطابق دسمبر میں اشیاء خورد و نوش کی قیمتوں میں اضافہ افراط زر کی سب سے بڑی وجہ ہے یہ بھی دیکھا گیا کہ شہری علاقوں کی نسبت دیہی علاقوں میں ضروری غذائی اشیاء کی قیمتیں زیادہ ہیں۔ دسمبر کے مہینے میں شہری علاقوں میں غذائی افراط زر میں سالانہ کی بنیاد پر 16.7 فیصد اضافہ ہوا لیکن ماہانہ کی بنیاد پر 1.7 فیصد کمی واقع ہوئی۔ جبکہ دیہی علاقوں میں 19.7 فیصد اضافہ اور 1.1 فیصد کمی ہوئی۔

مالیاتی اتھارٹی مالی سال 2019 کے دوران افراط زر پر قابو پانے کے لئے مستحکم (پائیدار) اقدامات کرتی رہی ہے۔ پالیسی نرخوں میں اضافے کے منفی اثرات اور عالمی سطح پر خوراک اور تیل کی قیمتوں میں کمی، افراط زر کی روک تھام میں مثبت تبدیلی آنے کی امید ہے۔ ان مثبت اقدامات کے باوجود، زیر مبادلہ کی شرح میں کمی، گیس اور بجلی کے نرخوں میں اضافہ اور حکومت کا ایس بی پی سے زیادہ قرضوں کا حصول، افراط زر پر دباؤ کی وجہ بن سکتا ہے۔ اس تناظر میں سال 2019-2020 کے دوران اوسط افراط زر 8.5 فیصد کے قریب رہنے کی توقع ہے۔

اس حقیقت کے باوجود کہ بڑے پیمانے پر کرنسی ایڈجسٹمنٹ کی گئی ہے، پچھلے سال یوٹیلٹی بلز (گیس، بجلی) کی قیمتوں میں تبدیلی کا ایک وقتی دھچکا کو برداشت کرنا پڑ گیا اور بلند basin effect post recent 2020 مالی سال میں سی پی آئی ریڈنگ کی سطح بلند رہی۔ یہ

## Shareholding Pattern

The pattern of shareholding as at December 31, 2019 is given below ;

Sr. #	Categories of Shareholders	No. of Share holders	Shares held	Percentage
1	Federal Government	1	224,615,978	93.88
2	Banks	6	14,634,715	6.12
3	Individuals (Directors)	7	7	-
	<b>Total</b>	<b>14</b>	<b>239,250,700</b>	<b>100</b>

Government of Pakistan is the only shareholder holding 10% or more voting interests.

Position of shareholding by each director is as under:

<u>Name of Directors</u>	<u>Shares held</u>
1 Mr. Dilshad Ali Ahmad	01
2 Mr. Muhammad Arshad Khan (retired since January 16, 2019)	01
3 Mr. Muhammad Adnan Jalil (retired since December 20, 2018)	01
4 Mr. Badr-ul-Arifeen (retired since February 01, 2019)	01
5 Mr. Sher Ayub Khan (retired since March 28, 2019)	01
5 Mr. Majyd Aziz Balagamwala (retired since Jan 23, 2013)	01
7 Mr. Zahid Oosman (retired since March 06, 2014)	01

## Statement of Compliance

### with Public Sector Companies (Corporate Governance) Rules, 2013

For the year ended December 31, 2019

#### SCHEDULE I

[See paragraph 2(1)]

- I. This statement is being presented to comply with Regulation G-1 of the Prudential Regulations for Corporate/ Commercial Banking issued by the State Bank of Pakistan and 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. SME Bank Ltd (the Bank) has complied with the provisions of the Rules in the following manner:

Sr. No.	Provision of the Rules	Rule No.	Y N		Remarks												
			Tick the relevant box														
1.	The independent directors meet the criteria of independence, as defined under the Rules.	2(d)			Not Applicable as the Board remained un-functional during year 2019 due to six vacant position of directors. (2 independent and 4 non-executive directors)												
2.	<div>The Board has the requisite percentage of independent directors. At present the board includes:</div> <table><tr><th>Category</th><th>Names</th><th>Date of ap- pointment</th></tr><tr><td>Independent Directors</td><td>-</td><td>-</td></tr><tr><td>Executive Directors</td><td>Mr. Dilshad Ali Ahmad</td><td>16-10-2018</td></tr><tr><td>Non-Executive Directors</td><td>-</td><td>-</td></tr></table>	Category	Names	Date of ap- pointment	Independent Directors	-	-	Executive Directors	Mr. Dilshad Ali Ahmad	16-10-2018	Non-Executive Directors	-	-	3(2)		✓	Board of the Bank consist of seven directors. Due to seven members board the bank requires minimum 2 independent directors 4 non-executive directors and 1 executive director. Position of independent and non-executive directors remained vacant throughout the year.
Category	Names	Date of ap- pointment															
Independent Directors	-	-															
Executive Directors	Mr. Dilshad Ali Ahmad	16-10-2018															
Non-Executive Directors	-	-															
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)	✓		NIL												
4.	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Act.	3(7)	✓		All the nominations on the Board of Directors are made by the GoP. The appointing authorities apply the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Act												

5.	The chairman of the board is working separately from the chief executive of the Bank.	4(1)		✓	As per MoF Notification # F.2(7) IF-III/2001-68 dated January 25, 2018 that President has been directed to Chair the meetings of BoD till completion of privatization of SME Bank Ltd.
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)	✓		As per MoF Notification # F.2(7) IF-III/2001-68 dated January 25, 2018 that President has been directed to Chair the meetings of BoD till completion of privatization of SME Bank Ltd. However, otherwise the chairman of the board is elected by the Board of Directors of the Bank.
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)	N/A		
8.	(a) The Bank has prepared a “Code of Conduct” to ensure that professional standards and corporate values are in place. (b) The Board has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures, including posting the same on the Bank’s website. (www.smebank.org) (c) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.	5(4)	✓  ✓  ✓		
9.	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules	5(5)	✓		
10.	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	5(5)(b)(ii)	✓		
11.	The Board has developed and implemented a policy on anti-corruption to minimize actual or perceived corruption in the Bank.	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 Bank's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services.	5(5)(c) (iii)	✓		
14.	The Board has developed a vision or mission statement and corporate strategy of the Bank.	5(6)	✓		
15.	The Board has developed significant policies of the Bank. 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 Bank as a public service obligation, and have submitted its request for appropriate compensation to the Government for consideration.	5(8)	N/A		
17.	The Board has ensured compliance with policy directions requirements received from the Government.	5(11)	✓		Although the Board remained un-functional during the current year, all policy directions from the government have been fully complied with by the approval of the Risk Management Committee and Management Committee. As soon as the board resumes the function it shall ratify all actions performed to implement those government directions.
18.	a) The board has met at least four times during the year. b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. c) The minutes of the meetings were appropriately recorded and circulated.	6(1) 6(2) 6(3)	✓ ✓ ✓		a) No board meeting was held in year 2019 due to unfilled 6 vacant positions of the board to be filled by GoP. b) Written notices of the board meeting along with agenda and working papers were circulated at least seven days before the meeting whenever meeting was scheduled in past. However during the year 2019 no meeting could be scheduled due to unfilled six vacant positions by the GoP out of seven member's board.

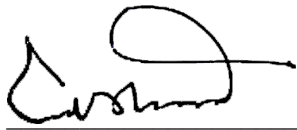


19.	The Board has monitored and assessed the performance of senior management on annual/half-yearly/quarterly basis* and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose. *Strike out whichever is not applicable	8 (2)		✓	No board meeting was held in year 2019 due to six vacant position of board of directors (2 independent and 4 non-executive directors).
20.	The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9		✓	No board meeting was held in year 2019 due to six vacant position of board of directors (2 independent and 4 non-executive directors).
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 Bank's website.	10	N/A	✓  ✓	No board meeting was held in year 2019 due to six vacant position of board of directors (2 independent and 4 non-executive directors).
22.	All the board members underwent an orientation course arranged by the Bank to apprise them of the material developments and information as specified in the Rules.	11		✓	Orientation Course was not arranged by the Bank due to six vacant positions of board of directors (2 independent and 4 non-executive directors).

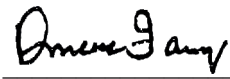
23.	a) The board has formed the requisite committees, as specified in the Rules.	12		✓	All the required Committee were intact when Board was functional but due to six vacant positions of board of directors 2 independent and 4 non-executive directors the committees could not be kept remained in the field during the year 2019.																		
	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:			✓																			
	<table><tr><th>Committee</th><th>Number of members</th><th>Name of Chair</th></tr><tr><td>Audit Committee</td><td>Nil</td><td>Nil</td></tr><tr><td>Human Resource Committee</td><td>Nil</td><td>Nil</td></tr><tr><td>Procurement Committee</td><td>Nil</td><td>Nil</td></tr><tr><td>Nomination Committee</td><td>Nil</td><td>Nil</td></tr><tr><td>Risk Management Committee</td><td>Nil</td><td>Nil</td></tr></table>			Committee		Number of members	Name of Chair	Audit Committee	Nil	Nil	Human Resource Committee	Nil	Nil	Procurement Committee	Nil	Nil	Nomination Committee	Nil	Nil	Risk Management Committee	Nil	Nil	
	Committee			Number of members		Name of Chair																	
	Audit Committee			Nil		Nil																	
Human Resource Committee	Nil	Nil																					
Procurement Committee	Nil	Nil																					
Nomination Committee	Nil	Nil																					
Risk Management Committee	Nil	Nil																					
24.	The Board has approved appointment of Chief Financial Officer, Bank 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 the Bank Secretary have requisite qualification prescribed in the Rules	14	✓																				
26.	The Bank has adopted International Financial Reporting Standards notified by the Commission in terms of sub-section (1) of section 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 Bank except those disclosed to the Bank.	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 Bank contains criteria and details of remuneration of each director.	19	✓  ✓																
30.	The financial statements of the Bank 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"> <thead> <tr> <th>Name of member</th> <th>Category</th> <th>Professional background</th> </tr> </thead> <tbody> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> <tr><td></td><td></td><td></td></tr> </tbody> </table> <p>The chief executive and chairman of the Board are not members of the audit committee.</p>	Name of member	Category	Professional background													21 (1) and 21(2)	✓	<p>The required Committee was intact when Board was functional but due to six vacant positions of board of directors 2 independent and 4 non-executive directors; the committee could not be kept remained in the field during the year 2019.</p> <p>.</p>
Name of member	Category	Professional background																	
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 function, at least once a year, without the presence of chief financial officer and the external auditors.</p>	21(3)	<p>✓</p> <p>✓</p> <p>✓</p>	<p>Due to six vacant positions of board of directors 2 independent and 4 non-executive directors the committee could not be kept remained in the field during the year 2019. Resultantly no meeting of Board Audit Committee could be conducted during the year 2019.</p> <p>.</p>															
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 their review.</p>	22	<p>✓</p> <p>✓</p>																

34.	The external auditors of the Bank have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	23(4)	✓		
35.	The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services.	23(5)	✓		



CEO  
**Dilshad Ali Ahmad**



Independent Director  
**Omer Farooq**

## Explanation for Non-Compliance with Public Sector Companies (Corporate Governance) Rules, 2013 For the year ended December 31, 2019

We confirm that all other material requirements envisaged in the Rules have been complied with except for the following, toward which reasonable progress is being made by the company to seek compliance by the end of next accounting year:

Sr. No.	Rule / sub-rule no.	Reasons for non- compliance	Future course of action
1.	3(2)	Board of the Bank consist of seven directors. Due to seven members board the bank requires minimum 2 independent directors 4 non-executive directors and 1 executive director. Position of independent and non-executive directors remained vacant throughout the year.	Appointment by Federal Government is awaited
2.	4(1)	As per MoF Notification # F.2(7)IF-III/2001-68 dated January 25, 2018 that President has been directed to Chair the meetings of BoD till completion of privatization of SME Bank Ltd.	Appointed by Federal Government.
3	6(1)	a) No board meeting was held in year 2019 due to unfilled 6 vacant positions of the board to be filled by GoP.	Appointment by Federal Government is awaited.
4	6(2)	b) Written notices of the board meeting along with agenda and working papers were circulated at least seven days before the meeting whenever meeting was scheduled in past. However during the year 2019 no meeting could be scheduled due to unfilled six vacant positions by the GoP out of seven member's board.	Appointment by Federal Government is awaited.
5	6(3)	However during the year 2019 no meeting could be scheduled due to unfilled six vacant positions by the GoP out of seven member's board.	Appointment by Federal Government is awaited.
6	8(2)	No board meeting was held in year 2019 due to six vacant position of board of directors 2 independent and 4 non-executive directors.	Appointment by Federal Government is awaited.
7	9	No board meeting was held in year 2019 due to six vacant position of board of directors 2 independent and 4 non-executive directors.	Appointment by Federal Government is awaited.
8	10	No board meeting was held in year 2019 due to six vacant position of board of directors 2 independent and 4 non-executive directors.	Appointment by Federal Government is awaited.
9	11	Orientation Course was not arranged by the Bank due to six vacant positions of board of directors 2 independent and 4 non-executive directors.	Bank will arrange the Orientation course in future.

10	12	All the required Committee were intact when Board was functional but due to six vacant positions of board of directors 2 independent and 4 non-executive directors the committees could not be kept remained in the field during the year 2019.	Appointment by Federal Government is awaited.
11	21 (1) and 21 (2)	Due to six vacant positions of board of directors 2 independent and 4 non-executive directors the committee could not be kept remained in the field during the year 2019. Resultantly no meeting of Board Audit Committee could be conducted during the year 2019.	Appointment by Federal Government is awaited.
16	21(3)	No Board meeting was held in year 2019 due to incomplete quorum.	Appointment by Federal Government is awaited.



**CEO**  
**Dilshad Ali Ahmad**



**Independent Director**  
**Omer Farooq**

## Statement of Internal Control

For the year ended December 31, 2019

The management of SME Bank recognizes its responsibility to establish and maintain a sound system of internal controls to provide reasonable assurance to achieve the following objectives.

- Efficiency and effectiveness of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

The internal control system encompasses policies and procedures relating to all processes, products and activities of the Bank's operations. The internal control policies and procedures are being reviewed by an independent internal audit function reporting directly to the Audit Committee of the Board of Director.

In management's assessment, these systems, policies and procedures provide reasonable assurance as to the integrity and reliability of those controls and reports produced thereon. It recognizes the fact that these system are designed to mitigate and manage, rather than eliminate the risk of failure to achieve business objectives.


The board is fully committed to ensure the existence of an effective system of internal control and risk management and continuously reviews and evaluates the adequacy and integrity of those systems.

Internal Control over Financial Reporting (ICFR) aims to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the applicable financial reporting standards. We have endeavored to follow the guidelines issued by State Bank of Pakistan on Internal Control.

State Bank of Pakistan has granted exemption to SME Bank Ltd from submitting Long Form Report by its Statutory Auditors, with the condition that if any material gap on bank's ICFR are reported by its inspection team/or Board Audit Committee, then this exemption will be revoked. The SBP also advised to submit the Annual Assessment report on efficacy of ICFR through Board Audit committee to OSED.

Moreover SBP also advised to apprise its Board of Directors to take ownership of ICFR and Board Audit Committee to monitor progress and submit a detailed quarterly progress report regarding bridging of gaps to SBP

The Bank has revised the internal control policy in the year 2015 which emphasis that Management of the bank is responsible for maintaining a suitable system of ICFR that provides reasonable assurance regarding the reliability of financial reporting. The management should use a top down, risk-based approach, including the entity level and activity level controls in assessing financial reporting risks and the adequacy of controls

  
**Chief Financial Officer**

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

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 (the Board) of SME Bank Limited (“the Bank”) for the year ended December 31, 2019 to comply with Regulation G-1 of the Prudential regulation for Corporate/Commercial Banking issued by State Bank of Pakistan and the requirements of the provisions of Public Sector Companies (Corporate Governance) Rules, 2013.

The responsibility for compliance with the Rules is that of the Board 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’s 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 for their review and approval of 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 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 also requires the Board to ensure compliance with the law as well as the Bank’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. We have not carried out any procedures to verify the compliance with the above stated requirements of PPRA 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 Bank’s compliance, in all material aspects with the best practices contained in the Rules as applicable to the Bank for the year ended 31 December 2019.



GRANT THORNTON ANJUM RAHMAN

Chartered Accountants

Audit Engagement Partner: Hassan Riaz

Islamabad

Date: July 25, 2020





**SME BANK LIMITED**  
**UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**



## INDEPENDENT AUDITOR'S REPORT

**To the members of SME Bank Limited**

**Report on the Audit of the Unconsolidated Financial Statements**

### Qualified Opinion

We have audited the annexed unconsolidated financial statements of SME Bank Limited (the Bank), which comprise the unconsolidated statement of financial position as at December 31, 2019, and unconsolidated profit and loss account, unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the year then ended, along with unaudited certified returns received from the branches except for nine branches which have been audited by us and notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account and unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), 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, 2019 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

### Basis for Qualified Opinion

- a) The Bank has investment in SME Leasing Limited (SMEL) which is carried in these unconsolidated financial statements at Rs. 80.748 million (net of provision of Rs. 134.709) and has outstanding running finance exposure of Rs. 142.156 million at the reporting date. SMEL continues to operate on a net loss basis and therefore the recoverability of investment and running finance exposure is doubtful. Accordingly, we are unable to determine the extent of impairment that might be necessary to be recorded against the current carrying values of investment and running finance exposure and its possible effect on current year losses and accumulated losses;
- b) Deferred tax asset of Rs. 752.294 million has been recognized on the basis of expected profits arising from future privatization of the Bank as described in Note 13 to the unconsolidated financial statements which we have not been able to verify. Advance income tax includes refunds aggregating to Rs. 232.599 million for tax years 2003 and 2004. These refunds were recorded on the basis of an order of the Appellate Tribunal Inland Revenue dated February 10, 2011 whereby provision for doubtful debts was allowed to be taken as a deductible expense. The issue of allowing provision for doubtful debts as an expense, in the case of another bank, was successfully

challenged by tax department in the Islamabad High Court. The High Court rules in favor of the tax department through its order dated March 13, 2018 which has also been upheld by the Supreme Court of Pakistan through its order dated June 05, 2018 due to which the bank has no legal basis to continue to recognize the receivable as an asset; and

- c) As explained in Note 10.3, the loan portfolios of Small Business Finance Corporation (SBFC) and Regional Development Finance Corporation (RDFC) was transferred to National Bank of Pakistan due to envisaged privatization of the Bank, however, the portfolio continues to appear as an asset in the books of the Bank.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of the Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material uncertainties relating to Going Concern**

We draw attention to note 6.2 to the unconsolidated financial statements which describes that during the current year the Bank incurred a net loss of Rs. 1,072.309 million (2018: Rs. 825.938 million) resulting into accumulated losses of Rs. 4,811.162 million (2018: Rs. 3,857.090 million). As of December 31, 2019, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 2,512.445 million (2018: Rs. 1,693.862) indicating the negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative working capital of Rs. 7.859 billion (2018: Rs. 7.267 billion) which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10% and has failed on multiple times in maintaining the minimum statutory liquidity requirement (SLR) in first half of current year. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. As stated in note 6.2, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Emphasis of matter**

We draw attention to note 14.3 to the unconsolidated financial statements, which describes in detail the status of possession of property at Lahore. Our opinion is not modified in respect of this matter.

**Information Other than the Unconsolidated Financial Statements and Auditor's Report Thereon**

Management is responsible for other information. The other information comprises the information included in the Annual Report, but does not include the unconsolidated financial statements and our auditor's report thereon. Our opinion on the unconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and the Board of Directors for the Unconsolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with accounting and reporting standards as applicable in Pakistan, the requirements of Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Bank's financial reporting process.

**Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal and Regulatory Requirements**

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Bank/branches as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;
- b) the unconsolidated statement of financial position, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017(XIX of 2017) and are in agreement with the books of account and returns;



- c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank/ branches and the transactions of the Bank/ branches which have come to our notice have been within the powers of the Bank/branches; and
- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We confirm that for the purpose of our audit we have covered more than sixty per cent of the total loans and advances of the Bank.

Engagement partner on the audit resulting in this independent auditor's report is Hassan Riaz

*Grant Thornton Anjum Rahman*

GRANT THORNTON ANJUM RAHMAN

Chartered Accountants

Islamabad

July 25, 2020

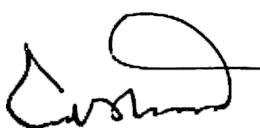


## UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

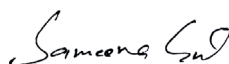
As at December 31, 2019

	Note	2019 (Rupees in '000)	2018
<b>ASSETS</b>			
Cash and balances with treasury banks	7	650,565	443,839
Balances with other banks	8	4,537	16,238
Lendings to financial institutions		-	-
Investments	9	5,739,975	5,765,155
Advances	10	1,907,995	2,230,763
Fixed assets	11	532,112	55,376
Intangible assets	12	1,331	2,401
Deferred tax assets - net	13	752,294	525,695
Other assets	14	563,192	599,029
		<b>10,152,001</b>	<b>9,638,496</b>
<b>LIABILITIES</b>			
Bills payable	15	51,543	118,788
Borrowings	16	3,654,771	4,739,895
Deposits and other accounts	17	7,500,708	5,721,008
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,457,424	752,667
		<b>12,664,446</b>	<b>11,332,358</b>
<b>NET LIABILITIES</b>		<b>(2,512,445)</b>	<b>(1,693,862)</b>
<b>REPRESENTED BY</b>			
Share capital	19	2,392,507	2,392,507
Reserves		206,526	206,526
Deficit on revaluation of assets - net of tax	20	(300,316)	(435,805)
Unappropriated loss		(4,811,162)	(3,857,090)
		<b>(2,512,445)</b>	<b>(1,693,862)</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	21		

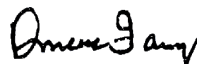
The annexed notes from 1 to 43 and annexure-I form an integral part of these unconsolidated financial statements.



**Dilshad Ali Ahmad**  
President/CEO



**Sameena Gul**  
Chief Financial Officer



**Omer Farooq**  
Director



**Rauf Ahmad**  
Director



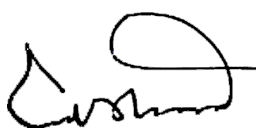
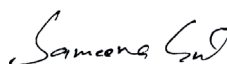



**Niaz Muhammad Khan**  
Director

## UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2019

	Note	2019 (Rupees in '000)	2018
Mark-up/return/interest earned	22	776,306	741,444
Mark-up/return/interest expensed	23	1,149,619	723,660
Net mark-up/interest (loss)/income		(373,313)	17,784
<b>NON MARK-UP/INTEREST INCOME</b>			
Fee and commission income	24	9,933	9,441
Dividend income		2,247	456
Foreign exchange income		-	-
Income/(loss) from derivatives		-	-
Gain on securities	25	7	1,001
Other income	26	980	1,219
Total non-markup/interest income		13,167	12,117
Total (loss)/income		(360,146)	29,901
<b>NON MARK-UP/INTEREST EXPENSES</b>			
Operating expenses	27	877,195	839,127
Workers Welfare Fund		-	-
Other charges	28	69,426	2,254
Total non-markup/interest expenses		946,621	841,381
Loss before provisions		(1,306,767)	(811,480)
Provisions and write offs - net	29	(19,358)	64,796
<b>LOSS BEFORE TAXATION</b>		<b>(1,287,409)</b>	<b>(876,276)</b>
Taxation	30	(215,100)	(50,338)
<b>LOSS AFTER TAXATION</b>		<b>(1,072,309)</b>	<b>(825,938)</b>
<b>Basic/diluted (loss) per share (rupees)</b>	31	<b>(4.48)</b>	<b>(3.45)</b>

The annexed notes from 1 to 43 and annexure-I form an integral part of these unconsolidated financial statements.

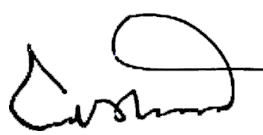
				
Dilshad Ali Ahmad President/CEO	Sameena Gul Chief Financial Officer	Omer Farooq Director	Rauf Ahmad Director	Niaz Muhammad Khan Director

## UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

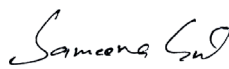
For the year ended December 31, 2019

	2019	2018
	(Rupees in '000)	
Net loss after taxation	(1,072,309)	(825,938)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequently periods:		
Movement in deficit on revaluation of investment - net	135,489	(407,825)
Items that will not be reclassified to profit and loss account in subsequently periods:		
Remeasurement gain/(loss) on defined benefit obligations - net	118,237	(25,754)
<b>Total comprehensive loss</b>	<b>(818,583)</b>	<b>(1,259,517)</b>

The annexed notes from 1 to 43 and annexure-I form an integral part of these unconsolidated financial statements.



**Dilshad Ali Ahmad**  
President/CEO



**Sameena Gul**  
Chief Financial Officer



**Omer Farooq**  
Director



**Rauf Ahmad**  
Director



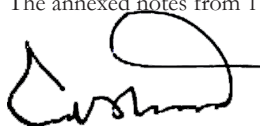
**Niaz Muhammad Khan**  
Director

## UNCONSOLIDATED CASH FLOW STATEMENT

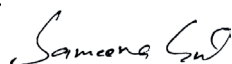
For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(1,287,409)	(876,276)
Less: Dividend income		(2,247)	(456)
		<u>(1,289,656)</u>	<u>(876,732)</u>
<b>Adjustments:</b>			
Depreciation		70,687	20,596
Amortization		1,296	1,186
Interest on leased liability		67,337	-
Provision and write-offs	29	(19,358)	64,796
Loss/(gain) on sale of fixed assets		32	(236)
Finance charges on leased assets		-	-
		<u>119,994</u>	<u>86,342</u>
		<u>(1,169,662)</u>	<u>(790,390)</u>
<b>(Increase)/decrease in operating assets</b>			
Lending's to financial institutions		-	-
Held-for-trading securities		-	-
Advances		322,140	254,587
Other assets (excluding advance taxation)		20,407	(4,216)
		<u>342,547</u>	<u>250,371</u>
<b>Increase/(decrease) in operating liabilities</b>			
Bills payable		(67,245)	26,234
Borrowings from financial institutions		(1,085,124)	(568,420)
Deposits		1,779,700	377,353
Other liabilities (excluding current taxation)		284,238	41,998
		<u>911,569</u>	<u>(122,835)</u>
		<u>84,454</u>	<u>(662,854)</u>
		<u>(2,627)</u>	<u>(1,980)</u>
Income tax paid		81,827	(664,834)
<b>Net cash flow (used in)/from operating activities</b>			
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net disinvestment in available-for-sale securities		180,455	192,415
Net disinvestment in held-to-maturity securities		-	500,000
Dividend received		2,247	456
Investment in operating fixed assets		(731)	(15,364)
Proceeds from sale of fixed assets		768	292
<b>Net cash flow from/(used in) investing activities</b>			
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payment of lease liabilities		(69,541)	-
<b>Net cash flow from/(used in) financing activities</b>			
<b>Increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the period		460,077	447,112
Cash and cash equivalents at end of the period	32	655,102	460,077

The annexed notes from 1 to 43 and annexure-I form an integral part of these unconsolidated financial statements.



**Dilshad Ali Ahmad**  
President/CEO



**Sameena Gul**  
Chief Financial Officer



**Omer Farooq**  
Director



**Rauf Ahmad**  
Director



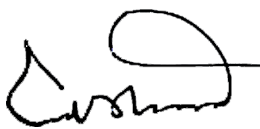
**Niaz Muhammad Khan**  
Director

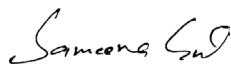
## UNCONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the year ended December 31, 2019

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of Investments	Unappropriated loss	Total
			(Rupees in '000)		
Balance as at January 01, 2018	2,392,507	206,526	(27,980)	(3,005,398)	(434,345)
<b>Total comprehensive income for the year ended December 31, 2018</b>					
Net loss for the year ended December 31, 2018	-	-	-	(825,938)	(825,938)
Other comprehensive income - net	-	-	(407,825)	(25,754)	(433,579)
<b>Balance as at December 31, 2018</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(435,805)</b>	<b>(3,857,090)</b>	<b>(1,693,862)</b>
<b>Total comprehensive income for the year ended December 31, 2019</b>					
Net loss for the year ended December 31, 2019	-	-	-	(1,072,309)	(1,072,309)
Other comprehensive income - net	-	-	135,489	118,237	253,726
<b>Balance as at December 31, 2019</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(300,316)</b>	<b>(4,811,162)</b>	<b>(2,512,445)</b>

The annexed notes from 1 to 43 and annexure-I form an integral part of these unconsolidated financial statements.

  
**Dilshad Ali Ahmad**  
 President/CEO

  
**Sameena Gul**  
 Chief Financial Officer

  
**Omer Farooq**  
 Director

  
**Rauf Ahmad**  
 Director

  
**Niaz Muhammad Khan**  
 Director

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 1 GENERAL INFORMATION

- 1.1** SME Bank Limited (the Bank) is a public limited company incorporated in Pakistan on October 30, 2001 under the repealed Companies Ordinance, 1984 having its registered office at 56-F, Nazim-ud-Din Road, F-6/1, Blue Area Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is a scheduled commercial bank engaged in the business of banking with the primary objective to support and develop small and medium enterprise (SME) sector in Pakistan by providing necessary financial assistance and business support services on sustainable basis. The Bank is operating through a network of 13 commercial banking branches. Based on the latest credit rating report dated November 22, 2018 issued by Pakistan Credit Rating Agency Limited (PACRA), the credit rating of the Bank was “CCC” in the long term and “B” (Single B) in the short term. Subsequent to above, credit rating of Bank could not be updated as the approved accounts of the Bank were not available due to inexistence of its board of directors throughout the year 2019.

In terms of Bank's license no. BL-05 dated September 13, 2004 issued under section 27 of the Banking Companies Ordinance 1962, the Bank is required to hold minimum paid-up-capital (net of losses) of Rs. 1.0 billion at the time of issuance of this license, and at all times thereafter during which the above capital is required to be raised to Rs. 1.5 billion by December 31, 2004 and to Rs. 2.0 billion by December 31, 2005 or any other amount prescribed by State Bank of Pakistan (SBP) from time to time. SBP granted exemption vide its letter no. BPRD/BA&CPD/646/332/2020 dated January 06, 2020 from meeting the minimum capital requirement (MCR) till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier. The said relaxation from SBP was subject to submission of a concrete plan from the Ministry of Finance (MoF) of providing firm commitment to inject the required amount of capital in the Bank if its privatization is not materialize by March 31, 2020. Subsequent to above the MoF through its letter no. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is at advanced stage which is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of MCR till June 30, 2020. In view of the current stage of privatization of the Bank the MoF and the management of the Bank are hopeful of further extension of relaxation of MCR requirement by SBP.

**1.2 Amalgamation of defunct RDFC and SBFC**

The Federal Government promulgated the Regional Development Finance Corporation (RDFC) and Small Business Finance Corporation (SBFC) Amalgamation and Conversion Ordinance, 2001 (the Ordinance 2001) setting forth the mechanism of amalgamation of defunct RDFC and SBFC. Both these entities were Development Financial Institutions (DFIs). In pursuance of the Ordinance 2001, Finance Division, Ministry of Finance (MoF) issued an Order (SRO (1) 2001) dated December 29, 2001 setting forth the scheme of amalgamation of RDFC and SBFC with the Bank effective January 1, 2002. Pursuant to this scheme entire assets and liabilities of defunct RDFC and SBFC as at December 31, 2001 were transferred to the Bank at fair value. These two institutions stand dissolved and ceased to exist effective January 1, 2002. The Bank allotted its shares to the share holders of defunct RDFC and SBFC

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

in proportion to their shareholding therein based on the fair value of net assets of defunct RDFC and SBFC on December 31, 2001.

### 2 BASIS OF PRESENTATION

- 2.1 These unconsolidated financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BSD Circular No. 02 dated January 25, 2018.
- 2.2 These unconsolidated financial statements are separate financial statements of the Bank in which the investment in subsidiary is stated at cost and has not been accounted for on the basis of reported results and net assets of the investee which is done in consolidated financial statements.
- 2.3 The unconsolidated financial statements are presented in Pakistani Rupee, which is the Bank's functional currency. Figures have been rounded off to the nearest thousands of rupees, unless otherwise stated.

### 3 STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. Accounting and reporting standards as applicable in Pakistan comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017, provisions of and the directives issued under the Banking Companies Ordinance, 1962, the Companies Act, 2017 and directives issued by SBP and the Securities and Exchange Commission of Pakistan (SECP). Whenever the requirements of the Banking Companies Ordinance, 1962, Companies Act, 2017 or the directives issued by SBP and SECP differ with the requirements of IFRS, requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives shall prevail.

The SBP, vide BPRD circular no. 4, dated October 23, 2019, has deferred the applicability of IFRS 9, Financial Instruments until January 01, 2021. International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" (before its replacement by IFRS 9), International Accounting Standard 40, "Investment Property" and International Financial Reporting Standard 7, "Financial Instruments: Disclosure" are not applicable to banking companies in Pakistan. Accordingly, the requirements of these Standards have not been considered in the preparation of these unconsolidated financial statements. Accordingly, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

SECP vide its notification SRO 633 (I)/2014 dated July 10, 2014, adopted IFRS-10, Consolidated Financial Statements, effective from the periods starting from June 30, 2014. However, vide its notification SRO 56(I)/2016 dated January 28, 2016, it has been notified that the requirements of IFRS-10 and section 228 of the Companies Act, 2017 will not be applicable with respect to the investment in mutual funds established under Trust structure.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 3.2 Standards, interpretations of and amendments to published accounting and reporting standards that are not yet effective in the current year

The following IFRS as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after January 01, 2020:

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after January 01, 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS.

Amendment in IFRS 3 “Business Combination” - Definition of a Business (effective for business combinations for which acquisition date is on and after the beginning of annual period beginning on and after January 01, 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

IFRS 14 ‘Regulatory Deferral Accounts’ permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for ‘regulatory deferral account balances’ in accordance with its previous reporting framework, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances and movements in them, are presented separately in the statement of financial position, profit and loss account, statement of other comprehensive income, and specific disclosures are required. IFRS 14 was originally issued by IASB in January 2014 with Initial application date for a period beginning on or after January 01, 2016. During November 2019, the SECP modified the effective date for applicability of IFRS 14 for the annual reporting periods beginning on or after July 01, 2019.

The IASB has also issued the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018 which is effective for annual periods beginning on or after January 01, 2020 for preparers of financial statements who develop accounting policies based on the Conceptual Framework. The revised Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Furthermore, following new standards have been issued by IASB which are yet to be notified by SECP for the purpose of applicability in Pakistan.



## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

Standard	IASB effective date (annual periods beginning on or after)
IFRS 1 - First time adoption of IFRSs	January 01, 2014
IFRS 17 - Insurance Contracts	January 01, 2021

### 3.3 Standards, interpretations and amendments to published accounting and reporting standards that are effective in the current year

The Bank has adopted the following accounting standards and amendments of IFRSs and the improvements to accounting standards which became effective for the current year:

- 3.3.1** May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which replaces all existing revenue requirements and related interpretations and is effective for annual periods beginning on or after July 01, 2018. IFRS 15 redefined the principles for recognising revenue and is applicable to all contracts with customers other than contracts in the scope of other standards (such as interest and fee income integral to financial instruments which would be in the scope of IFRS 9 and Lease Income). Certain requirements in IFRS 15 are also relevant for the recognition and measurement of gains or losses on disposal of non-financial assets that are not in the ordinary course of business.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Bank's revenue streams that are within the scope of IFRS 15 relate to certain fee and commission income. The accounting policy for recognition of such income is disclosed in Note 5.12 to these financial statements. The application of this standard did not have any material impact on these financial statements, except for change in description of accounting policy.

- 3.3.2** IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on statement of financial position.

The Bank has lease contracts for various properties. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased asset was not capitalized and the lease payments were recognised as

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other asset and other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied the recognition and measurement approach of IFRS 16 for all leases, except for short-term leases and leases of low-value assets. The standard also provides practical expedients, which have been applied by the Bank.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 01, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at January 01, 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Accordingly, the Bank recognised right-of-use assets and lease liabilities for those leases where the Bank is the lessee and which were previously accounted for as operating leases. The right-of-use assets and lease liabilities were recognised on the present value of future cash flows, discounted using the incremental borrowing rate at the date of initial application.

### Impact on statements of financial position

	As at December 31, 2019	As at January 01, 2019
	(Rupees in '000)	
Increase in fixed assets - right-of-use assets	497,593	547,718
Decrease in other assets - advance rent	(7,303)	(6,758)
Increase in total assets	490,290	540,960
Increase in deferred taxation	8,481	
Increase in other liabilities - lease liability against right of use assets	(538,756)	(540,960)
Decrease in net assets	(39,985)	-

### Impact on profit and loss account

	2019 (Rupees in '000)
Increase in mark-up expense - lease liability against right-of-use assets	(67,337)
(Increase) / decrease in administrative expenses:	
-Depreciation on right-of-use assets	(50,125)
-Rent expense	68,996
	18,871
Increase in deferred taxation	8,481
Decrease in profit	(39,985)
Reduction in earning per share	(0.17)

## 4 BASIS OF MEASUREMENT

- 4.1 These unconsolidated financial statements have been prepared under the historical cost convention as modified for certain investments which are carried at fair value, obligations in respect of defined benefit schemes and lease liability under IFRS 16 at their present values.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 4.2 Use of critical accounting estimates and judgments

The preparation of unconsolidated financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The Bank uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follow:

- i) Classification of investments
- ii) Provision/impairment against investments advances and other assets
- iii) Valuation and impairment of available for sale securities
- iv) Useful life and residual value of property and equipment and intangible assets
- v) Taxation
- vi) Staff retirement benefits
- vii) Leases

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies adopted in the preparation of these unconsolidated financial statements are consistent with those of the previous financial year except the change explained in notes 3.3.1. and 3.3.2. Significant accounting policies are enumerated as follows:

### 5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks, balances with other banks and call money lending's.

### 5.2 Investments

Investments other than those categorized as held-for-trading are initially recognised at fair value which includes transactions costs associated with the investments. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

All regular way purchases/sales of investment are recognised on the trade date, i.e., the date the Bank commits to purchase/sell the investments. Regular way purchases or sales of investment require delivery of securities within the time frame generally established by regulation or convention in the market place.

The Bank has classified its investment portfolio, except for investments in subsidiary into 'held-for-trading', 'held-to-maturity' and 'available-for-sale' as follows:

#### Held for trading

These are securities which are acquired with the intention to trade by taking advantage of short-term market/interest rate movements and are to be sold within 90 days. These are

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

carried at market value, with the related unrealized gain/(loss) on revaluation being taken to profit and loss account.

### **Held to maturity**

These represent investments acquired by the Bank with the intention and ability to hold them upto maturity. These are carried at amortized cost less impairment if any. Impairment in debt securities is determined in accordance with the requirements of Prudential Regulations issued by SBP.

### **Available for sale**

These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value except in case of unquoted securities where market value is not available, which are carried at the lower of cost and break-up value less provision for diminution in value, if any. Surplus/(deficit) on revaluation is taken to 'surplus/(deficit) on revaluation of assets' account shown as part of equity. On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus/(deficit) on revaluation of assets' below equity is included in the profit and loss account for the year.

Provision for diminution in values of securities (other than term finance certificates) is made after considering impairment if any in their values, where the decline in prices of available for sale equity securities is significant or prolonged, it is considered impaired and included in unconsolidated profit and loss account. Provision for diminution in the value of term finance certificates is made as per Prudential Regulations issued by SBP.

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or MUFAP or the Stock Exchanges, as the case may be.

### **Investment in subsidiary**

Investment in subsidiary is carried at cost less impairment, if any. However the investment in subsidiary is not marked to market as per prudential regulations issued by SBP.

### **5.3 Agreements for sale and purchase of securities (repo and reverse repo)**

Securities sold under repurchase agreement (repo) are retained in the unconsolidated financial statements as investments and a liability for consideration received is included in borrowings. The difference between sale and repurchase price is treated as mark-up expense and recognized over the period of contract.

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up income and recognized over the period of the contract.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 5.4 Advances

Advances are stated net off specific and general provisions. Provisions are made in accordance with the requirements of Prudential Regulations issued by the SBP and charged to the profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances by the banks) for classification of non-performing loans and advances and computing provision/allowance there against. Such regulations also require the Bank to maintain general provision/allowance against its Small Entity (SE) advances portfolio at specified percentage of such portfolio.

Advances are written off when there is no realistic prospect of recovery.

### 5.5 Capital work-in progress, operating fixed assets, intangibles, depreciation and amortization

#### Capital work-in-progress

Capital-work-in progress is stated at cost less accumulated impairment losses, if any. These are transferred to operating fixed assets as and when the assets are available for use.

#### Operating fixed assets-owned

These are stated at cost less impairment loss and accumulated depreciation except for leasehold land. Land is stated at cost less impairment, if any.

Maintenance and normal repairs are charged to unconsolidated profit and loss account as and when incurred. Major renewals and improvements are capitalized.

#### Depreciation

Depreciation is charged on straight line method at the rates given in note 11.1 commencing from the month in which the asset is available for use. No depreciation is charged in the month of disposal of the asset. The residual value, useful life and depreciation method is reviewed and adjusted, if appropriate, at each balance sheet date.

Gains or losses on disposal of property and equipment are taken to the unconsolidated profit and loss account.

#### Assets subject to finance lease

Assets subject to finance lease are stated at cost less accumulated depreciation at the rates similar to the bank's owned assets and impairment loss (if any). The outstanding obligation under finance lease less financial charges allocated to future periods is shown as liability. Finance charges are calculated at interest rates implicit in the lease and are charged to unconsolidated profit and loss account in the period in which these are incurred.

#### Intangible assets

An intangible asset is recognized only if it is identifiable, the Bank has control over the asset, it is probable that economic benefits will flow to the enterprise and the cost of the asset can be measured reliably.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

All intangible assets that meet the recognition criteria are initially measured at cost and are amortized on a straight line basis at the rate given in note 12 commencing from the month when these assets are available for use. Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. The residual value, useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

### 5.6 Impairment

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 amount. The resulting impairment loss is taken to the unconsolidated profit and loss account. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying value that would have been determined net of depreciation/amortization, if no impairment loss had been recognized.

The available for sale equity investments are impaired when there has been a significant or prolonged decline in the value below its cost. Impairment loss is recognized in unconsolidated profit & loss account.

### 5.7 Deposits

Deposits are recorded at the nominal values of proceeds received. Markup accrued on deposits is recognised separately as part of other liabilities and is charged to unconsolidated profit and loss account on a time proportion basis.

### 5.8 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the unconsolidated profit and loss account, except to the extent that it relates to items recognised directly in other comprehensive income or below equity, in which case it is recognised in other comprehensive income or below equity.

#### Current

Provision for current tax is the expected tax payable on the taxable profit for the year using tax rates applicable at the date of unconsolidated statement of financial position and any adjustment to tax payable for previous years.

#### Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary 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 at the rates that are expected to apply to the period when the differences reverse based on the tax rates that have been enacted. 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 asset is reduced to the extent it is no longer probable that the related tax benefits will be realized.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

The Bank also recognizes deferred tax asset/liability on deficit/surplus on revaluation of investments which is adjusted against the related deficit/surplus in accordance with the requirements of International Accounting Standard on 'Income Taxes' (IAS 12).

The Bank takes into account the current income tax law and decisions taken by the taxation authorities. Instances where the Bank's views differ from the views taken by the income tax department at the assessment stage and where the Bank considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

### 5.9 Staff retirement and other benefits

The Bank operates following staff retirement and other benefit schemes for its employees:

#### **Defined benefit plan - Pension and gratuity scheme**

Fully funded defined benefit pension and gratuity scheme for eligible employees. Contributions are made in accordance with the actuarial valuation which is carried out periodically using 'Projected Unit Credit Method'. All actuarial gains and losses are recognized immediately through other comprehensive income.

#### **Defined benefit funded gratuity scheme**

The Bank operates a defined benefit funded gratuity scheme for its contractual employees. The obligation under the defined benefit unfunded gratuity scheme is recognized on the basis of actuarial valuation using the 'Projected Unit Credit Method'.

#### **Benevolent fund**

The Bank also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme). Contributions to this fund were made equally by the Bank and employees till March 2002. Thereafter it is wholly contributed by the Bank at the rate of 2% of basic salary with a ceiling of Rs. 200 per month per employee. Annual contribution towards the defined benefit scheme are made on the basis of actuarial advice using the Projected Unit Credit Method.

#### **Compensated absences**

The Bank provides compensated absences, an unfunded scheme, as per entitlement to all its permanent and contractual employees. For its eligible employees, related provision is made in accordance with actuarial valuation. Provision for the year is charged to unconsolidated profit and loss account. The amount recognized in unconsolidated statement of financial position represents present value of defined benefit obligation.

Defined benefit plans are provided to employees of the Bank. Calculations in this respect require assumptions to be made of future outcomes, the principal ones being in respect of increase in remuneration, the expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.



## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 5.10 Revenue recognition

#### 5.10.1 Advances

##### **Advances disbursed by SME Bank Limited:**

Markup/interest on performing advances is recognized on a time proportion basis over the term of loan and advances. Markup/interest/penal markup recoverable on non performing advances is recognized on receipt basis. Mark-up/interest on rescheduled/restructured advances and investments is recognised as permitted by the regulations of the SBP.

##### **Advances disbursed by defunct RDFC and defunct SBFC :**

Advances and related markup are suspended. Markup/interest on advances is recognized on receipt basis.

#### 5.10.2 Return on investments

Return on investments is recognized on a time proportion basis except on classified investment which is recognized on receipt basis. Any premium paid or discount received on purchase of securities is amortized through unconsolidated profit and loss account over the remaining period of maturity on time apportionment basis.

#### 5.10.3 Dividend income

Dividend income is recognized when the Bank's right to receive the dividend is established.

#### 5.10.4 Interest, fee, brokerage and commission

Interest, fee, brokerage and commission, profit on other investments, bank deposits and staff loans is recognized on accrual basis. Income on non-funded facilities (fee, commission, documentation charges etc.) is recognized on receipt basis except commission on bank guarantees which is recognized on accrual basis.

#### 5.11 Off setting

Financial assets and liabilities are off set and the net amount is reported in the unconsolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or realize the asset and settle the liability simultaneously.

#### 5.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are capitalized. Other borrowing costs are recognized as an expense in the period in which it incurs.

#### 5.13 Provisions

Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations. Expected



## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

recoveries are recognized by debiting customer accounts. Charge to unconsolidated profit and loss account is stated net off expected recoveries.

### 5.14 Financial assets and liabilities

All financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. A financial asset is derecognised where (a) the rights to receive cash flows from the asset have expired; or (b) the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Bank has transferred substantially all the risks and rewards of the asset, or (ii) the Bank has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

### 5.15 Segment reporting

A segment is the distinguishable component of the Bank that is subject to risks and rewards that are different from those of other segments. A business segment is one that is engaged either in providing certain products or services, whereas a geographical segment is one engaged in providing products and services within a particular economic environment. Segment information is presented as per the Bank's functional structure and the guidance of the State Bank of Pakistan. The Bank's primary format of reporting is based on business segments:

#### 5.15.1 Business segments

##### Trading and sales

This segment undertakes the Bank's treasury, money market and capital market activities.

##### Commercial banking

It includes loans, deposits and other transactions with individuals/staff, small and medium enterprises and corporate customers.

#### 5.15.2 Geographical segments

The Bank operates only in Pakistan.

### 5.16 Appropriation to reserves

Dividend and appropriation to reserves (except appropriation required by law) after the balance sheet date are recognized as liability in the Bank's financial statement in the year in which these are approved.

### 5.17 IFRS 13 - 'Fair Value Measurement'

It consolidates the guidance on how to measure fair value into one comprehensive standard. It introduces the use of an exact price, as well as extensive disclosure requirements, particularly the inclusion of non financial instruments into the fair value hierarchy. The application of IFRS 13 does not have an impact on the unconsolidated financial statements of the Company except for certain disclosures as mentioned in note 37.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 6 FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION

#### 6.1 Current Status of Privatization of SME Bank

Government of Pakistan (GOP) decided in their meeting held on November 19, 2018 to relaunch the privatization transaction of the Bank through Privatization Commission (PC). Cabinet Committee on Privatization (CCOP) approved the new privatization program of the Bank on March 06, 2019. The privatization program of the Bank has been required to be completed by 30th June 2020 to divest GOPs equity stake in the Bank along with management control to a strategic investor. Accordingly, PC recommended the transaction structure for the privatization of the Bank to CCOP who approved the referred transaction structure on November 15, 2019. Thereafter through a due process invitation for expression of interest for acquisition of 93.88% shares of the Bank were advertised in news papers on December 13, 2019. The last date for submission of EOIs and Statement of Qualifications (SOQs) was February 28, 2020. Five prospective investors have submitted their SOQs against the advertisement, out of that Four have been cleared by SBP. Due diligence of Buyers side is in progress, Privatization Commission has opened data room for the prospective Buyers up to August 24, 2020.

#### 6.2 Going concern assumption and minimum capital requirement

During the current year the Bank incurred a net loss of Rs. 1,072.309 million (2018: Rs. 825.938 million) resulting into accumulated losses of Rs. 4,811.162 million (2018: Rs. 3,857.090 million). As of December 31, 2019, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 2,512.445 million (2018: Rs. 1,693.862) indicating the negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative working capital of Rs. 7.859 billion (2018: Rs. 7.267 billion) which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10% and has failed on multiple times in maintaining the minimum statutory liquidity requirement (SLR) in first half of current year. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. These conditions indicate the existence of material uncertainty that may cast a significant doubt on the Bank's ability to continue as going concern and therefore it may not be able to realize its assets and discharge its liabilities in the ordinary course of business. To overcome the same, the Government of Pakistan (GoP) being the majority shareholder with 93.88% shareholding in the Bank has initiated the process of privatization of the Bank. The MoF through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of regulatory requirements till June 30, 2020. MoF and management of the Bank are hopeful of a favourable response. The process of privatization is at the advance stage as Five prospective investors have submitted their Statement of Qualifications (SOQs), out of that four have

## Notes to the Unconsolidated Financial Statements

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been cleared by SBP. Due diligence of Buyers side is in progress, Privatization Commission has opened data room for the prospective Buyers up to August 24, 2020. In view of above the management of the Bank strongly believes that the privatization of the Bank shall be completed soon and will result into injection of fresh equity enabling the Bank to expand and finance its operations while MoF is committed to provide all necessary financial assistance to the Bank to support its operations. In view of above the management of the Bank believes that the use of going concern assumption in preparation of these unconsolidated financial statements is appropriate and, therefore, have prepared the same on a going concern basis.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>7. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		123,638	106,514
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in :			
Local currency current accounts	7.1	468,270	294,873
With National Bank of Pakistan in :			
Local currency current accounts		58,486	42,080
Prize bonds		171	372
		<u>650,565</u>	<u>443,839</u>
<b>7.1</b>	Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.		
<b>8. BALANCES WITH OTHER BANKS</b>			
In Pakistan:			
On current accounts		500	500
On deposit accounts		14,037	25,738
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>4,537</u>	<u>16,238</u>
<b>8.1 Particulars of provision for doubtful placement with a bank</b>			
Opening balance		(10,000)	(10,000)
Charge for the year		-	-
Reversals		-	-
		-	-
Closing balance		<u>(10,000)</u>	<u>(10,000)</u>
Provision for doubtful balance is in respect of deposit of Rs. 10 million with Indus Bank Limited which is under liquidation.			

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

	2019				2018			
	Cost/ amortized cost	Provision for diminution	Surplus/ (deficit)	Carrying value	Cost/ amortized cost	Provision for diminution	Surplus/ (deficit)	Carrying value
	(Rupees in '000)				(Rupees in '000)			
<b>9. INVESTMENTS</b>								
<b>9.1 Investment by type:</b>								
<b>Available-for-sale securities</b>								
Federal government securities	5,895,232	-	(301,559)	5,593,673	6,055,687	-	(437,444)	5,618,243
Shares	42,542	(15,770)	1,847	28,619	62,542	(35,770)	2,472	29,244
Mutual funds	1,870	-	65	1,935	1,870	-	50	1,920
	5,939,644	(15,770)	(299,647)	5,624,227	6,120,099	(35,770)	(434,922)	5,649,407
<b>Held-to-maturity securities</b>								
Non government debt securities								
- Term deposit receipts (TDRs) *	35,000	-	-	35,000	35,000	-	-	35,000
- Certificates of investments (COIs)	762	(762)	-	-	762	(762)	-	-
	35,762	(762)	-	35,000	35,762	(762)	-	35,000
<b>Subsidiary</b>	215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
	6,190,863	(151,241)	(299,647)	5,739,975	6,371,318	(171,241)	(434,922)	5,765,155
* TDR of Rs. 35 million (2018: Rs. 35 million) was under lien at year end.								
<b>9.1.1 SME Leasing Limited (SMEL)</b>								
Holding percentage								
Country								
					2019		2018	
					73.14%		73.14%	
					Pakistan		Pakistan	
					(Rupees in '000)			
Total assets					481,720		509,001	
Total liabilities					404,612		397,319	
Total revenue					26,578		31,451	
Total expenses					66,693		58,064	
Loss after taxation					(35,694)		(21,011)	
Total comprehensive loss					(34,574)		(21,568)	



## Notes to the Unconsolidated Financial Statements

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		2019	2018
		(Rupees in '000)	
9.3	Provision for diminution in value of investments	171,241	125,709
	Opening balance		
	Charge/reversals		
	Charge for the year	-	47,747
	Reversal on disposals	(20,000)	(2,215)
		(20,000)	45,532
	Closing balance	151,241	171,241
9.3.1	Particulars of provision against debt securities category of classification		
		2019	2018
		NPL	Provision
	Domestic		
		(Rupees in '000)	
	Other assets especially mentioned	-	-
	Substandard	-	-
	Doubtful	-	-
	Loss	762	762
		762	762
9.4	Quality of available-for-sale securities	2019	2018
		Cost	
		(Rupees in '000)	
	Federal government securities - government guaranteed		
	Market treasury bills	1,061,452	993,284
	Pakistan investment bonds	4,833,780	5,062,403
		5,895,232	6,055,687
		2019	2018
		Cost	
		(Rupees in '000)	
	Shares		
	Listed companies		
	- Chemicals	810	810
	- Investment banks/companies	13,236	13,236
	- Synthetic and Rayon	336	336
	- Technology and communication	587	587
	- Textile composite	30	30
		14,999	14,999
		2019	2018
		Cost	Breakup value
	Unlisted/delisted Companies		
		(Rupees in '000)	
	- ISE Towers REIT Management Company Ltd.	18,000	42,758
	- LSE Financial Services Ltd.	8,440	18,314
	- AKD Venture Fund	-	-
	- News-v/s Credit Information Services (Pvt) Ltd.	100	30
	- Companies delisted from stock exchange	1,003	-
		27,543	61,102

9.4.1 Break up value per share is based on latest available financial statements of investees.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

9.4.2 Particulars of investments in shares of companies delisted from stock exchange and are currently under liquidation was as under:

	Number of shares held	Cost/Paid- up value per share (Rupees)	Total paid up value (Rupees in '000)
- Mohib Exports Company Limited	4,600	23.81	109
- Sunflow Citrus Limited	100,000	4.22	422
- Tawakal Garments Company Limited	4,000	38.38	154
- Tristar Shipping Lines Limited	5,000	23.56	118
- Zahoor Textile Mills Limited	15,200	13.16	200
			<b>1,003</b>

### Mutual Funds

- HBL investment fund - Class A
- HBL investment fund - Class B

2019	2018
<b>Cost</b>	
<b>(Rupees in '000)</b>	
654	654
1,216	1,216
<b>1,870</b>	<b>1,870</b>

9.5 Particulars relating to held to maturity securities are as follows:

### Non government debt securities

#### Unlisted

- A/A-1
- Unrated

2019	2018
<b>Cost</b>	
<b>(Rupees in '000)</b>	
35,000	35,000
762	762
<b>35,762</b>	<b>35,762</b>





## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 10.3 Non-performing loan (NPL) portfolios of defunct SBFC & RDFC

The Board through its resolution by circular No.10/circ/33 dated March 08, 2010 duly endorsed by the members in their meeting dated May 20, 2010 has approved the transfer and assignment of fully non - performing loan portfolios of defunct SBFC & RDFC to NBP on the basis of deferred transfer price. Subsequently transfer and assignment agreement was executed between the Bank and National Bank of Pakistan at Karachi on July 01, 2010 (effective date). According to the agreement, the transferor (SME) and the acquiror (NBP) acknowledge, declare and confirm the transfer, assignment and vesting of all rights, interests, privileges, title, powers and remedies in favour of the acquiror with respect to:

- a) the non-performing loans, collateral and the debtors;
- b) all agreements, deeds, instruments and other documents relating to the non-performing loans, debtors and collateral and to which the transferor is, or legally deemed to be, a party or a beneficiary;
- c) all legal proceedings by and against the transferor with respect to the non-performing loans, the debtors and collateral, which may be pending before any court, tribunal, arbitrator or authority, without being subject to any liabilities of the transferor to any person.

The agreed transfer price is an amount equal to 50% of the net recoveries.

Under the above referred arrangements, portfolio of defunct SBFC & RDFC outstanding as on June 30, 2010 (Except outstanding loans of RDFC where facility of equity participation fund had also been extended) were transferred to NBP.

On request of the Bank's management the decision to transfer and assignment of the portfolio was revisited by the board of directors (BoD) in its 65th meeting held on July 13, 2011 and resolved that the agreement of assignment of the old portfolio to NBP should be cancelled and Board's pronouncement for revocation of agreement to Ministry of Finance to arrange retrieval/restoration of old portfolio to the Bank in the interest of recovery of public funds.

In the meeting held on March 04, 2013 the BoD reconsidered the position taken earlier on this matter on grounds of related cost of recovery and infrastructure on request of then management and decided that since the Bank is still on the privatization list, BoD would be able to decide on portfolio after Bank's delisting from privatization.

The incumbent management has again reviewed the situation and noted that no comparative analysis/study pertaining to transfer of portfolio was conducted which could justify the decision of assigning old portfolio to NBP.

In view of the above, foregoing Board was requested in its 83rd meeting, held on August 30, 2014 and the management of the Bank was allowed to proceed further in pursuance of resolution/direction passed regarding the subject matter in 64th and 65th Meeting of the BoD held on May 16, 2011 and July 13, 2011 respectively by overruling to verdict of the BoD given on the issue in 75th Meeting of BoD held on March 04, 2013.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

Cabinet Committee on Privatization (CCOP) in its meeting held on January 27, 2017 has approved the transaction structure of the Bank's privatization. The transaction structure has excluded the above portfolios from the privatization transaction and the CCOP in above referred meeting has directed the Bank to transfer the said portfolios to NBP and that all recoveries made by NBP from the loan portfolio shall be deposited in the Federal Consolidated Fund (FCF), a related party as being managed by MoF.

Pursuant to above, being directed by MoF the management of the Bank has obtained an independent legal advice for defining the legal procedures for the implementation of the requirement of MoF. The legal advice proposed that the Bank may via a tri party novation agreement between SME, NBP and GoP through MoF, transfer and surrender any rights, obligations and liabilities on the remaining receivable assets in the loan portfolio to FCF against any consideration amount. The novation agreement will further allow for any recoveries made by NBP in relation to the loan portfolio to be deposited directly in the FCF as the recoveries will no longer be an asset of the Bank.

In line with the steps proposed by the legal advisor the BoD of the Bank in its meeting held on December 31, 2017 has approved the transfer of fully non-performing loan portfolios of defunct SBFC & RDFC to MoF and NBP via a tri party novation agreement between SME, NBP and GoP through MoF at a value of Rs.100 as a sale consideration. Thereafter, the shareholders of the Bank in their meeting held on January 22, 2018 through their special resolution have also authorized the transferred of the portfolios as approved by the BoD of the Bank, however, the Allied Bank Limited carrying 0.33% holding in the Bank has opposed the resolution and required the sale of the portfolio at a fair market value (FMV). According to above majority decision of the shareholders both the portfolios have been transferred to the FCF and NBP against an aggregate sale consideration of Rs. 100 under a tri-party agreement (the Agreement) executed on February 23, 2018 between the Bank, NBP and FCF. As of the date of the Agreement the Bank has transferred and surrendered all the recoveries, rights, obligation, claims and liabilities of the referred loan portfolios in favour of the FCF.

The management of the Bank continues to show these loan portfolios in its book of accounts pending confirmation of recording by NBP in its books of accounts to ensure that the above loans are duly accounted by NBP in compliance to the terms of the agreement dated Feb 23, 2018. The Bank has requested with various intervals to share the details of the road map prepared by NBP for smooth transfer of accounting record related to the legacy loan portfolio from the Bank to NBP but NBP did not respond.

## Notes to the Unconsolidated Financial Statements

### For the year ended December 31, 2019

- 10.4** Advances include Rs. 5,395.139 million (2018: Rs. 5,370.259 million) which have been placed under non-performing status as detailed below:

Category of classification	2019		2018	
	Non performing loans	Provision	Non performing loans	Provision
(Rupees in '000)				
<b>Domestic</b>				
Other assets especially mentioned	6,613	2	3,762	-
Substandard	10,763	36	42,490	8
Doubtful	43,808	326	2,454	174
Loss	5,333,955	5,256,686	5,321,553	5,257,480
	<b>5,395,139</b>	<b>5,257,050</b>	<b>5,370,259</b>	<b>5,257,662</b>

**10.5 Particulars of provision against advances**

	2019			2018		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	5,257,662	25	5,257,687	5,238,459	81	5,238,540
<b>Charge/(reversal)</b>						
Charge for the year	24,874	-	24,874	52,096	15	52,111
Reversal for the year	(24,229)	(17)	(24,246)	(31,881)	(71)	(31,952)
	645	(17)	628	20,215	(56)	20,159
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(1,257)	-	(1,257)	(1,012)	-	(1,012)
Closing balance	<b>5,257,050</b>	<b>8</b>	<b>5,257,058</b>	<b>5,257,662</b>	<b>25</b>	<b>5,257,687</b>

- 10.5.1** General provision is being provided @ 1% against unsecured performing small enterprises portfolio.

- 10.5.2** The FSV benefit already availed in last years has been increased by Rs. 26.044 million (net of FSV benefit availed during the year), which has resulted in decrease charge for specific provision for the year by the same amount. The FSV benefit is not available for cash or stock dividend/bonus to employees. Had the FSV benefit not recognized, loss before and after tax for the year would have been increased by Rs. 26.044 million (2018: reduced by Rs. 42.241 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 102.163 million (2018: Rs. 76.119 million).

Particulars of provisions against advances	2019			2018		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	5,257,050	8	5,257,058	5,257,662	25	5,257,687
In foreign currencies	-	-	-	-	-	-
	<b>5,257,050</b>	<b>8</b>	<b>5,257,058</b>	<b>5,257,662</b>	<b>25</b>	<b>5,257,687</b>

**10.6 Particulars of write off**

	2019	2018
	(Rupees in '000)	
<b>10.6.1</b> Against provisions	-	-
Directly charged to profit & loss account	-	-
<b>10.6.2</b> Write offs of Rs. 500,000 and above	-	-
Write offs of below Rs. 500,000	-	-

**10.7 Details of loan write off of Rs. 500,000 and above**

In terms of sub-section(3) of section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of rupees five hundred thousand or above allowed to a person(s) during the year ended December 31, 2019 is given at Annexure-1.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
11. FIXED ASSETS	Note	(Rupees in '000)	
Property and equipment	11.1	34,519	55,376
Right of use assets	11.2	497,593	-
		<b>532,112</b>	<b>55,376</b>

		2019					
		Leasehold land	Building on freehold land	Leasehold improvement	Furniture and fixture	Electrical office & computer equipment	Vehicles
11.1 Property and equipment							Total
At January 01, 2019		(Rupees in '000)					
Cost		450	15,600	38,771	9,334	178,561	44,780
Accumulated depreciation		-	10,205	34,029	8,518	143,222	36,146
Net book value		450	5,395	4,742	816	35,339	8,634
Year ended December 2019							
Opening net book value		450	5,395	4,742	816	35,339	8,634
Additions		-	-	39	12	454	-
Disposals		-	-	-	-	-	(800)
Depreciation charge		-	(780)	(2,624)	(453)	(12,705)	(4,000)
Closing net book value		450	4,615	2,157	375	23,088	3,834
At December 31, 2019							
Cost		450	15,600	38,810	9,346	179,015	42,860
Accumulated depreciation		-	10,985	36,653	8,971	155,927	39,026
Net book value		450	4,615	2,157	375	23,088	3,834
Rate of depreciation (percentage)		-	5	33.33	20	15 & 33.33	20
		2018					
		Leasehold land	Building on freehold land	Leasehold improvement	Furniture and fixture	Electrical office & computer equipment	Vehicles
							Total
At January 01, 2018		(Rupees in '000)					
Cost		64,087	15,794	38,414	9,218	166,592	48,521
Accumulated depreciation/impairment		63,637	9,563	31,169	7,981	132,175	34,979
Net book value		450	6,231	7,245	1,237	34,417	13,542
Year ended December 2018							
Opening net book value		450	6,231	7,245	1,237	34,417	13,542
Additions		-	-	362	116	12,428	-
Disposals		-	(56)	-	-	-	-
Depreciation charge		-	(780)	(2,865)	(537)	(11,506)	(4,908)
Closing net book value		450	5,395	4,742	816	35,339	8,634
At December 31, 2018							
Cost		450	15,600	38,771	9,334	178,561	44,780
Accumulated depreciation/impairment		-	10,205	34,029	8,518	143,222	36,146
Net book value		450	5,395	4,742	816	35,339	8,634
Rate of depreciation (percentage)		-	5	33.33	20	15 & 33.33	20

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 11.2 Right of use assets

This has arisen due to adoption of IFRS 16 as detailed in note 3.3.2. Movement in right-of-use assets is as follows:

	2019
	(Rupees in '000)
Effect of initial application of IFRS	547,718
Additions	-
Depreciation charge	(50,125)
Closing net book value	<u>497,593</u>

### 11.3 Details of disposal of fixed assets :

Particulars of assets	Cost	Accumulated depreciation /impairment	Book value	Sale proceeds	Gain/(loss) on sale of fixed assets	Mode of disposal	Particulars of buyers
(Rupees in '000)							
<b>Vehicle</b>						As per Bank policy	Mr. Kishwar Malik (employee)
Honda Civic	1,920	1,120	800	768	(32)		
<b>2019</b>	<u>1,920</u>	<u>1,120</u>	<u>800</u>	<u>768</u>	<u>(32)</u>		
2018	68,036	67,980	56	292	236		

11.4 Cost of fully depreciated assets that are still in use was Rs. 177.157 million (2018: Rs. 172.361 million).

### 12 INTANGIBLE ASSETS

	2019	2018
	Computer software (Rupees in '000)	
<b>At January 1</b>		
Cost	30,561	28,189
Accumulated amortization and impairment	28,160	27,060
Net book value	<u>2,401</u>	<u>1,129</u>
<b>Year ended December 31</b>		
Opening net book value	2,401	1,129
Additions:		
- developed internally	-	-
- directly purchased	226	2,458
	226	2,458
Disposals	-	-
Amortization charge	1,296	1,186
Closing net book value	<u>1,331</u>	<u>2,401</u>
<b>As December 31</b>		
Cost	30,787	30,561
Accumulated amortization and impairment	29,456	28,160
Net book value	<u>1,331</u>	<u>2,401</u>
Rate of amortization (percentage)	33.33	33.33
Useful life	3 years	3 years

12.1 Cost fully amortized intangible assets that are still in use was Rs. 26.946 million (2018: Rs. 26.800 million).



## Notes to the Unconsolidated Financial Statements

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14. OTHER ASSETS	Note	2019	2018
		(Rupees in '000)	
Income/mark-up accrued in local currency - net of provision	14.1	168,490	162,453
Advances, deposits, advance rent and other prepayments		24,279	58,967
Advance taxation	14.2	208,288	216,946
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured		5,412	5,642
Receivable from NBP	10.3	1,853	981
Receivable from subsidiary company		2,212	1,300
Receivable from equity participation fund		611	-
Trading right entitlement certificate		21,560	21,560
Receivable from Speedway Fondmetall Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		5,148	5,148
Others		75,742	76,421
		<b>680,301</b>	<b>716,124</b>
Less: Provision held against other assets	14.4	117,109	117,095
Other assets (net of provision)		<b>563,192</b>	<b>599,029</b>

14.1 This balance has been arrived at after adjusting interest in suspense of Rs. 4,066.115 million (2018: Rs. 4,048.422 million).

14.2 This include the effect of refunds aggregating to Rs. 232.599 million due from government. In respect of tax years 2003 and 2004, the period prior to enactment of the Seventh Schedule of the Income Tax Ordinance, 2001, the tax authorities disallowed the Bank's claims for provisions for its bad debts. Subsequently, the Appellate Tribunal Inland Revenue (ATIR) through its order dated February 10, 2011 has ruled in favor of the Bank which resulted in creation of refunds of Rs. 80.059 million and Rs. 152.54 million for tax years 2003 and 2004 respectively. Thereafter, against the referred judgement of ATIR the tax authorities filed references before the Islamabad High Court which are pending adjudication to date. The Bank upon receiving the appeal affect orders dated July 28, 2017 from tax authorities has accrued the above refunds in its books of account. The management of the Bank is of the firm view that the Bank will be successful in the said references.

14.3 This include Rs. 138.6 million being the successful bid made by SME Bank for acquiring bungalow No. 45, Block-C/3, Gulberg III, Lahore (the Property) mortgaged with the Bank as a security in a defaulted loan and Rs. 8.47 million pertaining stamps/stamps duties for registration of sale certificate issued by the High Court to SME Bank/auction Purchasor of the Property. The auction was carried out on 30 June 2015 and subsequently the Honorable Lahore High Court through its decision dated 14 July 2015 allowed the Bank to adjust the bid price against its outstanding dues from the borrower against the finance facilities extended to the borrower, suspended mark-up and cost of funds. Thereafter the auction was also confirmed by the High Court on April 19, 2016 after hearing objection raised by the counter party. The sale certificate was issued by the High Court on June 30, 2016 and the same has been registered with concerned registrar on July 28, 2016. On November 24, 2016, ownership of the Property in record of Excise and Taxation Department has been transferred in name of SME Bank Ltd. The Bank applied for possession of the acquired Property, which has been accepted by the court after hearing both the parties. The court has repeatedly issued orders to bailiff for taking possession of the Property to handover the Bank, however, due to non- availability of police force to the bailiff, the possession of the Property could not be handed over to the Bank. On 24 June 2019 the sponsor of the case was died and thereafter on 20 August 2019 the legal heirs of the judgement debtor submitted an objection petition for release of the Property which is already auctioned and purchased by the Bank through an open auction. During argument the request of the legal heirs has been turned down by the honorable judge as the transaction is past and closed and advised the council to discuss only the issue of remaining cost of funds. The next date of hearing of the case is fixed on 11 August 2020. At of the current balance sheet date, the market value of the Property was Rs. 224.368 million (2018: Rs. 220.240 million).



## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

14.4	Provision held against other assets	2019	2018	
		(Rupees in '000)		
	Advances, deposits, advance rent & other prepayments	2,706	2,706	
	Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640	
	Receivable against factorized portfolio	5,148	5,148	
	Other receivables - SME Portfolio	43,461	43,494	
	Legal charges recoverable from borrowers - SBFC & RDFC	22,661	22,661	
	Trading right entitlement certificate - TREC	21,560	21,560	
	Others	1,933	1,886	
		117,109	117,095	
14.4.1	Movement in provision held against other assets			
	Opening balance	117,095	117,991	
	Charge for the year	3,054	3,486	
	Reversals	(3,040)	(4,381)	
		14	(895)	
	Transferred to NBP	-	(1)	
	Closing balance	117,109	117,095	
15.	BILLS PAYABLE			
	In Pakistan	51,543	118,788	
	Outside Pakistan	-	-	
		51,543	118,788	
16.	BORROWINGS			
	Secured			
	Repurchase agreement borrowings			
	State Bank of Pakistan (SBP)	16.2	1,137,846	1,003,155
	Financial institutions	16.2	2,442,609	3,713,195
			3,580,455	4,716,350
	Unsecured			
	Borrowing from State Bank of Pakistan (SBP)			
	Financing facility for storage of agricultural produce	16.3	74,316	23,545
			3,654,771	4,739,895
16.1	Particulars of borrowings with respect to currencies			
	In local currency		3,654,771	4,739,895
	In foreign currencies		-	-
			3,654,771	4,739,895
16.2	These represent transactions with financial institutions and SBP for sale of government securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 13.38% to 13.75% (2018: 10.20% to 10.50%) per annum for period upto two months (2018: upto two months). REPO transactions are secured against investment of the Bank in Government securities as disclosed in note 9.2.			
16.3	This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agricultural Produce (FFSAP). These carries mark up rate ranging from 2.0% to 3.25% and is repayable in quarterly installments.			

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 17. DEPOSITS AND OTHER ACCOUNTS

	2019			2018		
	In local currency	In foreign currency	Total	In local currency	In foreign currency	Total
(Rupees in '000)						
<b>Customers</b>						
Current accounts	499,200	-	499,200	503,208	-	503,208
Savings deposits	3,153,652	-	3,153,652	2,042,659	-	2,042,659
Term deposits	3,207,339	-	3,207,339	2,565,542	-	2,565,542
Margin accounts	112,398	-	112,398	56,983	-	56,983
	6,972,589	-	6,972,589	5,168,392	-	5,168,392
<b>Financial institutions</b>						
Current accounts	24	-	24	1,562	-	1,562
Savings deposits	471,695	-	471,695	417,877	-	417,877
Term deposits	56,400	-	56,400	133,177	-	133,177
Margin accounts	-	-	-	-	-	-
	528,119	-	528,119	552,616	-	552,616
	7,500,708	-	7,500,708	5,721,008	-	5,721,008

17.1 Composition of deposits	2019	2018
	(Rupees in '000)	
Individuals	1,149,907	1,102,728
Government (federal and provincial)	721,679	836,731
Public sector entities	46,543	60,003
Banking companies	-	-
Non-banking financial institutions	528,119	552,616
Private sector	5,054,460	3,168,930
	7,500,708	5,721,008

17.2 Total deposits include eligible deposits of Rs. 2,349.577 million (2018: Rs. 1,481.536 million) as required by the Deposit Protection Corporation's (a subsidiary of SBP) Circular No. 4 of 2018 dated June 22, 2018.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>18. OTHER LIABILITIES</b>			
Mark-up/return/interest payable in local currency		218,915	102,093
Unearned commission on guarantees		1,875	692
Accrued expenses		11,819	14,741
Sundry creditors	18.1	172,039	120,266
Branch adjustment account		586	912
Payable against employees' benefit plans			
- Defined benefit pension	34.7	370,155	388,974
- Defined benefit funded gratuity scheme	34.7	14,172	10,730
- Unfunded compensated absences	34.7	95,297	80,304
Security deposits against lease		280	280
Leased liability against right of use assets	18.2	538,756	-
Employees' VSS payments withheld		12,603	13,341
Payable to equity participation fund - unsecured		-	794
Income tax withheld payable		19,311	17,780
Others		1,616	1,760
		<b>1,457,424</b>	<b>752,667</b>

**18.1** This include Rs. 90.6 million (2018: Rs. 90.6 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of stale bills payable Rs. 72.847 million (2018: Rs. 15.604 million).

**18.2** This represents lease liability recognised due to adoption of IFRS 16 as detailed in note 3.3.2.

	2019	2018
	(Rupees in '000)	
Effect of initial application of IFRS 16 as at January 01, 2019	540,960	-
- Additions	-	-
- Interest	67,337	-
- Payment	(69,541)	-
Closing net book value	<b>538,756</b>	<b>-</b>

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 19. SHARE CAPITAL

#### 19.1 Authorized capital

2019	2018		2019	2018
Number of shares			(Rupees in '000)	
<b>1,000,000,000</b>	1,000,000,000	Ordinary shares of Rs. 10 each	<b>10,000,000</b>	10,000,000

#### 19.2 Issued, subscribed and paid up capital

2019	2018	Ordinary shares	2019	2018
Number of shares			(Rupees in '000)	
152,853,153	152,853,153	Fully paid in cash	1,528,532	1,528,532
50,000,000	50,000,000	Issued as bonus shares	500,000	500,000
36,397,547	36,397,547	Issued for consideration other than cash	363,975	363,975
<b>239,250,700</b>	239,250,700		<b>2,392,507</b>	2,392,507

19.3 Break-up of share capital is as follows:	Number of shares	Percentage		
Federal government	224,615,978	93.89	2,246,160	2,246,160
National Bank of Pakistan	6,121,095	2.56	61,211	61,211
United Bank Limited	3,975,003	1.66	39,750	39,750
Habib Bank Limited	1,987,501	0.83	19,875	19,875
MCB Bank Limited	1,490,619	0.62	14,906	14,906
Allied Bank Limited	774,351	0.32	7,744	7,744
Industrial Development Bank Limited	286,146	0.12	2,861	2,861
Directors	1	-	-	-
Individuals	6	-	-	-
	<b>239,250,700</b>	<b>100</b>	<b>2,392,507</b>	2,392,507

### 20. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

	2019	2018
	(Rupees in '000)	
Surplus/(deficit) on revaluation of		
Available-for-sale securities		
- Federal Government securities	9.1 (301,559)	(437,444)
- Listed companies/mutual funds	1,912	2,522
	(299,647)	(434,922)
Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities		
- Listed companies/mutual funds	13 (669)	(883)
	<b>(300,316)</b>	<b>(435,805)</b>

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
		(Rupees in '000)	
<b>21. CONTINGENCIES AND COMMITMENTS</b>	<b>Note</b>		
- Guarantees	21.1	261,582	143,409
- Commitments	21.2	3,842,670	4,962,001
- Other contingent liabilities	21.3	1,136,759	1,074,888
		<b>5,241,011</b>	<b>6,180,298</b>
<b>21.1 Guarantees:</b>			
Financial guarantees		-	-
Performance guarantees	21.1.1	261,582	143,409
Other guarantees		-	-
		<b>261,582</b>	<b>143,409</b>
<b>21.1.1</b>	This includes expired letter of guarantees/performance aggregating to Rs. 34.142 million (2018: Rs. 77.464 million) for which formalities for return of original documents are in process.		
		2019	2018
		(Rupees in '000)	
<b>21.2 Commitments:</b>	<b>Note</b>		
Commitments in respect of:			
- forward government securities transactions	21.2.1	3,560,826	4,669,798
- forward lending	21.2.2	280,608	290,484
Commitments for acquisition of:			
- operating fixed assets		987	1,493
- intangible assets		249	226
Other commitments	21.2.3	-	-
		<b>3,842,670</b>	<b>4,962,001</b>
<b>21.2.1 Commitments in respect of forward government securities transactions</b>			
Sale and repurchase agreements		<b>3,560,826</b>	<b>4,669,798</b>
<b>21.2.2 Commitments in respect of forward lending</b>			
Undrawn facilities		174,708	173,684
Commitments to extend credit		105,900	116,800
		<b>280,608</b>	<b>290,484</b>
<b>21.2.3 Other commitments</b>			
<b>Bills for collection</b>			
Payable in Pakistan		-	-
<b>21.3 Other contingent liabilities</b>		<b>1,136,759</b>	<b>1,074,888</b>
a) Claims not acknowledged as debt from various borrowers of defunct RDFC.		53,686	53,686
b) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) which has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals) which is pending adjudication. The management of the Bank strongly believes and expects favourable outcome and therefore no provision has been made for this effect in the unconsolidated financial statements.		612,707	612,707

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

	2019	2018
	(Rupees in '000)	
c) The Bank and the income tax department have filed cross appeals against the appellate order of the Commissioner (Appeals), who had partly set aside the order of the Taxation officer, resulting in taxable income of Rs. 151.234 million and tax liability of Rs. 52.932 (payable amounting Rs. 6.163 million after adjustment of credit for taxes paid/ suffered at source amounting Rs. 46.768 million) against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4.249 million for the tax year 2008. Without prejudice to the appeal, the Bank has offered adjustment of said demand against Refunds available for tax year 2009. However no provision has been made in these unconsolidated financial statements as the management is confident of a favorable outcome.	6,163	6,163
d) DCIR raised tax demand for the tax year 2010 for Rs. 211.716 million which was again amended to Rs.198, 528,541/- vide Order # 11/40 dated 22-May-2013 u/s 221, stay against from Islamabad High Court was obtained and also appeal was filed with CIRA-II who partly accepted the Bank's plea in the case and remanded it back to DCIR for verification of evidences and opportunity of hearing the Bank for certain issues vide his order in Appeal # 968/2013 dated 07-Jan-2014. Parallel to that Bank has filed 2nd appeal in ATIR on 27-Feb-2014 and rectification application was also submitted with CIRA on 24-Feb-2014 no decision has been made yet. The Tax Department has also filed an appeal with the ATIR through Commissioner (Legal) vide their letter # 249 dated 7-Mar-2014. Based on the facts revealed by the consultants vide letter # IT/1156/2015 dated March 03, 2015, the management strongly believes for favorable outcome in the case.	198,529	198,529
e) The Taxation Officer created aggregate demand of Rs.53.674 million for withheld amount of Rs.17.598 million from VSS payment of employees for the Tax Years 2005, 2006, 2008, 2009, 2010, 2011, 2013 which was not deposited upon advice of the Legal Advisor due to stay order of Supreme Court of Pakistan. The case is pending before Appellate Tribunal Inland Revenue and the provision of default surcharge Rs. 36.076 million was not made ipso facto.	36,076	36,076
f) The Officer Inland Revenue, LTU, Islamabad created demand for Rs. 21.171 million for tax year 2016 under section 161/205 of the Income Tax Ordinance, 2001. After rejection of the first appeal by CIRA the Bank has submitted second appeal before Appellate Tribunal Inland Revenue along with stay application to keep the recovery proceedings in abeyance. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad (OIR) issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response.	18,663	18,663
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation. Without prejudice, the tax department has been requested to adjust the tax demand with the available income tax refunds.	38,723	38,723

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

	2019	2018
	<b>(Rupees in '000)</b>	
i) The Officer Inland Revenue, LTU, Islamabad made an assessment for the Year 2001-2002 vide order dated June 20, 2005 of Rs. 590.667 million and a tax demand of Rs. 118.721 million which was contested in ATIR which ordered the appeal in Bank's favor vide Order # ITA No.857/IB/2006 dated 05-Apr-2007. Now the Tax Department has filed Income Tax Reference with the Islamabad High Court having # I.T.R. 48 of 2007.	<b>118,721</b>	-
j) Back benefits and claims of staff/employees under litigation.	<b>32,320</b>	89,170

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>22. MARK-UP/ RETURN/ INTEREST EARNED</b>			
On loans and advances to			
Customers			
Extended by:			
Defunct RDFC & SBFC		-	-
SME Bank Limited		289,673	246,162
		<u>289,673</u>	<u>246,162</u>
Employees		3,914	5,126
Financial Institution - SME Leasing Ltd. - a subsidiary company		20,400	14,318
		<u>313,987</u>	<u>265,606</u>
On investments in			
Held for trading securities		-	6,817
Available for sale securities		454,326	446,599
Held to maturity securities		3,595	14,273
		<u>457,921</u>	<u>467,689</u>
On deposits with financial institutions		405	436
On securities purchased under resale agreements		91	306
On clean lending		113	-
On call money lending		3,789	7,407
		<u>776,306</u>	<u>741,444</u>
<b>23. MARK-UP/RETURN/INTEREST EXPENSED</b>			
On deposits		596,499	345,360
On securities sold under repurchase agreements		550,778	375,321
On SBP Refinance Scheme		1,029	409
Brokerage and commission		1,081	2,288
Bank charges		232	282
		<u>1,149,619</u>	<u>723,660</u>
<b>24. FEE &amp; COMMISSION INCOME</b>			
Branch Banking customer fees		2,155	1,976
Card related fees		431	251
Credit related fees		2,709	3,877
Commission on guarantees		4,526	3,183
Commission on remittances		95	139
Others		17	15
		<u>9,933</u>	<u>9,441</u>
<b>25. GAIN/(LOSS) ON SECURITIES</b>			
Realised	25.1	7	1,001
Unrealised - held for trading		-	-
		<u>7</u>	<u>1,001</u>
<b>25.1 Realised gain on:</b>			
Federal government securities - net		7	1,625
Shares		-	(624)
		<u>7</u>	<u>1,001</u>
<b>26. OTHER INCOME</b>			
Gain on sale of operating fixed assets - net		-	236
Fee on fund managed by the Bank -EPF		974	974
Others		6	9
		<u>980</u>	<u>1,219</u>



## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>27. OPERATING EXPENSES</b>			
<b>Total compensation expense</b>	27.1	664,192	623,111
<b>Property expense</b>			
Rent & taxes	27.2	7,553	69,724
Insurance		1,343	1,309
Utilities cost		21,136	17,361
Security (including guards)		15,480	16,221
Repair & maintenance		5,948	6,110
Depreciation	27.2	50,905	780
Others		-	-
		102,365	111,505
<b>Information technology expenses</b>			
Software maintenance		4,466	3,226
Hardware maintenance		1,953	1,086
Depreciation		5,106	3,920
Amortization		1,296	1,186
Network charges		14,253	9,480
Others		807	1,825
		27,881	20,723
<b>Other operating expenses</b>			
Directors' fees, allowances and other expenses		-	1,068
Legal and professional charges		4,732	8,378
Outsourced services costs	27.3 & 33.1	26,630	24,232
Travelling and conveyance		5,260	2,660
NIFT clearing charges		1,837	1,887
Depreciation		14,676	15,896
Training & development		1,679	928
Postage & courier charges		853	806
Communications		4,755	4,564
Stationery and printing		5,170	6,353
Marketing, advertisement & publicity		1,148	1,625
Donations		-	-
Auditors' remuneration	27.4	1,068	922
Vehicle running and maintenance		4,512	6,293
Entertainment		2,478	2,677
Subscription, books and newspapers		2,962	3,140
Deposits premium		3,617	1,808
Loss on sale of operating fixed assets - net		32	-
Others		1,348	551
		82,757	83,788
		<b>877,195</b>	<b>839,127</b>

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 27.1 Total compensation expense

	2019	2018
	(Rupees in '000)	
Managerial remuneration		
- Fixed	280,133	279,284
Charge for defined benefit plans		
- pension fund and gratuity	115,434	85,025
- funded gratuity scheme	10,541	11,649
- unfunded compensated absences	15,050	4,620
Contribution to defined contribution plan - benevolent fund	429	(3,821)
Rent & house maintenance	90,429	91,892
Utilities	27,767	27,701
Medical	38,399	36,382
Conveyance	14,035	13,919
Telephone	3,937	4,398
Uniform allowance	1,167	1,188
Child education allowance	7,159	7,256
Group insurance	1,215	1,278
Overtime	1,442	1,964
Adhoc relief	1,221	1,248
Leave absence	5,927	8,646
Leave fare assistance	13,839	15,803
Rental in lieu of vehicle	6,538	6,274
Reimbursement of vehicle running & maintenance	28,609	26,823
Others	921	1,582
	<b>664,192</b>	<b>623,111</b>

27.2 Adoption of IFRS16 'Leases' resulted in increase in depreciation expense of Rs. 50.125 million and decrease of rent of Rs. 68.996 million.

27.3 Total cost for the year included in other operating expenses relating to outsourced activities is Rs 26.630 million (2018: Rs 24.232 million) related to companies incorporated in Pakistan. Material outsourcing arrangements are as follows: The outsourced cost includes the services of messengers, drivers, IT coordinators and electronic financial transaction (EFT).

	2019	2018
	(Rupees in '000)	
27.4 Auditors' remuneration		
Audit fee	928	800
Fee for other statutory certifications	116	100
Fee for audit of employees funds	24	22
Tax services	-	-
Out-of-pocket expenses	-	-
	<b>1,068</b>	<b>922</b>

### 28. OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	2,089	2,254
Right of use assets - unwinding of PV	67,337	-
	<b>69,426</b>	<b>2,254</b>

### 29. PROVISIONS & WRITE OFFS - NET

Provisions against lending to financial institutions	-	-
Provisions for diminution in value of investment	(20,000)	45,532
Provisions against loans & advances	628	20,159
Other provisions/written off directly against other assets	14	(895)
Bad debts written off directly	-	-
	<b>(19,358)</b>	<b>64,796</b>

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 30. TAXATION

		2019	2018
	Note	(Rupees in '000)	
Current	30.2	11,285	9,772
Deferred		(226,385)	(60,110)
		<u>(215,100)</u>	<u>(50,338)</u>

### 30.1 Relationship between tax expense and accounting loss

Loss before tax		<u>(1,287,409)</u>	<u>(876,276)</u>
Applicable tax rate		<u>35%</u>	<u>35%</u>

	2019	2018
	(Rupees in '000)	
Tax on loss	(450,593)	(306,697)
Deferred tax asset recognised during the year	(226,385)	(60,110)
Tax effect of income taxed at lower rate	28	19
Minimum tax	11,257	9,753
Other permanent differences	450,593	306,697
	<u>(215,100)</u>	<u>(50,338)</u>

30.2 Due to tax losses during the current year the provision for current tax is charged on minimum tax rate of 1.25% for the period from January 01 to June 30, 2019 and 1.50% for the period from July 01 to December 31, 2019 of the turnover.

### 31. BASIC/DILUTED LOSS PER SHARE

	2019	2018
	(Rupees in '000)	
Net loss after tax for the year	<u>(1,072,309)</u>	<u>(825,938)</u>
	Number of shares	
Weighted average number of ordinary shares	<u>239,250,700</u>	<u>239,250,700</u>
	Rupees	
Basic/diluted loss per share	<u>(4.48)</u>	<u>(3.45)</u>

There is no dilutive effect on the basic earning per share of the Bank.

### 32. CASH AND CASH EQUIVALENTS

	2019	2018
	(Rupees in '000)	
Cash and balances with treasury banks	650,565	443,839
Balances with other banks	4,537	16,238
	<u>655,102</u>	<u>460,077</u>

### 33. STAFF STRENGTH

	2019	2018
	Numbers	
Permanent	170	175
On bank contract	203	188
Bank's own staff strength at the end of the year	<u>373</u>	<u>363</u>

#### Average number of employees

Permanent	173	177
On bank contract	196	194
	<u>369</u>	<u>371</u>

33.1 In addition to the above, 107 (2018: 123) employees of outsourcing services companies were assigned to the Bank as at the end of the year to perform services which mainly includes IT services, messengers and drivers.

# Notes to the Unconsolidated Financial Statements

## For the year ended December 31, 2019

### 34. DEFINED BENEFIT PLANS

#### 34.1 General description

The Bank operates the following schemes for all its eligible employees. Contributions are made in accordance with the actuarial recommendations.

##### 34.1.1 Pension and gratuity fund (defined benefit scheme)

The Bank operates a defined benefit funded gratuity and pension schemes for all its permanent employees, which entitles the members to:

- Gratuity payable to members who have completed a minimum of 5 years of service and total service on retirement or cessation of service or death is less than 10 years.
- Pension payable to members who have completed a minimum of 10 years of service with the Bank on retirement at age of sixty years or on completion of 25 years of service with the Bank or on permanent disability or on death during service.

##### 34.1.2 Gratuity fund (defined benefit scheme)

- The Bank operates a defined benefit funded gratuity scheme for all its contractual employees.

##### 34.1.3 Unfunded compensated absences

- The Bank provides compensated absences, an unfunded scheme, as per entitlement to all its permanent employees.

##### 34.2 Number of employees under the scheme

The number of employees covered under the following defined benefit schemes are:

	2019	2018
	(Numbers)	
- Pension fund	170	175
- Gratuity fund	202	187
- Compensated absences	170	175

##### 34.3 Principal actuarial assumptions

The actuarial valuations were carried out as at December 31, 2019 using the following significant assumptions:

Valuation discount rate - per annum	2019	2018
Salaries increase rate - per annum (Short Term - 1 year)	11.75%	13.75%
Expected return on plan assets - per annum	9.75%	11.75%
Pension indexation rate - per annum	11.75%	13.75%
Normal retirement age (NRA)	7.75%	9.75%
Mortality rate	60 years	60 years
Withdrawal rate	SLIC 2001-05	SLIC 2001-05
Effective salary increase timing	Low	Low
	January 1st, 2020	January 1st, 2019

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 34.4 Reconciliation of (receivable from)/payable to defined benefit plans

	2019			2018		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
	(Rupees in '000)					
Present value of obligation	1,484,477	102,736	95,297	1,403,012	90,898	80,304
Fair value of plan assets	(1,114,322)	(88,564)	-	(1,014,038)	(80,168)	-
Payable	370,155	14,172	95,297	388,974	10,730	80,304
<b>Movement in defined benefit obligations</b>						
Obligations at the beginning of the year	1,403,012	90,898	80,304	1,244,580	77,987	90,659
Current service cost	61,950	9,223	4,476	55,956	10,938	2,540
Interest cost	191,092	12,341	11,038	117,196	7,238	7,901
Benefit paid	(26,508)	(2,289)	(57)	(21,866)	(3,590)	(14,975)
Past service cost	-	-	(16,392)	-	-	-
Actuarial loss/(gain)	(145,069)	(7,437)	15,928	7,146	(1,675)	(5,821)
Obligations at the end of the year	1,484,477	102,736	95,297	1,403,012	90,898	80,304
<b>Movement in fair value of plan assets</b>						
Fair value at the beginning of the year	1,014,038	80,168	-	911,160	71,035	-
Expected return on plan assets	137,608	11,023	-	88,127	6,527	-
Contribution to the fund	20,826	2,289	-	54,848	8,248	-
Benefits paid during the year	(26,508)	(2,289)	-	(21,866)	(3,590)	-
Actuarial (loss)	(31,642)	(2,627)	-	(18,231)	(2,052)	-
Fair value at the end of the year	1,114,322	88,564	-	1,014,038	80,168	-
<b>Movement in net liability under defined benefit schemes</b>						
Opening balance	388,974	10,730	80,304	333,420	6,952	90,659
Charge/(reversal) for the year	115,434	10,541	15,050	85,025	11,649	4,620
Re-measurement loss/(gain) recognised in OCI during the year (34.8.2)	(113,427)	(4,810)	-	25,377	377	-
Contribution by the Bank	(20,826)	(2,289)	(57)	(54,848)	(8,248)	(14,975)
Closing balance	370,155	14,172	95,297	388,974	10,730	80,304



## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

**34.10 Sensitivity analysis**  
Sensitivity analysis is performed by changing only one assumption at a time while keeping the other assumptions constant. Sensitivity analysis of discount rate and salary increase rate is presented in the below tables:

	2019		2018	
	Pension fund	Gratuity fund	Pension fund	Gratuity fund
				Compensated absences
			(Rupees in '000)	
Current liability	1,484,477	102,736	95,297	1,403,012
1% increase in discount rate	1,324,349	93,113	90,174	1,247,894
1% decrease in discount rate	1,679,496	113,876	100,868	1,592,040
1 % increase in expected rate of salary increase	1,568,819	114,503	101,370	1,489,608
1 % decrease in expected rate of salary increase	1,405,820	92,442	89,637	1,322,616
1 year mortality age set forward	1,461,272	102,826	-	1,381,363
1 year mortality age set back	1,509,668	102,645	-	1,426,536

**34.11 Expected charge/(reversal) for the next financial year**

The Bank contributes to the pension and gratuity funds according to the actuary's advice.

Pension fund	Gratuity fund	Compensated absences
	(Rupees in '000)	
102,069	10,636	16,636

Expected charge for the next financial year

**34.12 Maturity profile**

The weighted average duration of the obligation (in years)

2019	2018
11.42	11.86

**34.13 Funding policy**

The Bank endeavors to ensure that liabilities under the various employee benefit schemes are covered by the Fund on any valuation date having regards to the various actuarial assumptions such as projected future salary increase, expected future contributions to the fund, projected increase in liability associated with future service and the projected investment income of the Fund.

**34.14 Risks associated with defined benefit plans**

**Investment risks**

The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.

**Longevity risks**

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

**Salary increase risk**  
The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

**Withdrawal risk**

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

**Mortality risks**

The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service / age distribution and the benefits.

### 34.15 Disclosure for current and previous four annual years of pension

	2019	2018	2017	2016	2015
<b>Deficit position</b>					
Present value of obligation	1,484,477	1,403,012	1,244,580	1,017,166	834,743
Fair value of plan assets	(1,114,322)	(1,014,038)	(911,160)	(805,739)	(719,350)
Net defined benefit liability	370,155	388,974	333,420	211,427	115,393
<b>Experience adjustments</b>					
Remeasurement (gain)/loss on obligation	(145,069)	7,146	72,564	76,969	24,565
Remeasurement (gain)/loss on plan asset	31,642	18,231	21,354	10,133	7,281
Other comprehensive income	(113,427)	25,377	93,918	87,102	31,846

### 34.16 Disclosure for current and previous four annual years of gratuity

	2019	2018	2017	2016	2015
<b>Deficit position</b>					
Present value of obligation	102,736	90,898	77,987	67,626	53,821
Fair value of plan assets	(88,564)	(80,168)	(71,035)	-	-
Net defined benefit liability	14,172	10,730	6,952	67,626	53,821
<b>Experience adjustments</b>					
Remeasurement (gain)/loss on obligation	(7,437)	(1,675)	4,282	10,317	9,533
Remeasurement (gain)/loss on plan asset	2,627	2,052	-	-	-
Other comprehensive income	(4,810)	377	4,282	10,317	9,533

### 35. DEFINED CONTRIBUTION PLAN (BENEVOLENT FUND)

#### 35.1 General description

The Bank also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme). Contributions to this fund were made equally by the Bank and employees till March 2002. Thereafter it is wholly contributed by the Bank at the rate of 2% of basic salary with a ceiling of Rs. 200 per month per employee. Annual contribution towards the defined benefit scheme are made on the basis of actuarial advice using the Projected Unit Credit Method.



## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

	2019			2018		
	Officers benevolent fund	Staff benevolent fund	Total	Officers benevolent fund	Staff benevolent fund	Total
	(Rupees in '000)					
35.2						
Actuarial liability for active employees	13,671	2,960	16,631	12,108	2,670	14,778
Actuarial liability for beneficiaries	1,279	215	1,494	852	123	975
<b>Total actuarial liability</b>	<b>14,950</b>	<b>3,175</b>	<b>18,125</b>	<b>12,960</b>	<b>2,793</b>	<b>15,753</b>
Fair value of plan assets	(18,495)	(5,042)	(23,537)	(16,737)	(4,658)	(21,395)
<b>Funding surplus</b>	<b>(3,545)</b>	<b>(1,867)</b>	<b>(5,412)</b>	<b>(3,777)</b>	<b>(1,865)</b>	<b>(5,642)</b>
Receivable from fund	-	-	-	-	-	-
<b>Asset recognized in balance sheet</b>	<b>(3,545)</b>	<b>(1,867)</b>	<b>(5,412)</b>	<b>(3,777)</b>	<b>(1,865)</b>	<b>(5,642)</b>
The amount recognized in the profit and loss account is as follows:						
Expense for the year	348	81	429	(3,124)	(697)	(3,821)
Funding surplus	-	-	-	-	-	-
	348	81	429	(3,124)	(697)	(3,821)
<b>Break-up of category of assets</b>						
	2019			2018		
	(Rupees in '000)					
Cash and cash equivalents				84		21,162
Term deposits receipts (TDRs)				23,453		233
				23,537		21,395

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 35.4

#### Sensitivity analysis

Sensitivity analysis is performed by changing only one assumption at a time while keeping the other assumptions constant. Sensitivity analysis of discount rate and salary increase rate is presented in the below tables:

	2019	2018
	(Rupees in '000)	
Current liability	18,125	15,753
1% increase in discount rate	17,290	15,027
1% decrease in discount rate	19,028	16,538
1% increase in expected rate of salary increase	18,125	15,753
1% decrease in expected rate of salary increase	18,125	15,753

### 35.5 Risks associated with defined contribution plan

#### Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

#### Salary increase risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

#### Withdrawal risk

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

#### Maturity profile

The weighted average duration of the obligation (in years)	2019	2018
	11.42	11.86

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 36. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

#### 36.1 Total compensation expense

Items	2019			2018		
	Non-executive directors	President/CEO	Executives	Non-executive directors	President/CEO	Executives
(Rupees in '000)						
Fees and allowances etc.	-	-	-	885	-	-
Managerial remuneration						
i) Fixed	-	2,444	107,622	-	6,885	87,974
ii) Variable	-	-	-	-	-	-
Charge for defined benefit plan	-	1,764	44,033	-	2,791	28,510
Rent & house maintenance	-	1,344	30,597	-	3,787	23,903
Utilities	-	244	10,424	-	688	8,485
Medical	-	367	10,346	-	1,033	8,421
Conveyance	-	-	566	-	-	390
Motor car running & maintenance	-	500	26,265	-	1,039	19,210
Leave fare assistance	-	-	-	-	1,785	-
Leave absence	-	-	-	-	1,729	-
Others	-	731	22,929	183	1,320	18,264
Total	-	7,394	252,782	1,068	21,057	195,157
Number of persons		1	64	5	1	52

Executive means an employee, other than the chief executive and directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year. The remuneration of directors has been fixed in accordance with the Article of Association which include Rs. 25,000 and Rs. 15,000 for attending board meetings and meetings of committee of board

#### 36.2 Remuneration paid to directors for participation in board and committee meetings

		2019					
Sr. no.	Name of director	Meeting fees and allowances paid					
		For board meetings	For board committees				
			Board audit committee	Risk management committee	Human resource committee	Board remuneration committee	Total
		(Rupees in '000)					
1	Due to absence of board no meetings of the board and its committees held during the current year.	-	-	-	-	-	-
		2018					
Sr. no.	Name of director	Meeting fees and allowances paid					
		For board meetings	For board committees				
			Board audit committee	Risk management committee	Human resource committee	Board remuneration committee	Total
		(Rupees in '000)					
1	Mr. Muhammad Adnan Jalil	125	60	60	45	-	290
2	Mr. Zarar Haider	50	30	30	-	-	110
3	Mr. Badr-ul-Arifeen	125	60	60	45	-	290
4	Mr. Sher Ayub Khan	125	30	-	-	-	155
5	Mr. Muhammad Arshad Khan	25	15	-	-	-	40
	Total amount paid	450	195	150	90	-	885

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 37 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings can not be calculated with sufficient reliability due to the absence of current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values. Since these are either short term in nature or, in the case of deposits, are frequently pre-priced.

#### 37.1 On balance sheet financial instruments

	December 31, 2019				Total
	Level 1	Level 2	Level 3	Carrying/ notional value	
Note	(Rupees in '000)				
Financial assets measured at fair value					
- Investments					
Government securities (T bills and PIBs)	-	5,593,673	-	-	5,593,673
Ordinary shares of listed companies/mutual funds	4,084	-	-	-	4,084
Ordinary shares of unlisted companies	-	-	-	26,470	26,470
Financial assets not measured at fair value					
- Bank balances with treasury banks	-	-	-	526,927	526,927
- Balances with other banks	-	-	-	4,537	4,537
- Lending to financial institutions	-	-	-	-	-
- Advances	-	-	-	1,907,995	1,907,995
- Other assets	-	-	-	176,185	176,185
- Other investment (COI/TDR)	-	-	-	35,000	35,000
- Subsidiary	-	-	-	-	-
SME Leasing Limited	-	-	-	80,748	80,748

# Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

## On balance sheet financial instruments (continued)

	December 31, 2018			
	Fair value			
	Level 1	Level 2	Level 3	Carrying/ notional value
	(Rupees in '000)			
Financial assets measured at fair value				
- Investments				
Government Securities (T bills and PIBs)	-	5,618,243	-	5,618,243
Ordinary shares of listed companies/mutual funds	4,694	-	-	4,694
Ordinary shares of unlisted companies	-	-	-	26,470
Financial assets not measured at fair value				
- Bank balances with treasury banks	37.2	-	-	337,325
- Balances with other banks	37.2	-	-	16,238
- Lending to financial institutions	37.2	-	-	-
- Advances	37.2	-	-	2,230,763
- Other assets	37.2	-	-	168,584
- Other Investment (COI/TDR)	37.2	-	-	35,000
Subsidiary- SME Leasing Limited	-	-	-	80,748
<b>Total</b>				<b>80,748</b>

The Bank measures fair values using the following fair values hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Fair value measurement using quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the assets and liabilities that are not based on observable market data (i.e. unobservable inputs).

**37.2** The Bank has not disclosed the fair value for these financial assets as these are for short term and or re-priced over short term. Therefore their carrying amounts are reasonable approximation of fair value.

**37.3** The Bank's policy is to recognise transfer into and out of the different fair value hierarchy levels at the date, the event or change in circumstances, that caused the transfer occurred. There were no transfers between level 1 and level 2 during the year.

### 37.4 Valuation techniques and inputs used in determination of fair values within level 1

Fully paid-up ordinary shares  
Fair values of investments in listed equity securities are valued on the basis of closing quoted market prices available at the Pakistan Stock Exchange.

### Valuation techniques and inputs used in determination of fair values within level 2

Pakistan investment bonds /market treasury bills  
Fair values of Pakistan investment bonds and treasury bills are derived using the PKRV rates (Reuters page).

## Notes to the Unconsolidated Financial Statements

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### 38. SEGMENT INFORMATION

#### 38.1 Segment details with respect to business activities

The segment analysis with respect to business activity is as follows:

	December 31, 2019		
	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
<b>Profit &amp; loss</b>			
Net mark-up/return/profit	461,914	314,392	776,306
Inter segment revenue - net	-	237,196	237,196
Non mark-up/return/interest income	2,254	10,913	13,167
Total income	464,168	562,501	1,026,669
Segment direct expenses	571,657	1,524,583	2,096,240
Inter segment expenses allocation	237,196	-	237,196
Total expenses	808,853	1,524,583	2,333,436
Provisions	(20,000)	642	(19,358)
Loss before tax	(324,685)	(962,724)	(1,287,409)
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
<b>Balance sheet</b>			
Cash & bank balances	432,679	222,423	655,102
Investments	5,739,975	-	5,739,975
Net inter segment lending		3,182,440	3,182,440
Lending to financial institutions	-	-	-
Advances - Performing	-	1,769,906	1,769,906
- Non-performing	-	138,089	138,089
Others	663,285	1,185,644	1,848,929
<b>Total assets</b>	<b>6,835,939</b>	<b>6,498,502</b>	<b>13,334,441</b>
Borrowings	3,580,455	74,316	3,654,771
Deposits & other accounts	-	7,500,708	7,500,708
Net inter segment borrowing	3,182,440	-	3,182,440
Others	415,993	1,092,974	1,508,967
Total liabilities	7,178,888	8,667,998	15,846,886
Equity	(342,949)	(2,169,496)	(2,512,445)
Total equity & liabilities	<b>6,835,939</b>	<b>6,498,502</b>	<b>13,334,441</b>
Contingencies & commitments	3,560,826	1,680,185	5,241,011

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

	December 31, 2018		
	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
<b>Profit &amp; loss</b>			
Net mark-up/return/profit	475,402	266,042	741,444
Inter segment revenue - net	-	142,309	142,309
Non mark-up/return/interest income	1,457	10,660	12,117
Total income	476,859	419,011	895,870
Segment direct expenses	396,523	1,168,518	1,565,041
Inter segment expenses allocation	142,309	-	142,309
Total expenses	538,832	1,168,518	1,707,350
Provisions	45,532	19,264	64,796
Loss before tax	(107,505)	(768,771)	(876,276)
	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
<b>Balance sheet</b>			
Cash & bank balances	260,427	199,650	460,077
Investments	5,765,155	-	5,765,155
Net inter segment lending	-	1,745,739	1,745,739
Lending to financial institutions	-	-	-
Advances - Performing	-	2,118,166	2,118,166
- Non-performing	-	112,597	112,597
Others	591,454	591,047	1,182,501
<b>Total assets</b>	6,617,036	4,767,199	11,384,235
Borrowings	4,716,350	23,545	4,739,895
Deposits & other accounts	-	5,721,008	5,721,008
Net inter segment borrowing	1,745,739	-	1,745,739
Others	417,915	453,540	871,455
Total liabilities	6,880,004	6,198,093	13,078,097
Equity	(262,968)	(1,430,894)	(1,693,862)
Total equity & liabilities	6,617,036	4,767,199	11,384,235
Contingencies & commitments	4,669,798	1,533,687	6,203,485

Assumptions used:

- Unallocable assets representing 6.19% (2018: 5.16%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocable liabilities representing 5.26% (2018: 5.45%) of the gross liabilities have been allocated to segments based on their respective incomes.

### 38.2 Segment details with respect to geographical locations

Presently the Bank does not deal outside Pakistan.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 39. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its majority shareholder (Government of Pakistan) subsidiary, directors, key management personnel and staff retirement benefit plan. Banking transactions with related parties are carried out in the normal course of business at agreed terms. Contribution to and accruals in respect of staff retirement benefit plan are made in accordance with actuarial valuations (refer note 34 & 35 to these unconsolidated financial statements for the details of plan). Compensation of directors disclosed in note 36 to these unconsolidated financial statements are determined in accordance with terms of their appointments.

Details of balances outstanding at year end and transactions with related parties are as follows:

	December 31, 2019					December 31, 2018				
	Subsidiary SMEEL	Key management personnel	Equity participation fund	Employees benefit plans	Employees provident trust	Subsidiary SMEEL	Key management personnel	Equity participation fund	Employees benefit plans	Employees provident trust
<b>Investments</b>			(Rupees in '000)					(Rupees in '000)		
Opening balance	215,457	-	-	-	-	215,457	-	-	-	-
Investment made during the year	-	-	-	-	-	-	-	-	-	-
Investment redeemed/disposed off during the year	-	-	-	-	-	-	-	-	-	-
Transfer in/(out) - net	-	-	-	-	-	-	-	-	-	-
Closing balance	215,457	-	-	-	-	215,457	-	-	-	-
Provision for diminution in value of investments	134,709	-	-	-	-	134,709	-	-	-	-
<b>Advances</b>										
Opening balance	141,556	15,252	-	-	-	110,352	18,241	-	-	-
Addition (total debits) during the year	72,471	8,789	-	-	-	97,150	17,238	-	-	-
Repaid (total credits) during the year	(71,871)	(13,740)	-	-	-	(65,946)	(20,227)	-	-	-
Transfer in/(out) - net	-	-	-	-	-	-	-	-	-	-
Closing balance	142,156	10,301	-	-	-	141,556	15,252	-	-	-
Provision held against advances	-	-	-	-	-	-	-	-	-	-
<b>Other assets</b>										
Interest/mark-up accrued	2,212	6,652	611	-	-	1,300	5,655	-	-	-
Receivable from staff retirement fund	-	-	-	5,412	-	-	-	-	5,642	-
Other receivable	-	-	-	-	-	-	-	-	-	-
<b>Deposits and other accounts</b>										
Opening balance	1,562	4,702	412,774	811,006	12,769	56	9,917	394,236	603,787	52,518
Received during the year	22,456	104,916	41,502	350,205	33,890	23,434	87,748	18,956	224,275	28,401
Withdrawn during the year	-	(98,603)	-	(5,782)	(41,659)	-	(93,066)	(418)	(17,056)	(68,150)
Transfer in/(out) - net	(24,018)	166	-	-	-	(21,928)	103	-	-	-
Closing balance	-	11,181	454,276	1,155,429	- 5,000	1,562	4,702	412,774	811,006	12,769



## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

	December 31, 2019				December 31, 2018					
	Subsidiary SMEL	Key management personnel	Equity fund participation	Employees benefit plans	Employees provident trust	Subsidiary SMEL	Key management personnel	Equity fund participation	Employees benefit plans	Employees provident trust
	(Rupees in '000)									
<b>Other liabilities</b>										
Interest/mark-up payable	-	106	4,341	72,000	52	-	39	2,771	25,269	75
Payable to staff retirement fund	-	-	-	479,624	-	-	-	-	480,008	-
Others liabilities	-	-	-	-	-	-	-	794	-	-
<b>Contingencies and commitments</b>										
<b>Income</b>										
Mark-up/return/interest earned	20,400	480	-	-	-	14,318	589	-	-	-
Fee and commission income	-	-	974	-	-	-	-	974	-	-
<b>Expense</b>										
Mark-up/return/interest paid	-	1,015	43,073	107,170	988	-	467	20,471	41,764	768
Fees and other expenses	-	-	-	-	-	-	-	-	-	-
Remuneration and allowances	-	70,746	-	-	-	-	71,772	-	-	-
Charge for the period relating to employees benefit plans	-	-	-	141,454	-	-	-	-	97,473	-
			<b>Description</b>					<b>Interest rate</b>		
Principal terms of loan facility to SMEL			Running finance facility upto Rs. 150 million					6 months Kibor + 4.00%		
Principal terms of deposit to equity participation fund			Remunerative deposits					8.00% to 11.25%		
Principal terms of deposit to employee benefit plans			Remunerative deposits					6.80% to 13.65%		
Principal terms of deposit to employee provident trust			Remunerative deposits					8.0% to 11.50%		

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 40. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy is as follows:

		2019	2018		
		(Rupees in '000)			
Regulatory capital base					
<i>Tier I capital</i>					
Shareholders capital/assigned capital		2,392,507	2,392,507		
Reserves		206,526	206,526		
Unappropriated/unremitted profits (net of losses)		(4,811,162)	(3,857,090)		
		(2,212,129)	(1,258,057)		
Less: Adjustments					
Goodwill/intangible Assets		1,331	2,401		
Investment in equity of subsidiary		80,748	80,748		
Deficit on revaluation of available for sale investments		300,316	435,805		
		382,395	518,954		
<i>Total tier I capital</i>		(2,594,524)	(1,777,011)		
<i>Tier II capital</i>		8	25		
<i>Eligible tier III capital</i>		-	-		
Total regulatory capital	(a)	(2,594,516)	(1,776,986)		
Risk-weighted exposures		2019	2018		
		Book value	Risk adjusted value	Book value	Risk adjusted value
		(Rupees in '000)			
<i>Credit risk</i>					
Balance sheet items:					
Cash and other liquid assets		655,102	907	460,077	3,248
Investments/lending to financial institutions		5,739,975	65,554	5,765,155	66,164
Loans and advances		1,907,995	1,150,542	2,230,763	1,355,327
Fixed assets		532,112	532,112	55,376	55,376
Deferred tax assets		752,294	752,294	525,695	525,695
Other assets		563,192	278,432	599,029	305,334
		10,150,670	2,779,841	9,636,095	2,311,144
Off balance sheet items					
Weighted non-funded exposures		206,700	103,350	112,676	56,338
		206,700	103,350	112,676	56,338
Credit risk-weighted exposures	(b)	10,357,370	2,883,191	9,748,771	2,367,482
Market risk			728,771		1,037,278
Market risk-weighted exposures		-	728,771	-	1,037,278
Total risk-weighted exposures	(c)		3,611,962		3,404,760
<i>Capital adequacy ratio credit risk</i> [ (a)/(b) x 100 ]			-89.99%		-75.06%
<i>Total Capital adequacy ratio</i> [ (a)/(c) x 100 ]			-71.83%		-52.19%

State Bank of Pakistan (SBP) has granted exemption to the Bank vide letter no. BSD/SU-21/220/1624/2007 dated June 08, 2007 from computing capital adequacy ratio (CAR) under BASEL II till restructuring/privatization and has granted exemption from implementation of BASEL III Capital Instructions till restructuring/privatization vide SBP letter no. BPRD/BA&CPD/646/000886/16 dated January 12, 2016. Accordingly, the Bank computes CAR under BASEL I and SBP has allowed exemption in meeting the minimum CAR requirements of 10% till December 31, 2019 or completion of restructuring/ privatization of the Bank, whichever is earlier vide SBP letter no. BPRD/BA&CPD/646/332/20 dated January 6, 2020.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 41. RISK MANAGEMENT

#### 41.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Bank is not exposed to major concentration of credit risk. Written procedures for credit and risk management functions have been developed and implemented. Credit evaluation system comprise of well designed loan approval and review responsibilities and it is ensured that Bank's credit-granting activities conform to the established strategy, prudential regulations and SBP instructions are strictly followed. To ensure that credit granting activities are adequately diversified, besides fixing limits on individual credit, it is ascertained that there is no concentration in a particular industry or economic sector, geographical region and specific product. Special attention is placed on such non-performing loans and a Special Assets Management Division follows up and recovers all such loans.

#### 41.1.1 Advances

##### Credit risk by industry sector

	Gross advances		Non-performing advances		Provision held	
	2019	2018	2019	2018	2019	2018
	(Rupees in '000)					
Chemical and pharmaceuticals	143,223	170,949	97,069	95,741	93,852	94,462
Agriculture, forestry, hunting and fishing	232,496	234,078	201,927	203,971	201,927	203,276
Mining & quarrying	9,053	9,053	9,053	9,053	9,053	9,053
Textile	374,198	383,895	337,056	337,933	336,233	336,957
Cement	-	20,268	-	20,268	-	20,268
Footwear and leather garments	63,968	67,224	59,850	59,481	58,115	58,115
Automobile and transportation equipment	50,024	31,546	20,324	7162	19,379	6,191
Financial	189,942	189,107	-	-	-	-
Insurance	-	-	-	-	-	-
Electronics and electrical appliances	54,999	54,947	15,307	13,036	10,582	11,136
Construction	306,148	345,684	67,420	68,330	67,316	68,181
Power (electricity), gas, water and sanitary	76,089	83,035	7,255	5,066	3,956	5,066
Wholesale and trade	1,811,169	1,602,704	1,524,041	1,361,326	1,488,633	1,327,462
Transport, storage, and communication	99,016	29,384	20,841	20,597	3,398	654
Individuals	1,136,643	1,625,308	1,050,840	1,521,485	1,050,840	1,521,485
Services	348,358	284,096	140,796	74,276	100,039	60,208
Government	-	-	-	-	-	-
Others	2,269,727	2,357,172	1,843,360	1,572,534	1,813,727	1,535,148
	<b>7,165,053</b>	<b>7,488,450</b>	<b>5,395,139</b>	<b>5,370,259</b>	<b>5,257,050</b>	<b>5,257,662</b>

#### 41.1.2 Segment by sector

Public/government	-	-	-	-	-	-
Private	7,165,053	7,488,450	5,395,139	5,370,259	5,257,050	5,257,662
	<b>7,165,053</b>	<b>7,488,450</b>	<b>5,395,139</b>	<b>5,370,259</b>	<b>5,257,050</b>	<b>5,257,662</b>

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 41.1.3 Contingencies and commitments

#### Credit risk by industry sector

	2019	2018
	(Rupees in '000)	
Chemical and pharmaceuticals	379	1,900
Agriculture, forestry, hunting and fishing	4	73
Mining & quarrying	-	-
Textile	6,556	14,863
Cement	-	-
Sugar	-	-
Footwear and leather garments	-	999
Automobile and transportation equipment	10,002	679
Financial	3,568,670	4,678,491
Insurance	-	-
Electronics and electrical appliances	7,253	3,408
Construction	266,385	140,248
Power (electricity), gas, water and sanitary	25,403	29,220
Wholesale and trade	89,761	66,260
Exports/imports	-	-
Transport, storage and communication	18,000	-
Individuals	34,620	89,203
Services	11,294	18,371
Government	1,050,753	932,032
Others	151,931	204,551
	<b>5,241,011</b>	<b>6,180,298</b>

#### Credit risk by public/private sector

Public/government	1,050,753	932,032
Private	4,190,258	5,248,266
	<b>5,241,011</b>	<b>6,180,298</b>

### 41.1.4 Concentration of advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 795.836 million (2018: Rs. 716.895 million) are as following:

	2019	2018
	(Rupees in '000)	
Funded	618,945	627,176
Non funded	176,891	89,719
Total exposure	<b>795,836</b>	<b>716,895</b>

The sanctioned limits against these top 10 exposures aggregated to Rs 901.404 million (2018: Rs. 871.758 million).

#### Total funded classified therein

	2019		2018	
	Amount	Provision held	Amount	Provision held
	(Rupees in '000)			
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	-	-	-	-

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 41.1.5 Advances - province/region-wise disbursement & utilization

Province/region	2019				
	Disbursements	Punjab	Sindh	KPK including FATA	Utilization
Punjab	499,382	499,382	-	-	-
Sindh	220,229	-	220,229	-	-
KPK including FATA	80,600	-	-	80,600	-
Balochistan	273,400	-	-	-	273,400
Islamabad	304,100	156,900	-	112,200	35,000
AJK including Gilgit-Baltistan	-	-	-	-	-
Total	1,377,711	656,282	220,229	192,800	273,400
					35,000

### Advances - province/region-wise disbursement & utilization

Province/region	2018				
	Disbursements	Punjab	Sindh	KPK including FATA	Utilization
Punjab	576,100	576,100	-	-	-
Sindh	299,400	-	299,400	-	-
KPK including FATA	95,850	-	-	95,850	-
Balochistan	264,500	-	-	-	264,500
Islamabad	386,665	120,665	-	142,200	123,800
AJK including Gilgit-Baltistan	-	-	-	-	-
Total	1,622,515	696,765	299,400	238,050	264,500
					123,800

### 41.2 Market risk

Market risk is the risk that the value of on and off-balance sheet positions of the Bank will be adversely affected by movements in interest rates, foreign exchange rates and equity prices resulting in a loss to earnings and capital. The Bank's interest rates exposure comprises those originating from investing and lending activities. The Asset and Liability Committee of the Bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effect on the profitability of the Bank.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 41.2.1 Balance sheet split by trading and banking books

2019			2018		
Banking book	Trading book	Total	Banking book	Trading book	Total
(Rupees in '000)					
650,565	-	650,565	443,839	-	443,839
4,537	-	4,537	16,238	-	16,238
-	-	-	-	-	-
146,302	5,593,673	5,739,975	146,912	5,618,243	5,765,155
1,907,995	-	1,907,995	2,230,763	-	2,230,763
532,112	-	532,112	55,376	-	55,376
1,331	-	1,331	2,401	-	2,401
752,294	-	752,294	525,695	-	525,695
563,192	-	563,192	599,029	-	599,029
4,558,328	5,593,673	10,152,001	4,020,253	5,618,243	9,638,496

### 41.2.2 Foreign exchange risk

Presently the Bank does not deal in foreign exchange.

### 41.2.3 Equity position risk

The Bank's exposure in equity market is classified in available for sale category with the intent to earn profit based on fundamentals.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

[illegible]

# Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

Mismatch of interest rate sensitive assets and liabilities

	Effective yield/interest rate	Exposed to yield/interest risk										Non-interest bearing financial instruments
		(Rupees in '000)										
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		443,839	-	-	-	-	-	-	-	-	-	443,839
Balances with other banks	4.00%	16,238	9,623	1,964	1,346	559	626	-	119	1,501	-	500
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	7.70%	5,765,155	649,994	393,807	3,870	193,749	343,936	4,090,912	-	8,139	-	80,748
Advances	10.09%	2,230,763	73,689	105,581	382,778	513,720	21,012	1,106,493	19,620	3,732	4,138	-
Other assets		168,584	-	-	-	-	-	-	-	-	-	168,584
		8,624,579	733,306	501,352	387,994	708,028	365,574	5,197,405	19,739	13,372	4,138	693,671
Liabilities												
Bills payable		118,788	-	-	-	-	-	-	-	-	-	118,788
Borrowings from financial institutions	7.44%	4,739,895	1,882,985	2,837,214	2,033	3,680	6,160	4,960	2,863	-	-	-
Deposits and other accounts	6.13%	5,721,008	1,377,775	957,309	693,798	844,315	5,138	7,000	-	1,273,920	-	561,753
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		252,995	-	-	-	-	-	-	-	-	-	252,995
		10,832,686	3,260,760	3,794,523	695,831	847,995	11,298	11,960	2,863	1,273,920	-	933,536
On-balance sheet gap		(2,208,107)	(2,527,454)	(3,293,171)	(307,837)	(139,967)	354,276	5,185,445	16,876	(1,260,548)	4,138	(239,865)
Off-balance sheet financial instruments												
Commitments to extend credit		290,484	290,484	-	-	-	-	-	-	-	-	-
Commitments against repo borrowing		4,669,798	1,854,639	2,815,159	-	-	-	-	-	-	-	-
Off-balance sheet gap		4,960,282	2,145,123	2,815,159	-	-	-	-	-	-	-	-
Total Yield/interest risk sensitivity gap												
Cumulative yield/interest risk sensitivity gap												
Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities												
(Rupees in '000)												
Total financial assets		8,624,579	Total financial liabilities									
Add non-financial assets:			Add non-financial liabilities:									
Fixed assets		55,376	Other liabilities									
Intangible assets		2,401										
Deferred Tax Assets		525,695										
Other assets		430,445										
Balance as per balance sheet		9,638,496	Balance as per balance sheet									
The yield risk is the risk of decline in earnings due to adverse movement of the yield curve.												
11,332,358												

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

## Interest rate risk

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. Out of total financial assets of Rs. 8,624.58 million (2017: Rs. 10,029.91 million), the financial assets which were subject to interest rate risk amounted to Rs. 7,930.91 million (2017: Rs. 9,299.15 million). Investments and other assets amounting to Rs. 5,694.99 million (2017: Rs. 6,290.34 million) respectively are guaranteed by the Government of Pakistan. An Assets Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.



# Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

## 41.3 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. In order to avoid liquidity risk, the Bank has a policy to maintain sufficient liquidity. To closely watch liquidity position, the Assets Liability Committee meets periodically to ensure that adequate liquidity is maintained to meet any future financial obligation.

### 41.3.1 Maturities of assets and liabilities - based on contractual maturity of the assets and liabilities of the Bank

2019													
Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 to 9 months	Over 9 months to 1 years	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
(Rupees in '000)													
Assets													
Cash and balances with treasury banks	650,565	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	4,537	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	1,942	46,654	427	866,904	119	541,392	3,809	707	707	4,188,555	-	-	88,759
Advances	1,907,995	356,547	303	19,664	38,154	50,714	327,578	145,543	169,442	167,821	216,212	212,920	194,511
Fixed assets	532,112	-	-	5,861	5,859	5,834	17,481	17,383	16,684	57,053	47,280	80,398	278,279
Intangible assets	1,331	-	-	107	106	107	320	225	224	228	14	-	-
Deferred tax assets - net	752,294	-	-	-	-	-	-	-	-	752,294	-	-	-
Other assets	563,192	56	85,081	7	16,378	2,658	287,586	386	159,000	38	-	12	8,621
10,152,001	1,013,647	140,321	737	908,914	47,607	600,705	636,774	164,244	346,057	5,165,989	263,506	293,330	570,170
Liabilities													
Bills payable	51,543	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	3,654,771	1,327,203	682,490	1,571,057	1,996	2,597	5,459	4,751	7,136	14,212	11,976	13,409	12,485
Deposits and other accounts	7,500,708	4,181,656	49,770	118,843	656,492	164,905	1,469,549	273,888	529,738	25,266	25,725	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,457,424	65,756	161,266	9,620	27,110	2,371	102,732	11,986	13,921	13,159	9,935	25,472	991,381
12,664,446	4,298,955	1,538,239	696,986	1,717,010	681,203	169,873	1,577,740	290,625	550,795	52,637	47,636	38,881	1,003,866
(2,512,445)	(3,285,308)	(1,397,918)	(696,249)	(808,096)	(633,596)	430,832	(940,966)	(126,381)	(204,738)	5,113,352	215,870	254,449	(433,696)
Share capital													
2,392,507													
Reserves													
206,526													
Deficit on													
(300,316)													
revaluation of assets													
(4,811,162)													
Unappropriated profit													
(2,512,445)													

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

2018

Maturities of assets and liabilities - based on contractual maturity of the assets and liabilities of the Bank

	Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 to 9 months	Over 9 months to 1 years	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
(Rupees in '000)														
<b>Assets</b>														
Cash and balances with treasury banks	443,839	443,839	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	16,238	16,238	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	5,765,155	2,098	646,504	433	959	393,686	121	3,870	718	193,031	343,936	4,090,912	-	88,887
Advances	2,230,763	319,266	10,616	4,124	17,077	41,307	69,373	450,184	181,062	252,260	199,640	255,586	301,839	128,429
Fixed assets	55,376	-	-	-	1,803	1,802	1,799	5,215	5,131	5,071	18,919	7,618	5,470	2,548
Intangible assets	2,401	-	-	-	104	105	105	314	305	301	1,014	153	-	-
Deferred tax assets - net	525,695	-	-	-	-	-	-	-	-	-	525,695	-	-	-
Other assets	599,029	4,799	17,948	19,355	61,176	9,963	16,213	295,898	7,145	157,576	-	-	10	8,946
	9,638,496	786,240	675,068	23,912	81,119	446,863	87,611	755,481	194,361	608,239	1,089,204	4,354,269	307,319	228,810
<b>Liabilities</b>														
Bills payable	118,788	118,788	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	4,739,895	901	1,202,987	-	400,339	3,114,155	577	2,033	1,840	1,839	6,158	4,958	4,108	-
Deposits and other accounts	5,721,008	2,990,899	237,970	97,876	101,252	508,494	233,026	693,798	93,590	751,965	5,138	7,000	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	752,667	30,162	180,302	927	8,658	20,566	627	851	2,382	661	481	1	946	506,103
	11,332,358	3,140,750	1,621,259	98,803	510,249	3,643,215	234,230	696,682	97,812	754,465	11,777	11,959	5,054	506,103
Net assets	(1,693,862)	(2,354,510)	(946,191)	(74,891)	(429,130)	(3,196,352)	(146,619)	58,799	96,549	(146,226)	1,077,427	4,342,310	302,265	(277,293)
Share capital	2,392,507													
Reserves	206,526													
Deficit on revaluation of assets	(435,805)													
Unappropriated profit	(3,857,090)													
	(1,693,862)													

# Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

## 41.3.2 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Bank

2019										
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	650,565	572,116	16,291	1,145	3,039	-	-	-	57,974	-
Balances with other banks	4,537	3,381	-	373	156	175	-	34	418	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	5,739,975	915,927	541,511	3,809	1,414	4,188,555	-	-	88,759	-
Advances	1,907,995	67,269	146,275	403,036	413,150	240,298	489,792	121,409	23,084	3,682
Fixed assets	532,112	5,861	11,693	17,481	34,067	57,053	47,280	80,398	163,598	114,681
Intangible assets	1,331	107	213	320	449	228	14	-	-	-
Deferred tax assets - net	752,294	-	-	-	-	752,294	-	-	-	-
Other assets	563,192	140,054	1,623	209,467	159,100	2	9	530	52,407	-
	10,152,001	1,704,715	717,606	635,631	611,375	5,238,605	537,095	202,371	386,240	118,363
Liabilities										
Bills payable	51,543	44,647	-	-	-	-	-	-	6,896	-
Borrowings from financial institutions	3,654,771	3,107,648	476,748	4,456	7,830	14,504	12,207	18,729	12,649	-
Deposits and other accounts	7,500,708	1,876,726	1,151,879	1,469,549	803,425	25,267	25,725	-	2,148,137	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,457,424	390,834	4,163	2,433	8,064	11,717	7,954	27,992	683,878	320,389
	12,664,446	5,419,855	1,632,790	1,476,438	819,319	51,488	45,886	46,721	2,851,560	320,389
Net assets	(2,512,445)	(3,715,140)	(915,184)	(840,807)	(207,944)	5,187,117	491,209	155,650	(2,465,320)	(202,026)
Share capital	2,392,507									
Reserves	206,526									
Unappropriated profit	(4,811,162)									
Surplus / (Deficit) on revaluation of assets	(300,316)									
	(2,512,445)									

In compliance with the BSD circular letter No. 03 of 2011 dated February 22, 2011, all assets and liabilities with contractual maturities have been reported as per their remaining maturities, and where contractual maturities are not available, such assets and liabilities have been reported as per their expected maturities, determined on the basis of behavior study of previous six years' historic data under volatility methodology. These bases have also been approved by the Asset and Liability Committee (ALCO) of the Bank.

## 41.4

### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

Operational risks are managed through Bank-wide or line of business specific policies and procedures, controls and monitoring tools. Examples of these include personnel management practices, data reconciliation processes, fraud management units, transaction processing monitoring and analysis and business continuity planning.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### Maturities of Assets and Liabilities - based on expected maturities of the assets and liabilities of the Bank 2018

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
<b>Assets</b>										
Cash and balances with treasury banks	443,839	391,586	11,375	1,108	2,941	-	-	-	36,829	-
Balances with other banks	16,238	10,123	1,964	1,346	559	626	-	119	1,501	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	5,765,155	649,994	393,807	3,870	193,749	343,936	4,090,912	-	88,887	-
Advances	2,230,763	76,045	172,106	535,221	542,878	275,233	470,699	126,034	28,409	4,138
Fixed assets	55,376	1,802	3,600	5,215	10,202	18,918	7,621	5,470	2,098	450
Intangible assets	2,401	105	209	313	607	1,014	153	-	-	-
Deferred tax assets	525,695	-	-	-	-	525,695	-	-	-	-
Other assets	599,029	156,545	7,486	223,056	156,164	149	335	255	55,039	-
	9,638,496	1,286,200	590,547	770,129	907,100	1,165,571	4,569,720	131,878	212,763	4,588
<b>Liabilities</b>										
Bills payable	118,788	102,895	-	-	-	-	-	-	15,893	-
Borrowings from financial institutions	4,739,895	1,882,985	2,837,214	2,033	3,680	6,160	4,960	2,863	-	-
Deposits and other accounts	5,721,008	1,683,269	961,932	693,798	845,555	5,138	7,000	-	1,524,316	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	752,667	236,914	2,146	852	2,199	481	1	950	509,124	-
	11,332,358	3,906,063	3,801,292	696,683	851,434	11,779	11,961	3,813	2,049,333	-
<b>Net assets</b>	<b>(1,693,862)</b>	<b>(2,619,863)</b>	<b>(3,210,745)</b>	<b>73,446</b>	<b>55,666</b>	<b>1,133,792</b>	<b>4,557,759</b>	<b>128,065</b>	<b>(1,836,570)</b>	<b>4,588</b>
Share capital	2,392,507									
Reserves	206,526									
Unappropriated profit	(3,857,090)									
Surplus on revaluation of assets	(435,805)									
	<b>(1,693,862)</b>									

In compliance with the BSD circular letter no. 03 of 2011 dated February 22, 2011, all assets and liabilities with contractual maturities have been reported as per their remaining maturities, and where contractual maturities are not available, such assets and liabilities have been reported as per their expected maturities, determined on the basis of behavior study of previous six years' historic data under volatility methodology. These bases have also been approved by the Asset and Liability Committee (ALCO) of the Bank.

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### 42 EVENTS AFTER REPORTING DATE

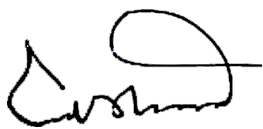
The coronavirus pandemic and the measures to reduce its spread have significantly impacted Pakistan's economy. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. The SBP has responded to the crisis by taking various measures to maintain banking system soundness and to sustain economic activity.

The risk management function of the Bank is regularly conducting assessments to identify borrowers operating in various economic sectors which are most likely to get adversely affected. The Bank has further strengthened its credit review procedures in the light of COVID-19. Overall, the COVID-19 situation remains fluid and is rapidly evolving, which makes it challenging to reliably reflect related impacts. Nonetheless, the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, and will in turn adversely affect the repayment behaviors of the Bank borrowers' in short to medium term. The situation will continue to be closely monitored and due measures will be initiated to mitigate the risk of potential defaults. The Bank has received applications for deferral of principal amounts of loan obligations and is expected to receive further such applications. These applications are being reviewed by the Bank as per its established policies. The above will have an impact on the maturity profile. The Bank is continuously monitoring the liquidity position and is taking due precautionary measures where needed. The Bank is confident that the liquidity buffer currently maintained by the Bank is sufficient to cater any adverse movement in cash flow maturity profile. Under the current scenario, the banks are under pressure to extend further credit to its borrowers, while overall deteriorating credit risk and increased NPL.

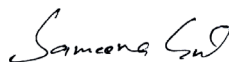
The Bank has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact.

### 43 DATE OF AUTHORIZATION

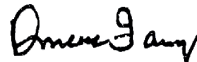
These financial statements were authorized for issue by the Board of Directors of the Bank on July 25, 2020.



**Dilshad Ali Ahmad**  
President/CEO



**Sameena Gul**  
Chief Financial Officer



**Omer Farooq**  
Director



**Rauf Ahmad**  
Director



**Niaz Muhammad Khan**  
Director

## Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2019

### Annex-I referred to note 11.7 to these financial statements

In terms of sub section 3 of section 33-A of the Banking Companies Ordinance 1962 the statement in respect of written off loans or any other financial relief of Rs. 500,000 or above allowed to:

Sr. no.	Name and address of borrower	Name of individual/ partner/directors (with NIC no.)	Father's/husband's name	Outstanding liabilities at beginning of year				Principal written- off	Interest/ mark-up written-off	Other financial relief/ waiver provided	Total
				Principal	Interest/ mark-up	Others	Total				
(Rupees in '000)											
1	Liaque Ali (late) Sole Proprietorship House # 36 S Model Town Extension Block S Lahore.	Liaquat Ali (35202-6275805-3)	Muhammad Yaqoob	-	824	294	1,118	-	784	237	1,021
2	M/s M-D Pipe Industries Street No-32, Fazal Pura, Chah Meeran Lahore.	Asif Rashid Bhatti (35401-9295782-1) Muhammad Afzal (35202-2031896-3)	Rashid Ahmad Bhatti  Muhammad Boota	1,000	245	148	1,393	-	388	158	546
Total				1,000	1,069	442	2,511	-	1,172	395	1,567

SMEBL: HO: CFO&CS: 2020/ /

## NOTICE OF 17<sup>th</sup> ANNUAL GENERAL MEETING

To

**All Members of the Bank**

**M/s Grant Thornton Anjum Rahman**

Notice is hereby given that 17<sup>th</sup> Annual General Meeting of SME Bank Limited will be held on **Thursday, August 20, 2020 at 3:00 pm** at Registered Office, SME Bank Ltd., 56-F, Nazimuddin Road, Blue Area, F-6/1, Islamabad to transact the following:

### Ordinary Business:

1. To confirm the minutes of 16<sup>th</sup> Annual General Meeting of shareholders of the Company held on March 29, 2018.
2. To receive, consider and adopt the Audited Financial Statements of the Bank and Consolidated Statements for the year ended 31<sup>st</sup> December 2018 , together with notes thereto, along with Directors' and Auditors' Reports to the shareholders, Statement of Compliance with Public Sector Companies (Corporate Governance) Rules and Review Report thereon by the Auditors.
3. Review of Contents of Annual Report 2018.
4. To appoint Auditors and to fix their remuneration for the year ending December 31, 2020 and required post facto approval to appoint and to fix their remuneration for the year ended December 31, 2019.
5. To receive, consider and adopt the Audited Financial Statements of the Bank and Consolidated Statements for the year ended 31<sup>st</sup> December 2019, together with notes thereto, along with Directors' and Auditors' Reports to the shareholders, Statement of Compliance with Public Sector Companies (Corporate Governance) Rules and Review Report thereon by the Auditors.
6. Review of Contents of Annual Report 2019.
7. To transact any other business with the permission of the Chair.

Islamabad

Dated: July 29, 2020

By Order of the Board

Sameena Gul

**A.CFO & Company Secretary**  
(Cell # 0300-5070570)

### Notes:

1. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him/her at the meeting. A proxy must be a member of the company. However, an association (whether body corporate or not) being a member of the Company may appoint as its proxy one of its officers though not a member of the Company. (Form of Proxy is attached)
2. An instrument of the proxy and the Power of Attorney or other Authority (if any) under which it is signed or a notarially certified copy of such Power of Attorney or Authority in order to be valid must be duly signed and deposited at registered office of the Company not less than 48 hours before the time of holding the meeting.

SME BANK LIMITED  
**CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2019



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## INDEPENDENT AUDITOR'S REPORT

### To the members of SME Bank Limited

#### Qualified Opinion

We have audited the annexed consolidated financial statements of SME Bank Limited (the Bank) and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year ended in accordance with the accounting and reporting standards as applicable in Pakistan.

#### Basis for Qualified Opinion

- a) Deferred tax asset of Rs. 752.294 million has been recognized on the basis of expected profits arising from future privatization of the Bank as described in Note 14 to the consolidated financial information which we have not been able to verify. Advance income tax includes refunds aggregating to Rs. 232.599 million for tax years 2003 and 2004. These refunds were recorded on the basis of an order of the Appellate Tribunal Inland Revenue dated February 10, 2011 whereby provision for doubtful debts was allowed to be taken as a deductible expense. The issue of allowing provision for doubtful debts as an expense, in the case of another bank, was successfully challenged by tax department in the Islamabad High Court. The high court rules in favor of the tax department through its order dated March 13, 2018 which has also been upheld by the Supreme Court of Pakistan through its order dated June 05, 2018 due to which the bank has no legal basis to continue to recognize the receivable as an asset; and.
- b) As explained in Note 11.3, the loan portfolios of Small Business Finance Corporation (SBFC) and Regional Development Finance Corporation (RDFC) was transferred to National Bank of Pakistan due to envisaged privatization of the Bank, however, the portfolio continues to appear as an asset in the books of the Bank.

#### Material uncertainties relating to Going Concern

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of the Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

- i. We draw attention to note 7.2.1 to the consolidated financial statements which describes that during the current year the Bank incurred a net loss of Rs. 1,072.309 million (2018: Rs. 825.938

million) resulting into accumulated losses of Rs. 4,811.162 million (2018: Rs. 3,857.090 million). As of December 31, 2019, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 2,512.445 million (2018: Rs. 1,693.862) indicating the negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative working capital of Rs. 7.859 billion (2018: Rs. 7.267 billion) which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10% and has failed on multiple times in maintaining the minimum statutory liquidity requirement (SLR) in first half of current year. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. As stated in note 7.2.1, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.

- ii. Note 7.2.2 to the consolidated financial statements, which indicates that SME Leasing Limited has incurred loss of Rs. 35.694 million (2018: Rs. 21.361 million) for the year ended December 31, 2019, resulting in accumulated loss of Rs. 291.358 million (2018: Rs. 256.784 million) as at balance sheet date and as of that date the Company's current liabilities exceed its current assets by Rs. 54.805 million (2018: Rs. 44.649 million). These conditions, along with other matters as set forth in the above referred note; indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of above matters.

### **Emphasis of matter**

We draw attention to note 1.1.3 to the consolidated financial statements which fully explain the status of application filed with the Securities and Exchange Commission of Pakistan for renewal of license to operate as leasing company.

We draw attention to note 15.3 to the consolidated financial statements, which describes in detail the status of possession of property at Lahore.

Our opinion is not modified in respect of above matters.

### **Information Other than the Consolidated Financial Statements and Auditor's Report Thereon**

Management is responsible for other information. The other information comprises the information included in the Group's Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise

appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting and reporting standards as applicable in Pakistan and the Companies Act, 2017 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of



accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Engagement partner on the audit resulting in this independent auditor's report is Hassan Riaz

*Grant Thornton Anjum Rahman*

**GRANT THORNTON ANJUM RAHMAN**

Chartered Accountants

Islamabad

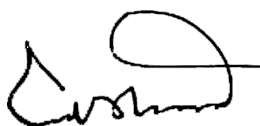
July 25, 2020

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

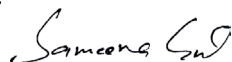
As at December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks	8	650,638	443,927
Balances with other banks	9	5,252	20,718
Lendings to financial institutions		-	-
Investments	10	5,659,227	5,684,407
Advances	11	2,224,724	2,581,619
Fixed assets	12	548,676	60,375
Intangible assets	13	1,331	2,479
Deferred tax assets - net	14	752,294	525,695
Other assets	15	558,296	594,901
		10,400,438	9,914,121
<b>LIABILITIES</b>			
Bills payable	16	51,543	118,788
Borrowings	17	3,655,144	4,740,268
Deposits and other accounts	18	7,500,708	5,719,446
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	20	1,709,128	998,547
		12,916,523	11,577,049
<b>NET LIABILITIES</b>		<b>(2,516,085)</b>	<b>(1,662,928)</b>
<b>REPRESENTED BY</b>			
Share capital	21	2,392,507	2,392,507
Reserves		234,660	234,660
Deficit on revaluation of assets - net of tax	22	(300,316)	(435,805)
Unappropriated loss		(4,869,557)	(3,890,197)
		(2,542,706)	(1,698,835)
Non-controlling interest		26,621	35,907
		(2,516,085)	(1,662,928)
<b>CONTINGENCIES AND COMMITMENTS</b>	24		

The annexed notes from 1 to 46 and annexure-I form an integral part of these consolidated financial statements.



**Dilshad Ali Ahmad**  
President/CEO



**Sameena Gul**  
Chief Financial Officer



**Omer Farooq**  
Director



**Rauf Ahmad**  
Director



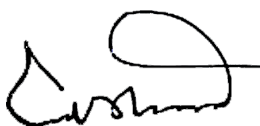
**Niaz Muhammad Khan**  
Director

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

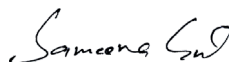
For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
Mark-up/return/interest earned	25	782,461	758,406
Mark-up/return/interest expensed	26	1,149,641	723,764
Net mark-up/interest (loss)/income		(367,180)	34,642
<b>NON MARK-UP/INTEREST INCOME</b>			
Fee and commission income	27	9,933	9,441
Dividend income		2,247	456
Foreign exchange income		-	-
Income/(loss) from derivatives		-	-
Gain on securities	28	7	1,001
Other income	29	1,000	1,389
Total non-markup/interest income		13,187	12,287
Total (loss)/income		(353,993)	46,929
<b>NON MARK-UP/INTEREST EXPENSES</b>			
Operating expenses	30	921,426	882,769
Workers Welfare Fund		-	-
Other charges	31	71,463	2,254
Total non-markup/interest expenses		992,889	885,023
Loss before provisions		(1,346,882)	(838,094)
Provisions and write offs - net	32	(24,089)	11,447
<b>LOSS BEFORE TAXATION</b>		(1,322,793)	(849,541)
Taxation	33	(214,790)	(49,988)
<b>LOSS AFTER TAXATION</b>		(1,108,003)	(799,553)
Attributable to:			
Equity holders of the Bank		(1,098,416)	(793,816)
Non-controlling interest		(9,587)	(5,737)
Loss available for appropriation		(1,108,003)	(799,553)
<b>Basic/diluted (loss) per share (rupees)</b>	34	(4.63)	(3.34)

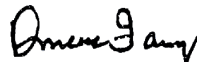
The annexed notes from 1 to 46 and annexure-I form an integral part of these consolidated financial statements.



**Dilshad Ali Ahmad**  
President/CEO



**Sameena Gul**  
Chief Financial Officer



**Omer Farooq**  
Director



**Rauf Ahmad**  
Director



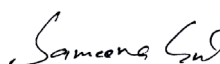
**Niaz Muhammad Khan**  
Director

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

	2019	2018
	(Rupees in '000)	
Net loss after taxation	(1,108,003)	(799,553)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequently periods:		
Movement in deficit on revaluation of investment - net	135,489	(407,825)
Items that will not be reclassified to profit and loss account in subsequently periods:		
Remeasurement gain/(loss) on defined benefit obligations - net	119,357	(25,961)
<b>Total comprehensive loss</b>	<b>(853,157)</b>	<b>(1,233,339)</b>
Attributable to :		
Equity holders of the Bank	(843,871)	(1,227,546)
Non-controlling interest	(9,286)	(5,793)
	<b>(853,157)</b>	<b>(1,233,339)</b>

The annexed notes from 1 to 46 and annexure-I form an integral part of these consolidated financial statements.

				
Dilshad Ali Ahmad President/CEO	Sameena Gul Chief Financial Officer	Omer Farooq Director	Rauf Ahmad Director	Niaz Muhammad Khan Director

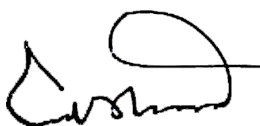


## CONSOLIDATED CASH FLOW STATEMENT

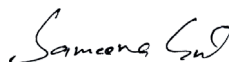
For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(1,322,793)	(849,541)
Less: Dividend income		(2,247)	(456)
		<u>(1,325,040)</u>	<u>(849,997)</u>
<b>Adjustments:</b>			
Depreciation		74,127	21,868
Amortization		1,374	1,419
Interest on leased liability		69,374	-
Provision and write-offs		(24,089)	11,447
Loss/(gain) on sale of fixed assets	32	29	(398)
Finance charges on leased assets		-	-
		<u>120,815</u>	<u>34,336</u>
		<u>(1,204,225)</u>	<u>(815,661)</u>
<b>(Increase)/decrease in operating assets</b>			
Lending's to financial institutions		-	-
Held-for-trading securities		-	-
Advances		360,998	263,266
Other assets (excluding advance taxation)		21,280	(4,316)
		<u>382,278</u>	<u>258,950</u>
<b>Increase/(decrease) in operating liabilities</b>			
Bills payable		(67,245)	26,234
Borrowings from financial institutions		(1,085,124)	(568,420)
Deposits		1,781,262	375,847
Other liabilities (excluding current taxation)		278,187	63,193
		<u>907,080</u>	<u>(103,146)</u>
		<u>85,133</u>	<u>(659,857)</u>
Income tax paid		(2,978)	(2,336)
<b>Net cash flow (used in)/from operating activities</b>		<u>82,155</u>	<u>(662,193)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net disinvestment in available-for-sale securities		180,455	192,415
Net disinvestment in held-to-maturity securities		-	500,000
Dividend received		2,247	456
Investment in operating fixed assets		(1,003)	(15,448)
Proceeds from sale of fixed assets		771	456
<b>Net cash flow from/(used in) investing activities</b>		<u>182,470</u>	<u>677,879</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payment of lease liabilities		(73,380)	-
<b>Net cash flow from/(used in) financing activities</b>		<u>(73,380)</u>	<u>-</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		<u>191,245</u>	<u>15,686</u>
Cash and cash equivalents at beginning of the period		464,645	448,959
<b>Cash and cash equivalents at end of the period</b>	35	<u>655,890</u>	<u>464,645</u>

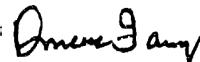
The annexed notes from 1 to 46 and annexure-I form an integral part of these consolidated financial statements.



**Dilshad Ali Ahmad**  
President/CEO



**Sameena Gul**  
Chief Financial Officer



**Omer Farooq**  
Director



**Rauf Ahmad**  
Director




**Niaz Muhammad Khan**  
Director

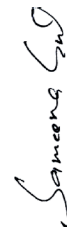
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY


For the year ended December 31, 2019

	Attributable to shareholders of the Group					Non-controlling interest	Total
	Share capital	Statutory reserve	Reserve against future losses	Surplus/(deficit) on revaluation of investments	Unappropriated loss		
							(Rupees in '000)
Balance as at January 01, 2018	2,392,507	227,019	7,641	(27,980)	(3,070,476)	41,700	(429,589)
Total comprehensive income for the year ended December 31, 2018							
Net loss for the year ended December 31, 2018	-	-	-	-	(793,816)	(5,737)	(799,553)
Other comprehensive income - net	-	-	-	(407,825)	(25,905)	(56)	(433,786)
Balance as at December 31, 2018	2,392,507	227,019	7,641	(435,805)	(3,890,197)	35,907	(1,662,928)
Total comprehensive income for the year ended December 31, 2019							
Net loss for the year ended December 31, 2019	-	-	-	-	(1,098,416)	(9,587)	(1,108,003)
Other comprehensive income - net	-	-	-	135,489	119,056	301	254,846
Balance as at December 31, 2019	2,392,507	227,019	7,641	(300,316)	(4,869,557)	26,621	(2,516,085)


The annexed notes from 1 to 46 and annexure-I form an integral part of these consolidated financial statements.

  
**Dilshad Ali Ahmad**  
 President/CEO

  
**Sameena Gul**  
 Chief Financial Officer

  
**Omer Farooq**  
 Director

  
**Rauf Ahmad**  
 Director

  
**Niaz Muhammad Khan**  
 Director

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 1. GENERAL INFORMATION

#### 1.1 The Group

1.1.1 The Group comprises of SME Bank Limited (the Bank) and SME Leasing Limited (SMEL).

#### 1.1.2 SME Bank Limited

SME Bank Limited (the Bank) is a public limited company incorporated in Pakistan on October 30, 2001 under the repealed Companies Ordinance, 1984 having its registered office at 56-F, Nazim-ud-Din Road, F-6/1, Blue Area Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is a scheduled commercial bank engaged in the business of banking with the primary objective to support and develop Small and Medium Enterprise (SME) sector in Pakistan by providing necessary financial assistance and business support services on sustainable basis. The Bank is operating through a network of 13 commercial banking branches. Based on the latest credit rating report dated November 22, 2018 issued by Pakistan Credit Rating Agency Limited (PACRA), credit rating of the Bank was “CCC” in the long term and “B” (Single B) in the short term. Subsequent to above, credit rating of Bank could not be updated as the approved accounts of the Bank were not available due to inexistence of its board of directors throughout the year 2019.

In terms of Bank's License No. BL-05 dated September 13, 2004 issued under section 27 of the Banking Companies Ordinance 1962, the Bank is required to hold minimum paid-up-capital (net of losses) of Rs. 1.0 billion at the time of issuance of the license, and at all times thereafter during which the above capital is required to be raised to Rs. 1.5 billion by December 31, 2004 and to Rs. 2.0 billion by December 31, 2005 or any other amount prescribed by the State Bank of Pakistan (SBP) from time to time. SBP granted exemption vide its letter No. BPRD/BA&CPD/646/332/2020 dated January 06, 2020 from meeting the minimum capital requirement (MCR) till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier. The said relaxation from SBP was subject to submission of a concrete plan from the Ministry of Finance (MoF) of providing firm commitment to inject the required amount of capital in the Bank if its privatization is not materialize by March 31, 2020. Subsequent to above the MoF through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is at advanced stage which is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of MCR till June 30, 2020. In view of the current stage of privatization of the Bank the MoF and the management of the Bank are hopeful of further extension of relaxation of MCR requirement by SBP.

#### Amalgamation of defunct RDFC and SBFC

The Federal Government promulgated the Regional Development Finance Corporation (RDFC) and Small Business Finance Corporation (SBFC) Amalgamation and Conversion Ordinance, 2001 (the Ordinance 2001) setting forth the mechanism of amalgamation of defunct RDFC and SBFC. Both these entities were Development Financial Institutions (DFIs). In pursuance of the Ordinance 2001, Finance Division, Ministry of Finance issued an Order (SRO (1) 2001) dated December 29, 2001 setting forth the scheme of amalgamation of RDFC and SBFC with the Bank effective January 1, 2002. Pursuant to this scheme entire assets and liabilities of defunct RDFC and SBFC as at December 31, 2001 were transferred to the Bank at fair value. These two institutions stand dissolved and ceased to exist effective

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

January 1, 2002. The Bank allotted its shares to the share holders of defunct RDFC and SBFC in proportion to their shareholding therein based on the fair value of net assets of defunct RDFC and SBFC on December 31, 2001.

### 1.1.3 SME Leasing Limited

SME Leasing Limited (SMEL) was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The Bank (the Holding Company) holds 73.14% (December 31, 2018: 73.14%) shares of SMEL. SMEL is listed on Pakistan Stock Exchange (formerly Lahore Stock Exchange) and its registered office is situated at 56-F, Nazim-ul-Din Road F-6/1, Blue Area, Islamabad. The core objective of the SMEL is to extend lease and working capital financing facilities to small and medium enterprises of the country. SMEL obtained license of non deposit taking NBFC and as per section 4 (Schedule I) of NBFC Regulations 2008, a non deposit taking NBFC shall have minimum equity of Rs. 50 Million. The PACRA Credit Rating Agency has assigned a long term rating of B+ which was further down grade to B in subsequent year and a short term rating of B. The license of SMEL to operate as a leasing company expired on May 20, 2019. Thereafter, SMEL applied via application reference # SMEL/MO/2019 dated April 16, 2019 for its renewal in the manner so required by the NBFC rules, 2003. However, renewal of the license was in progress.

## 2. BASIS OF CONSOLIDATION

These consolidated financial statements include the financial statements of the Bank and SMEL (collectively referred to as “the Group”).

The assets and liabilities of the SMEL have been consolidated on a line by line basis and the carrying value of investment held by the Bank is eliminated against the SMEL's equity held by the Bank in the consolidated financial statements.

Non-controlling interest is that part of the net results of operations and of net assets of SMEL attributable to the interest which are not owned by the Bank. Non controlling interest is presented as separate item in these consolidated financial statements.

Material intra-group balances and transactions have been eliminated.

## 3. BASIS OF PRESENTATION

3.1 “The SBP vide BPRD Circular No. 02 of 2018 dated January 25, 2018 has amended the format of annual financial statements of banks. All banks are directed to prepare their annual financial statements on the revised format effective from the accounting year ending December 31, 2018. Accordingly, the Bank has prepared these financial statements on the new format prescribed by the State Bank of Pakistan. The adoption of new format contains reclassification of comparative information and additional disclosures, however, the same has not materially impacted the balance sheet of the Bank pertaining to prior years.”

3.2 Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates. The consolidated financial statements are presented in Pakistani Rupee, which is the Bank's functional currency. Figures have been rounded off to the nearest thousand of rupees, unless otherwise stated.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 4. STATEMENT OF COMPLIANCE

- 4.1** These consolidated financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. Accounting and reporting standards as applicable in Pakistan comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017, provisions of and the directives issued under the Banking Companies Ordinance, 1962, the Companies Act, 2017 and directives issued by SBP and the Securities and Exchange Commission of Pakistan (SECP). Whenever the requirements of the Banking Companies Ordinance, 1962, Companies Act, 2017 or the directives issued by SBP and SECP differ with the requirements of IFRS, requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives shall prevail.

The 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 for banking companies till further instructions. Further, according to a notification of SECP dated April 28, 2008, IFRS 7 "Financial Instruments: Disclosure" has not been made applicable for banks. 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 its various circulars.

IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BPRD Circular No. 02 dated January 25, 2018, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2018. Management believes that as the SBP has defined the segment categorization in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

IFRS 10 - 'Consolidated Financial Statements'

It replaces the current guidance on consolidation in IAS 27 - Consolidated and Separate Financial Statements. It introduces a single model of assessing control whereby an investor controls an investee when the investor has the power to control, exposure to variable returns and the ability to use its power to influence the returns of the investee.

SECP vide its notification SRO 633 (I)/2014 dated 10 July 2014, adopted IFRS 10 effective from the periods starting from 30 June 2014. However, vide its notification SRO 56 (I)/2016 dated 28 January 2016, provides the requirements of IFRS 10 will not be applicable with respect to investment in mutual funds established under Trust structure.

In light of the above, the application of IFRS 10 did not result in any additional investee being in control of the Bank.

- 4.2 Standards, interpretations of and amendments to published accounting and reporting standards that are not yet effective in the current year**

The following standards, amendments and interpretations of accounting and reporting standards are effective for accounting periods as given below:

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

		Effective date (accounting periods beginning on or after)
IAS 1	Presentation of Financial Statements	January 01, 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	January 01, 2020
IFRS 3	Business Combinations	January 01, 2020
IFRS 9	Financial Instruments	January 01, 2021
IFRS 7	Financial Instruments: Disclosures	January 01, 2020
IAS 39	Financial Instruments: Recognition and Measurement	January 01, 2020
IFRS 17	Insurance Contracts	January 01, 2022

The management does not anticipate early adoption of above standards and amendments and is currently evaluating the impact of adopting these standards.

### 4.3 Standards, interpretations and amendments to published accounting and reporting standards that are effective in the current year

The Group has adopted the following accounting standards and amendments of IFRSs and the improvements to accounting standards which became effective for the current year:

#### 4.3.1 May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which replaces all existing revenue requirements and related interpretations and is effective for annual periods beginning on or after July 01, 2018. IFRS 15 redefined the principles for recognising revenue and is applicable to all contracts with customers other than contracts in the scope of other standards (such as interest and fee income integral to financial instruments which would be in the scope of IFRS 9 and Lease Income). Certain requirements in IFRS 15 are also relevant for the recognition and measurement of gains or losses on disposal of non-financial assets that are not in the ordinary course of business.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group's revenue streams that are within the scope of IFRS 15 relate to certain fee and commission income. The accounting policy for recognition of such income is disclosed in note 6.11 to these financial statements. The application of this standard did not have any material impact on these financial statements, except for change in description of accounting policy.



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

**4.3.2** IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on statement of financial position.

The Group has lease contracts for various properties. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased asset was not capitalized and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other asset and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied the recognition and measurement approach of IFRS 16 for all leases, except for short-term leases and leases of low-value assets. The standard also provides practical expedients, which have been applied by the Bank.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 01, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at January 01, 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Accordingly, the Group recognised right-of-use assets and lease liabilities for those leases where the Group is the lessee and which were previously accounted for as operating leases. The right-of-use assets and lease liabilities were recognised on the present value of future cash flows, discounted using the incremental borrowing rate at the date of initial application.

### The Bank

#### Impact on statements of financial position

	As at December 31, 2019	As at January 01, 2019
	(Rupees in '000)	
Increase in fixed assets - right-of-use assets	497,593	547,718
Decrease in other assets - advance rent	(7,303)	(6,758)
Increase in total assets	490,290	540,960
Increase in deferred taxation	8,481	
Increase in other liabilities - lease liability against right of use assets	(538,756)	(540,960)
Decrease in net assets	(39,985)	-

#### Impact on profit and loss account

	2019 (Rupees in '000)
Increase in mark-up expense - lease liability against right-of-use assets	(67,337)
(Increase) / decrease in administrative expenses:	
- Depreciation on right-of-use assets	(50,125)
- Rent expense	68,996
	18,871
Increase in deferred taxation	8,481
Decrease in profit	(39,985)
Reduction in earning per share	(0.17)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### The SMEL

The recognised right-of-use assets relate to the following types of assets:

	Adjustment on transition to IFRS 16	January 1, 2019
	(Rupees in '000)	
Right-of-use assets	12,950	12,950
<b>Total right of use assets</b>	<b>12,950</b>	<b>12,950</b>
<b>Liabilities against assets subject to finance lease</b>	<b>12,950</b>	<b>12,950</b>

Motor vehicles amounting to Rs. 1.782 million were also recognised as right-of-use assets during the year. This recognition was not made on January 1, 2019 as the Company entered into this lease transaction later in the year.

The effect of adoption of IFRS 16 as at January 01, 2019 is as follows:

	January 1, 2019
	(Rupees in '000)
Increase in right-of-use assets	12,950
Decrease in prepayments	-
Increase in total assets	12,950
Increase in lease liability against assets subject to finance lease	(12,950)
Increase in net assets	-

## 5 BASIS OF MEASUREMENT

5.1 These consolidated financial statements have been prepared under the historical cost convention as modified for certain investments which are carried at fair value, obligations in respect of defined benefit schemes at their present values.

### 5.2 Use of critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with accounting and reporting standards as applicable in Pakistan requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The Bank uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are as follow:

- Classification of investments (note 10.2)
- Provision/impairment against investments (note 10.2), advances (note 10.4) and other assets (note 6.6)
- Valuation and impairment of available for sale securities (note 6.2 and 6.6)
- Useful life and residual value of property and equipment and intangible assets (note 6.5)
- Taxation (note 6.8)
- Staff retirement benefits (note 6.9)



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year.

#### 6.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks, balances with other banks and call money lendings.

#### 6.2 Investments

Investments other than those categorized as held-for-trading are initially recognised at fair value which includes transactions costs associated with the investments. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

All regular way purchases/sales of investment are recognised on the trade date, i.e., the date the Bank commits to purchase/sell the investments. Regular way purchases or sales of investment require delivery of securities within the time frame generally established by regulation or convention in the market place.

The Bank has classified its investment portfolio, except for investments in subsidiary into 'held-for-trading', 'held-to-maturity' and 'available-for-sale' as follows:

##### **Held for trading**

These are securities which are acquired with the intention to trade by taking advantage of short-term market/interest rate movements and are to be sold within 90 days. These are carried at market value, with the related unrealized gain/(loss) on revaluation being taken to profit and loss account.

##### **Held to maturity**

These represent investments acquired by the Bank with the intention and ability to hold them upto maturity. These are carried at amortized cost less impairment if any. Impairment in debt securities is determined in accordance with the requirements of Prudential Regulations issued by SBP.

##### **Available for sale**

These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value except in case of unquoted securities where market value is not available, which are carried at the lower of cost and break-up value less provision for diminution in value, if any. Surplus/(deficit) on revaluation is taken to 'surplus/(deficit) on revaluation of assets' account shown below equity. On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus/(deficit) on revaluation of assets' below equity is included in the profit and loss account for the year.

Provision for diminution in values of securities (other than term finance certificates) is made after considering impairment if any in their values, where the decline in prices of available for sale equity securities is significant or prolonged, it is considered impaired and included in consolidated profit and loss account. Provision for diminution in the value of term finance certificates is made as per Prudential Regulations issued by SBP.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or MUFAP or the Stock Exchanges, as the case may be.

### **Investment in subsidiary**

Investment in subsidiary is carried at cost less impairment, if any. However the investment in subsidiary is not marked to market as per prudential regulations issued by SBP.

### **6.3 Agreements for sale and purchase of securities (repo and reverse repo)**

Securities sold under repurchase agreement (repo) are retained in the consolidated financial statements as investments and a liability for consideration received is included in borrowings. The difference between sale and repurchase price is treated as mark-up expense and recognized over the period of contract.

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up income and recognized over the period of the contract.

### **6.4 Advances**

Advances are stated net off specific and general provisions. Provisions are made in accordance with the requirements of Prudential Regulations issued by the SBP and charged to the profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances by the banks) for classification of non-performing loans and advances and computing provision/allowance there against. Such regulations also require the Bank to maintain general provision/allowance against its Small Entity (SE) advances portfolio at specified percentage of such portfolio.

Advances are written off when there is no realistic prospect of recovery.

### **6.5 Capital work-in progress, operating fixed assets, intangibles, depreciation and amortization**

#### **Capital work-in-progress**

Capital-work-in progress is stated at cost less accumulated impairment losses, if any. These are transferred to operating fixed assets as and when the assets are available for use.

#### **Operating fixed assets-owned**

These are stated at cost less impairment loss and accumulated depreciation except for leasehold land. Land is stated at cost less impairment, if any.

Maintenance and normal repairs are charged to consolidated profit and loss account as and when incurred. Major renewals and improvements are capitalized.

#### **Depreciation**

Depreciation is charged on straight line method at the rates given in note 12.1, commencing from the month in which the asset is available for use. No depreciation is charged in the month of disposal of the asset. The residual value, useful life and depreciation method is reviewed and adjusted, if appropriate, at each balance sheet date.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

Gains or losses on disposal of property and equipment are taken to the consolidated profit and loss account.

### **Assets subject to finance lease**

Assets subject to finance lease are stated at cost less accumulated depreciation at the rates similar to the bank's owned assets and impairment loss (if any). The outstanding obligation under finance lease less financial charges allocated to future periods is shown as liability. Finance charges are calculated at interest rates implicit in the lease and are charged to consolidated profit and loss account in the period in which these are incurred.

### **Intangible assets**

An intangible asset is recognized only if it is identifiable, the Bank has control over the asset, it is probable that economic benefits will flow to the enterprise and the cost of the asset can be measured reliably.

All intangible assets that meet the recognition criteria are initially measured at cost and are amortized on a straight line basis at the rate given in note 13 commencing from the month when these assets are available for use. Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. The residual value, useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

### **6.6 Impairment**

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 amount. The resulting impairment loss is taken to the consolidated profit and loss account. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying value that would have been determined net of depreciation/amortization, if no impairment loss had been recognized.

The available for sale equity investments are impaired when there has been a significant or prolonged decline in the value below its cost. Impairment loss is recognized in consolidated profit & loss account.

### **6.7 Deposits**

Deposits are recorded at the nominal values of proceeds received. Markup accrued on deposits is recognised separately as part of other liabilities and is charged to consolidated profit and loss account on a time proportion basis.

### **6.8 Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated profit and loss account, except to the extent that it relates to items recognised directly in other comprehensive income or below equity, in which case it is recognised in other comprehensive income or below equity.

### **Current**

Provision for current tax is the expected tax payable on the taxable profit for the year using tax rates applicable at the date of consolidated statement of financial position and any adjustment to tax payable for previous years.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary 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 at the rates that are expected to apply to the period when the differences reverse based on the tax rates that have been enacted. 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 asset is reduced to the extent it is no longer probable that the related tax benefits will be realized.

The Bank also recognizes deferred tax asset/liability on deficit/surplus on revaluation of investments which is adjusted against the related deficit/surplus in accordance with the requirements of International Accounting Standard on 'Income Taxes' (IAS 12).

The Bank takes into account the current income tax law and decisions taken by the taxation authorities. Instances where the Bank's views differ from the views taken by the income tax department at the assessment stage and where the Bank considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

### 6.9 Staff retirement and other benefits

The Bank operates following staff retirement and other benefit schemes for its employees:

#### Defined benefit plan- Pension and gratuity scheme

Fully funded defined benefit pension and gratuity scheme for eligible employees. Contributions are made in accordance with the actuarial valuation which is carried out periodically using 'Projected Unit Credit Method'. All actuarial gains and losses are recognized immediately through other comprehensive income.

#### Defined benefit funded gratuity scheme

The Bank operates a defined benefit funded gratuity scheme for its contractual employees. The obligation under the defined benefit unfunded gratuity scheme is recognized on the basis of actuarial valuation using the 'Projected Unit Credit Method'.

#### Defined benefit unfunded gratuity scheme

SMEL operates an unapproved and unfunded gratuity scheme covering all of its permanent employees who have completed the qualifying period under the scheme. The scheme is administered by the trustees and contributions therein are made in accordance with the actuarial recommendations.

The valuation in this regard is carried out at each year end, using the 'Projected Unit Credit Method' for the valuation of the scheme. Remeasurement of the defined benefit liability, which comprises of actuarial gains and losses are recognized immediately in other comprehensive income based on actuarial gain and losses.

SMEL determines the net interest expense/(income) on the net defined benefit liability/(asset) for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual year to the net defined benefit liability/(asset) during the year as a result of contribution and benefit payments. Net interest expense and other expense related to defined benefit plans are recognized in profit and loss account.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### **Benevolent fund**

The Bank also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme). Contributions to this fund were made equally by the Bank and employees till March 2002. Thereafter it is wholly contributed by the Bank at the rate of 2% of basic salary with a ceiling of Rs. 200 per month per employee. Annual contribution towards the defined benefit scheme are made on the basis of actuarial advice using the Projected Unit Credit Method.

### **Compensated absences**

#### **The Bank**

The Bank provides compensated absences, an unfunded scheme, as per entitlement to all its permanent and contractual employees. For its eligible employees, related provision is made in accordance with actuarial valuation. Provision for the year is charged to consolidated profit and loss account. The amount recognized in consolidated statement of financial position represents present value of defined benefit obligation.

Defined benefit plans are provided to employees of the Bank. Calculations in this respect require assumptions to be made of future outcomes, the principal ones being in respect of increase in remuneration, the expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

#### **SMEL**

SMEL accounts for its liability towards accumulating compensated absences, when the employees render services that increase their entitlement to future compensated absences.

#### **Defined contribution plan**

SMEL operates an approved defined contributory provident fund for all its permanent employees at the rate of 8% of basic salary. The contribution are recognized as employee benefit expense when they become due.

Staff retirement are payable to employees on completion of the prescribed qualifying period of services under the scheme.

### **6.10 Net investment in lease finance**

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognized and the present value of the lease receivable is recognized on the balance sheet. The difference between the gross lease receivables and the present value of the lease receivables is recognized as unearned finance income. A receivable is recognized at an amount equal to the present value of the minimum lease payments under the lease agreements, including guaranteed residual value, if any.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income

## Notes to the Consolidated Financial Statements

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is recognized in the profit and loss account on a basis that reflects a constant periodic rate of return on the net investment in the finance lease.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to finance lease receivables and are recognized as an expense in the profit and loss account over the lease term on the same basis as the finance lease income.

### 6.11 Revenue recognition

#### 6.11.1 Advances

##### **Advances disbursed by SME Bank Limited:**

Markup/interest on performing advances is recognized on a time proportion basis over the term of loan and advances. Markup/interest/penal markup recoverable on non performing advances is recognized on receipt basis. Mark-up/interest on rescheduled/restructured advances and investments is recognised as permitted by the regulations of the SBP.

##### **Advances disbursed by defunct RDFC and defunct SBFC :**

Advances and related markup are suspended. Markup/interest on advances is recognized on receipt basis.

#### 6.11.2 Return on investments

Return on investments is recognized on a time proportion basis except on classified investment which is recognized on receipt basis. Any premium paid or discount received on purchase of securities is amortized through consolidated profit and loss account over the remaining period of maturity on time apportionment basis.

#### 6.11.3 Dividend income

Dividend income is recognized when the Bank's right to receive the dividend is established.

#### 6.11.4 Interest, fee, brokerage and commission

Interest, fee, brokerage and commission, profit on other investments, bank deposits and staff loans is recognized on accrual basis. Income on non-funded facilities (fee, commission, documentation charges etc.) is recognized on receipt basis except commission on bank guarantees which is recognized on accrual basis.

#### 6.11.5 Leasing income

SMEL follows the finance lease method in accounting for the recognition of lease income. Under this method, the unearned lease income i.e. the excess of gross lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease contract, so as to produce a systematic return on the net investment in finance lease. Unrealized lease income is held in suspense account, where necessary, in accordance with the requirements of the NBFC Regulations.

##### **Front-end fees and documentation charges are taken to income when realized.**

Unrealized lease income and unrealized income on loans and finances is held in suspense account, where necessary, in accordance with requirements of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations).



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 6.12 Off setting

Financial assets and liabilities are off set and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or realize the asset and settle the liability simultaneously.

### 6.13 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are capitalized. Other borrowing costs are recognized as an expense in the period in which it incurs.

### 6.14 Provisions

Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations. Expected recoveries are recognized by debiting customer accounts. Charge to consolidated profit and loss account is stated net off expected recoveries.

### 6.15 Financial assets and liabilities

All financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. A financial asset is derecognised where (a) the rights to receive cash flows from the asset have expired; or (b) the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Bank has transferred substantially all the risks and rewards of the asset, or (ii) the Bank has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

### 6.16 Segment reporting

A segment is the distinguishable component of the Bank that is subject to risks and rewards that are different from those of other segments. A business segment is one that is engaged either in providing certain products or services, whereas a geographical segment is one engaged in providing products and services within a particular economic environment. Segment information is presented as per the Bank's functional structure and the guidance of the State Bank of Pakistan. The Bank's primary format of reporting is based on business segments:

#### 6.16.1 Business segments

##### Trading and sales

This segment undertakes the Bank's treasury, money market and capital market activities.

##### Commercial banking

It includes loans, deposits and other transactions with individuals/staff, small and medium enterprises and corporate customers.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### **Other leasing operations**

This segment includes the Group's leasing activities.

### **6.16.2 Geographical segments**

The Group operates only in Pakistan.

### **6.17 Appropriation to reserves**

Dividend and appropriation to reserves (except appropriation required by law) after the balance sheet date are recognized as liability in the Bank's financial statement in the year in which these are approved.

### **6.18 IFRS 13 - 'Fair Value Measurement'**

It consolidates the guidance on how to measure fair value into one comprehensive standard. It introduces the use of an exact price, as well as extensive disclosure requirements, particularly the inclusion of non financial instruments into the fair value hierarchy. The application of IFRS 13 does not have an impact on the consolidated financial statements of the Company except for certain disclosures as mentioned in note 39.

## **7 FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION**

### **7.1 Current Status of Privatization of SME Bank**

Government of Pakistan (GOP) decided in their meeting held on November 19, 2018 to relaunch the privatization transaction of the Bank through Privatization Commission (PC). Cabinet Committee on Privatization (CCOP) approved the new privatization program of the Bank on March 06, 2019. The privatization program of the Bank has been required to be completed by 30th June 2020 to divest GOPs equity stake in the Bank along with management control to a strategic investor. Accordingly, PC recommended the transaction structure for the privatization of the Bank to CCOP who approved the referred transaction structure on November 15, 2019. Thereafter through a due process invitation for expression of interest for acquisition of 93.88% shares of the Bank were advertised in news papers on December 13, 2019. The last date for submission of EOIs and Statement of Qualifications (SOQs) was February 28, 2020. Five prospective investors have submitted their SOQs against the advertisement, out of that four have been cleared by SBP. Due diligence of Buyers side is in progress, Privatization Commission has opened data room for the prospective Buyers up to August 24, 2020.

### **7.2 Going concern assumption and minimum capital requirement**

#### **7.2.1 The Bank**

During the current year the Bank incurred a net loss of Rs. 1,072.309 million (2018: Rs. 825.938 million) resulting into accumulated losses of Rs. 4,811.162 million (2018: Rs. 3,857.090 million). As of December 31, 2019, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 2,512.445 million (2018: Rs. 1,693.862) indicating the negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative working capital of Rs. 7.859 billion (2018: Rs. 7.267 billion) which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10% and has failed on



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For the year ended December 31, 2019

multiple times in maintaining the minimum statutory liquidity requirement (SLR) in first half of current year. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. These conditions indicate the existence of material uncertainty that may cast a significant doubt on the Bank's ability to continue as going concern and therefore it may not be able to realize its assets and discharge its liabilities in the ordinary course of business. To overcome the same, the Government of Pakistan (GoP) being the majority shareholder with 93.88% shareholding in the Bank has initiated the process of privatization of the Bank. The MoF through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of regulatory requirements till June 30, 2020. MoF and management of the Bank are hopeful of a favorable response. The process of privatization is at the advance stage as Five prospective investors have submitted their Statement of Qualifications (SOQs), out of that four have been cleared by SBP. Due diligence of Buyers side is in progress, Privatization Commission has opened data room for the prospective Buyers up to August 24, 2020. In view of above the management of the Bank strongly believes that the privatization of the Bank shall be completed soon and will result into injection of fresh equity enabling the Bank to expand and finance its operations while MoF is committed to provide all necessary financial assistance to the Bank to support its operations. In view of above the management of the Bank believes that the use of going concern assumption in preparation of these consolidated financial statements is appropriate and, therefore, have prepared the same on a going concern basis.

### 7.2.2 SME Leasing limited (SMEL) - Subsidiary Company

SMEL has been incurring losses since year ended December 31, 2009 which has resulted in erosion of equity. During the year ended December 31, 2019, the Company has incurred loss of Rs. 35.694 million (2018: Rs. 21.361 million) for the year ended December 31, 2019, resulting in accumulated loss of Rs. 291.358 million (2018: Rs. 256.784 million) as at balance sheet date and as of that date the Company's current liabilities exceed its current assets by Rs. 54.805 million (2018: Rs. 44.649 million).

Further SMEL is dependent on the running finance facility granted by the holding company. The revised prudential regulation of State Bank of Pakistan (SBP) applicable from June 2015 has restricted the exposure by bank to a related party to the extent of 7.5% of its equity. However, the relaxation provided by State Bank of Pakistan, to SME Bank has been expired on June 2018 and the holding company has applied for relaxation of the aforesaid requirement in respect of its financing to the Company to the State Bank of Pakistan.

The above factors indicate the existence of a material uncertainty which may cast significant doubt on SMEL's ability to continue as a going concern and SMEL may not be able to realize its assets and discharge its liabilities in the normal course of business. However, the financial statements of SMEL for current year consolidated in these consolidated financial statement have been prepared on going concern basis considering the factors mentioned below:

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

- The Holding Company (the Bank) has granted a short term running finance facility to SMEL amounting to Rs. 150 million out of which Rs. 142.156 million has been utilized as at December 31, 2019 (2018: Rs. 141.556 million). The said facility can be extended to the extent of Rs. 300 million as per the stand-by agreement for finance facility. The Bank has obtained relaxation from the State Bank of Pakistan from the requirements of related party exposure limits in order to continue its support towards SMEL. Further, the Bank has been in the list of privatization by Government of Pakistan. Upon successful completion of privatization of the Bank, the majority shareholding in SMEL will be taken over by the acquirer of the Bank.
- The management of SMEL has prepared cash flow projections which reflect that based on financial support by the parent company SMEL will be able to continue its business on going concern basis in the foreseeable future.
- Concerted efforts are being made for the recovery of non-performing leases and loans and finances and in this respect during the year Rs. 17.612 million (2018: Rs. 21.748 million) has been recovered.

## Notes to the Consolidated Financial Statements

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		2019	2018
		(Rupees in '000)	
<b>8. CASH AND BALANCES WITH TREASURY</b>	<b>Note</b>		
In hand			
Local currency		123,705	106,580
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in :			
Local currency current accounts	8.1	468,276	294,895
With National Bank of Pakistan in :			
Local currency current accounts		58,486	42,080
Prize bonds		171	372
		<u>650,638</u>	<u>443,927</u>
<b>8.1</b>	Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.		
		2019	2018
		(Rupees in '000)	
<b>9. BALANCES WITH OTHER BANKS</b>	<b>Note</b>		
In Pakistan:			
On current accounts		1,133	4,894
On deposit accounts		14,119	25,824
Provision for doubtful balance with a bank	9.1	<u>(10,000)</u>	<u>(10,000)</u>
		<u>5,252</u>	<u>20,718</u>
<b>9.1</b>	<b>Particulars of provision for doubtful placement with a bank</b>		
Opening balance		(10,000)	(10,000)
Charge for the year		-	-
Reversals		-	-
		-	-
Closing balance		<u>(10,000)</u>	<u>(10,000)</u>
Provision for doubtful balance is in respect of deposit of Rs. 10 million with Indus Bank Limited which is under liquidation.			

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For the year ended December 31, 2019

	2019	2018
<b>10.3 Provision for diminution in value of investments</b>	<b>(Rupees in '000)</b>	
Opening balance	36,532	38,747
Charge/reversals		
Charge for the year	-	-
Reversal on disposals	(20,000)	(2,215)
	<b>(20,000)</b>	<b>(2,215)</b>
Closing balance	<b>16,532</b>	<b>36,532</b>

### 10.3.1 Particulars of provision against debt securities category of classification

	2019		2018	
	NPL	Provision	NPL	Provision
	<b>(Rupees in '000)</b>			
<b>Domestic</b>				
Other assets especially mentioned	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	762	762	762	762
	<b>762</b>	<b>762</b>	<b>762</b>	<b>762</b>

	2019	2018
<b>10.4 Quality of available-for-sale securities</b>	<b>Cost</b>	
	<b>(Rupees in '000)</b>	
<b>Federal government securities - government guaranteed</b>		
Market treasury bills	1,061,452	993,284
Pakistan investment bonds	4,833,780	5,062,403
	<b>5,895,232</b>	<b>6,055,687</b>

	2019	2018
<b>Shares</b>	<b>Cost</b>	
	<b>(Rupees in '000)</b>	
<b>Listed companies</b>		
- Chemicals	810	810
- Investment banks/companies	13,236	13,236
- Synthetic and Rayon	336	336
- Technology and communication	587	587
- Textile composite	30	30
	<b>14,999</b>	<b>14,999</b>

	2019		2018	
	Cost	Breakup value	Cost	Breakup value
	<b>(Rupees in '000)</b>			
<b>Unlisted/delisted Companies</b>				
Note				
- ISE Towers REIT Management Company Ltd.	10.4.1	18,000	43,971	18,000
- LSE Financial Services Ltd	10.4.1	8,440	19,369	8,440
- AKD Venture Fund		-	-	20,000
- News-v/s Credit Information Services (Pvt) Ltd.		100	30	100
- Companies delisted from stock exchange	10.4.2	1,003	-	1,003
		<b>27,543</b>	<b>63,370</b>	<b>47,543</b>
				<b>61,102</b>

10.4.1 Break up value per share is based on latest available financial statements of investees.

## Notes to the Consolidated Financial Statements

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**10.4.2** Particulars of investments in shares of companies delisted from stock exchange and are currently under liquidation was as under:

	Number of shares held	Cost/paid- up value per share	Total paid up value
		(Rupees)	(Rupees '000)
- Mohib Exports Company Limited	4,600	23.81	109
- Sunflow Citrus Limited	100,000	4.22	422
- Tawakal Garments Company Limited	4,000	38.38	154
- Tristar Shipping Lines Limited	5,000	23.56	118
- Zahoor Textile Mills Limited	15,200	13.16	200
			<b>1,003</b>

### Mutual funds

- HBL investment fund - class A
- HBL investment fund - class B

2019	2018
Cost	
(Rupees in '000)	
654	654
1,216	1,216
<b>1,870</b>	<b>1,870</b>

**10.5** Particulars relating to held to maturity securities are as follows:

### Non government debt securities

#### Unlisted

- A/A-1
- Unrated

2019	2018
Cost	
(Rupees in '000)	
35,000	35,000
762	762
<b>35,762</b>	<b>35,762</b>





## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 11.3 Non-performing loan (NPL) portfolios of defunct SBFC & RDFC

The Board through its resolution by circular No.10/circ/33 dated March 08, 2010 duly endorsed by the members in their meeting dated May 20, 2010 has approved the transfer and assignment of fully non - performing loan portfolios of defunct SBFC & RDFC to NBP on the basis of deferred transfer price. Subsequently transfer and assignment agreement was executed between the Bank and National Bank of Pakistan at Karachi on July 01, 2010 (effective date). According to the agreement, the transferor (SME) and the acquiror (NBP) acknowledge, declare and confirm the transfer, assignment and vesting of all rights, interests, privileges, title, powers and remedies in favour of the acquiror with respect to:

- a) the non-performing loans, collateral and the debtors;
- b) all agreements, deeds, instruments and other documents relating to the non-performing loans, debtors and collateral and to which the transferor is, or legally deemed to be, a party or a beneficiary;
- c) all legal proceedings by and against the transferor with respect to the non-performing loans, the debtors and collateral, which may be pending before any court, tribunal, arbitrator or authority, without being subject to any liabilities of the transferor to any person.

The agreed transfer price is an amount equal to 50% of the net recoveries.

Under the above referred arrangements, portfolio of defunct SBFC & RDFC outstanding as on June 30, 2010 (except outstanding loans of RDFC where facility of Equity Participation Fund had also been extended) were transferred to NBP.

On request of the Bank's management the decision to transfer and assignment of the portfolio was revisited by the board of directors (BoD) in its 65th meeting held on July 13, 2011 and resolved that the agreement of assignment of the old portfolio to NBP should be cancelled and Board's pronouncement for revocation of agreement to Ministry of Finance to arrange retrieval/restoration of old portfolio to the Bank in the interest of recovery of public funds.

In the meeting held on March 04, 2013 the BoD reconsidered the position taken earlier on this matter on grounds of related cost of recovery and infrastructure on request of then management and decided that since the Bank is still on the privatization list, the BoD would be able to decide on portfolio after Bank's delisting from privatization.

The incumbent Management has again reviewed the situation and noted that no comparative analysis/study pertaining to transfer of portfolio was conducted which could justify the decision of assigning old portfolio to NBP.

In view of the above, foregoing Board was requested in its 83rd meeting, held on August 30, 2014 and the management of the Bank was allowed to proceed further in pursuance of resolution/direction passed regarding the subject matter in 64th and 65th Meeting of the BoD held on May 16, 2011 and July 13, 2011 respectively by overruling to verdict of the BoD given on the issue in 75th Meeting of BoD held on March 04, 2013.

## Notes to the Consolidated Financial Statements

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Cabinet Committee on Privatization (CCOP) in its meeting held on January 27, 2017 has approved the transaction structure of the Bank's privatization. The transaction structure has excluded the above portfolios from the privatization transaction and the CCOP in above referred meeting has directed the Bank to transfer the said portfolios to NBP and that all recoveries made by NBP from the loan portfolio shall be deposited in the Federal Consolidated Fund (FCF), a related party as being managed by Ministry of Finance (MoF).

Pursuant to above, being directed by MoF the management of the Bank has obtained an independent legal advice for defining the legal procedures for the implementation of the requirement of MoF. The legal advice proposed that the Bank may via a tri party novation agreement between SME, NBP and GoP through MoF, transfer and surrender any rights, obligations and liabilities on the remaining receivable assets in the loan portfolio to FCF against any consideration amount. The novation agreement will further allow for any recoveries made by NBP in relation to the loan portfolio to be deposited directly in the FCF as the recoveries will no longer be an asset of the Bank.

In line with the steps proposed by the legal advisor the board of directors of the Bank in its meeting held on December 31, 2017 has approved the transfer of fully non-performing loan portfolios of defunct SBFC & RDFC to MoF and NBP via a tri party novation agreement between SME, NBP and GoP through MoF at a value of Rs.100 as a sale consideration. Thereafter, the shareholders of the Bank in their meeting held on January 22, 2018 through their special resolution have also authorized the transferred of the portfolios as approved by the BoD of the Bank, however, the Allied Bank Limited carrying 0.33% holding in the Bank has opposed the resolution and required the sale of the portfolio at a fair market value (FMV). According to above majority decision of the shareholders both the portfolios have been transferred to the FCF and NBP against an aggregate sale consideration of Rs. 100 under a tri-party agreement (the Agreement) executed on February 23, 2018 between the Bank, NBP and FCF. As of the date of the Agreement the Bank has transferred and surrendered all the recoveries, rights, obligation, claims and liabilities of the referred loan portfolios in favour of the FCF.

The management of the Bank continues to show these loan portfolios in its book of accounts pending confirmation of recording by NBP in its books of accounts to ensure that the above loans are duly accounted by NBP in compliance to the terms of the agreement dated February 23, 2018. The Bank has requested with various intervals to share the details of the road map prepared by NBP for smooth transfer of accounting record related to the legacy loan portfolio from the Bank to NBP but NBP did not respond.

## Notes to the Consolidated Financial Statements

### For the year ended December 31, 2019

- 11.4** Advances include Rs. 5,665.665 million (2018: Rs. 5,652.627 million) which have been placed under non-performing status as detailed below:

Category of classification	2019		2018	
	Non performing loans	Provision	Non performing loans	Provision
(Rupees in '000)				
<b>Domestic</b>				
Other assets especially mentioned	9,260	2	4,794	-
Substandard	10,763	36	45,389	8
Doubtful	44,116	326	3,778	174
Loss	5,601,526	5,402,532	5,598,666	5,408,057
	<b>5,665,665</b>	<b>5,402,896</b>	<b>5,652,627</b>	<b>5,408,239</b>

11.5	Particulars of provision against advances	Note	2019			2018		
			Specific	General	Total	Specific	General	Total
			(Rupees in '000)					
	Opening balance		5,408,239	25	5,408,264	5,394,638	81	5,394,719
	Charge/(reversal)							
	Charge for the year		37,866	-	37,866	52,587	15	52,602
	Reversal for the year		(41,952)	(17)	(41,969)	(37,974)	(71)	(38,045)
			(4,086)	(17)	(4,103)	14,613	(56)	14,557
	Amounts written off	11.6	-	-	-	-	-	-
	Reversal of provision of transferred portfolio		(1,257)	-	(1,257)	(1,012)	-	(1,012)
	Closing balance		5,402,896	8	5,402,904	5,408,239	25	5,408,264

- 11.5.1** General provision is being provided @ 1% against unsecured performing small enterprises portfolio.

- 11.5.2** The FSV benefit availed in last years has been increased by Rs. 26.044 million (2018: reduced by Rs. 42.241 million) and reduced by 6.122 million (2018: Rs. 6.058 million) for the Bank and SMEL respectively (net of FSV benefit availed during the year), which has resulted in net increased charge for specific provision for the year ended by the same amount. The FSV benefit is not available for cash or stock dividend/bonus to employees. Had the FSV benefit not recognized, Group's loss before and after tax for the year ended would have been higher by Rs. 19.922 million (2018: lower by Rs. 48.299 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 223.964 million (2018: Rs. 204.042 million).

11.5.3 Particulars of provisions against advances	2019			2018		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	5,402,896	8	5,402,904	5,408,239	25	5,408,264
In foreign currencies	-	-	-	-	-	-
	<b>5,402,896</b>	<b>8</b>	<b>5,402,904</b>	<b>5,408,239</b>	<b>25</b>	<b>5,408,264</b>

11.6 Particulars of write off:	2019	2018
	(Rupees in '000)	
<b>11.6.1</b> Against provisions	-	-
Directly charged to profit & loss account	-	-
	-	-
<b>11.6.2</b> Write offs of Rs. 500,000 and above	-	-
Write offs of below Rs. 500,000	-	-
	-	-

- 11.7 Details of loan write off of Rs. 500,000 and above**

In terms of sub-section(3) of section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of rupees five hundred thousand or above allowed to a person(s) during the year ended December 31, 2019 is given at Annexure-1.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

12. FIXED ASSETS		Note	2019		2018	
			(Rupees in '000)		(Rupees in '000)	
	Property and equipment	12.1	39,029		60,375	
	Right of use assets	12.2	509,647		-	
			548,676		60,375	
<b>12.1 Property and equipment</b>						
	<b>At January 01, 2019</b>					
	Cost		25,114	10,930	181,257	306,600
	Accumulated depreciation		15,418	9,737	145,613	246,225
	Net book value		9,696	1,193	35,644	60,375
	<b>Year ended December 2019</b>					
	Opening net book value		9,696	1,193	35,644	60,375
	Additions		-	39	726	777
	Disposals		-	-	-	(800)
	Depreciation charge		(1,256)	(591)	(12,837)	(21,323)
	Closing net book value		8,440	614	23,533	39,029
	<b>At December 31, 2019</b>					
	Cost		25,114	10,942	181,964	305,438
	Accumulated depreciation		16,674	10,328	158,431	266,409
	Net book value		8,440	614	23,533	39,029
	Rate of depreciation (percentage)		5	33.33	15 & 33.33	20

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2018						
Leaschold land	Building on freehold land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles	Total
(Rupees in '000)						
64,087	25,308	39,165	10,814	169,224	54,618	363,216
63,637	14,301	31,920	9,062	134,401	40,584	293,905
450	11,007	7,245	1,752	34,823	14,034	69,311
450	11,007	7,245	1,752	34,823	14,034	69,311
-	-	362	116	12,512	-	12,990
-	(56)	-	-	(2)	-	(58)
-	(1,255)	(2,865)	(675)	(11,689)	(5,384)	(21,868)
450	9,696	4,742	1,193	35,644	8,650	60,375
450	25,114	39,522	10,930	181,257	49,327	306,600
-	15,418	34,780	9,737	145,613	40,677	246,225
450	9,696	4,742	1,193	35,644	8,650	60,375
5		33.33	20	15 & 33.33	20	

At January 01, 2018

Cost

Accumulated depreciation/impairment

Net book value

Year ended December 2018

Opening net book value

## Additions

Disposals

Depreciation charge

Closing net book value

At December 31, 2018

Cost

Accumulated depreciation/impairment

Net book value

Rate of depreciation (percentage)

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 12.2 Right of use assets:

This has arisen due to adoption of IFRS 16 as detailed in note 3.3.2. Movement in right-of-use assets is as follows:

	2019 (Rupees in '000)
Effect of initial application of IFRS	562,451
Additions	-
Depreciation charge	(52,804)
Closing net book value	<u>509,647</u>

### 12.3 Details of disposal of fixed assets :

Particulars of assets	Cost	Accumulated depreciation /impairment	Book value	Sale proceeds	Gain/(loss) on sale of fixed assets	Mode of disposal	Particulars of buyers
<b>Vehicle</b>	(Rupees in '000)						
Honda Civic	1,920	1,120	800	768	(32)	As per bank policy	Kishwar Malik (employee)
<b>2019</b>	<u>1,920</u>	<u>1,120</u>	<u>800</u>	<u>768</u>	<u>(32)</u>		
2018	69,606	69,548	58	456	398		

### 12.4 Cost of fully depreciated assets that are still in use was Rs. 185.471 million (2018: Rs. 179.486 million).

### 13 INTANGIBLE ASSETS

	2019	2018
<b>At January 1</b>	<b>Computer Software</b>	
	(Rupees in '000)	
Cost	32,068	28,189
Accumulated amortization and impairment	29,589	27,060
Net book value	<u>2,479</u>	<u>1,129</u>
<b>Year ended December 31</b>		
Opening net book value	2,479	1,129
Additions:		
- developed internally	-	-
- directly purchased	226	2,458
	226	2,458
Disposals	-	-
Amortization charge	1,374	1,186
Closing net book value	<u>1,331</u>	<u>2,401</u>
<b>As December 31</b>		
Cost	32,294	30,561
Accumulated amortization and impairment	30,963	28,160
Net book value	<u>1,331</u>	<u>2,401</u>
Rate of amortization (percentage)	33.33	33.33
Useful life	3 years	3 years

### 13.1 Cost fully amortized intangible assets that are still in use was Rs. 28.453 million (2018: Rs. 27.607 million).

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	Note	2018		2019	
		(Rupees in '000)		(Rupees in '000)	
<b>14. DEFERRED TAX ASSET - NET</b>					
<b>Deferred tax asset arising in respect of:</b>					
Unabsorbed depreciation and amortization				77,530	71,121
Unused tax losses				675,433	455,457
	14.1			752,963	526,578
<b>Deferred tax liability arising in respect of:</b>				(669)	(883)
Surplus on revaluation of investment	14.2			752,294	525,695
<b>14.1</b>	The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition of deferred tax asset is the expected privatization of the Bank which would result in fresh equity injection from the new strategic shareholder of the Bank and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future.				
		2018		2019	
		Balance at January 1	Recognized in profit and loss account	Balance at December 31	Recognized in profit and loss account
<b>14.2 Reconciliation of deferred tax</b>					
<b>Deferred tax asset arising in respect of:</b>					
Accelerated tax depreciation & amortization		63,957	7,164	-	71,121
Unused tax losses		402,511	52,946	-	455,457
		466,468	60,110	-	526,578
<b>Deferred tax liability arising in respect of:</b>					
Surplus on revaluation of investment		(1,270)	-	387	(883)
<b>Deferred tax (liability)/asset - net</b>		465,198	60,110	387	525,695
<b>14.3</b>	Temporary differences for which no deferred tax asset is recognized due to uncertain timing of future taxable profits				
	Amount of unrecognized deferred tax			2,034,898	2,051,258
				712,214	717,940

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

15. OTHER ASSETS	Note	2019	2018
		(Rupees in '000)	
Income/mark-up accrued in local currency - net of provision	15.1	168,537	162,504
Advances, deposits, advance rent and other prepayments		29,716	66,002
Advance taxation	15.2	200,120	208,737
Non banking asset acquired in satisfaction of claims	15.3	147,066	147,066
Due from benevolent fund- unsecured		5,412	5,642
Receivable from NBP	11.3	1,853	981
Receivable from subsidiary company		-	-
Receivable from equity participation fund		611	-
Trading right entitlement certificate		21,560	21,560
Receivable from Speedway Fondmetall Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		5,148	5,148
Others		75,742	76,421
		<b>675,405</b>	<b>713,701</b>
Less: Provision held against other assets	15.4	117,109	118,800
Other assets (net of provision)		<b>558,296</b>	<b>594,901</b>

- 15.1** This balance has been arrived at after adjusting interest in suspense of Rs. 4,066.115 million (2018: Rs. 4,048.422 million).
- 15.2** This include the effect of refunds aggregating to Rs. 232.599 million due from government. In respect of tax years 2003 and 2004, the period prior to enactment of the seventh schedule of the Income Tax Ordinance, 2001, the tax authorities disallowed the Bank's claims for provisions for its bad debts. Subsequently, the Appellate Tribunal Inland Revenue (ATIR) through its order dated February 10, 2011 has ruled in favor of the Bank which resulted in creation of refunds of Rs. 80.059 million and Rs. 152.54 million for tax years 2003 and 2004 respectively. Thereafter, against the referred judgement of ATIR the tax authorities filed references before the Islamabad High Court which are pending adjudication to date. The Bank upon receiving the appeal affect orders dated July 28, 2017 from tax authorities has accrued the above refunds in its books of account. The management of the Bank is of the firm view that the Bank will be successful in the said references.
- 15.3** This include Rs. 138.6 million being the successful bid made by SME Bank for acquiring bungalow no. 45, Block-C/3, Gulberg III, Lahore (the Property) mortgaged with the Bank as a security in a defaulted loan and Rs. 8.47 million pertaining stamps/stamps duties for registration of sale certificate issued by the High Court to SME Bank/auction purchaser of the Property. The auction was carried out on 30 June 2015 and subsequently the Honorable Lahore High Court through its decision dated 14 July 2015 allowed the Bank to adjust the bid price against its outstanding dues from the borrower against the finance facilities extended to the borrower, suspended mark-up and cost of funds. Thereafter the auction was also confirmed by the High Court on April 19, 2016 after hearing objection raised by the counter party. The sale certificate was issued by the High Court on June 30, 2016 and the same has been registered with concerned registrar on July 28, 2016. On November 24, 2016, ownership of the Property in record of Excise and Taxation Department has been transferred in name of SME Bank Ltd. The Bank applied for possession of the acquired Property, which has been accepted by the court after hearing both the parties. The court has repeatedly issued orders to bailiff for taking possession of the Property to handover the Bank, however, due to non- availability of police force to the bailiff, the possession of the Property could not be handed over to the Bank. On 24 June 2019 the sponsor of the case was died and thereafter on 20 August 2019 the legal heirs of the judgement debtor submitted an objection petition for release of the Property which is already auctioned and purchased by the Bank through an open auction. During argument the request of the legal heirs has been turned down by the honorable judge as the transaction is past and closed and advised the council to discuss only the issue of remaining cost of funds. The next date of hearing of the case is fixed on 11 August 2020. At of the current balance sheet date, the market value of the Property was Rs. 224.368 million(2018: Rs. 220.040 million).



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

15.4	Provision held against other assets	2019	2018	
		(Rupees in '000)		
	Advances, deposits, advance rent & other prepayments	2,706	2,706	
	Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640	
	Receivable against factorized portfolio	5,148	5,148	
	Other receivables - SME Portfolio	43,461	43,494	
	Legal charges recoverable from borrowers - SBFC & RDFC	22,661	22,661	
	Trading right entitlement certificate - TREC	21,560	21,560	
	Others	1,933	3,591	
		117,109	118,800	
15.4.1	Movement in provision held against other assets			
	Opening balance	118,800	119,696	
	Charge for the year	3,054	3,486	
	Reversals	(3,040)	(4,381)	
		14	(895)	
	Transferred to NBP	-	(1)	
	Amount written off	(1,705)	-	
	Closing balance	117,109	118,800	
16.	BILLS PAYABLE			
	In Pakistan	51,543	118,788	
	Outside Pakistan	-	-	
		51,543	118,788	
17.	BORROWINGS			
	Secured			
	Repurchase agreement borrowings			
	State Bank of Pakistan (SBP)	17.2	1,137,846	1,003,155
	Financial Institutions	17.2	2,442,609	3,713,195
	Long term financial - SMEL	17.3	373	373
			3,580,828	4,716,723
	Unsecured			
	Borrowing from State Bank of Pakistan (SBP)			
	Financing facility for storage of agricultural produce	17.4	74,316	23,545
			3,655,144	4,740,268
17.1	Particulars of borrowings with respect to Currencies			
	In local currency		3,655,144	4,740,268
	In foreign currencies		-	-
			3,655,144	4,740,268
17.2	These represent transactions with financial institutions and SBP for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 13.38% to 13.75% (2018: 10.20% to 10.50%) per annum for period upto two months (2018: upto two months). REPO transactions are secured against investment of the Bank in government securities as disclosed in note 10.2.			
17.3	This represents balance due against financing facilities amounting to Rs. 0.373 million (2018: Rs. 0.373 million) from National Energy Conservation Centre (Enercon) by SMEL. The facilities from Enercon have been obtained under an agreement whereby they have agreed to provide funds to SME Leasing for granting lease / finance facility to its customers for procuring and using energy efficient equipments. The facility requires sharing of profit @ 5% of the financing amount on quarterly basis. However, this facility is no more active.			
17.4	This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agricultural Produce (FFSAP)". These carries mark up rate ranging from 2.0% to 3.25% and is repayable in quarterly installments.			

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 18. DEPOSITS AND OTHER ACCOUNTS

	2019			2018		
	In local currency	In foreign currency	Total	In local currency	In foreign currency	Total
<b>Customers</b>	<b>(Rupees in '000)</b>					
Current accounts	499,200	-	499,200	503,208	-	503,208
Savings deposits	3,153,652	-	3,153,652	2,042,659	-	2,042,659
Term deposits	3,207,339	-	3,207,339	2,565,542	-	2,565,542
Margin accounts	112,398	-	112,398	56,983	-	56,983
	<b>6,972,589</b>	<b>-</b>	<b>6,972,589</b>	<b>5,168,392</b>	<b>-</b>	<b>5,168,392</b>
<b>Financial Institutions</b>						
Current accounts	24	-	24	-	-	-
Savings deposits	471,695	-	471,695	417,877	-	417,877
Term deposits	56,400	-	56,400	133,177	-	133,177
Margin accounts	-	-	-	-	-	-
	<b>528,119</b>	<b>-</b>	<b>528,119</b>	<b>551,054</b>	<b>-</b>	<b>551,054</b>
	<b>7,500,708</b>	<b>-</b>	<b>7,500,708</b>	<b>5,719,446</b>	<b>-</b>	<b>5,719,446</b>

18.1 Composition of deposits	2019	2018
	<b>(Rupees in '000)</b>	
Individuals	1,149,907	1,102,728
Government (federal and provincial)	721,679	836,731
Public sector entities	46,543	60,003
Banking companies	-	-
Non-banking financial institutions	528,119	551,054
Private sector	5,054,460	3,168,930
	<b>7,500,708</b>	<b>5,719,446</b>

18.2 Total deposits include eligible deposits of Rs. 2,349.577 million (2018: Rs. 1,481.536 million) as required by the Deposit Protection Corporation's (a subsidiary of SBP) circular no. 4 of 2018 dated June 22, 2018.

### 19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2019		2018	
	Minimum lease	Present value	Minimum lease	Present value
	<b>(Rupees in '000)</b>		<b>(Rupees in '000)</b>	
Not later than one year	4,392	2,489	-	-
Later than one year and not later than five years	13,184	10,506	-	-
Total minimum lease payments	17,576	12,995	-	-
Financial charges not due yet	(4,581)	-	-	-
Present value of minimum lease payments	12,995	12,995	-	-

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>20. OTHER LIABILITIES</b>			
Mark-up/return/interest payable in local currency		218,846	102,093
Unearned commission on guarantees		1,875	692
Accrued expenses		13,026	15,371
Sundry creditors	20.1	172,041	120,268
Branch adjustment account		586	912
Payable against employees' benefit plans			
Defined benefit pension			
The Bank	37.7	370,155	388,974
Defined benefit gratuity scheme			
The Bank - funded	37.7	14,172	10,730
SMEL - unfunded		7,623	9,091
Unfunded compensated absences			
The Bank	37.7	95,297	80,304
SMEL		2,501	2,492
Payable on termination/maturity of lease		1,323	598
Security deposits against lease		224,043	230,814
Leased liability against right of use assets	20.2	551,751	-
Employees' VSS payments withheld		12,603	13,341
Payable to equity participation fund - unsecured		-	794
Income tax withheld payable		19,311	17,780
Others		3,975	4,293
		<b>1,709,128</b>	<b>998,547</b>

**20.1** This include Rs. 90.6 million (2018: Rs. 90.6 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of stale bills payable Rs. 72.847 million (2018: Rs. 15.604 million).

**20.2** This represents lease liability recognised due to adoption of IFRS 16 as detailed in note 4.3.2.

	Note	2019	2018
		(Rupees in '000)	
Effect of initial application of IFRS 16 as at January 01, 2019		540,960	-
- Additions		-	-
- Interest		67,337	-
- Payment		(69,541)	-
Net book value		538,756	-
Liabilities against assets subject to finance lease - SMEL	19	12,995	-
Closing net book value		<b>551,751</b>	<b>-</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 21. SHARE CAPITAL

#### 21.1 Authorized capital

2019	2018		2019	2018
Number of shares			(Rupees in '000)	
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	10,000,000	10,000,000

#### 21.2 Issued, subscribed and paid up capital

2019	2018	Ordinary shares	2019	2018
Number of shares			(Rupees in '000)	
152,853,153	152,853,153	Fully paid in cash	1,528,532	1,528,532
50,000,000	50,000,000	Issued as bonus shares	500,000	500,000
36,397,547	36,397,547	Issued for consideration other than cash	363,975	363,975
239,250,700	239,250,700		2,392,507	2,392,507

21.3 Break-up of share capital is as follows:	Number of shares	Percentage		
Federal Government	224,615,978	93.89	2,246,160	2,246,160
National Bank of Pakistan	6,121,095	2.56	61,211	61,211
United Bank Limited	3,975,003	1.66	39,750	39,750
Habib Bank Limited	1,987,501	0.83	19,875	19,875
MCB Bank Limited	1,490,619	0.62	14,906	14,906
Allied Bank Limited	774,351	0.32	7,744	7,744
Industrial Development Bank Limited	286,146	0.12	2,861	2,861
Directors	1	-	-	-
Individuals	6	-	-	-
	239,250,700	100	2,392,507	2,392,507

### 22. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

Note

Surplus/(deficit) on revaluation of

Available-for-sale securities

- Federal government securities
- Listed companies/mutual funds

2019	2018
(301,559)	(437,444)
1,912	2,522
(299,647)	(434,922)

Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities

- Listed companies/mutual funds

2019	2018
(669)	(883)
(300,316)	(435,805)

## Notes to the Consolidated Financial Statements

### For the year ended December 31, 2019

#### 23. NON-CONTROLLING INTEREST- (NCI)

The following table summarises the information relating to the subsidiary (SME Leasing) having the NCI.

##### SME Leasing Limited

	2019	2018
NCI percentage	26.859%	26.859%
	2019	2018
	(Rupees in '000)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and bank balances	788	6,130
Advances	3,370	3,346
Prepayments and other receivables	904	1,159
Accrued interest on loans	47	51
Current maturity of non-current assets	163,025	153,692
	168,134	164,378
<b>Non-current assets</b>		
Long term finances and loans	58,664	65,391
Net investment in finance leases	237,196	273,330
Long term deposits and prepayments	1,162	825
Fixed assets	4,510	5,077
Right of use assets	12,054	-
	313,586	344,623
<b>Total assets</b>	481,720	509,001
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	4,870	3,744
Unclaimed dividend	20	20
Mark-up accrued on borrowings	2,143	1,300
Short term borrowings	142,156	141,556
Current maturity of non-current liabilities	60,591	51,707
Provision for compensated absences	2,501	2,491
Current maturities of liabilities against assets subject to finance lease	2,489	-
Provision for taxation - net	8,168	8,209
	222,938	209,027
<b>Non-current liabilities</b>		
Liabilities against assets subject to finance lease	10,506	-
Long term deposits	163,545	179,201
Deferred liabilities	7,623	9,091
	181,674	188,292
<b>Total liabilities</b>	404,612	397,319
<b>NET ASSETS</b>	77,108	111,682
<b>Carrying amount of NCI</b>		
<b>Adjustments:</b>	20,711	29,997
Share premium specifically allocable to NCI	5,910	5,910
<b>Carrying amount of NCI</b>	26,621	35,907

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	2019	2018
	(Rupees in '000)	
Revenue	26,578	31,451
Loss for the year	(35,694)	(21,361)
Other comprehensive income	1,120	(207)
Total comprehensive income	(34,574)	(21,568)
Loss attributable to NCI	(9,587)	(5,737)
Other comprehensive income allocated to NCI	301	(56)
Cash flows from operating activities	(1,834)	(27,055)
Cash flows from investment activities	(270)	79
Cash flows from financing activities, before dividends to NCI	(3,839)	-
Cash flows from financing activities-cash dividends to NCI	-	-
Net (decrease)/increase in cash and cash equivalents	(5,943)	(26,977)

SME Leasing Limited has its principal place of business in Pakistan.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	Note	2019	2018
<b>24. CONTINGENCIES AND COMMITMENTS</b>		<b>(Rupees in '000)</b>	
- Guarantees	24.1	261,582	143,409
- Commitments	24.2	3,842,670	4,970,626
- Other contingent liabilities	24.3	1,136,759	1,074,888
		<b>5,241,011</b>	<b>6,188,923</b>
<b>24.1 Guarantees:</b>			
Financial guarantees		-	-
Performance guarantees	24.1.1	261,582	143,409
Other guarantees		-	-
		<b>261,582</b>	<b>143,409</b>
<b>24.1.1</b>	This includes expired letter of guarantees/performance aggregating to Rs. 34.142 million (2018: 77.464 million) for which formalities for return of original documents are in process.		
		<b>2019</b>	<b>2018</b>
<b>24.2 Commitments:</b>		<b>(Rupees in '000)</b>	
Commitments in respect of:			
- forward government securities transactions	24.2.1	3,560,826	4,669,798
- forward lending	24.2.2	280,608	299,109
Commitments for acquisition of:			
- operating fixed assets		987	1,493
- intangible assets		249	226
Other commitments	24.2.3	-	-
		<b>3,842,670</b>	<b>4,970,626</b>
<b>24.2.1 Commitments in respect of forward government securities transactions</b>			
Sale and repurchase agreements		<b>3,560,826</b>	<b>4,669,798</b>
<b>24.2.2 Commitments in respect of forward lending</b>			
Undrawn facilities		174,708	173,684
Commitments to extend credit		105,900	116,800
Commitments to lease disbursement (SMEL)		-	8,625
		<b>280,608</b>	<b>299,109</b>
<b>24.2.3 Other commitments</b>			
<b>Bills for collection</b>			
Payable in Pakistan		-	-
<b>24.3 Other contingent liabilities</b>		<b>1,136,759</b>	<b>1,074,888</b>
a) Claims not acknowledged as debt from various borrowers of defunct RDFC		<b>53,686</b>	<b>53,686</b>
b) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) which has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals). The management of the Bank strongly believes and expects favourable outcome and therefore no provision has been made for this effect in the consolidated financial statements.		<b>612,707</b>	<b>612,707</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	2019	2018
	(Rupees in '000)	
c) The Bank and the income tax department have filed corss appeals against the appellate order of the Commissioner (Appeals), who had partly set aside the order of the Taxation officer, resulting in taxable income of Rs. 151.234 million and tax liability of Rs. 52.932 (payable amounting Rs. 6.163 million after adjustment of credit for taxes paid/ suffered at source amounting Rs. 46.768 million) against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4.249 million for the tax year 2008. Without prejudice to the appeal, the Bank has offered adjustment of said demand against Refunds available for tax year 2009. However no provision has been made in these consolidated financial statements as the management is confident of a favorable outcome.	6,163	6,163
d) DCIR raised tax demand for the tax year 2010 for Rs. 211.716 million which was again amended to Rs.198, 528,541/- vide Order # 11/40 dated 22-May-2013 u/s 221, stay against from Islamabad High Court was obtained and also appeal was filed with CIRA-II who partly accepted the Bank's plea in the case and remanded it back to DCIR for verification of evidences and opportunity of hearing the Bank for certain issues vide his order in Appeal # 968/2013 dated 07-Jan-2014. Parallel to that Bank has filed 2nd appeal in ATIR on 27-Feb-2014 and rectification application was also submitted with CIRA on 24-Feb-2014 no decision has been made yet. The Tax Department has also filed an appeal with the ATIR through Commissioner (Legal) vide their letter # 249 dated 7-Mar-2014. Based on the facts revealed by the consultants vide letter # IT/1156/2015 dated March 03, 2015, the management strongly believes for favorable outcome in the case.	198,529	198,529
e) The Taxation Officer created aggregate demand of Rs.53.674 million for withheld amount of Rs.17.598 million from VSS payment of employees for the Tax Years 2003-2004 -2005-2006-2008-2009-2010-2011-2013 which was not deposited upon advice of the Legal Advisor due to stay order of Supreme Court of Pakistan. The case is pending before Appellate Tribunal Inland Revenue and the provision of default surcharge Rs. 36.076 million was not made ipso facto.	36,076	36,076
f) The Officer Inland Revenue, LTU, Islamabad created demand for Rs. 21.171 million for tax year 2016 under section 161/205 of the Income Tax Ordinance, 2001. After rejection of the first appeal by CIRA the Bank has submitted second appeal before Appellate Tribunal Inland Revenue along with stay application to keep the recovery proceedings in abeyance.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad (OIR) issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response.	18,663	18,663
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation.	38,723	38,723



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	2019	2018
	(Rupees in '000)	
i) The Officer Inland Revenue, LTU, Islamabad made an assessment for the Year 2001-2002 vide order dated June 20, 2005 of Rs. 590.667 million and a tax demand of Rs. 118.721 million which was contested in ATIR which ordered the appeal in Bank's favor vide Order # ITA no.857/IB/2006 dated 05-Apr-2007. Now the Tax Department has filed Income Tax Reference with the Islamabad High Court having # I.T.R. 48 of 2007.	118,721	-
j) Back benefits and claims of staff/employees under litigation.	32,320	89,170

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
	Note	(Rupees in '000)	
<b>25. MARK-UP/RETURN/INTEREST EARNED</b>			
On loans and advances to customers		296,505	250,851
On investment in finance lease to customers		19,634	26,471
		<b>316,139</b>	<b>277,322</b>
On loans and advances to employees		4,003	5,241
		<b>320,142</b>	<b>282,563</b>
On investments in			
Held for trading securities		-	6,817
Available for sale securities		454,326	446,599
Held to maturity securities		3,595	14,273
		<b>457,921</b>	<b>467,689</b>
On deposits with financial institutions		405	441
On securities purchased under resale agreements		91	306
On clean lending		113	-
On call money lending		3,789	7,407
		<b>782,461</b>	<b>758,406</b>
<b>26. MARK-UP/RETURN/INTEREST EXPENSED</b>			
On deposits		596,499	345,360
On securities sold under repurchase agreements		550,778	375,321
On SBP refinance scheme		1,029	409
Brokerage and commission		1,081	2,288
Bank charges		254	282
		<b>1,149,641</b>	<b>723,660</b>
<b>27. FEE &amp; COMMISSION INCOME</b>			
Branch banking customer fees		2,155	1,976
Card related fees		431	251
Credit related fees		2,709	3,877
Commission on guarantees		4,526	3,183
Commission on remittances		95	139
Others		17	15
		<b>9,933</b>	<b>9,441</b>
<b>28. GAIN/(LOSS) ON SECURITIES</b>			
Realised	28.1	7	1,001
Unrealised - held for trading		-	-
		<b>7</b>	<b>1,001</b>
<b>28.1 Realised gain on:</b>			
Federal government securities - net		7	1,625
Shares		-	(624)
		<b>7</b>	<b>1,001</b>
<b>29. OTHER INCOME</b>			
Gain on sale of operating fixed assets - net		-	236
Fee on fund managed by the Bank -EPF		974	974
Others		26	9
		<b>1,000</b>	<b>1,219</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

		2019	2018
30. OPERATING EXPENSES	Note	(Rupees in '000)	
Total compensation expense	30.1	692,552	650,151
<b>Property expense</b>			
Rent & taxes	30.2	8,060	73,026
Insurance		2,311	2,308
Utilities cost		22,884	19,107
Security (including guards)		15,480	16,221
Repair & maintenance		6,428	6,545
Depreciation	30.2	56,650	1,255
Others		-	-
		111,813	118,462
<b>Information technology expenses</b>			
Software maintenance		4,737	3,312
Hardware maintenance		1,953	1,086
Depreciation		5,140	4,017
Amortization		1,374	1,419
Network charges		14,253	9,480
Others		833	1,844
		28,290	21,158
<b>Other operating expenses</b>			
Directors' fees, allowances and other expenses		660	1,853
Legal and professional charges		7,486	11,554
Outsourced services costs	30.3 & 36.1	26,630	24,232
Travelling and conveyance		6,699	3,165
NIFT clearing charges		1,837	1,887
Depreciation		12,337	16,596
Training & development		2,287	1,118
Postage & courier charges		937	924
Communications		4,755	4,564
Stationery and printing		5,876	7,079
Marketing, advertisement & publicity		1,476	2,219
Donations		-	-
Auditors' remuneration	30.4	1,578	1,432
Vehicle running and maintenance		4,986	6,590
Entertainment		2,699	3,806
Subscription, books and newspapers		3,022	3,183
Deposits premium		3,617	1,808
Loss on sale of operating fixed assets - net		29	-
Others		1,860	988
		88,771	92,998
		921,426	882,769

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	2019	2018
	(Rupees in '000)	
<b>30.1 Total compensation expense</b>		
Managerial remuneration		
- Fixed	293,255	292,595
Charge for defined benefit plans		
- pension fund and gratuity	115,434	85,025
- funded gratuity scheme	10,541	11,649
- unfunded gratuity scheme - SMEL	2,433	2,055
- funded staff provident fund - SMEL	730	678
- unfunded compensated absences	15,050	4,620
Contribution to defined contribution plan - benevolent fund	429	(3,821)
Rent & house maintenance	95,678	97,217
Utilities	29,079	29,032
Medical	39,711	37,713
Conveyance	14,035	13,919
Telephone	3,974	4,404
Uniform allowance	1,167	1,188
Child education allowance	7,240	7,317
Group insurance	1,215	1,278
Overtime	1,442	1,964
Adhoc relief	1,221	1,248
Leave absence	7,276	9,472
Leave fare assistance	14,226	16,190
Rental in Lieu of vehicle	6,538	6,274
Reimbursement of vehicle running & maintenance	30,622	28,232
Others	1,256	1,902
	<b>692,552</b>	<b>650,151</b>
<b>30.2</b> Adoption of IFRS16 'Leases' resulted in increase in depreciation expense of Rs. 52.715 million and decrease of rent of Rs. 68.996 million.		
<b>30.3</b> Total cost for the year included in other operating expenses relating to outsourced activities is Rs 26,630 (2018: Rs 24,232) related to companies incorporated in Pakistan. Material outsourcing arrangements are as follows: The outsourced cost includes the services of messengers, drivers, IT coordinators and electronic financial transaction (EFT).		
	2019	2018
<b>30.4 Auditors' remuneration</b>	(Rupees in '000)	
Audit fee	1,178	1,050
Fee for other statutory certifications	222	206
Fee for audit of employees funds	24	22
Tax services	-	-
Out-of-pocket expenses	154	154
	<b>1,578</b>	<b>1,432</b>
<b>31. OTHER CHARGES</b>		
Penalties imposed by the State Bank of Pakistan	2,089	2,254
Right of use assets - unwinding of PV	69,374	-
	<b>71,463</b>	<b>2,254</b>
<b>32. PROVISIONS &amp; WRITE OFFS - NET</b>		
Provisions against lending to financial institutions	-	-
Provisions for diminution in value of investment	(20,000)	45,532
Provisions against loans & advances	(4,103)	20,159
Other provisions/written off directly against other assets	14	(895)
Bad debts written off directly	-	-
	<b>(24,089)</b>	<b>64,796</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 33. TAXATION

		2019	2018
	Note	(Rupees in '000)	
Current	33.2	11,595	9,772
Deferred		(226,385)	(60,110)
		<b>(214,790)</b>	<b>(50,338)</b>

#### 33.1 Relationship between tax expense and accounting loss

		2019	2018
		(Rupees in '000)	
Loss before tax		<b>(1,322,793)</b>	(849,541)
Applicable tax rate		<b>35%</b>	35%
		<b>(Rupees in '000)</b>	
Tax on loss		<b>(462,978)</b>	(297,339)
Deferred tax asset recognised during the year		<b>(226,385)</b>	(60,110)
Tax effect of income taxed at lower rate		<b>28</b>	339
Minimum tax		<b>11,257</b>	9,433
Other permanent differences		<b>463,288</b>	297,339
		<b>(214,790)</b>	<b>(50,338)</b>

**33.2** Due to tax losses during the current year the provision for current tax is charged on minimum tax rate of 1.25% for the period from January 01 to June 30, 2019 and 1.50% for the period from July 01 to December 31, 2019 of the turnover.

**33.3** The income tax assessments of SME Leasing (SMEL) for tax year 2012 has been selected for tax audit u/s 214C of Income tax ordinance 2001.

In respect of Tax year 2012, the tax authorities have served order under section 122(1) read with section 177(1) and 214C of the Income Tax Ordinance, 2001 disallowing expenses relating to depreciation allowance, markup on loan to employees and financial cost and creating tax demand of Rs. 3.8 million. SMEL filed an appeal before the Commissioner Inland Revenue (Appeals-II) against the said order who decided all the issues in favor of the SMEL except for initial allowance on leased asset. SMEL has filed second appeal and the appeal has not yet been fixed for hearing.

In respect of minimum tax for the year ended December 31, 2015, the tax authorities have served order under section 124 of Income Tax Ordinance, 2001 for additional amount of minimum tax of Rs. 0.14 million payable due to restatement of turnover of SMEL. SMEL has filed application for rectification in the order on the issue of incorrect value of turnover for the purpose of charging minimum tax under section 113 and tax credit not allowed. No action has been taken by the tax officer yet.

### 34. BASIC/DILUTED LOSS PER SHARE

		2019	2018
		(Rupees in '000)	
Net loss after tax for the year		<b>(1,098,416)</b>	(793,816)
		<b>Number of shares</b>	
Weighted average number of ordinary shares		<b>239,250,700</b>	239,250,700
		<b>Rupees</b>	
Basic/diluted loss per share		<b>(4.59)</b>	(3.32)

There is no dilutive effect on the basic earning per share of the Bank.

### 35. CASH AND CASH EQUIVALENTS

		(Rupees in '000)	
Cash and balances with treasury banks		<b>650,638</b>	443,927
Balances with other banks		<b>5,252</b>	20,718
		<b>655,890</b>	464,645

### 36. STAFF STRENGTH

		Numbers	
Permanent		<b>170</b>	175
On contract		<b>235</b>	222
Bank's own staff strength at the end of the year		<b>405</b>	397
		<b>Average number of employees</b>	
Permanent		<b>173</b>	177
On contract		<b>229</b>	229
		<b>402</b>	406

**36.1** In addition to the above, 107 (2018: 123) employees of outsourcing services companies were assigned to the Bank as at the end of the year to perform services which mainly includes IT services, messengers and drivers.

# Notes to the Consolidated Financial Statements

## For the year ended December 31, 2019

37.	<b>DEFINED BENEFIT PLANS</b>				
37.1	<b>General description</b>	The Bank operates the following schemes for all its eligible employees. Contributions are made in accordance with the actuarial recommendations.			
37.1.1	<b>Pension and gratuity fund (defined benefit scheme)</b>	<p>The Bank operates a defined benefit funded gratuity and pension schemes for all its permanent employees, which entitles the members to:</p> <ul style="list-style-type: none"> <li>- Gratuity payable to members who have completed a minimum of 5 years of service and total service on retirement or cessation of service or death is less than 10 years.</li> <li>- Pension payable to members who have completed a minimum of 10 years of service with the Bank on retirement at age of sixty years or on completion of 25 years of service with the Bank or on permanent disability or on death during service.</li> </ul>			
37.1.2	<b>Gratuity fund (defined benefit scheme)</b>	- The Bank operates a defined benefit funded gratuity scheme for all eligible employees.			
37.1.3	<b>Unfunded compensated absences</b>	- The Bank provides compensated absences, an unfunded scheme, as per entitlement to all its permanent employees.			
37.2	<b>Number of employees under the scheme</b>	The number of employees covered under the following defined benefit schemes are:	2019	(Numbers)	2018
	- Pension fund		170		175
	- Gratuity fund		202		187
	- Compensated absences		170		175
37.3	<b>Principal actuarial assumptions</b>	The actuarial valuations were carried out as at December 31, 2019 using the following significant assumptions:	2019		2018
	Valuation discount rate - per annum		11.75%		13.75%
	Salaries increase rate - per annum (short term - 1 year)		9.75%		11.75%
	Expected return on plan assets - per annum		11.75%		13.75%
	Pension indexation rate - per annum		7.75%		9.75%
	Normal retirement age (NRA)		60 years		60 years
	Mortality rate		SLIC 2001-05		SLIC 2001-05
	Withdrawal rate		Low		Low
	Effective salary increase timing		January 1st, 2020		January 1st, 2019

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

## 37.4 Reconciliation of (receivable from)/payable to defined benefit plans

	2019			2018		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
		(Rupees in '000)			(Rupees in '000)	
Present value of obligation	1,484,477	102,736	95,297	1,403,012	90,898	80,304
Fair value of plan assets	(1,114,322)	(88,564)	-	(1,014,038)	(80,168)	-
Payable	370,155	14,172	95,297	388,974	10,730	80,304
<b>37.5 Movement in defined benefit obligations</b>						
Obligations at the beginning of the year	1,403,012	90,898	80,304	1,244,580	77,987	90,659
Current service cost	61,950	9,223	4,476	55,956	10,938	2,540
Interest cost	191,092	12,341	11,038	117,196	7,238	7,901
Benefit paid	(26,508)	(2,289)	(57)	(21,866)	(3,590)	(14,975)
Past service cost	-	-	(16,392)	-	-	-
Actuarial loss/(gain)	(145,069)	(7,437)	15,928	7,146	(1,675)	(5,821)
Obligations at the end of the year	1,484,477	102,736	95,297	1,403,012	90,898	80,304
<b>37.6 Movement in fair value of plan assets</b>						
Fair value at the beginning of the year	1,014,038	80,168	-	911,160	71,035	-
Expected return on plan assets	137,608	11,023	-	88,127	6,527	-
Contribution to the fund	20,826	2,289	-	54,848	4,658	-
Benefits paid during the year	(26,508)	(2,289)	-	(21,866)	-	-
Actuarial (loss)	(31,642)	(2,627)	-	(18,231)	(2,052)	-
Fair value at the end of the year	1,114,322	88,564	-	1,014,038	80,168	-
<b>37.7 Movement in net liability under defined benefit schemes</b>						
Opening balance	388,974	10,730	80,304	333,420	6,952	90,659
Charge for the year	115,434	10,541	15,050	85,025	11,649	4,620
Re-measurement loss/(gain) recognised in OCI during the year	(113,427)	(4,810)	-	25,377	377	-
Contribution by the Bank	(20,826)	(2,289)	(57)	(54,848)	(8,248)	(14,975)
Closing balance	370,155	14,172	95,297	388,974	10,730	80,304

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	2019			2018		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
<b>37.8 Charge for defined benefit plans</b>						
<b>37.8.1 Cost recognised in profit and loss</b>						
Current service cost	61,950	9,223	4,476	55,956	10,938	2,540
Net interest on defined benefit asset/liability	53,484	1,318	11,038	29,069	711	7,901
Past service cost	-	-	(16,392)	-	-	-
Actuarial (gain)/loss recognised - P&L	-	-	15,928	-	-	(5,821)
	<b>115,434</b>	<b>10,541</b>	<b>15,050</b>	<b>85,025</b>	<b>11,649</b>	<b>4,620</b>
<b>37.8.2 Re-measurements recognised in OCI</b>						
Experience adjustment						
- Loss/(gain) on obligation	(145,069)	(7,437)	(15,928)	7,146	(1,675)	5,821
- Loss on plan assets	31,642	2,627	-	18,231	2,052	-
- Actuarial (gain)/loss recognised - P&L	-	-	15,928	-	-	(5,821)
Total re-measurements loss/(gain) recognised in OCI	<b>(113,427)</b>	<b>(4,810)</b>	<b>-</b>	<b>25,377</b>	<b>377</b>	<b>5,821</b>
<b>37.9 Components of plan assets</b>						
Cash and cash equivalents - net			101		18,061	-
Term deposits receipts (TDRs)			1,114,221		995,977	80,168
			<b>1,114,322</b>		<b>1,014,038</b>	<b>80,168</b>
<b>37.10 Sensitivity analysis</b>						
Sensitivity analysis is performed by changing only one assumption at a time while keeping the other assumptions constant. Sensitivity analysis of discount rate and salary increase rate is presented in the below tables:						
	2019			2018		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
Current liability	1,484,477	102,736	95,297	1,403,012	90,898	80,304
1% increase in discount rate	1,324,349	93,113	90,174	1,247,894	81,991	75,754
1% decrease in discount rate	1,679,496	113,876	100,868	1,592,040	101,233	85,269
1% increase in expected rate of salary increase	1,568,819	114,503	101,370	1,489,608	101,784	85,691
1% decrease in expected rate of salary increase	1,405,820	92,442	89,637	1,322,616	81,400	75,301
1 year mortality age set forward	1,461,272	102,826	-	1,381,363	90,814	-
1 year mortality age set back	1,509,668	102,645	-	1,426,536	90,982	-



# Notes to the Consolidated Financial Statements

## For the year ended December 31, 2019

37.11	<b>Expected charge/(reversal) for the next financial year</b> The Bank contributes to the pension and gratuity funds according to the actuary's advice.	<table><tr><th>Pension fund</th><th>Gratuity fund</th><th>Compensated Absences</th></tr><tr><td></td><td>(Rupees in '000)</td><td></td></tr><tr><td>102,069</td><td>10,636</td><td>16,636</td></tr><tr><td></td><td>2019</td><td>2018</td></tr><tr><td></td><td>11.42</td><td>11.86</td></tr></table>	Pension fund	Gratuity fund	Compensated Absences		(Rupees in '000)		102,069	10,636	16,636		2019	2018		11.42	11.86																									
Pension fund	Gratuity fund	Compensated Absences																																								
	(Rupees in '000)																																									
102,069	10,636	16,636																																								
	2019	2018																																								
	11.42	11.86																																								
37.12	<b>Maturity profile</b> The weighted average duration of the obligation (in years)																																									
37.13	<b>Funding Policy</b> The Bank endeavors to ensure that liabilities under the various employee benefit schemes are covered by the Fund on any valuation date having regards to the various actuarial assumptions such as projected future salary increase, expected future contributions to the fund, projected increase in liability associated with future service and the projected investment income of the Fund.																																									
37.14	<b>Risks Associated with Defined Benefit Plans</b> <b>Investment Risks:</b> The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives. <b>Longevity Risks:</b> The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population. <b>Salary Increase Risk:</b> The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly. <b>Withdrawal Risk:</b> The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way. <b>Mortality risks</b> The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service/age distribution and the benefits.	<table><tr><th>2019</th><th>2018</th><th>2017</th><th>2016</th><th>2015</th></tr><tr><td></td><td></td><td>(Rupees in '000)</td><td></td><td></td></tr><tr><td>1,484,477</td><td>1,403,012</td><td>1,244,580</td><td>1,017,166</td><td>834,743</td></tr><tr><td>(1,114,322)</td><td>(1,014,038)</td><td>(911,160)</td><td>(805,739)</td><td>(719,350)</td></tr><tr><td>370,155</td><td>388,974</td><td>333,420</td><td>211,427</td><td>115,393</td></tr><tr><td>(145,069)</td><td>7,146</td><td>72,564</td><td>76,969</td><td>24,565</td></tr><tr><td>31,642</td><td>18,231</td><td>21,354</td><td>10,133</td><td>7,281</td></tr><tr><td>(113,427)</td><td>25,377</td><td>93,918</td><td>87,102</td><td>31,846</td></tr></table>	2019	2018	2017	2016	2015			(Rupees in '000)			1,484,477	1,403,012	1,244,580	1,017,166	834,743	(1,114,322)	(1,014,038)	(911,160)	(805,739)	(719,350)	370,155	388,974	333,420	211,427	115,393	(145,069)	7,146	72,564	76,969	24,565	31,642	18,231	21,354	10,133	7,281	(113,427)	25,377	93,918	87,102	31,846
2019	2018	2017	2016	2015																																						
		(Rupees in '000)																																								
1,484,477	1,403,012	1,244,580	1,017,166	834,743																																						
(1,114,322)	(1,014,038)	(911,160)	(805,739)	(719,350)																																						
370,155	388,974	333,420	211,427	115,393																																						
(145,069)	7,146	72,564	76,969	24,565																																						
31,642	18,231	21,354	10,133	7,281																																						
(113,427)	25,377	93,918	87,102	31,846																																						
37.15	<b>Disclosure for current and previous four annual years of Pension</b> <b>Deficit position</b> Present value of obligation Fair value of plan assets Net defined benefit liability <b>Experience adjustments</b> Remeasurement (gain)/loss on obligation Remeasurement loss on plan asset Other Comprehensive Income																																									

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

## 37.16 Disclosure for current and previous four annual years of gratuity

Deficit position	2019	2018	2017 (Rupees in '000)	2016	2015
Present value of obligation	102,736	90,898	77,987	67,626	53,821
Fair value of plan assets	(88,564)	(80,168)	(71,035)	-	-
Net defined benefit liability	14,172	10,730	6,952	67,626	53,821
<b>Experience adjustments</b>					
Remeasurement (gain)/loss on obligation	(7,437)	(1,675)	4,282	10,317	9,533
Remeasurement loss on plan asset	2,627	2,052	-	-	-
Other Comprehensive Income	(4,810)	377	4,282	10,317	9,533

## 38. DEFINED CONTRIBUTION PLAN (BENEVOLENT FUND)

### 38.1 General description

The Bank also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme). Contributions to this fund were made equally by the Bank and employees till March 2002. Thereafter it is wholly contributed by the Bank at the rate of 2% of basic salary with a ceiling of Rs. 200 per month per employee. Annual contribution towards the defined benefit scheme are made on the basis of actuarial advice using the Projected Unit Credit Method.

	2019				2018	
	Officers benevolent fund	Staff benevolent fund	Total	Officers benevolent fund	Staff benevolent fund	Total
	(Rupees in '000)			(Rupees in '000)		
Actuarial liability for active employees	13,671	2,960	16,631	12,108	2,670	14,778
Actuarial liability for beneficiaries	1,279	215	1,494	852	123	975
<b>Total actuarial liability</b>	14,950	3,175	18,125	12,960	2,793	15,753
Fair value of plan assets	(18,495)	(5,042)	(23,537)	(16,737)	(4,658)	(21,395)
<b>Funding surplus</b>	(3,545)	(1,867)	(5,412)	(3,777)	(1,865)	(5,642)
Receivable from fund	-	-	-	-	-	-
<b>Asset recognized in balance sheet</b>	(3,545)	(1,867)	(5,412)	(3,777)	(1,865)	(5,642)
The amount recognized in the profit and loss account is as follows:						
Expense for the year	348	81	429	(3,124)	(697)	(3,821)
Funding surplus	-	-	-	-	-	-
	348	81	429	(3,124)	(697)	(3,821)
	2019			2018		
	(Rupees in '000)			(Rupees in '000)		
	84			84		
	23,453			23,453		
	23,537			23,537		

### 38.3 Break-up of category of assets

Cash and cash equivalents  
Term deposits receipts (TDRs)

# Notes to the Consolidated Financial Statements

## For the year ended December 31, 2019

### 38.4 Sensitivity analysis

Sensitivity analysis is performed by changing only one assumption at a time while keeping the other assumptions constant. Sensitivity analysis of discount rate and salary increase rate is presented in the below tables:

	2019	2018
	(Rupees in '000)	
Current liability	18,125	15,753
1% increase in discount rate	17,290	15,027
1% decrease in discount rate	19,028	16,538
1% increase in expected rate of salary increase	18,125	15,753
1% decrease in expected rate of salary increase	18,125	15,753

### 38.5 Risks associated with defined contribution plan

#### Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

#### Salary increase risk

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

#### Withdrawal risk

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

### 38.6 Maturity profile

The weighted average duration of the obligation (in years)

2019	2018
11.42	11.86

### 38.7 SMEL operates following staff retirement and other benefits schemes for its employees

SMEL operates an unapproved and unfunded gratuity scheme for all its permanent employees. Number of employees covered under the scheme are 28 (2018: 34). The latest actuarial valuation of the gratuity scheme was carried out as at December 31, 2019 using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

#### 38.7.1 Principal actuarial assumptions

Valuation discount rate	2019	2018
Expected long term rate of increase in salary level	11.25%	13.25%
	11.25%	13.25%

#### 38.7.2 Liability in statement of financial position

Present value of defined benefit obligation

2019	2018
7,623	9,091

#### 38.7.3 Movement in liability during the year

Balance as at January 01	9,091	6,911
Charged to profit and loss account	2,433	2,055
Remeasurements loss chargeable in other comprehensive income	(1,120)	207
Benefits paid during the year	(2,781)	(82)
Closing balance	7,623	9,091

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	2019	2018
<b>38.7.4 Reconciliation of the present value of defined benefit obligations</b>		
Present value of obligations as at January 01		
Current service cost	9,091	6,911
Interest cost	1,413	1,201
Past service cost	1,020	567
Benefits paid during the year	-	287
Remeasurements loss chargeable in other comprehensive income	(2,781)	(82)
Present value of obligations as at December 31	(1,120)	207
<b>Charge for the year</b>	<b>7,623</b>	<b>9,091</b>
<b>38.7.5 Charge for the year</b>		
Current services cost	1,413	1,201
Past service cost	-	287
Interest cost	1,020	567
	<b>2,433</b>	<b>2,055</b>
<b>38.7.6 Re-measurements recognised in other comprehensive income</b>		
Actuarial gains on obligation	(23)	50
Experience adjustment	(1,097)	157
Total re-measurements recognised in other comprehensive income	<b>(1,120)</b>	<b>207</b>
<b>38.7.7 Sensitivity analysis</b>		
Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the employee benefit schemes. The increase/(decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:		
<b>Discount rate effect</b>		
Original liability	7,623	11.25%
1% increase	7,011	12.25%
1% decrease	8,321	10.25%
<b>Salary increase rate effect</b>		
Original liability	7,623	11.25%
1% increase	8,327	12.25%
1% decrease	6,995	10.25%
The sensitivity analysis prepared presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.		
<b>38.7.8 Maturity profile</b>		
The weighted average duration of the obligation (in years)	2019	2018
	10	8

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 39. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

#### 39.1 Total compensation expense

Items	2019			2018		
	Non-executive directors	President/CEO	Executives	Non-executive directors	President/CEO	Executives
(Rupees in '000)						
Fees and allowances etc.	660	-	-	1,670	-	-
Managerial remuneration						
i) Fixed	-	2,444	110,782	-	6,885	92,311
ii) Variable	-	-	-	-	-	-
Charge for defined benefit plan	-	1,764	45,582	-	2,791	28,897
Rent & house maintenance	-	1,344	31,891	-	3,787	25,642
Utilities	-	244	10,710	-	688	8,914
Medical	-	367	10,662	-	1,033	8,855
Conveyance	-	-	566	-	-	390
Motor car running & maintenance	-	500	26,265	-	1,039	19,210
Leave fare assistance	-	-	-	-	1,785	-
Leave absence	-	-	-	-	1,729	-
Others	-	731	23,654	183	1,320	19,192
<b>Total</b>	<b>660</b>	<b>7,394</b>	<b>260,112</b>	<b>1,853</b>	<b>21,057</b>	<b>203,411</b>
Number of persons	6	1	69	13	1	54

Executive means an employee, other than the chief executive and directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year.

#### 39.2 Remuneration paid to directors for participation in board and committee meetings of the Bank

Sr. no.		2019					
		Meeting fees and allowances paid					
		For board committees					
		For board meetings	Board audit committee	Risk management committee	Human resource committee	Board remuneration committee	Total
(Rupees in '000)							
1	Due to absence of board no meetings of the board and its committees held during the current year.	-	-	-	-	-	-

Sr. no.		2018					
		Meeting fees and allowances paid					
		For board committees					
		For board meetings	Board audit committee	Risk management committee	Human resource committee	Board remuneration committee	Total
(Rupees in '000)							
1	Mr. Muhammad Adnan Jalil	125	60	60	45	-	290
2	Mr. Zarar Haider	50	30	30	-	-	110
3	Mr. Badr-ul-Arifeen	125	60	60	45	-	290
4	Mr. Sher Ayub Khan	125	30	-	-	-	155
5	Mr. Muhammad Arshad Khan	25	15	-	-	-	40
<b>Total amount paid</b>		<b>450</b>	<b>195</b>	<b>150</b>	<b>90</b>	<b>-</b>	<b>885</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### Remuneration paid to directors for participation in board and committee meetings of the SMEL

		2019					
Sr. no.	Name of director	Meeting fees and allowances paid					
		For board meetings	For board committees				Total
			Board audit committee	Risk management committee	Human resource committee	Board remuneration committee	
		(Rupees in '000)					
1	Mr. Dilshad Ali Ahmad	100	-	10	10	-	120
2	Muhammad Farrukh Mansoor Malik	100	40	-	-	-	140
3	Mr. Bilal Mustafa	100	-	10	10	-	120
4	Mr. Abdul Waseem	25	10	-	-	-	35
5	Mst. Darakshan S. Vohra	100	30	-	10	-	140
6	Mr. Mubeen Mufti	75	30	-	-	-	105
	Total amount paid	500	110	20	30	-	660

		2018					
Sr. no.	Name of director	Meeting fees and allowances paid					
		For board meetings	For board committees				
			Board audit committee	Risk management committee	Human resource committee	Board remuneration committee	Total
		(Rupees in '000)					
1	Ms. Mehnaz Saleem	50	-	-	10	-	60
2	Mr. Ihsan-ul-Haq Khan	75	-	-	-	-	75
3	Mr. Dilshad Ali Ahmad	100	-	20	10	-	130
4	Muhammad Farrukh Mansoor Malik	100	40	-	-	-	140
5	Mr. Ateeq ur Rehman	50	20	-	10	-	80
6	Mr. Bilal Mustafa	100	40	-	20	-	160
7	Mr. Abdul Waseem	50	10	10	-	-	70
8	Mst. Darakshan S. Vohra	50	10	-	10	-	70
	Total amount paid	575	120	30	60	-	785

The remuneration of directors of SMEL has been fixed in accordance with the Article of Association which include Rs. 25,000 and Rs. 10,000 for attending board meetings and meetings of committee of board respectively.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

## 40 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available consolidated financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings can not be calculated with sufficient reliability due to the absence of current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values. Since these are either short term in nature or, in the case of deposits, are frequently pre-priced.

	December 31, 2019			
	Fair value			Total
	Level 1	Level 2	Level 3	
	(Rupees in '000)			
<b>40.1 On balance sheet financial instruments</b>				
Financial assets measured at fair value				
- Investments	-	5,593,673	-	5,593,673
Government securities (T bills and PIBs)	4,084	-	-	4,084
Ordinary shares of listed companies/mutual funds	-	-	-	26,470
Ordinary shares of unlisted companies	-	-	-	-
Financial assets not measured at fair value				
- Bank balances with treasury banks	-	-	-	526,933
- Balances with other banks	-	-	-	5,252
- Lending to financial institutions	-	-	-	-
- Advances	-	-	-	2,224,724
- Other assets	-	-	-	174,020
-Other investment (COI/TDR)	-	-	-	35,000
- Subsidiary	-	-	-	-
SME Leasing Limited	-	-	-	-

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

December 31, 2018				
Fair value				
Level 1	Level 2	Level 3	Carrying/ notional value	Total
(Rupees in '000)				
- Investments				
- Government securities (T bills and PIBs)	5,618,243	-	-	5,618,243
- Ordinary shares of listed companies/mutual funds	4,694	-	-	4,694
- Ordinary shares of unlisted companies	-	-	26,470	26,470
Financial assets not measured at fair value				
- Bank balances with treasury banks	-	-	337,347	337,347
- Balances with other banks	-	-	20,718	20,718
- Lending to financial institutions	-	-	-	-
- Advances	-	-	2,581,619	2,581,619
- Other assets	-	-	164,629	164,629
- Other investment (COI/TDR)	-	-	35,000	35,000
Subsidiary- SME Leasing Limited	-	-	-	-

The Bank measures fair values using the following fair values hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Fair value measurement using quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the assets and liabilities that are not based on observable market data (i.e. unobservable inputs).

**40.2** The Bank has not disclosed the fair value for these financial assets as these are for short term and or re-priced over short term. Therefore their carrying amounts are reasonable approximation of fair value.

**40.3** The Bank's policy is to recognise transfer into and out of the different fair value hierarchy levels at the date, the event or change in circumstances, that caused the transfer occurred. There were no transfers between level 1 and level 2 during the year.

## 40.4 Valuation techniques and inputs used in determination of fair values within level 1

Fully paid-up ordinary shares  
Fair values of investments in listed equity securities are valued on the basis of closing quoted market prices available at the Pakistan Stock Exchange.

## Valuation techniques and inputs used in determination of fair values within level 2

Pakistan investment bonds/market treasury bills  
Fair values of Pakistan investment bonds and treasury bills are derived using the PKRV rates (Reuters page).



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 41. SEGMENT INFORMATION

#### 41.1 Segment details with respect to business activities

The segment analysis with respect to business activity is as follows:

	December 31, 2019			
	Trading & sales	Commercial banking	Other leasing operations	Total
<b>Profit &amp; loss</b>	(Rupees in '000)			
Net mark-up/return/profit	461,914	293,992	26,555	782,461
Inter segment revenue - net	-	237,196		237,196
Non mark-up/return/interest income	2,254	10,913	20	13,187
Total income	464,168	542,101	26,575	1,032,844
Segment direct expenses	571,657	1,524,583	46,290	2,142,530
Inter segment expenses allocation	237,196	-	-	237,196
Total expenses	808,853	1,524,583	46,290	2,379,726
Provisions	(20,000)	642	(4,731)	(24,089)
Loss before tax	(324,685)	(983,124)	(14,984)	(1,322,793)
<b>Balance sheet</b>	(Rupees in '000)			
Cash & bank balances	432,679	222,423	788	655,890
Investments	5,659,227	-	-	5,659,227
Net inter segment lending		3,182,440	-	3,182,440
Lending to financial institutions	-	-	-	-
Advances - Performing	-	1,627,750	334,205	1,961,955
- Non-performing	-	138,089	124,680	262,769
Others	663,285	1,183,432	13,880	1,860,597
<b>Total assets</b>	<b>6,755,191</b>	<b>6,354,134</b>	<b>473,553</b>	<b>13,582,878</b>
Borrowings	3,580,455	74,316	373	3,655,144
Deposits & other accounts	-	7,500,708	-	7,500,708
Net inter segment borrowing	3,182,440	-	-	3,182,440
Others	415,993	1,092,974	251,704	1,760,671
Total liabilities	7,178,888	8,667,998	252,077	16,098,963
Equity	(423,697)	(2,313,864)	221,476	(2,516,085)
Total equity & liabilities	6,755,191	6,354,134	473,553	13,582,878
Contingencies & commitments	3,560,826	1,680,185	-	5,241,011

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	December 31, 2018			
	Trading & sales	Commercial banking	Other leasing operations	Total
<b>Profit &amp; loss</b>	(Rupees in '000)			
Net mark-up/return/profit	475,402	251,724	31,280	758,406
Inter segment revenue - net	-	142,309	-	142,309
Non mark-up/return/interest income	1,457	10,660	170	12,287
Total income	476,859	404,693	31,450	913,002
Segment direct expenses	396,523	1,168,518	43,746	1,608,787
Inter segment expenses allocation	142,309	-	-	142,309
Total expenses	538,832	1,168,518	43,746	1,751,096
Provisions	(2,215)	19,264	(5,602)	11,447
Loss before tax	(59,758)	(783,089)	(6,694)	(849,541)
<b>Balance sheet</b>	(Rupees in '000)			
Cash & bank balances	260,427	199,650	4,568	464,645
Investments	5,684,407	-	-	5,684,407
Net inter segment lending	-	1,745,739	-	1,745,739
Lending to financial institutions	-	-	-	-
Advances - Performing	-	1,976,610	360,621	2,337,231
- Non-performing	-	112,597	131,791	244,388
Others	591,454	589,747	2,249	1,183,450
<b>Total assets</b>	6,536,288	4,624,343	499,229	11,659,860
Borrowings	4,716,350	23,545	373	4,740,268
Deposits & other accounts	-	5,719,446	-	5,719,446
Net inter segment borrowing	1,745,739	-	-	1,745,739
Others	417,915	453,540	245,880	1,117,335
Total liabilities	6,880,004	6,196,531	246,253	13,322,788
Equity	(343,716)	(1,572,188)	252,976	(1,662,928)
Total equity & liabilities	6,536,288	4,624,343	499,229	11,659,860
Contingencies & commitments	4,669,798	1,510,500	8,625	6,188,923

Assumptions used:

- Unallocable assets representing 6.03% (2018: 5.16%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocable liabilities representing 6.92% (2018: 5.45%) of the gross liabilities have been allocated to segments based on their respective incomes.

#### 41.2 Segment details with respect to geographical locations

Presently the Group does not deal outside Pakistan.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 42. RELATED PARTY TRANSACTIONS

Details of balances outstanding at year end and transactions with related parties are as follows:

	December 31, 2019					December 31, 2018				
	Key management personnel	Equity participation fund	Employees benefit plans	Employees provident trust	Key management personnel	Equity participation fund	Employees benefit plans	Employees provident trust	(Rupees in '000)	
<b>Investments</b>										
Opening balance	-	-	-	-	-	-	-	-	-	-
Investment made during the year	-	-	-	-	-	-	-	-	-	-
Investment redeemed/disposed off during the year	-	-	-	-	-	-	-	-	-	-
Transfer in/(out) - net	-	-	-	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-	-	-	-
Provision for diminution in value of investments	-	-	-	-	-	-	-	-	-	-
<b>Advances</b>										
Opening balance	15,252	-	-	-	-	-	-	-	-	-
Addition (total debits) during the year	8,789	-	-	-	18,241	-	-	-	-	-
Repaid (total credits) during the year	(13,740)	-	-	-	(20,227)	-	-	-	-	-
Transfer in/(out) - net	-	-	-	-	-	-	-	-	-	-
Closing balance	10,301	-	-	-	15,252	-	-	-	-	-
Provision held against advances	-	-	-	-	-	-	-	-	-	-
<b>Other assets</b>										
Interest/mark-up accrued	5,880	611	-	-	5,655	-	-	-	-	-
Receivable from staff retirement fund	-	-	5,412	-	-	-	-	5,642	-	-
Other receivable	-	-	-	-	-	-	-	-	-	-
<b>Deposits and other accounts</b>										
Opening balance	4,702	412,774	811,006	12,769	9,917	394,236	603,787	52,518	-	-
Received during the year	104,916	41,502	350,205	33,890	87,748	18,956	224,275	28,401	-	-
Withdrawn during the year	(98,603)	-	(5,782)	(41,659)	(93,066)	(418)	(17,056)	(68,150)	-	-
Transfer in/(out) - net	166	-	-	-	103	-	-	-	-	-
Closing balance	11,181	454,276	1,155,429	5,000	4,702	412,774	811,006	12,769	-	-
<b>Other liabilities</b>										
Interest/mark-up payable	106	4,341	72,000	52	39	2,771	25,269	75	-	-
Payable to staff retirement fund	-	-	479,624	-	-	-	480,008	-	-	-
Others liabilities	-	-	-	-	-	794	-	-	-	-
<b>Contingencies and commitments</b>										
	-	-	-	-	-	-	-	-	-	-

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

	December 31, 2019				December 31, 2018			
	Key management personnel	Equity participation fund	Employees benefit plans	Employees provident trust	Key management personnel	Equity participation fund	Employees benefit plans	Employees provident trust
	(Rupees in '000)				(Rupees in '000)			
<b>Income</b>								
Mark-up/return/interest earned	480	-	-	-	589	-	-	-
Fee and commission income	-	974	-	-	-	974	-	-
<b>Expense</b>								
Mark-up/return/interest paid	1,015	43,073	107,170	988	467	20,471	41,764	768
Fees and other expenses		-	-	-		-	-	-
Remuneration and allowances	70,746	-	-	-	71,772	-	-	-
Charge for the period relating to employees benefit plans	-	-	141,454	-	-	-	97,473	-
		Description			Interest rate			
Principal terms of deposit to equity participation fund		Remunerative deposits			8.0% to 11.25%			
Principal terms of deposit to employee benefit plans		Remunerative deposits			6.80% to 13.65%			
Principal terms of deposit to employee provident trust		Remunerative deposits			8.0% to 11.50%			

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 43. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy is as follows:

	2019		2018	
	(Rupees in '000)			
Regulatory capital base				
<i>Tier I capital</i>				
Shareholders capital/assigned capital	2,392,507		2,392,507	
Reserves	234,660		234,660	
Non-controlling interest	26,621		35,907	
Unappropriated/unremitted profits (net of losses)	(4,869,557)		(3,890,197)	
	(2,215,769)		(1,227,123)	
Less: Adjustments				
Goodwill/intangible assets	1,331		2,479	
Investment in equity of subsidiary	-		-	
Deficit on revaluation of available for sale investments	300,316		435,805	
	301,647		438,284	
<i>Total tier I capital</i>	(2,517,416)		(1,665,407)	
<i>Tier II capital</i>	8		25	
<i>Eligible tier III capital</i>	-		-	
Total regulatory capital	(2,517,408)		(1,665,382)	
Risk-weighted exposures				
	2019		2018	
	Book value	Risk adjusted value	Book value	Risk adjusted value
	(Rupees in '000)			
<i>Credit risk</i>				
Balance sheet items:				
Cash and other liquid assets	655,890	1,050	464,645	4,144
Investments/lending to financial institutions	5,659,227	65,554	5,684,407	66,164
Loans and advances	2,224,724	1,347,509	2,581,619	1,578,051
Fixed assets	548,676	548,676	60,375	60,375
Deferred tax assets	752,294	752,294	525,695	525,695
Other assets	558,296	281,704	594,901	309,415
	10,399,107	2,996,787	9,911,642	2,543,844
Off balance sheet items				
Weighted non-funded exposures	206,700	103,350	112,676	56,338
Credit risk-weighted exposures	10,605,807	3,100,137	10,024,318	2,600,182
Market risk		728,771		1,037,278
Market risk-weighted exposures	-	728,771	-	1,037,278
Total risk-weighted exposures		3,828,908		3,637,460
<i>Capital adequacy ratio credit risk</i> [ (a)/(b) x 100 ]		-81.20%		-64.05%
<i>Total capital adequacy ratio</i> [ (a)/(c) x 100 ]		-65.75%		-45.78%

State Bank of Pakistan (SBP) has granted exemption to the Bank vide letter No. BSD/SU-21/220/1624/2007 dated June 08, 2007 from computing capital adequacy ratio (CAR) under BASEL II till restructuring/privatization and has granted exemption from implementation of BASEL III Capital Instructions till restructuring/privatization vide SBP letter no. BPRD/BA&CPD/646/000886/16 dated January 12, 2016. Accordingly, the Bank computes CAR under BASEL I and SBP has allowed exemption in meeting the minimum CAR requirements of 10% till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier vide SBP letter no. BPRD/BA&CPD/646/332/20 dated January 6, 2020.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 44. RISK MANAGEMENT

#### 44.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Group is not exposed to major concentration of credit risk. Written procedures for credit and risk management functions have been developed and implemented. Credit evaluation system comprise of well designed loan approval and review responsibilities and it is ensured that Bank's credit-granting activities conform to the established strategy, prudential regulations and SBP instructions are strictly followed. To ensure that credit granting activities are adequately diversified, besides fixing limits on individual credit, it is ascertained that there is no concentration in a particular industry or economic sector, geographical region and specific product. Special attention is placed on such non-performing loans and a Special Assets Management Division follows up and recovers all such loans.

	Gross Advances		Non-performing advances		Provision held	
	2019	2018	2019	2018	2019	2018
<b>44.1.1 Advances</b>						
<b>Credit risk by industry sector</b>	<b>(Rupees in '000)</b>					
Chemical and pharmaceuticals	179,898	210,192	105,771	104,484	101,354	101,997
Agriculture, forestry, hunting and fishing	233,782	235,153	203,002	205,046	203,002	204,351
Mining & quarrying	9,053	9,053	9,053	9,053	9,053	9,053
Textile	426,831	419,080	352,142	357,046	342,930	344,495
Cement	-	20,268	-	20,268	-	20,268
Footwear and leather garments	79,332	78,877	71,503	71,134	60,344	60,344
Automobile and transportation equipment	149,469	145,577	72,397	68,411	65,546	59,829
Financial	47,786	47,551	-	-	-	-
Insurance	-	-	-	-	-	-
Electronics and electrical appliances	54,999	54,947	15,307	13,036	10,582	11,136
Construction	311,340	353,247	70,079	71,793	69,975	70,840
Power (electricity), gas, water and sanitary	76,089	83,035	7,255	5,066	3,956	5,066
Wholesale and trade	1,820,807	1,611,069	1,530,671	1,368,293	1,490,818	1,329,795
Transport, storage, and communication	105,819	35,637	25,164	24,920	4,351	1,607
Individuals	1,136,643	1,625,308	1,050,840	1,521,485	1,050,840	1,521,485
Services	547,418	488,886	240,299	158,974	157,022	108,242
Government	-	-	-	-	-	-
Others	2,448,362	2,572,003	1,912,182	1,653,618	1,833,123	1,559,731
	<b>7,627,628</b>	<b>7,989,883</b>	<b>5,665,665</b>	<b>5,652,627</b>	<b>5,402,896</b>	<b>5,408,239</b>
<b>44.1.2 Segment by sector</b>						
Public/government	-	-	-	-	-	-
Private	<b>7,627,628</b>	<b>7,989,883</b>	<b>5,665,665</b>	<b>5,652,627</b>	<b>5,402,896</b>	<b>5,408,239</b>
	<b>7,627,628</b>	<b>7,989,883</b>	<b>5,665,665</b>	<b>5,652,627</b>	<b>5,402,896</b>	<b>5,408,239</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 44.1.3 Contingencies and commitments

#### Credit risk by industry sector

	2019	2018
	(Rupees in '000)	
Chemical and pharmaceuticals	379	1,900
Agriculture, forestry, hunting and fishing	4	73
Mining & quarrying	-	-
Textile	6,556	14,863
Cement	-	-
Sugar	-	-
Footwear and leather garments	-	999
Automobile and transportation equipment	10,002	679
Financial	3,568,670	4,678,491
Insurance	-	-
Electronics and electrical appliances	7,253	3,408
Construction	266,385	140,248
Power (electricity), gas, water and sanitary	25,403	29,220
Wholesale and trade	89,761	66,260
Exports/imports	-	-
Transport, storage and communication	18,000	-
Individuals	34,620	89,203
Services	11,294	18,371
Government	1,050,753	932,032
Others	151,931	213,176
	<b>5,241,011</b>	<b>6,188,923</b>
<b>Credit risk by public/private sector</b>		
Public/government	1,050,753	932,032
Private	4,190,258	5,256,891
	<b>5,241,011</b>	<b>6,188,923</b>

### 44.1.4 Concentration of advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 795.836 million (2018: Rs. 716.895 million) are as following

	2019	2018
	(Rupees in '000)	
Funded	618,945	627,176
Non funded	176,891	89,719
Total exposure	<b>795,836</b>	<b>716,895</b>

The sanctioned limits against these top 10 exposures aggregated to Rs 901.404 million (2018: Rs. 871.758 million).

	2019		2018	
	Amount	Provision held	Amount	Provision held
	(Rupees in '000)			
<b>Total funded classified therein</b>				
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	-	-	-	-

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 44.1.5 Advances - province/region-wise disbursement & utilization

Province/region	2019				
	Disbursements	Punjab	Sindh	Utilization KPK including FATA	Balochistan Islamabad AJK including Gilgit-Baltistan
(Rupees in '000)					
Punjab	499,382	499,382	-	-	-
Sindh	284,689	-	260,349	21,840	2,500
KPK including FATA	80,600	-	-	80,600	-
Balochistan	273,400	-	-	-	273,400
Islamabad	304,100	156,900	-	112,200	35,000
AJK including Gilgit-Baltistan	-	-	-	-	-
Total	1,442,171	656,282	260,349	214,640	37,500

**Advances - province/region-wise disbursement & utilization**

Province/region	2018				
	Disbursements	Punjab	Sindh	Utilization KPK including FATA	Balochistan Islamabad AJK including Gilgit-Baltistan
(Rupees in '000)					
Punjab	576,100	576,100	-	-	-
Sindh	384,922	28,000	322,000	25,922	9,000
KPK including FATA	95,850	-	-	95,850	-
Balochistan	264,500	-	-	-	264,500
Islamabad	386,665	120,665	-	142,200	123,800
AJK including Gilgit-Baltistan	-	-	-	-	-
Total	1,708,037	724,765	322,000	263,972	132,800

### 44.2 Market risk

Market risk is the risk that the value of on and off-balance sheet positions of the Group will be adversely affected by movements in interest rates, foreign exchange rates and equity prices resulting in a loss to earnings and capital. The Group's interest rates exposure comprises those originating from investing and lending activities. The Asset and Liability Committee of the Group monitors and manages the interest rate risk with the objective of limiting the potential adverse effect on the profitability of the Group.



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2019			2018		
Banking book	Trading book	Total	Banking book	Trading book	Total
(Rupees in '000)					
650,638	-	650,638	443,927	-	443,927
5,252	-	5,252	20,718	-	20,718
-	-	-	-	-	-
65,554	5,593,673	5,659,227	66,164	5,618,243	5,684,407
2,224,724	-	2,224,724	2,581,619	-	2,581,619
548,676	-	548,676	60,375	-	60,375
1,331	-	1,331	2,479	-	2,479
752,294	-	752,294	525,695	-	525,695
558,296	-	558,296	594,901	-	594,901
4,806,765	5,593,673	10,400,438	4,295,878	5,618,243	9,914,121

### 44.2.1 Balance sheet split by trading and banking books

Cash and balances with treasury banks

Balances with other banks

Lendings to financial institutions

Investments

Advances

Fixed assets

Intangible assets

Deferred tax assets

Other assets

### 44.2.2 Foreign exchange risk

Presently the Group does not deal in foreign exchange.

### 44.2.3 Equity position risk

The Group's exposure in equity market is classified in available for sale category with the intent to earn profit based on fundamentals.



# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

Mismatch of interest rate sensitive assets and liabilities											
Effective yield/interest rate	2018	Exposured to yield/interest risk									Non-interest bearing financial instruments
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	
(Rupees in '000)											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks		443,927	-	-	-	-	-	-	-	-	443,927
Balances with other banks	4.00%	20,718	9,709	1,964	1,346	559	626	-	119	1,501	4,894
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-
Investments	7.70%	5,684,407	649,904	393,807	3,870	193,749	343,936	4,090,912	-	8,139	-
Advances	9.51%	2,581,619	157,489	120,577	262,194	548,667	75,294	1,169,927	239,601	3,732	4,138
Other assets		164,629	-	-	-	-	-	-	-	-	164,629
		8,895,300	817,192	516,348	267,410	742,975	419,856	5,260,839	239,720	13,372	61,450
Liabilities											
Bills payable		118,788	-	-	-	-	-	-	-	-	118,788
Borrowings from financial institutions	7.44%	4,740,268	1,883,358	2,837,214	2,033	3,680	61,60	49,60	2,863	-	-
Deposits and other accounts	6.13%	5,719,446	1,377,775	957,309	693,798	844,315	51,38	7,000	-	1,273,920	560,191
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-
Other liabilities		252,995	-	-	-	-	-	-	-	-	252,995
		10,831,497	3,261,133	3,794,523	695,831	847,995	11,298	11,960	2,863	1,273,920	931,974
		(1,936,197)	(2,445,941)	(3,278,175)	(428,421)	(105,020)	408,558	5,248,879	236,857	(1,260,548)	4,138
On-balance sheet gap											
On-balance sheet financial instruments											
Commitments to extend credit		290,484	290,484	-	-	-	-	-	-	-	-
Commitments against repo borrowing		4,669,798	1,854,639	2,815,159	-	-	-	-	-	-	-
		4,960,282	2,145,123	2,815,159	-	-	-	-	-	-	-
Total yield/interest risk sensitivity gap											
		(4,589,064)	(6,093,334)	(428,421)	(428,421)	(105,020)	408,558	5,248,879	236,857	(1,260,548)	4,138
Cumulative yield/interest risk sensitivity gap											
		(4,589,064)	(10,682,398)	(11,110,819)	(11,110,819)	(11,215,839)	(10,807,281)	(5,558,402)	(5,321,545)	(6,382,093)	(6,377,935)
Reconciliation of assets and liabilities exposed to yield/interest rate risk with total assets and liabilities											
		(Rupees '000)									
Total financial assets		8,895,300									
Add non-financial assets:											
Fixed assets		60,375									
Intangible assets		2,479									
Deferred Tax Assets		525,695									
Other assets		430,272									
Balance as per balance sheet		9,914,121									
Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.											
Interest rate risk											
Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. Out of total financial assets of Rs. 8,895.3 million (2017: Rs. 10,256.22 million), the financial assets which were subject to interest rate risk amounted to Rs. 8,281.85 million (2017: Rs. 9,653.08 million). Investments and other assets amounting to Rs. 5,694.99 million (2017: Rs. 6,290.34 million) respectively are guaranteed by the Government of Pakistan. An Assets Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.											

# Notes to the Consolidated Financial Statements

## For the year ended December 31, 2019

**44.3 Liquidity Risk**  
Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. In order to avoid liquidity risk, the Bank has a policy to maintain sufficient liquidity. To closely watch liquidity position, the Assets Liability Committee meets periodically to ensure that adequate liquidity is maintained to meet any future financial obligation.

**44.3.1 Maturities of assets and liabilities - based on contractual maturity of the assets and liabilities of the Bank**

		2019													
Total		Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 to 9 months	Over 9 months to 1 years	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years	
		(Rupees in '000)													
Assets	Cash and balances with treasury banks	650,638	-	-	-	-	-	-	-	-	-	-	-	-	
	Balances with other banks	5,252	-	-	-	-	-	-	-	-	-	-	-	-	
	Lending to financial institutions	-	1,942	46,654	427	866,904	119	541,392	3,809	707	4,188,555	-	-	8,011	
	Investments	5,659,227	1,942	15,576	7,287	39,193	54,430	66,990	236,037	204,759	374,350	167,821	212,920	194,511	
	Advances	2,224,724	434,638	15,576	7,287	39,193	54,430	66,990	236,037	204,759	374,350	167,821	212,920	194,511	
	Fixed assets	548,676	-	-	-	6,179	6,168	6,452	18,408	18,310	17,611	60,761	50,988	278,279	
	Intangible assets	1,331	-	-	-	107	106	107	320	225	224	228	14	-	
	Deferred tax assets - net	752,294	-	-	-	-	-	-	-	-	-	752,294	-	-	-
	Other assets	558,296	68	82,954	91	16,617	3,725	3,014	280,472	1,454	160,068	1,200	-	12	8,621
		10,400,438	1,092,538	145,184	7,805	929,000	64,548	617,955	539,046	225,455	552,960	5,170,859	267,214	298,452	489,422
Liabilities	Bills payable	51,543	-	-	-	-	-	-	-	-	-	-	-	-	-
	Borrowings from financial institutions	3,655,144	-	1,327,203	682,490	1,571,430	1,996	2,597	5,459	4,751	14,212	11,976	13,409	12,485	
	Deposits and other accounts	7,500,708	4,181,656	49,770	4,876	118,843	656,492	164,905	1,469,549	273,888	25,266	25,725	-	-	
	Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other liabilities	1,709,128	65,756	159,055	9,620	70,043	25,381	5,618	106,011	16,414	46,744	42,782	133,384	29,316	999,004
		12,916,523	4,298,955	1,536,028	696,986	1,760,316	683,869	173,120	1,581,019	295,053	583,618	82,260	171,085	42,725	1,011,489
	Net assets	(2,516,085)	(3,206,417)	(1,390,844)	(689,181)	(831,316)	(619,321)	444,835	(1,041,973)	(69,598)	(30,658)	5,088,599	96,129	255,727	(522,067)
	Share capital	2,392,507	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves	234,660	-	-	-	-	-	-	-	-	-	-	-	-	-	
Deficit on revaluation of assets	(300,316)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Unappropriated profit	(4,869,557)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Non-controlling interest	26,621	-	-	-	-	-	-	-	-	-	-	-	-	-	
	(2,516,085)	-	-	-	-	-	-	-	-	-	-	-	-	-	

# Notes to the Consolidated Financial Statements

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## Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Bank

2018

		Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 to 9 months	Over 9 months to 1 years	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
Assets														
Cash and balances with treasury banks	443,927	443,927	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	20,718	20,718	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	5,684,407	2,098	646,504	433	959	393,686	121	3,870	718	193,031	343,936	4,090,912	-	8,139
Advances	2,581,619	319,266	10,016	4,124	100,877	48,805	76,871	329,600	198,535	269,734	253,922	319,020	521,820	128,429
Fixed assets	60,375	-	-	-	1,866	1,865	1,862	5,403	5,319	5,257	19,618	8,282	6,437	4,466
Intangible assets	2,479	-	-	-	110	112	112	333	324	321	1,014	153	-	-
Deferred tax assets - net	525,695	-	-	-	-	-	-	-	-	-	525,695	-	-	-
Other assets	594,901	3,499	17,948	19,355	61,227	9,963	16,213	287,689	7,145	162,081	825	-	10	8,946
	9,914,121	789,508	675,068	23,912	165,039	454,431	95,179	626,895	212,041	630,424	1,145,010	4,418,567	528,267	149,980
Liabilities														
Bills payable	118,788	118,788	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	4,740,268	901	1,202,987	-	400,712	3,114,155	577	2,033	1,840	1,839	6,158	4,958	4,108	-
Deposits and other accounts	5,719,446	2,989,337	237,970	97,876	101,252	508,494	233,026	693,798	93,590	751,965	5,138	7,000	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	998,547	28,862	180,302	927	50,449	23,066	3,464	3,451	6,160	4,440	35,117	25,827	121,288	515,194
	11,577,049	3,137,888	1,621,259	98,803	552,413	3,643,715	237,067	699,282	101,590	758,244	46,413	37,785	125,396	515,194
Net assets	(1,662,928)	(2,348,380)	(946,191)	(74,891)	(387,374)	(3,191,284)	(141,888)	(72,387)	(110,451)	(127,820)	(1,098,597)	(4,380,582)	(402,871)	(365,214)
Share capital	2,392,507													
Reserves	234,660													
Deficit on revaluation of assets	(435,805)													
Unappropriated profit	(3,890,197)													
Non-controlling interest	35,907													
	(1,662,928)													

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

## 44.3.2 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Bank

2019										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	650,638	572,189	16,291	1,145	3,039	-	-	57,974	-	-
Balances with other banks	5,252	4,096	-	373	156	175	-	418	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	5,659,227	915,927	541,511	3,809	1,414	4,188,555	-	8,011	-	-
Advances	2,224,724	145,360	160,405	279,409	445,701	290,907	549,857	23,084	3,682	-
Fixed assets	548,676	6,170	12,620	18,408	35,921	60,761	50,988	163,598	114,681	-
Intangible assets	1,331	107	213	320	449	228	14	-	-	-
Deferred tax assets - net	752,294	-	-	-	-	752,294	-	-	-	-
Other assets	558,296	142,163	1,623	201,300	159,100	1,164	9	52,407	-	-
	10,400,438	1,786,012	732,663	504,764	645,780	5,294,084	600,868	412,412	305,492	118,363
Liabilities										
Bills payable	51,543	44,647	-	-	-	-	-	-	6,896	-
Borrowings from financial institutions	3,655,144	3,107,648	476,748	4,829	7,830	14,504	12,207	18,729	12,649	-
Deposits and other accounts	7,500,708	1,876,726	1,151,879	1,469,549	803,425	25,267	25,725	-	2,148,137	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,709,128	432,487	10,095	5,717	16,879	48,344	35,967	147,748	691,502	320,389
	12,916,523	5,461,508	1,638,722	1,480,095	828,134	88,115	73,899	166,477	2,859,184	320,389
Net assets	(2,516,085)	(3,675,496)	(906,059)	(975,331)	(182,354)	5,205,969	526,969	245,935	(2,553,692)	(202,026)
Share capital										
Reserves	2,392,507									
	234,660									
Unappropriated profit	(4,869,557)									
Deficit on revaluation of assets	(300,316)									
Non-controlling interest	26,621									
	(2,516,085)									

In compliance with the BSD circular letter no. 03 of 2011 dated February 22, 2011, all assets and liabilities with contractual maturities have been reported as per their remaining maturities, and where contractual maturities are not available, such assets and liabilities have been reported as per their expected maturities, determined on the basis of behavior study of previous six years' historic data under volatility methodology. These bases have also been approved by the Asset and Liability Committee (ALCO) of the Bank.

## 44.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Operational risks are managed through Bank-wide or line of business specific policies and procedures, controls and monitoring tools. Examples of these include personnel management practices, data reconciliation processes, fraud management units, transaction processing monitoring and analysis and business continuity planning.

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

## Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Bank

2018

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
<b>Assets</b>										
Cash and balances with treasury banks	443,927	391,674	11,375	1,108	2,941	-	-	-	36,829	-
Balances with other banks	20,718	14,603	1,964	1,346	559	626	-	119	1,501	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	5,684,407	649,994	393,807	3,870	193,749	343,936	4,090,912	-	8,139	-
Advances	2,581,619	159,845	187,102	414,637	577,825	329,515	534,133	346,015	28,409	4,138
Fixed assets	60,375	1,865	3,725	5,403	10,577	19,617	8,285	6,435	4,018	450
Intangible assets	2,479	112	222	332	646	1,014	153	-	-	-
Deferred tax assets	525,695	-	-	-	-	525,695	-	-	-	-
Other assets	594,901	155,296	7,486	214,847	160,669	974	335	255	55,039	-
	9,914,121	1,373,389	605,681	641,543	946,966	1,221,377	4,633,818	352,824	133,935	4,588
<b>Liabilities</b>										
Bills payable	118,788	102,895	-	-	-	-	-	-	15,893	-
Borrowings from financial institutions	4,740,268	1,883,358	2,837,214	2,033	3,680	6,160	4,960	2,863	-	-
Deposits and other accounts	5,719,446	1,681,707	961,932	693,798	845,555	5,138	7,000	-	1,524,316	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	998,547	277,405	7,483	3,452	9,756	35,117	25,827	121,292	518,215	-
	11,577,049	3,945,365	3,806,629	699,283	858,991	46,415	37,787	124,155	2,058,424	-
<b>Net assets</b>	<b>(1,662,928)</b>	<b>(2,571,976)</b>	<b>(3,200,948)</b>	<b>(57,740)</b>	<b>87,975</b>	<b>1,174,962</b>	<b>4,596,031</b>	<b>228,669</b>	<b>(1,924,489)</b>	<b>4,588</b>
Share capital	2,392,507									
Reserves	234,660									
Unappropriated profit	(3,890,197)									
Deficit on revaluation of assets	(435,805)									
Non-controlling interest	35,907									
	<b>(1,662,928)</b>									

In compliance with the BSD circular letter no. 03 of 2011 dated February 22, 2011, all assets and liabilities with contractual maturities have been reported as per their remaining maturities, and where contractual maturities are not available, such assets and liabilities have been reported as per their expected maturities, determined on the basis of behavior study of previous six years' historic data under volatility methodology. These bases have also been approved by the Asset and Liability Committee (ALCO) of the Bank.

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### 45. EVENTS AFTER REPORTING DATE


The coronavirus pandemic and the measures to reduce its spread have significantly impacted Pakistan's economy. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. The SBP has responded to the crisis by taking various measures to maintain banking system soundness and to sustain economic activity.


The risk management function of the Bank is regularly conducting assessments to identify borrowers operating in various economic sectors which are most likely to get adversely affected. The Bank has further strengthened its credit review procedures in the light of COVID-19. Overall, the COVID-19 situation remains fluid and is rapidly evolving, which makes it challenging to reliably reflect related impacts. Nonetheless, the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, and will in turn adversely affect the repayment behaviors of the Bank borrowers' in short to medium term. The situation will continue to be closely monitored and due measures will be initiated to mitigate the risk of potential defaults. The Bank has received applications for deferral of principal amounts of loan obligations and is expected to receive further such applications. These applications are being reviewed by the Bank as per its established policies. The above will have an impact on the maturity profile. The Bank is continuously monitoring the liquidity position and is taking due precautionary measures where needed. The Bank is confident that the liquidity buffer currently maintained by the Bank is sufficient to cater any adverse movement in cash flow maturity profile. Under the current scenario, the banks are under pressure to extend further credit to its borrowers, while overall deteriorating credit risk and increased NPL.

The Bank has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact.

### 46. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on July 25, 2020.

  
**Dilshad Ali Ahmad**  
 President/CEO

  
**Sameena Gul**  
 Chief Financial Officer

  
**Omer Farooq**  
 Director

  
**Rauf Ahmad**  
 Director

  
**Niaz Muhammad Khan**  
 Director



## Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

### Annex-I referred to note 11.7 to these financial statements

In terms of sub section 3 of section 33-A of the Banking Companies Ordinance 1962 the statement in respect of written off loans or any other financial relief of Rs. 500,000 or above allowed to:

Sr. no.	Name and adress of borrower	Name of individual/ partner/directors (with NIC no.)	Father's/ husband's name	Outstanding liabilities at beginning of year				Principal written-off	Interest/ mark-up written-off	Other financial relief/ waiver provided	Total
				Principal	Interest/ mark-up	Others	Total				
(Rupees in '000)											
1	Liaque Ali (late) Sole Proprietorship House # 36 S Model Town Extension Block S Lahore.	Liaquat Ali (35202-6275805-3)	Muhammad Yaqoob	-	824	294	1,118	-	784	237	1,021
2	M/s M-D Pipe Industries Street No-32, Fazal Pura, Chah Meeran Lahore.	Asif Rashid Bhatti (35401-9295782-1)  Muhammad Afzal (35202-2031896-3)	Rashid Ahmad Bhatti Muhammad Boota	1,000	245	148	1,393	-	388	158	546
Total				1,000	1,069	442	2,511	-	1,172	395	1,567



SME LEASING LIMITED  
**FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2019

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Listed Companies (Code of Corporate Governance) Regulations, 2019 and Public Sector Companies (Corporate Governance) Rules, 2013 (both herein referred to as ‘Codes’) prepared by the Board of Directors of SME Leasing Limited for the year ended December 31, 2019 to comply with the requirements of regulation No 36 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 and regulation 24 of the Public Sector Companies (Corporate Governance) Rules, 2013.

The responsibility for compliance with the Codes is that of the Board of Directors of the Company. 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 Company’s compliance with the provisions of the Codes and report if it does not and to highlight any non-compliance with the requirements of the Codes. A review is limited primarily to inquiries of the Company’s personnel and review of various documents prepared by the Company to comply with the Codes.

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 Company’s corporate governance procedures and risks.

The Codes require the Company 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 and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. 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 procedures to assess and determine the Company’s process for identification of related parties and that whether the related party transactions were undertaken at arm’s length price or not.

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 respects, with the requirements contained in the Codes as applicable to the Company for the year ended December 31, 2019.

Further, we highlight below instances of non-compliance with the requirements of the Codes as reflected in the note/ paragraph reference where these are stated in the Statement of Compliance:



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**Grant Thornton Anjum Rahman**

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S. No.	Statement of Compliance reference	Description
<i>Statement of Compliance as per Public Sector Companies (Corporate Governance) Rules, 2013</i>		
	4(10)	Level of materiality is not determined by the Board.
	23	Company does not have operative procurement and nomination committee.
	33 (b)	Contravention of qualification criteria of Internal Auditor from January to August, 2019.
<i>Statement of Compliance as per Listed Companies (Code of Corporate Governance) Regulations, 2019</i>		
	12	Performance appraisal of the Internal Auditor was not performed during the year.
	12	The Chief Financial Officer also holds the position of Company Secretary.

**Grant Thornton Anjum Rahman**

*Chartered Accountants*

**Muhammad Shaukat Naseeb**

*Engagement Partner*

Karachi

Dated: May 28, 2020

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF SME LEASING LIMITED**

#### **Report on the audit of the financial statements**

##### **Opinion**

We have audited the annexed financial statements of SME Leasing Limited (the Company), which comprise the statement of financial position as at December 31, 2019 along with the statement of profit or loss account, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information; and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss account, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2019 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

##### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Material uncertainty relating to going concern**

We draw attention to the note 1.3 to the financial statements which states that the Company has incurred a net loss of Rs. 35.694 million (December 31, 2018: Rs. 21.361 million), resulting in accumulated losses of Rs. 291.358 million (December 31, 2018: Rs. 256.784 million) as at statement of financial position date and as of that date the Company's current liabilities exceed its current assets by Rs. 54.804 million (December 31, 2018: Rs. 44.648 million).

These conditions along with other matter as set forth in the above referred note indicate the existence of material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

## Emphasis of matter

We draw attention to note 1.2 of the financial statement which fully explain the status of application filed with the Securities and Exchange Commission of Pakistan for renewal of license to operate as a leasing company. Our opinion is not qualified in respect of this matter.

## Key audit matter

Key audit matter is that matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matters is addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matters.

Key audit matter is as follows:

S. No.	Key audit matter	How the matter was addressed in our audit
1.	<p><b>Impairment allowance for potential lease and loan losses</b></p> <p>Refer to notes 9, 10 and 15 to the financial statements and the accounting policy in notes to 5.9 and 5.10 to the financial statements</p> <p>The Company's portfolio of net investment in finance leases and long term finances and loans amounts to Rs. 383.222 million and Rs. 74.569 million respectively having provision of Rs. 136.351 million and Rs. 9.494 million respectively.</p> <p>We identified the impairment allowance for potential lease and loan losses as a key audit matter due to the inherent uncertainty and judgement used by the management and compliance of the applicable regulations issued by Securities and Exchange Commission of Pakistan (SECP).</p>	<p>Our audit work included:</p> <ul style="list-style-type: none"> <li>- obtained an understanding, evaluated the design and tested the key controls;</li> <li>- performed detailed assessment of the credit approval procedures of the leases sanctioned in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the credit manual of the Company. In addition, we have circularized confirmations for sampled lessees and checked recoveries from the same.</li> <li>- Detailed testing and assessment of provision/ reversal of net investment in finance leases and long-term finances and loans to ensure that these amounts are in line with applicable regulations.</li> <li>- We tested a sample of lease portfolio to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner including, where relevant, how recoveries have been made and where impairment has been identified.</li> </ul>

### **Information other than the financial statements and auditor's report thereon**

Management is responsible for the other information. Other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and board of directors for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors is responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit





evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



### **Report on other legal and regulatory requirements**

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Muhammad Shaukat Naseeb.

Grant Thornton Anjum Rahman

Karachi

Date: May 28, 2020



## STATEMENT OF FINANCIAL POSITION

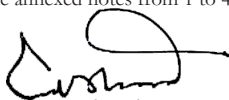
As at December 31, 2019

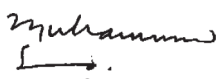
		2019	2018
ASSETS	Note	Rupees-----	
<b>Non-current assets</b>			
Property and equipment	6	4,510,324	4,998,971
Right-of-use assets	7	12,053,712	-
Intangible assets	8	-	77,838
Net investment in finance leases	9	237,195,651	273,329,996
Long-term finances and loans - secured	10	57,932,105	64,315,374
Long-term loans to employees - secured	11	732,683	1,075,157
Long-term deposits and prepayments	12	1,162,410	824,901
<b>Total non-current assets</b>		<b>313,586,885</b>	<b>344,622,237</b>
<b>Current assets</b>			
Advances	13	3,369,958	3,345,945
Prepayments and other receivables	14	951,154	1,210,241
Current maturity of non current assets	15	163,024,745	153,691,926
Cash and bank balances	16	787,718	6,130,435
<b>Total current assets</b>		<b>168,133,575</b>	<b>164,378,547</b>
<b>Total assets</b>		<b>481,720,460</b>	<b>509,000,784</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
<b>Authorized share capital</b>			
100,000,000 (2018: 100,000,000) ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid-up share capital	24	320,000,000	320,000,000
Capital reserves		38,019,277	38,019,277
		358,019,277	358,019,277
<b>Revenue reserves</b>			
Reserve against future losses		10,447,052	10,447,052
Accumulated losses		(291,358,265)	(256,784,077)
		(280,911,213)	(246,337,025)
<b>Total shareholder's equity</b>		<b>77,108,064</b>	<b>111,682,252</b>
<b>Non-current liabilities</b>			
Liabilities against assets subject to finance lease	21	10,505,675	-
Long-term deposits	9	163,545,094	179,200,619
Defined benefit obligation	23	7,623,230	9,090,662
<b>Total non-current liabilities</b>		<b>181,673,999</b>	<b>188,291,281</b>
<b>Current liabilities</b>			
Trade and other payables	17	4,870,238	3,743,855
Unclaimed dividend		19,694	19,694
Mark-up accrued on borrowings	18	2,143,384	1,299,884
Short term borrowings - secured	19	142,156,359	141,556,042
Current maturity of non-current liabilities	20	60,590,939	51,707,395
Current maturity of liabilities against assets subject to finance lease	21	2,489,296	-
Provision for compensated absences	22	2,500,565	2,491,591
Taxation - net		8,167,922	8,208,790
<b>Total current liabilities</b>		<b>222,938,397</b>	<b>209,027,251</b>
<b>Total equity and liabilities</b>		<b>481,720,460</b>	<b>509,000,784</b>

## CONTINGENCIES AND COMMITMENTS

25

The annexed notes from 1 to 40 form an integral part of these financial statements.

  
**Dilshad Ali Ahmad**  
 Director

  
**M. Shahzad**  
 Chief Financial Officer


  
**Bilal Mustafa**  
 Director

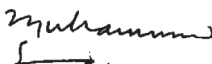
**STATEMENT OF PROFIT AND LOSS ACCOUNT**

For the year ended December 31, 2019

	Note	2019 ----- Rupees-----	2018 -----
<b>REVENUE</b>			
<b>Income from operations</b>			
Finance leases		19,634,038	26,471,227
Finances and loans	26	6,832,160	4,688,759
		<u>26,466,198</u>	<u>31,159,986</u>
<b>Income from other activities</b>			
Other income	27	111,440	290,721
Total revenue		<u>26,577,638</u>	<u>31,450,707</u>
<b>EXPENSES</b>			
Administrative and general expenses	28	(44,233,719)	(43,641,984)
Finance cost	29	(22,459,467)	(14,421,877)
Total expenses		<u>(66,693,186)</u>	<u>(58,063,861)</u>
<b>Operating loss before reversals / (provisions)</b>		<u>(40,115,548)</u>	<u>(26,613,154)</u>
<b>REVERSALS</b>			
Net reversals for potential lease losses	9.6	3,510,494	5,528,195
Net reversals for long term finances and loans	10.2	1,220,483	73,861
Total reversals		<u>4,730,977</u>	<u>5,602,056</u>
<b>LOSS BEFORE TAXATION</b>		<u>(35,384,571)</u>	<u>(21,011,098)</u>
Taxation	30	(309,759)	(349,920)
<b>LOSS FOR THE YEAR</b>		<u><u>(35,694,330)</u></u>	<u><u>(21,361,018)</u></u>
<b>Loss per share - basic and diluted</b>	31	<u><u>(1.12)</u></u>	<u><u>(0.67)</u></u>

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
**Dilshad Ali Ahmad**  
 Director

  
**M. Shahzad**  
 Chief Financial Officer

  
**Bilal Mustafa**  
 Director




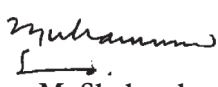
## STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

		2019	2018
	Note	Rupees	
Loss for the year		(35,694,330)	(21,361,018)
Other comprehensive loss			
Items to be reclassified to profit or loss account in subsequent years			
Actuarial gain / (loss) on defined benefit obligation	23	1,120,142	(207,332)
Items not to be reclassified to profit or loss account in subsequent years		-	-
Total comprehensive loss for the year		<u>(34,574,188)</u>	<u>(21,568,350)</u>

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
**Dilshad Ali Ahmad**  
 Director

  
**M. Shahzad**  
 Chief Financial Officer

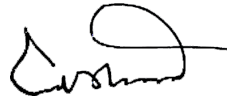
  
**Bilal Mustafa**  
 Director

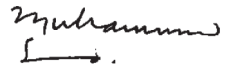
**STATEMENT OF CASH FLOWS**

For the year ended December 31, 2019

	Note	2019 ----- Rupees-----	2018 -----
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(35,384,571)	(21,011,098)
Adjustment for:			
Depreciation and amortization	28	3,517,675	1,506,217
Gratuity expense	23.2	2,433,115	2,054,696
Provision for compensated absences	22	1,348,605	826,439
Finance cost	29	22,459,467	14,421,877
Profit on bank accounts		-	(129,043)
Gain on disposal of property and equipment	27	(2,500)	(161,678)
Reversal of provision for potential lease losses	9.6	(3,510,494)	(5,528,195)
Reversal of provision for loans and receivables	10.2	(1,220,483)	(73,861)
		<u>25,025,385</u>	<u>12,916,452</u>
<b>Operating loss before working capital changes</b>		<b>(10,359,186)</b>	<b>(8,094,646)</b>
<b>Movement in working capital</b>			
Decrease / (increase) in operating assets			
Net investment in lease		33,002,556	(16,214,419)
Finances and loans		5,211,350	(6,284,221)
Prepayments and other receivables		259,087	(244,812)
Long-term deposits and prepayments		(337,509)	361,997
Long-term deposits (paid)/used-in		(6,771,981)	18,988,025
Advances		(24,013)	(542,201)
		<u>31,339,490</u>	<u>(3,935,631)</u>
Increase / (decrease) in operating liabilities			
Trade and other payables		1,126,383	(66,547)
Unclaimed dividend		-	935
		<u>1,126,383</u>	<u>(65,612)</u>
<b>Cash generated from / (used in) operations</b>		<b>22,106,687</b>	<b>(12,095,889)</b>
Financial charges paid		(19,579,127)	(13,932,630)
Interest income received		108,940	129,043
Gratuity paid	23.3	(2,780,405)	(82,672)
Benefits paid	22	(1,339,631)	(713,917)
Taxes paid		(350,627)	(359,056)
		<u>(23,940,850)</u>	<u>(14,959,232)</u>
<b>Net cash used in operating activities</b>		<b>(1,834,163)</b>	<b>(27,055,121)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Capital expenditure	6	(272,011)	(84,395)
Proceeds from disposal of fixed assets	6	2,500	162,990
<b>Net cash (used in) / generated from investing activities</b>		<b>(269,511)</b>	<b>78,595</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Lease rentals paid		(3,839,362)	-
Net cash used in financing activities		<u>(3,839,362)</u>	<u>-</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(5,943,036)</b>	<b>(26,976,526)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>(135,425,605)</b>	<b>(108,449,079)</b>
<b>Cash and cash equivalents at end of the year</b>	34	<b>(141,368,641)</b>	<b>(135,425,605)</b>

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
**Dilshad Ali Ahmad**  
 Director

  
**M. Shahzad**  
 Chief Financial Officer

  
**Bilal Mustafa**  
 Director



## STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

Issued, subscribed and paid-up share capital	Capital reserves		Revenue reserves		Total shareholders' equity
	*Share premium	*Statutory reserves	*Reserve against future losses	Accumulated losses	
----- Rupees -----					

Balance as at January 01, 2018                      320,000,000    10,000,000    28,019,277    10,447,052    (235,215,727)    133,250,602

**Total comprehensive loss for the year  
ended December 31, 2018**

Loss for the year after taxation                      -                      -                      -                      -                      (21,361,018)                      (21,361,018)

**Other comprehensive loss**

Actuarial loss on defined benefit obligation                      -                      -                      -                      -                      (207,332)                      (207,332)

Balance as at December 31, 2018                      320,000,000    10,000,000    28,019,277    10,447,052    (256,784,077)    111,682,252

Balance as at January 01, 2019                      320,000,000    10,000,000    28,019,277    10,447,052    (256,784,077)    111,682,252

**Total comprehensive loss for the year  
ended December 31, 2019**

Loss for the year after taxation                      -                      -                      -                      -                      (35,694,330)                      (35,694,330)

**Other comprehensive loss**

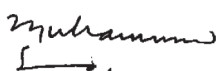
Actuarial loss on defined benefit obligation                      -                      -                      -                      -                      1,120,142                      1,120,142

Balance as at December 31, 2019                      320,000,000    10,000,000    28,019,277    10,447,052    (291,358,265)    77,108,064

\* Share premium, Statutory reserves and Reserves against future losses are reflected as reserves in statement of financial position.

The annexed notes from 1 to 41 form an integral part of these financial statements.

  
**Dilshad Ali Ahmad**  
Director

  
**M. Shahzad**  
Chief Financial Officer

  
**Bilal Mustafa**  
Director



## **Notes to the Financial Statements**

For the year ended December 31, 2019

### **1 LEGAL STATUS AND NATURE OF BUSINESS**

- 1.1** SME Leasing Limited (the Company) was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The Company is a subsidiary of SME Bank Limited (the Holding Company), who holds 73.14% (2018: 73.14%) of the Company's shares. At the time of incorporation, the Company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the Company on January 28, 2003. The Company is listed on Pakistan Stock Exchange and its registered office is situated at 56-F, Nazim-ul-Din Road F-6/1, Blue Area, Islamabad. The core objective of the Company is to extend lease and working capital financing facilities to small and medium enterprises of the country. The Company obtained license of non deposit taking NBFC and as per section 4 (Schedule I) of NBFC Regulations 2008, a non deposit taking NBFC shall have minimum equity of Rs 50 million. The Company being non deposit taking NBFC has complied with said requirement of NBFC Regulations 2008. The PACRA Credit Rating Agency has assigned a long term rating of B (2018: B+) and a short-term rating of B (2018: B) to the Company in the month of September 2019.
- 1.2** The license of the Company to operate as a leasing company expired on May 20, 2019. Thereafter, the Company applied via application reference # SMEL/MO/2019 dated April 16, 2019 for its renewal in the manner so required by the NBFC rules, 2003. However, renewal of license was in progress till the year end.
- 1.3** During the year ended December 31, 2019, the Company has incurred a net loss of Rs. 35.694 million (December 31, 2018: Rs. 21.361 million), resulting in accumulated losses of Rs. 291.358 million (December 31, 2018: Rs. 256.784 million) at the end of the year. Further, the net assets of the Company amounts to Rs. 77.108 million (December 31, 2018: Rs. 111.682 million). The Company has negative cash and cash equivalent of Rs. 141.369 million (December 31, 2018: Rs. 135.426 million) which comprise of running finance facility from SME Bank Limited and as of that date the Company's current liabilities exceed its current assets by Rs. 54.805 million (2018: Rs. 44.649 million).

Further, the Company is dependent on the running finance facility granted by the Holding Company. The revised prudential regulation of State Bank of Pakistan (SBP) applicable from June 2015 has restricted the exposure by bank to a related party to the extent of 7.5% of its equity. However, SBP on letter BPRD/BA&CPD/646/332/20 dated January 06, 2020 has granted relaxation to the Holding Company from the Regulation till December 31, 2019 or completion of restructuring / privatization, whichever is earlier.

"These factors along with other factors may cast significant doubt on the Company's ability to continue as a going concern and the Company may not be able to realize its assets and discharge its liabilities in the normal course of business."

However, these financial statements have been prepared on a going concern basis considering the factors mentioned below:





## **Notes to the Financial Statements**

For the year ended December 31, 2019

- The Holding Company has granted a short term running finance facility to the Company amounting to Rs. 150 million out of which Rs. 142.156 million has been utilized as at December 31, 2019 (2018: Rs. 141.556 million). The said facility can be extended to the extent of Rs. 300 million as per the standby agreement for finance facility. The Holding Company will not call off the said amount till December 31, 2020 as the Holding Company will facilitate, assist and support the Company in arrangement of finance from external sources as and when required by the Company.
- The management of the Company has prepared cash flow projections which reflect that based on financial support by the Holding Company, the Company will be able to continue its business on going concern basis in the foreseeable future.
- Concerted efforts are being made for the recovery of non-performing leases and loans and finances and in this respect during the year Rs. 17.612 million (2018: Rs. 21.748 million) has been recovered from non-performing loans.
- Efforts are also being made by the management to reduce the overall cost of the Company.

Based on the above mentioned financial measures and the concerted operational measures being taken by the Company, the management is confident that the Company would be able to survive in the foreseeable future and therefore, has prepared the financial statements on going concern basis.

**1.4** The existence of novel coronavirus (COVID 19) was confirmed in early 2020 and has spread across the globe, causing disruption to businesses and economic activities. The Company considers this outbreak to be a non-adjusting post statement of financial position date event. As this situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak on the Company's financial statements, if any, will be considered in the next financial statements. The Company has observed the following mitigating factors against the above condition:

- The Company offices are geographically spread in five cities; and in case of any eventuality, the work of branch will be managed from another city by staff working from home remotely.
- The customers can make payments through electronic transfer or deposit the cheques directly in the bank accounts of the Company.
- The company has successfully tested the above during the lockdown period.

## Notes to the Financial Statements

For the year ended December 31, 2019

### 2 SUMMARY OF SIGNIFICANT TRANSACTIONS AND BALANCES

	Note	2019 ----- Rupees-----	2018
Net lease disbursements	2.1	<b>64,460,000</b>	83,022,401
Recoveries	2.2	<b>113,127,363</b>	112,051,179

**2.1** This represents amount disbursed against new leases written during the year.

**2.2** This represents recoveries from non-performing leases and loans amounting to Rs. 17,612,272 (2018: Rs. 21,747,959) and performing customers amounting to Rs. 95,515,091 (2018: Rs. 90,303,220).

**2.3** First time adoption of IFRS-16. Refer note 4.1, 5.3, 5.4, 5.5, 7, 21 and 29.

### 3 BASIS OF PREPARATION

#### 3.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017, the provisions of and directives issued under the Companies Act, 2017, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) and the directives issued by the SECP. In case where requirements differ, the provision or directives issued under the Companies Act, 2017, NBFC Rules, 2003 and NBFC Regulations, 2008 shall prevail.

#### 3.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that defined benefit liability, compensated absences and liabilities against asset subject to finance lease, which is carried at present value. These financial statements are prepared on accrual basis of accounting.

#### 3.3 Functional and presentation currency

These financial statements are presented in Pakistani Rupees, which is the Company's functional and presentation currency. The figures are rounded off to the nearest rupee.

#### 3.4 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 associated assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgments, estimates and associated assumptions are based on historical experiences, current trends and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates.

## Notes to the Financial Statements

For the year ended December 31, 2019

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised, if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

- Provision for current and deferred taxation and recognition and measurement of deferred tax assets and liabilities (notes 5.17 and 29).
- Classification and provision of net investment in finance lease and loans and finances (notes 5.8, 5.9, 9 and 10).
- Determination and measurement of useful life and residual value of property and equipment, right of use asset and intangibles (note 5.2, 5.3, 5.6, 6, 7 and 8).
- Staff retirement benefits (note 5.7 and 23).
- Staff compensated absences (note 5.7 & note 22).
- Impairment of non-financial assets (note 5.13).

### 4 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO APPROVED ACCOUNTING STANDARDS

#### 4.1 Standards, interpretations and amendments that are relevant to the Company and adopted in the current year

The Company 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 (Annual periods beginning on or after)
IFRS 16 - Leases	January 1, 2019
IFRS 15 - Revenue from Contracts with Customers'	July 1, 2018
Annual improvements to IFRSs 2015 - 2017 Cycle	January 1, 2019
IAS 19 'Plan Amendment, Curtail or Settlement' (Amendments to IAS 19)	January 1, 2019

The following significant pronouncements from the IASB have been issued and have been adopted by the Company.



## **Notes to the Financial Statements**

For the year ended December 31, 2019

### **IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. IFRS 15 provides a single, principle-based approach to the recognition of revenue from all contracts with customers and focuses on the identification of performance obligations in a contract and requires revenue to be recognised when or as those performance obligations in a contract are satisfied.

The Company has adopted IFRS 15 by applying the modified retrospective approach for transition as allowed under the standard. The existing revenue recognition methods are consistent with the recognition criteria given in IFRS-15. Therefore, the adoption of IFRS-15 did not have any impact on these financial statements.

### **IFRS 16 'Leases'**

Effective January 1, 2019, the Company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases- Incentive and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'. IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognizes a right, a 'right-of-use asset' representing its right-of-use of the underlying asset and a lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The accounting policies relating to Company's right of use asset and lease liability are disclosed in note 5.3, 5.4 and 5.5.

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 17.33%.

"On adoption of IFRS 16, the Company has recognised lease liability amounting to Rs. 12.950 million as at January 1, 2019 in respect of operating lease commitments of Rs 2.074 million disclosed in the annual financial statements for the year ended December 31, 2018. On balance sheet recognition of leases previously accounted for as operating leases was most significantly impacted by adjustments as a result of different treatment of extension and termination options under IFRS 16."

## Notes to the Financial Statements

For the year ended December 31, 2019

As permitted by the transitional provisions of IFRS 16, the Company has adopted modified retrospective approach and elected not to restate the comparative figures and not to adjust the opening accumulated losses. Accordingly, adjustment to the carrying amount of assets and liabilities were recognised in the current period.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

The recognised right-of-use assets relate to the following types of assets:

		December 31, 2018	Adjustment on transition to IFRS 16	January 1, 2019
	Note		Rupees	
Right-of-use assets	7		12,950,191	12,950,191
<b>Total right of use assets</b>		<b>-</b>	<b>12,950,191</b>	<b>12,950,191</b>
<b>Liabilities against assets subject to finance lease</b>		<b>-</b>	<b>12,950,191</b>	<b>12,950,191</b>

Motor vehicles amounting to Rs. 1.782 million were also recognised as right-of-use assets during the year. This recognition was not made on January 1, 2019 as the Company entered into this lease transaction later in the year.

The effect of adoption of IFRS 16 as at January 01, 2019 is as follows:

	January 1, 2019 ----- Rupees-----
Increase in right-of-use assets	12,950,191
Decrease in prepayments	-
Increase in total assets	12,950,191
Increase in lease liability against assets subject to finance lease	(12,950,191)
Increase in net assets	-

## Notes to the Financial Statements

For the year ended December 31, 2019

### 4.1.1 Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

### 4.2 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, 2019 are considered not to be relevant or to have any significant effect on the Company's financial reporting and operations and are therefore not presented here.

Standard or Interpretation	Effective date (Annual periods beginning on or after)
IFRIC 23 - Uncertainty over Income Tax Treatments	January 1, 2019

### 4.3 Standards, amendments and interpretations to the published standards that are relevant but not yet effective and not early adopted by the Company

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

Standard or Interpretation	Effective date (Annual periods beginning on or after)
IAS 1 'Presentation of Financial Statements' (Amendments)	January 1, 2020
IFRS 3 'Definition of a business' Amendment to IFRS 3	January 1, 2020
IAS 8 'Accounting Policies' (Amendments)	January 1, 2020
Various Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020

IFRS 9 'Financial instruments' - This standard is effective for periods beginning from or after July 1, 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected

## Notes to the Financial Statements

For the year ended December 31, 2019

credit losses model that replaces the current incurred loss impairment model. However, SECP has deferred the applicability of IFRS 9 for reporting year ending on or after June 30, 2019.

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

#### 4.4 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	Effective date (Annual periods beginning on or after)
IFRS 17 - Insurance Contracts	January 1, 2021
IFRS 1 - First-time Adoption of International Financial Reporting Standards	January 1, 2021

### 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied in preparation of these financial statements, unless otherwise stated.

#### 5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and balances in current and savings bank accounts. Short term running finance that are repayable on demand and form an integral part of the Company's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cashflows.

#### 5.2 Property and equipment

These are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to statement of profit or loss by using the straight line method at the rates specified in note 6 after taking into account residual value, if any. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each statement of financial position date.

Subsequent costs are included in the assets' carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other subsequent costs including repairs and maintenance are charged to the statement of profit or loss account as and when incurred.



## Notes to the Financial Statements

For the year ended December 31, 2019

Gains or losses on sale of assets are charged to the statement of profit or loss in the period in which they arise.

### 5.3 Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

### 5.4 Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

### 5.5 Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

### 5.6 Intangible

These are stated at cost less accumulated amortization and impairment losses, if any. Amortization is charged using the straight line method over its estimated useful life at the rate specified in note 8 after taking into account residual value, if any. The residual values, useful lives and amortization methods are reviewed and adjusted, if appropriate at each statement of financial position date. Subsequent costs are included in the assets' carrying amounts only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.



## Notes to the Financial Statements

For the year ended December 31, 2019

Amortization on additions is charged from the month the assets are put to use while no amortization is charged in the month in which the assets are disposed off.

Gain and losses on disposal of such assets, if any, are included in the statement of profit or loss.

### 5.7 Staff retirement benefits

#### **Defined contribution plan**

The Company operates an approved defined contributory provident fund for all its permanent employees. Monthly contributions are made to the fund equally by the Company and the employees at the rate of 8 % of basic salary. The contributions are recognized as employee benefit expense when they become due.

Staff retirement benefits are payable to employees on completion of the prescribed qualifying period of service under the scheme.

#### **Employees' compensated absences**

The Company accounts for its liability towards unavailed compensated absences for all permanent employees on the basis of actuarial advice under the Projected Unit Credit Method.

#### **Defined benefit plan**

The Company operates an unapproved and unfunded gratuity scheme covering all of its permanent employees who have completed the qualifying period under the scheme. The scheme is administered by the Trustees and contributions therein are made in accordance with the actuarial recommendations.

The valuation in this regard is carried out at each year end, using the Projected Unit Credit Method for the valuation of the scheme. Remeasurement of the defined benefit liability, which comprises of actuarial gains and losses are recognized immediately in other comprehensive income based on actuarial gains and losses.

The Company determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual year to the net defined benefit liability, taking into account and change in the net defined benefit liability during the year as a result of contribution and benefit payments. Net interest expense and other expense related to defined benefit plans are recognized in statement of profit or loss.

### 5.8 Net investment in lease finance

Leases where the Company transfers substantially all the risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognized and the present value of the lease receivable is recognized on the statement of financial position date. The difference between the gross lease receivables



## **Notes to the Financial Statements**

For the year ended December 31, 2019

and the present value of the lease receivables is recognized as unearned finance income. A receivable is recognized at an amount equal to the present value of the minimum lease payments under the lease agreements, including guaranteed residual value, if any.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognized in the statement of profit or loss on a basis that reflects a constant periodic rate of return on the net investment in the finance lease.

Initial direct costs incurred by the Company in negotiating and arranging finance leases are added to finance lease receivables and are recognized as an expense in the statement of profit or loss over the lease term on the same basis as the finance lease income.

### **5.9 Provision for potential lease losses and doubtful loans and receivables**

Specific provision for potential lease losses and doubtful loans and receivables are made based on the appraisal of each lease or loan on the basis of the requirements of the NBFC Regulations. Calculating the allowance for potential lease losses and doubtful loans and receivables is subject to numerous judgements and estimates. Management consider various factors including the requirements of NBFC Regulations, the nature and characteristics of obligations, current economic conditions, credits concentrations or deterioration in collateral, historical loss experience and delinquencies. Leases and loans & receivables are written off, when in the opinion of management, the likelihood of any future collection is minimal.

### **5.10 Financial assets and liabilities**

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and derecognized when the Company loses control of contractual rights that comprises the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to statement of profit or loss directly.

Financial assets carried at balance sheet date includes cash and bank balances, long term finances and loans, net investment in finance leases, deposits and other receivables.

Financial liabilities carried at balance sheet date includes short term borrowing, long term finances, liabilities against assets subject to finance lease, accrued and other payables.

### **5.11 Investments**

All investments are initially recognized at cost, being the fair value of the consideration given and include transaction costs except for held for trading investments in which case transaction costs are charged to the statement of profit or loss. All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investments. These are recognized and classified as follows:



## Notes to the Financial Statements

For the year ended December 31, 2019

### **Held for trading**

At the time of acquisition, quoted investments which are acquired principally for the purpose of generating profit from short term fluctuations in price or are part of portfolio for which there is a recent actual pattern of short term profit taking are classified as held for trading. Subsequent to initial recognition these are premeasured at fair value by reference to quoted market prices with the resulting gain or loss being included in net profit or loss for the period in which it arises.

### **Available-for-sale**

These are stated at fair value, with any resultant gain or loss being recognized directly in equity. Gains or losses on revaluation of available-for-sale investments are recognized directly in equity until the investments are sold or other wise disposed off, or until the investments are determined to be impaired, at which time cumulative gain or loss previously reported in the equity is included in current year's statement of profit or loss.

All investments classified as available-for-sale are initially recognized at cost inclusive of transaction costs and subsequently quoted investments are marked to market using the last quoted rate at the close of the financial year.

### **Held to maturity**

At the time of acquisition, investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held to maturity.

Subsequently, these are measured at amortized cost less provision for impairment in value, if any amortised cost is calculated by taking into account any discount or premium on acquisition by using the effective yield method.

The difference between the redemption value and the purchase price of the held to maturity investments is amortized and taken to the statement of profit or loss over the term of the investment.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the statement of profit or loss.

### **5.12 Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These are initially recognized at fair value plus any related transaction costs directly attributable to the acquisition. Subsequent to initial recognition, they are carried at amortized cost.

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

The carrying value of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized whenever the

## Notes to the Financial Statements

For the year ended December 31, 2019

carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss.

### 5.14 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently premeasured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value is recognized in the statement of profit or loss.

### 5.15 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amount and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

### 5.16 Taxation

Taxation charge in the statement of profit or loss comprises of current and deferred tax.

#### Current

Provisions for current taxation is based on taxability of certain income streams of the Company under presumptive / final tax regime and minimum tax under section 113 of the Income Tax Ordinance, 2001, wherever applicable, at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after taking into account tax credits and tax rebates available, if any.

#### Deferred

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### 5.17 Provisions

A provision is recognized in the statement of financial position when the Company has legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provision are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.



## **Notes to the Financial Statements**

For the year ended December 31, 2019

### **5.18 Long term finances**

Long term finances are initially recognized at cost being the fair value of the consideration received together with the associated transaction cost.

Subsequently, these are carried at amortized cost using effective interest method. Transaction cost relating to the long term finance is being amortized over the period of agreement using the effective interest method.

### **5.19 Revenue recognition**

- The Company follows the “financing method” of accounting for the recognition of finance lease income. Under this method, the unearned lease income i.e. the excess of gross lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease contract, so as to produce a systematic return on the net investment in finance lease. Unrealized lease income is held in suspense account, where necessary, in accordance with the requirements of the NBFC Regulations.
- Front-end fees and documentation charges are taken to income when realized.
- Income on investments is accounted for on accrual basis.
- Dividend income is recognized when the right to receive the dividend is established.
- Income on loans and finances is accounted for on accrual basis using effective interest method.
- Unrealized lease income and unrealized income on loans and finances is held in suspense account, where necessary, in accordance with requirements of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations).
- Profit on bank deposit and short term placements is accrued on a time proportion basis.
- Gain or loss arising on sale of investments are taken to income in the period in which they arise.
- Other income is recognized on receipt basis.

### **5.20 Earnings / (loss) per share**

The Company presents basic and diluted earnings / (loss) per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the 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 dilutive potential ordinary shares, if any.

## Notes to the Financial Statements

For the year ended December 31, 2019

### 5.21 Dividend distribution and transfer between reserves

Dividend distribution (including stock dividend) to the Company's shareholders and transfer between reserves, except appropriations which are required under law, are recognized in the financial statements in the period in which such dividends are declared or such transfers between reserves are made.

### 5.22 Capital and revenue reserves

#### Share premium

The share premium was recorded in the year 2006 on issue of shares in accordance with requirements of the Companies Ordinance, 1984 the repealed Ordinance. This premium is available for restrictive use as per section 81 of the Companies Act 2017.

#### Statutory reserves

In accordance with the requirements of the NBFC Regulations, an amount of not less than 20% of after tax profits shall be transferred to statutory reserve till such time when the reserve equals the amount of paid-up capital, and thereafter a sum of not less than 5 percent shall be transferred. However, the Company has not transferred any amount to its statutory reserve due to the net losses in the current and prior year.

#### Reserve against future losses

This reserve represents amounts set aside in view of the risks associated with the economic cyclical nature of the business and is recognized as an appropriation of retained earnings. Any credits resulting from reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit or loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 % of the outstanding balance of the regular portfolio of leases and loans and receivables as at each year end. No such reserve has been created by the Company for the year ended December 31, 2019.

### 5.23 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting structure. Management monitors operating results of its business units separately for the purpose of making decisions regarding resources allocation and performance assessment. Segment results, assets and liabilities include item directly attributable to segment as well as those that can be allocated on a reasonable basis.

### 5.24 Deposits and prepayments

These are initially recognised at cost being the fair value of the consideration paid. Subsequently, these are stated at cost less impairment losses, if any, which equals to the fair value of the consideration to be received in future.

### 5.25 Accrued and other payables

Accrued expenses and other payables are carried at cost which equals to the fair value of the consideration to be paid in future for goods or services received.



## **Notes to the Financial Statements**

For the year ended December 31, 2019

**5.26 Expenses**

Operating expenses are recognised in the profit or loss account upon utilisation of the service or at the date of their origin.

**5.27 Other receivables**

Other receivables are stated at cost less impairment losses, if any which equals to the fair value of the consideration to be received in future.

**5.28 Finance cost**

Finance cost on short term borrowings and lease liabilities is recognised in profit or loss account as and when accrued. It also includes transaction charges incurred on bank accounts.



# Notes to the Financial Statements

For the year ended December 31, 2019

## 6 Property and equipment

2019	C O S T			ACCUMULATED DEPRECIATION			BOOK VALUE		Depreciation rate per annum %
	As at January 1, 2019	Additions/transfer	Disposals	As at Dec 31, 2019	As at January 1, 2019	For the year	On disposals	As at Dec 31, 2019	
<b>Owned</b>					(Rupees)				
Furniture and fixtures	1,596,878	-	-	1,596,878	1,218,849	137,797	-	1,356,646	20
Office equipment	1,236,303	234,510	(18,900)	1,451,913	966,567	97,583	(18,900)	1,045,250	15
Building improvements	750,933	-	-	750,933	750,933	-	-	750,933	33.33
Office premises	9,514,190	-	-	9,514,190	5,214,128	475,698	-	5,689,826	5
Computers	1,460,026	37,501	-	1,497,527	1,424,116	34,346	-	1,458,462	33.33
Motor vehicles	4,547,150	-	-	4,547,150	4,531,916	15,234	-	4,547,150	20
	<b>19,105,480</b>	<b>272,011</b>	<b>(18,900)</b>	<b>19,358,591</b>	<b>14,106,509</b>	<b>760,658</b>	<b>(18,900)</b>	<b>14,848,267</b>	
<b>2018</b>									
<b>Owned</b>					(Rupees)				
Furniture and fixtures	1,596,878	-	-	1,596,878	1,081,050	137,799	-	1,218,849	20
Office equipment	1,179,864	76,439	(20,000)	1,236,303	899,253	85,502	(18,188)	966,567	15
Building improvements	750,933	-	-	750,933	750,933	-	-	750,933	33.33
Office premises	9,514,190	-	-	9,514,190	4,738,418	475,710	-	5,214,128	5
Computers	1,452,070	7,956	-	1,460,026	1,327,147	96,969	-	1,424,116	33.33
Motor vehicles	6,097,050	-	(1,549,900)	4,547,150	5,604,891	476,925	(1,549,900)	4,531,916	20
	<b>20,590,985</b>	<b>84,395</b>	<b>(1,569,900)</b>	<b>19,105,480</b>	<b>14,401,692</b>	<b>1,272,905</b>	<b>(1,568,088)</b>	<b>14,106,509</b>	

## 6.1 Particulars of disposal of property and equipment

Particulars	Cost	Book value	Sale proceed (Rupees)	Gain on disposal	Mode of disposal	Particular of buyers
UPS battery	18,900	-	2,500	2,500	-	Market
<b>December 31, 2019</b>	<b>18,900</b>	<b>-</b>	<b>2,500</b>	<b>2,500</b>		
December 31, 2018	1,569,900	1,812	162,990	161,178		





## Notes to the Financial Statements

For the year ended December 31, 2019

### 7 Right-of-use assets

2019	C O S T		ACCUMULATED DEPRECIATION		BOOK VALUE
	As at January 1, 2019	Adjustment on transition to IFRS 16	As at Dec 31, 2019	As at Dec 31, 2019	
Office premises	-	12,950,191	12,950,191	2,590,044	10,360,147
Motor vehicles	-	-	1,782,700	89,135	1,693,565
	-	12,950,191	14,732,891	2,679,179	12,053,712

### 8 INTANGIBLE ASSETS

Software and licenses

	2019	2018
	-	77,838
	-	77,838

#### 8.1 Movement of intangible assets

2019	C O S T		ACCUMULATED AMMORTISATION		BOOK VALUE
	As at January 1, 2019	As at Dec 31, 2019	As at January 1, 2019	As at Dec 31, 2019	
Software and licenses	1,507,142	1,507,142	1,429,304	1,507,142	-
	1,507,142	1,507,142	1,429,304	1,507,142	-
C O S T					
2018	As at January 1, 2018	As at Dec 31, 2018	For the year 2018	As at Dec 31, 2018	Amortisation rate per annum
	1,507,142	1,507,142	1,195,992	1,429,304	33
Software and licenses	1,507,142	1,507,142	233,312	1,429,304	33
	1,507,142	1,507,142	233,312	1,429,304	77,838

## Notes to the Financial Statements

For the year ended December 31, 2019

	Note	2019 ----- Rupees -----	2018 ----- Rupees -----
<b>9 NET INVESTMENT IN FINANCE LEASES</b>			
Net investment in finance leases	9.1	<b>383,222,542</b>	411,411,891
Less: Current maturity	15	<b>(146,026,891)</b>	(138,081,895)
		<b>237,195,651</b>	273,329,996

### 9.1 Net investment in finance leases

		December 31, 2019			December 31, 2018		
	Note	Total	Later than one year and less than five years	Not later than one year	Total	Later than one year and less than five years	Not later than one year
		(Rupees)					
Minimum lease payments	9.3	363,613,847	266,683,943	96,929,904	391,364,518	291,883,192	99,481,326
Add: Residual value of leased assets	9.4	223,762,800	163,545,094	60,217,706	230,534,781	179,200,619	51,334,162
Gross investment in leases		587,376,647	430,229,037	157,147,610	621,899,299	471,083,811	150,815,488
Less: Unearned lease income		(18,120,622)	(6,999,903)	(11,120,719)	(19,640,718)	(6,907,125)	(12,733,593)
Less: Markup held in suspense account		(49,681,670)	(49,681,670)	-	(50,984,383)	(50,984,383)	-
		(67,802,292)	(56,681,573)	(11,120,719)	(70,625,101)	(57,891,508)	(12,733,593)
		519,574,355	373,547,464	146,026,891	551,274,198	413,192,303	138,081,895
Less: Provision for potential lease losses	9.6	(136,351,813)	(136,351,813)	-	(139,862,307)	(139,862,307)	-
Net investment in finance leases		<b>383,222,542</b>	<b>237,195,651</b>	<b>146,026,891</b>	<b>411,411,891</b>	<b>273,329,996</b>	<b>138,081,895</b>

**9.2** The internal rate of return (IRR) on lease contract receivable ranges from 9.5% to 25% per annum (2018: 9.5% to 27% per annum).

**9.3** This include amount receivable in respect of non performing leases of Rs. 124.601 million (2018: Rs. 134.060 million) which have not been fully provided due to forced sales value benefit amounting to Rs. 150.100 million (2018: Rs. 204.254 million).

**9.4** These represent interest free security deposits received against lease contracts and are refundable / adjustable at the expiry / termination of the respective leases. The amount is net of security deposit held against non-performing leases amounting to Rs. 145.463 million (2018: Rs. 154.936 million).

**9.5** Lease rentals received during the year aggregate to Rs. 113.127 million (2018: Rs. 112.051 million). Lease disbursed during the year amounts to Rs. 64.460 million (2018: Rs. 83.022 million).

## Notes to the Financial Statements

For the year ended December 31, 2019

	Note	2019	2018
		----- Rupees-----	
<b>9.6 Provision for potential lease losses</b>			
Balance at the beginning of the year		139,862,307	145,390,502
Provision for the year		9,403,368	429,250
Recovered during the year		(12,913,862)	(5,957,445)
Net reversals		(3,510,494)	(5,528,195)
Balance at the end of the year		136,351,813	139,862,307

### 10 LONG-TERM FINANCES AND LOANS - secured

#### Customers

-considered good	10.1	24,244,705	27,211,350
-considered doubtful		59,818,056	62,999,191
	10.3	84,062,761	90,210,541
Less: Provision for doubtful finances and loans - net	10.2	(9,494,030)	(10,714,513)
		74,568,731	79,496,028
<b>Less: Current maturity</b>			
Customers	15	(16,636,626)	(15,180,654)
		57,932,105	64,315,374

**10.1** These represent loans to customers for a period of three to five years on mark-up basis and are secured by way of hypothecation of stock and immovable property. The rate of mark-up ranges from 15% to 27% (2018: 9.5% to 27.02%) per annum.

	2019	2018
	----- Rupees-----	
<b>10.2 Provision for doubtful finances and loans - net</b>		
Balance at the beginning of the year	10,714,513	10,788,374
Provision for the year	3,588,157	61,554
Recovered during the year	(4,808,640)	(135,415)
Net reversals	(1,220,483)	(73,861)
Balance at the end of the year	9,494,030	10,714,513

**10.3** This includes non-performing loans of Rs. 75.662 million (2018: Rs. 80.569 million) which have not been fully provided due to forced sales value benefits amount to Rs. 76.025 million (2018: 92.832 million).

### 11 LONG-TERM LOANS TO EMPLOYEES - secured

#### Related parties - considered good

-house loans		155,352	193,980
-car loans		938,559	1,310,554
	11.1 & 11.2	1,093,911	1,504,534
<b>Less: Current maturity</b>			
Employees	15	(361,228)	(429,377)
		732,683	1,075,157

## Notes to the Financial Statements

For the year ended December 31, 2019

### 11.1 Movement in loan to employees

Balance at the beginning of the year	1,504,534	1,884,251
Disbursements	89,567	128,983
Repayments	(500,190)	(508,700)
Balance at the end of the year	<u>1,093,911</u>	<u>1,504,534</u>

11.2 These represent housing loans and car loans given to employees. These loans are recovered through deduction from salaries over varying periods up to a maximum period of 20 years. These loans are granted to the employees in accordance with their terms of employment. The housing loans are secured by registered mortgage in favor of the Company. Car loans are secured by the title of car in the Company's name. These loans carry mark-up at 5% to 7% (2018: 5% to 7 %) per annum.

### 12 LONG-TERM DEPOSITS AND PREPAYMENTS

	Note	2019 ----- Rupees-----	2018 ----- Rupees-----
Security deposits	12.1	787,222	782,222
Prepayments		<u>375,188</u>	<u>42,679</u>
		<u>1,162,410</u>	<u>824,901</u>

#### 12.1 Security deposits

Deposit on rent: branches	711,000	706,000
Deposit - Central Depository Company	50,000	50,000
Miscellaneous deposits	14,422	14,422
Deposit on BRR security vault	<u>11,800</u>	<u>11,800</u>
	<u>787,222</u>	<u>782,222</u>

### 13 ADVANCES

#### Considered good - unsecured

- employees	13.1	1,180,216	1,295,960
- legal advisors	13.2	2,053,200	1,881,450
- others		<u>136,542</u>	<u>168,535</u>
		<u>3,369,958</u>	<u>3,345,945</u>

13.1 These represents interest free advances given to employees against salaries. These are recovered through monthly deductions from salaries over a period of one year from the date of disbursement.

13.2 These represents advance payments made to the legal advisors of the Company for handling the cases on behalf of the Company.

### 14 PREPAYMENTS AND OTHER RECEIVABLES

	Note	2019 ----- Rupees-----	2018 ----- Rupees-----
Prepayments		838,786	1,093,965
Accrued interest on long-term finances and loans		47,368	51,276
Other receivable		<u>65,000</u>	<u>1,769,706</u>
		<u>951,154</u>	<u>2,914,947</u>
Less: Provision for other receivables		-	(1,704,706)
		<u>951,154</u>	<u>1,210,241</u>



## Notes to the Financial Statements

For the year ended December 31, 2019

15 CURRENT MATURITY OF NON-CURRENT ASSETS		2019	2018
	Note	----- Rupees-----	
Current maturity of :			
- Net investment in finance leases	9	146,026,891	138,081,895
- Long term finances and loans	10	16,636,626	15,180,654
- Long term loans to employees	11	361,228	429,377
		<u>163,024,745</u>	<u>153,691,926</u>

16 CASH AND BANK BALANCES		2019	2018
	Note	----- Rupees-----	
Balance with State Bank of Pakistan in current account		6,282	21,642
Balances with banks in:			
- Current accounts	16.1	633,408	5,955,850
- Saving accounts	16.2	81,616	86,531
Cash in hand		66,412	66,412
		<u>787,718</u>	<u>6,130,435</u>

16.1 These include balance with related party amounting to nil (2018: Rs. 1.562 million).

16.2 These carry profit at the rate of 4% per annum (2018: 4% per annum).

17 TRADE AND OTHER PAYABLES		2019	2018
	Note	----- Rupees-----	
Insurance payable		2,023,774	2,295,245
Payable on termination/maturity of leases		1,323,320	597,920
Accrued expenses		1,206,715	629,840
Others		316,429	220,850
		<u>4,870,238</u>	<u>3,743,855</u>

### 18 MARK-UP ACCRUED ON BORROWINGS

Interest accrued on short term borrowings	18.1	<u>2,143,384</u>	<u>1,299,884</u>
---	------	------------------	------------------

18.1 This amount represents accrued interest payable to the Holding Company.

### 19 SHORT TERM BORROWINGS - Secured

Short term borrowings	19.1	<u>142,156,359</u>	<u>141,556,042</u>
-----------------------	------	--------------------	--------------------

19.1 The Company has a running finance facility available from the Holding Company amounting to Rs.150 million (2018: Rs.150 million) at mark-up rates ranging between 10.43% to 17.33% (2018: 9.97% to 10.43%) per annum, said facility is secured by way of hypothecation of the Company's specific leased assets and related receivables.

20 CURRENT MATURITY OF NON-CURRENT LIABILITIES		2019	2018
	Note	----- Rupees-----	
Long term deposits	9.1	60,217,706	51,334,162
Long term finance	20.1	373,233	373,233
		<u>60,590,939</u>	<u>51,707,395</u>



## Notes to the Financial Statements

For the year ended December 31, 2019

- 20.1** This represents balance due against financing facilities amounting to Rs. 0.373 million (2018: Rs. 0.373 million) from National Energy Conservation Centre (Enercon). The facilities from Enercon were obtained under an agreement whereby they agreed to provide funds to the Company for granting lease / finance facility to its customers at a preferential mark-up rate for procuring and using energy efficient equipments. The facility requires sharing of profit @ 5% of the financing amount on quarterly basis. However, this facility is no more active.

### 21 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2019		2018	
	Minimum lease payment	Present value	Minimum lease payment	Present value
	Rupees		Rupees	
Upto one year	4,392,078	2,489,296	-	-
Later than one year but not later than five years	13,183,867	10,505,675	-	-
Total minimum lease payments	17,575,945	12,994,971	-	-
Less: Finance charges not due yet	(4,580,974)	-	-	-
Present value of minimum lease payments	12,994,971	12,994,971	-	-
Less: Current maturity	(2,489,296)	(2,489,296)	-	-
	10,505,675	10,505,675	-	-

### 22 PROVISION FOR COMPENSATED ABSENCES

#### Changes in present value of defined benefit obligations

	2019	2018
	Rupees	
Present value of defined benefit obligations- Opening	2,491,591	2,379,069
Current service cost	820,743	888,418
Interest cost on defined benefit obligation	241,385	166,824
Benefits paid	(1,339,631)	(713,917)
Remeasurement		
- Actuarial gains from changes in assumptions	(4,307)	15,656
- Experience adjustments	290,784	(244,459)
Present value of defined benefit obligations- Closing	2,500,565	2,491,591

#### Expenses to be charged to statement of profit or loss account

	2019	2018
Current service cost	820,743	888,418
Experience adjustments	290,784	(244,459)
Actuarial gains from changes in financial assumptions	(4,307)	15,656
Interest cost on defined benefit obligation	241,385	166,824
Expense chargeable to statement of profit or loss account	1,348,605	826,439

#### Changes in net liability

	2019	2018
Statement of financial position liability- Opening	2,491,591	2,379,069
Expenses chargeable to statement of profit or loss account	1,348,605	826,439
Benefits paid	(1,339,631)	(713,917)
Statement of financial position liability- Closing	2,500,565	2,491,591

## Notes to the Financial Statements

For the year ended December 31, 2019

### 23 DEFINED BENEFIT OBLIGATION

The Company operates an unapproved and unfunded gratuity scheme for all of its permanent employees. Number of employees covered under the scheme are 28 (2018: 34).

#### Principal actuarial assumptions

Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics and experience in Pakistan. The rates assumed are based on SLIC (2001 - 2005) - 1 ultimate mortality tables rates down one year.

The latest actuarial valuation of the gratuity scheme was carried out on December 31, 2019 using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

	2019	2018
Valuation discount rate	11.25%	13.25%
Expected long term rate of increase in salary level	11.25%	13.25%

23.1 Liability in statement of financial position	Note	----- Rupees-----	
Present value of defined benefit obligation	23.2	<u>7,623,230</u>	<u>9,090,662</u>
<b>23.2 Movement in liability during the year</b>			
Balance at the beginning of the year		9,090,662	6,911,306
Charged to statement of profit or loss account	28.1	2,433,115	2,054,696
Remeasurements chargeable in other comprehensive income	23.5	(1,120,142)	207,332
Benefits paid during the year		<u>(2,780,405)</u>	<u>(82,672)</u>
Balance at the end of the year		<u>7,623,230</u>	<u>9,090,662</u>
<b>23.3 Reconciliation of the present value of defined benefit obligations</b>			
Present value of obligations at beginning of the year		9,090,662	6,911,306
Current service cost		1,412,804	1,201,017
Interest cost		1,020,311	566,773
Past service cost		-	286,906
Benefits paid during the year		(2,780,405)	(82,672)
Remeasurements (gain) / losses chargeable in other comprehensive income		<u>(1,120,142)</u>	<u>207,332</u>
Present value of obligations at the end of the year		<u>7,623,230</u>	<u>9,090,662</u>
<b>23.4 Charged to statement of profit or loss account</b>			
Current services cost		1,412,804	1,201,017
Past service cost		-	286,906
Interest cost		1,020,311	566,773
		<u>2,433,115</u>	<u>2,054,696</u>
<b>23.5 Remeasurements (gain) / losses chargeable in other comprehensive income</b>			
Actuarial (gains) / losses on obligation		(23,258)	50,533
Experience adjustment		<u>(1,096,884)</u>	<u>156,799</u>
Total re-measurements recognized in other comprehensive income		<u>(1,120,142)</u>	<u>207,332</u>

## Notes to the Financial Statements

For the year ended December 31, 2019

### 23.6 Sensitivity analysis

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

Discount rate effect	Rupees	Rate effect
Original liability	7,623,230	11.25%
1% increase	7,011,224	12.25%
1% decrease	8,321,209	10.25%

Salary increase rate effect	Rupees	Rate effect
Original liability	7,623,230	11.25%
1% increase	8,326,837	12.25%
1% decrease	6,994,885	10.25%

The sensitivity analysis prepared presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

### 23.7 Maturity profile

	2019	2018
The weighted average duration of the obligation (in years)	10	8

### 24 ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2019	2018		2019	2018
(Number of shares)			Rupees	
10,100,000	10,100,000	Ordinary shares of Rs. 10 each issued as fully paid in cash	101,000,000	101,000,000
19,900,000	19,900,000	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	199,000,000	199,000,000
2,000,000	2,000,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	20,000,000	20,000,000
<b>32,000,000</b>	<b>32,000,000</b>		<b>320,000,000</b>	<b>320,000,000</b>

- 24.1** SME Bank Limited is a public limited company incorporated in Pakistan on October 30, 2001 under the Companies Ordinance, 1984 having its registered office at 56-F, Nazim-ud-Din Road, F-6/1, Blue Area Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is a Scheduled Commercial Bank engaged in the business engaged in the business of banking with primary objective to support and develop Small and Medium Enterprise (SME) sector in Pakistan by providing necessary financial assistance and business support services on sustainable basis. At December 31, 2019, The Holding Company and its nominees hold 73.14% (2018: 73.14%) ordinary shares of the Company.



## Notes to the Financial Statements

For the year ended December 31, 2019

### 25 CONTINGENCIES AND COMMITMENTS

#### 25.1 Contingencies

There are no contingencies as at year end except disclosed in note 29.2 of the financial statements.

		2019	2018
	Note	----- Rupees-----	
25.2.1 Lease disbursement	25.2.2	-	8,624,950

25.2.2 These represent lease and finances which have been approved by the Company at the year end.

25.2.3 Commitments in respect of rent agreement are as follows:

		2019	2018
	Note	----- Rupees-----	
Not later than one year		-	1,698,695
Later than one year but not later than five years		-	376,200
		-	2,074,895

### 26 INCOME FROM OPERATIONS

Income from finance lease	19,634,038	26,471,227
Income on finance and loans	6,832,160	4,688,759
	26,466,198	31,159,986

### 27 OTHER INCOME

#### Income from financial assets

Mark-up on loan to employees	89,003	115,355
Profit on bank account/return on investment	-	5,244

#### Income from non-financial assets

Gain on disposal of fixed assets	6.1	2,500	161,678
Other income		19,937	8,444
		111,440	290,721

### 28 ADMINISTRATIVE AND GENERAL EXPENSES

Salaries, allowances and other benefits	28.1	28,359,429	27,040,411
Depreciation and amortization	6, 7 & 8	3,517,675	1,506,217
Legal and professional		2,754,034	3,176,303
Travelling, conveyance and entertainment		1,660,194	1,634,119
Insurance		970,843	998,848
Electricity, gas and water		958,523	942,210
Telephone and postage		899,205	939,711
Miscellaneous		782,187	523,256
Printing and stationery		706,202	725,550
Directors' fee	28.4	660,000	785,000
Training and development		608,000	189,500
Auditor's remuneration	28.6	509,825	509,825
Rent, rates and taxes		507,025	3,302,068
Repairs and maintenance		479,549	434,907
Vehicle running		474,076	297,336
Advertising		327,545	594,043
Books and periodicals		59,407	42,680
		44,233,719	43,641,984

## Notes to the Financial Statements

For the year ended December 31, 2019

### 28.1 Salaries allowance and other benefits include:

	Note	2019 Rupees	2018 Rupees
Staff gratuity fund	23.4	2,433,115	2,054,696
Staff provident fund		665,233	619,432
Compensated absences	22	1,348,605	826,439

### 28.2 Remuneration of Chief Executive Officer and Executives

The aggregate amount charged in the financial statements, including all benefits, to the Chief Executive Officer and Executives of the Company are as follows:

	2019		2018	
	Chief Executive Officer	Executive	Chief Executive Officer	Executives
	(Rupees)		(Rupees)	
Managerial remuneration	1,057,813	2,101,935	2,904,000	1,432,818
Housing and utilities	528,906	1,050,968	1,452,000	716,409
Provident fund	-	-	232,320	114,625
Medical and other perquisites	105,781	210,194	290,400	143,282
Gratuity	1,548,800	-	387,200	-
Leave encashment	270,911	67,375	193,600	-
Leave fare assistance	387,200	-	387,200	-
	<b>3,899,411</b>	<b>3,430,472</b>	<b>5,846,720</b>	<b>2,407,134</b>
Number of person(s)	<b>2</b>	<b>3</b>	<b>1</b>	<b>1</b>

28.3 The Chief Executive Officer and certain executives were also provided with free use of Company owned and maintained cars in accordance with their terms of employment.

28.4 This represents remuneration paid to the non-executive directors of the Company for attending meetings of the Board and Board's committees.

28.5 Executive means an employee, other than the chief executive and directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year.

### 28.6 Auditor's remuneration

	2019 Rupees	2018 Rupees
Annual audit fee	250,000	250,000
Half yearly review fee	55,600	55,600
Fee for other certifications	50,000	50,000
Out of pocket expenses	154,225	154,225
	<b>509,825</b>	<b>509,825</b>

## 29 FINANCE COST

Mark-up on short term borrowings	20,290,115	14,314,107
Interest expense for leasing arrangements	2,036,840	-
Bank charges	132,512	107,770
	<b>22,459,467</b>	<b>14,421,877</b>

## Notes to the Financial Statements

For the year ended December 31, 2019

### 30 TAXATION

#### 30.1 Current tax liability

Provision for the current year income tax has been made under the provisions of minimum tax under Section 113 of the Income Tax Ordinance, 2001.

#### 30.2 Current status of tax assessments

The income tax assessments of the Company for tax year 2012 has been selected for tax audit u/s 214 C of Income tax ordinance 2001.

In respect of Tax year 2012, the tax authorities have served order under section 122(1) read with section 177(1) and 214C of the Income Tax Ordinance, 2001 disallowing expenses relating to depreciation allowance, markup on loan to employees and financial cost and creating tax demand of Rs. 3.8 million. The Company filed an appeal before the Commissioner Inland Revenue (Appeals-II) against the said order who decided all the issues in favor of the Company except for initial allowance on leased asset. Company has filed second appeal and the appeal has not yet been fixed for hearing.

In respect of minimum tax for the year ended December 31, 2015, the tax authorities have served order under section 124 of Income Tax Ordinance, 2001 for additional amount of minimum tax of Rs. 0.14 million payable due to restatement of turnover of the Company. The Company has filed application for rectification in the order on the issue of incorrect value of turnover for the purpose of charging minimum tax under section 113 and tax credit not allowed. No action has been taken by the tax officer yet.

**30.3** Deferred tax asset of Rs. 125.357 million (2018: Rs. 80.834 million) has not been recognized as the Company does not foresee future taxable profits against which unused tax losses will be utilized.

**30.4** The Company computes tax based on the generally accepted interpretations of the tax laws to ensure that the sufficient provision for the purpose of taxation is available which can be analyzed as follows:

	2018	2017	2016
	-----Rupees-----		
Tax provision as per accounts	<b>349,920</b>	333,598	325,312
Tax payable/paid as per tax return	<b>349,920</b>	383,785	300,119
		2019	2018
		-----Rupees-----	

### 31 LOSS PER SHARE - BASIC AND DILUTED

Loss after taxation attributable to ordinary shareholders	<b>(35,694,330)</b>	(21,361,018)
	(Number of shares)	
Weighted average number of outstanding ordinary shares	<b>32,000,000</b>	32,000,000
Loss per share - basic and diluted	<b>(1.12)</b>	(0.67)

**31.1** No figure for diluted earnings per share has been presented as the Company has no potential ordinary shares outstanding at year end.



## Notes to the Financial Statements

For the year ended December 31, 2019

### 32 TRANSACTIONS WITH RELATED PARTIES

The related parties of the Company comprise of SME Bank Limited (the Holding Company), key management personnel, non-executive directors and contributory staff retirement benefit plan.

	Note	2019 ----- Rupees-----	2018
<b>32.1 BALANCES</b>			
<b>SME Bank Limited (the Holding Company)</b>			
Short term borrowings	19	142,156,359	141,556,042
<b>32.2 TRANSACTIONS</b>			
<b>SME Bank Limited (the Holding Company)</b>			
Mark up on short-term borrowings	29	20,290,115	14,314,107
Acquisition / (Repayment) of short term borrowing facility-net		600,317	(31,204,220)
Rent expense paid for Peshawar branch		544,805	423,288
<b>Key management personnel</b>			
Key management remuneration		5,722,504	4,795,600
Post retirement benefits		3,141,686	440,600
<b>Staff provident fund</b>			
Company's contribution towards provident fund	28.1	665,233	619,432
<b>33 PROVIDENT FUND</b>			
Size of the fund (Net assets)		5,598,610	4,795,600
Cost of investment made		5,313,248	4,590,796
Percentage of investment made		94.90%	95.73%
Fair value of investments		5,725,270	4,785,749

All the investments of the Provident Fund are kept in mutual funds.

- 33.1** Investments out of provident fund have been made in accordance with the provisions of the section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

	Note	2019 ----- Rupees-----	2018
<b>34 CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	16	787,718	6,130,435
Short term borrowings	19	(142,156,359)	(141,556,040)
		<u>(141,368,641)</u>	<u>(135,425,605)</u>

## Notes to the Financial Statements

For the year ended December 31, 2019

### 35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### Introduction and overview

The Company has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing it.

#### Risk management framework

Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's audit committee oversees how management monitor compliance with the Company's risk management policies and procedures, and review the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's audit committee is assisted in its oversight by internal audit. Internal audit undertakes both regular and adhoc reviews of risk management controls and procedures, the result of which are reported to the audit committee.

#### 35.1 Credit risk

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, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

##### 35.1.1 Management of credit risk

The Company's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the NBFC Rules and Regulations. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continually assessing the credit worthiness of counter parties.

## Notes to the Financial Statements

For the year ended December 31, 2019

### 35.1.2 Exposure to credit risk

In summary, compared to the maximum amount included in the balance sheet, the maximum exposure to credit risk as at December 31, 2019 is as follows:

	2019		2018	
	Statement of financial position	Maximum exposure	Statement of financial position	Maximum exposure
	(Rupees)			
Bank balances	721,306	715,024	6,064,023	6,108,793
Advances	136,542	136,542	168,535	168,535
Net investment in finance lease	383,222,542	383,222,542	411,459,259	411,411,891
Finances and loans	74,568,731	74,568,731	79,496,028	79,496,028
Loans to employees	1,093,911	1,093,911	1,504,534	1,504,534
Deposits and other receivables	899,590	899,590	2,551,928	2,551,928
	<b>460,642,622</b>	<b>460,636,340</b>	<b>501,244,307</b>	<b>501,241,709</b>

### 35.1.3 Credit ratings and collaterals

Details of the credit ratings of balances with the banks (including profit receivable) as at 31 December were as follows:

Ratings	2019	2018
A1+	0.00%	2.93%
A-1+	99.13%	71.36%
Others	0.87%	25.71%
	<b>100%</b>	<b>100%</b>

### 35.1.4 Description of collaterals held

The Company's leases are secured against assets leased out. In certain leases additional collaterals are also obtained.

Details of exposures and the collaterals as at December 31, 2019 against them are as follows:

	Net exposure	Lower of collateral and gross exposure
	Rupees	
<b>Finance leases</b>		
- Regular	163,020,331	163,071,659
- Non performing net of provision	220,202,211	356,502,696
	<b>383,222,542</b>	<b>519,574,355</b>
<b>Long-term finances and loans</b>		
- Regular	24,244,705	24,244,705
- Non performing net of provision	50,324,026	59,818,056
	<b>74,568,731</b>	<b>84,062,761</b>

## Notes to the Financial Statements

For the year ended December 31, 2019

### Settlement risk

Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash or other assets as contractually agreed.

This risk is addressed more or less in accordance with the parameters set out in the credit risk management above.

To reduce the exposure to credit risk the Company has developed a formal approval process whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery (and also obtains security / advance payments, wherever considered necessary). Cash is held only with reputable banks with high quality credit worthiness.

### 35.1.5 Impairment losses and past due balances

2019				
	Total	Loans and receivables	Net investment in finance lease	Impairment recognized
	(Rupees)			
Not past due	143,898,499	16,636,626	127,261,873	-
1 - 179 days	18,812,386	47,368	18,765,018	-
180 days - 1 year	-	-	-	-
More than 1 year	295,127,756	67,426,135	373,547,464	(145,845,843)
	<u>457,838,641</u>	<u>84,110,129</u>	<u>519,574,355</u>	<u>(145,845,843)</u>
2018				
	Total	Loans and receivables	Net investment in finance lease	Impairment recognized
	(Rupees)			
Not past due	141,045,992	15,180,654	125,865,338	-
1 - 179 days	1,249,846	-	1,249,846	-
180 days - 1 year	10,447,202	-	10,447,202	-
More than 1 year	337,696,647	75,081,164	413,192,303	(150,576,820)
	<u>490,439,687</u>	<u>90,261,818</u>	<u>550,754,689</u>	<u>(150,576,820)</u>

### 35.1.6 Concentration of credit risk - gross investment in finance lease

The Company seeks to manage its credit risk through diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or business sectors. It also obtains collaterals when appropriate.

The management of the Company follows two sets of guidelines. Internally, it has its own policies and procedures duly approved by the Board of Directors whereas externally it adheres to the regulations issued by the SECP. The operating policy defines the extent of funded exposures with reference to a particular sector or group of leases.

## Notes to the Financial Statements

For the year ended December 31, 2019

Details of the composition of leases and loans and finances portfolio of the Company are given below:

	2019		2018	
	Rupees	Percentage	Rupees	Percentage
Public transport services	99,445,189	14.31%	102,465,283	13.88%
Printing and packaging	59,389,249	8.55%	74,340,247	10.07%
Rubber	58,935,095	8.48%	40,741,231	5.52%
Health care	56,529,752	8.13%	57,355,514	7.77%
Oil and gas	49,316,299	7.10%	65,036,320	8.81%
Film processing	48,744,973	7.01%	50,249,843	6.81%
Food and beverages	43,449,273	6.25%	43,391,427	5.88%
Garments	38,339,582	5.52%	26,315,598	3.56%
Miscellaneous	33,863,905	4.87%	36,220,855	4.91%
Entertainment	31,122,877	4.48%	37,426,843	5.07%
Cargo carriers	24,697,886	3.55%	28,654,192	3.88%
Chemicals	24,438,035	3.52%	32,660,785	4.42%
Education	17,651,360	2.54%	27,791,490	3.76%
Engineering	16,925,999	2.44%	17,962,590	2.43%
Leather and tannery	15,364,218	2.21%	15,364,218	2.08%
Textile	14,293,784	2.06%	14,832,903	2.01%
Gems and jewelers	13,921,662	2.00%	13,921,662	1.89%
Plastic	12,894,665	1.86%	14,138,949	1.91%
Pharma	12,236,745	1.76%	12,244,365	1.66%
Confectionary	9,637,726	1.39%	10,114,506	1.37%
Communication	6,802,623	0.98%	6,802,623	0.92%
Construction and building product	5,192,256	0.75%	8,131,225	1.10%
Fisheries	1,285,857	0.19%	1,285,857	0.17%
Furniture	441,872	0.06%	972,448	0.13%
	<b>694,920,882</b>	<b>100%</b>	<b>738,420,974</b>	<b>100%</b>

### 35.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or may face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due.

#### 35.2.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Due to nature of the business, the Company maintains flexibility in funding by maintaining committed credit lines available. The Company's liquidity management involves projecting cash flows and considering the level of liquid assets necessary to fulfill its obligation; monitoring balance sheet liquidity ratios against internal and external requirements and maintaining debt financing plans.



## Notes to the Financial Statements

For the year ended December 31, 2019

### 35.2.2 Maturity analysis for financial liabilities

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to maturity date and represents the undiscounted cashflows. The amounts in the table are the gross nominal undiscounted cashflows (including interest

	2019			
	Total	Contractual cash flow	Up to one year	Two to five years
	(Rupees)			
<b>Financial liabilities</b>				
Trade and other payables	4,870,238	4,870,238	4,870,238	-
Lease liabilities	12,994,971	12,994,971	2,489,296	10,505,675
Short term borrowings	142,156,359	142,156,359	142,156,359	-
Long term finances	373,233	373,233	373,233	-
Long term deposits	223,762,800	223,762,800	60,217,706	163,545,094
Markup accrued	2,143,384	2,143,384	2,143,384	-
	<b>386,300,985</b>	<b>386,300,985</b>	<b>212,250,216</b>	<b>174,050,769</b>
	2018			
	Total	Contractual cash flow	Up to one year	Two to five years
	(Rupees)			
<b>Financial liabilities</b>				
Accrued and other liabilities	3,743,855	3,743,855	3,743,855	-
Short term borrowings	141,556,042	141,556,042	141,556,042	-
Long term finances - secured	373,233	373,233	373,233	-
Long term deposits	230,534,781	230,534,781	51,334,162	179,200,619
Markup accrued	1,299,884	1,299,884	1,299,884	-
	<b>377,507,795</b>	<b>377,507,795</b>	<b>198,307,176</b>	<b>179,200,619</b>

### 35.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will effect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company is exposed to interest rate and other price risk only.

#### 35.3.1 Management of market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Company manages the market risk by following internal risk management policies and regulations laid down by the Securities and Exchange Commission of Pakistan.



## Notes to the Financial Statements

For the year ended December 31, 2019

### 35.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in finance lease, finance and loans, bank balances and borrowings from bank. The Company carries a mix of fixed and floating rate financial instruments.

At December 31, details of the interest rate profile of the Company's interest bearing financial instruments were as follows:

	Effective	Carrying amount	
	Interest rate %	2019	2018
		----- Rupees-----	
<b>Fixed rate instruments</b>			
<b>Financial assets</b>			
Net investments in finance lease	9.5% to 25%	383,222,542	411,411,891
Long term finance and loans	9.5% to 27%	74,568,731	79,496,028
Long-term loans to employees - secured	5% to 7%	1,093,911	1,504,534
		<u>458,885,184</u>	<u>492,412,453</u>
<b>Financial liabilities</b>			
Long term finance	-	373,233	373,233
Liabilities against assets subject to finance lease	17.33% to 18.26%	10,505,675	-
		<u>10,878,908</u>	<u>373,233</u>
<b>Variable rate instruments</b>			
<b>Financial assets</b>			
Bank balances	4.00%	81,616	86,531
		<u>81,616</u>	<u>86,531</u>
<b>Financial liabilities</b>			
Short term borrowings	9.97% to 17.33%	142,156,359	141,556,042
		<u>142,156,359</u>	<u>141,556,042</u>

### 35.3.3 Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account.

### 35.3.4 Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by Rs. 0.142 million (2018: Rs. 0.141 million).

# Notes to the Financial Statements

## For the year ended December 31, 2019

### 35.3.5 Interest rate gap position

Yield / interest rate sensitivity position for on balance sheet financial instruments based on the earlier of contractual re-pricing or maturity date is as follows:

2019					
Effective mark-up / interest / profit rate	Total	Exposed to mark-up / interest / profit rate			
		Up to three months	More than three months and up to one year	More than one year	
----- (Rupees) -----					
Financial assets					
Cash and bank balances	4.00%	81,616	81,616	-	-
Long-term finances and loans	9.5% to 27%	74,568,731	16,636,626	-	57,932,105
Long-term loans to employees - secured	5% to 7%	1,093,911	-	361,228	732,683
Net investment in finance lease	9.5% to 25%	383,222,542	-	146,026,891	237,195,651
Total financial assets as on December 31, 2019		458,966,800	16,718,242	146,388,119	295,860,439
Financial liabilities					
Lease liabilities	17.33%	12,994,971	438,657	2,050,639	10,505,675
Short term borrowings	9.97% to 17.33%	142,156,359	-	142,156,359	-
Long term finances	-	373,233	373,233	-	-
Total financial liabilities as on December, 2019		155,524,563	811,890	144,206,998	10,505,675
On balance sheet gap		303,442,237	15,906,352	2,181,121	285,354,764
Total interest rate sensitivity gap		303,442,237	15,906,352	18,087,473	303,442,237

2018					
Effective mark-up / interest / profit rate	Total	Exposed to mark-up / interest / profit rate			
		Up to three months	More than three months and up to one year	More than one year	
----- (Rupees) -----					
<b>Financial assets</b>					
Cash and bank balances	3.5%	86,531	86,531	-	-
Long-term finances and loans	9.5% to 27%	79,496,028	15,180,654	-	64,315,374
Long-term loans to employees	5% to 7%	1,504,534	-	429,377	1,075,157
Net investment in finance lease	9.5% to 27%	411,411,891	125,865,338	12,216,557	273,329,996
<b>Total financial assets as on December 31, 2018</b>		492,498,984	141,132,523	12,645,934	338,720,527
<b>Financial liabilities</b>					
Short term borrowings	9.96% to 9.97%	141,556,042	-	141,556,042	-
Long term finances		373,233	373,233	-	-
<b>Total financial liabilities as on December, 2018</b>		141,929,275	373,233	141,556,042	-
<b>On balance sheet gap</b>		350,569,709	140,759,290	(128,910,108)	338,720,527
<b>Total interest rate sensitivity gap</b>		350,569,709	140,759,290	11,849,182	350,569,709

## Notes to the Financial Statements

For the year ended December 31, 2019

### 35.4 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Company is not exposed to equity securities price risk as the Company does not hold any equity securities as at December 31, 2019.

### 36 CAPITAL RISK MANAGEMENT

**36.1** The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce its cost of capital.

**36.2** The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in the economic conditions. In order to maintain or adjust the capital structure, the company may adjust the amount of dividend paid to its shareholders or issue new shares. Consistent with others in the industry, the Company also monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital employed:

	2019	2018
	----- Rupees-----	
Total debt	12,994,971	373,233
Total equity	77,108,064	111,682,252
Total capital employed	<u>90,103,035</u>	<u>112,055,485</u>
Gearing ratio	<u>14.42%</u>	<u>0.33%</u>

### 36.3 Financial risk management objectives and policies

The Company finances its operations through equity, borrowings and management of its working capital with a view to maintaining an appropriate mix between various sources of finance to minimize liquidity risk. Taken as a whole, the Company's risk arising from financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

### 36.4 Fair value and risk management

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value of underlying financial assets are determined based on requirements of Regulation 66 of Non-Banking Finance Companies and Notified Entities Regulations, 2008 and directives if any, issued by the Securities and Exchange Commission of Pakistan. Fair value of debt instruments other than Government Securities, which are unlisted or listed but not traded regularly on stock exchange be valued at rates notified by Mutual Funds Association of Pakistan. The fair value of financial assets traded in active market i.e. listed securities are based on the quoted market price at determined by stock exchange in accordance with its regulations.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorized into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:



# Notes to the Financial Statements

For the year ended December 31, 2019

Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.

Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

## 36.5

For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2019 and 2018, there were no transfers between Level 1, Level 2 or Level 3 of fair value measurements.

As at December 31, 2019, the Company held the following classes of financial instruments measured at fair value:

December 31, 2019	Carrying amount			Fair value			
	Cash and cash equivalent	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3 Total
<b>Financial assets</b>							
Cash and bank balance	787,718	-	-	787,718	-	-	-
Advances	-	3,369,958	-	3,369,958	-	-	-
Deposits, prepayments and other receivables	-	951,154	-	951,154	-	-	-
Long term finances and loans and accrued interest thereon	-	74,568,731	-	74,568,731	-	-	-
Net investment in finance leases	-	383,222,542	-	383,222,542	-	-	-
	787,718	462,112,385	-	462,900,103	-	-	-
<b>Financial liabilities</b>							
Accrued and other liabilities	-	-	4,870,238	4,870,238	-	-	-
Accrued mark-up on borrowings	-	-	2,143,384	2,143,384	-	-	-
Short term borrowings	142,156,359	-	-	142,156,359	-	-	-
Provision for compensated absences	-	-	2,500,565	2,500,565	-	-	-
Long term finances	-	-	373,233	373,233	-	-	-
Long term deposits	-	-	10,505,675	10,505,675	-	-	-
Defined benefit obligation	-	-	7,623,230	7,623,230	-	-	-
Lease liabilities	-	-	12,994,971	12,994,971	-	-	-
	142,156,359	-	28,016,325	170,172,684	-	-	-



# Notes to the Financial Statements

For the year ended December 31, 2019

36.6 The Company has not disclosed the fair values for these financial instruments, because their carrying amounts are reasonable approximation of fair value.

December 31, 2018	Carrying amount		Fair value			
	Cash and cash equivalent	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2
<b>Financial assets</b>						
Cash and bank balance	6,130,435	-	-	6,130,435	-	-
Advances	-	3,345,945	-	3,345,945	-	-
Deposits, prepayments and other receivables	-	1,158,965	-	1,158,965	-	-
Long term finances and loans and accrued interest thereon	-	81,000,562	-	81,000,562	-	-
Net investment in finance leases	-	411,411,891	-	411,411,891	-	-
	6,130,435	496,917,363	-	503,047,798	-	-
<b>Financial liabilities</b>						
Accrued and other liabilities	-	-	3,743,855	-	-	-
Accrued mark-up on borrowings	-	-	1,299,884	-	-	-
Short term borrowings	141,556,042	-	-	-	-	-
Provision for compensated absences	-	-	2,491,591	-	-	-
Long term finances	-	-	373,233	-	-	-
Long term deposits	-	-	179,200,619	-	-	-
Deferred liabilities	-	-	9,090,662	-	-	-
	141,556,042	-	196,199,844	-	-	-

## Notes to the Financial Statements

For the year ended December 31, 2019

### 37 SEGMENT INFORMATION

A segment is a distinguishable component of the Company that is engaged in business activities from which the Company earns revenues and incur expenses and its results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Further, discrete financial information is available for each segment.

The Company's reportable segments under IFRS 8 are therefore finance lease, loans and receivables, and investments.

All assets and liabilities are allocated to reportable segments other than assets and liabilities not directly related to the particular segment.

	2019			
	Finance lease	Loans and receivables	Others	Total
	(Rupees)			
Segment revenue	19,634,038	6,832,160	111,440	26,577,638
Segment profit	16,123,544	5,611,677	111,440	21,846,661
Segment result				21,846,661
<b>Unallocated cost</b>				
Finance cost				(22,459,467)
Administrative and general expenses				(44,233,719)
				(66,693,186)
Loss before tax				(35,384,571)
Taxation				(309,759)
Loss after tax				(35,694,330)
<b>Other information</b>				
Segment assets	383,222,542	74,568,731	-	457,791,273
Unallocated assets			23,929,187	23,929,187
Total assets				481,720,460
Segment liabilities	227,109,894	-	-	227,109,894
Unallocated liabilities			177,502,502	177,502,502
Total liabilities				404,612,396
Net assets				77,108,064
Capital expenditure	-	-	272,011	272,011

**37.1** Revenue reported above represents revenue from external customers. There are no intersegment sales.

**37.2** Revenue from finance lease includes income from finance lease operations and gain/loss on termination of lease. Revenue from loans and receivable includes mark-up income on loans to customers and employees, and revenue from investments include gain on disposal of assets and profit on saving accounts.



## Notes to the Financial Statements

For the year ended December 31, 2019

	2018			
	Finance lease	Loans and receivables	Investment	Others
	(Rupees)			
				Total
Segment revenue	26,471,227	4,688,759	5,244	31,450,707
Segment profit	20,943,032	4,614,898	5,244	25,848,651
Segment result				25,848,651
<i>Unallocated cost</i>				
Finance cost				(14,421,877)
Administrative and general expenses				(43,641,984)
				(58,063,861)
Loss before tax				(21,011,098)
Taxation				(349,920)
Loss after tax				(21,361,018)
Other information				
Segment assets	411,411,891	79,496,028	-	490,907,919
Unallocated assets				18,092,865
Total assets				509,000,784
Segment liabilities	233,427,946	-	-	233,427,946
Unallocated liabilities				163,880,586
Total liabilities				397,318,532
Net assets				111,682,252
Capital expenditure	-	-	-	84,395

### 38 NUMBER OF EMPLOYEES

The number of employees as on the year end were 32 (2018: 34) and average number of employees during the year were 33 (2018: 33).

### 39 CORRESPONDING FIGURES

Items presented in the statement of financial position as at December 31, 2018 have been reclassified to confirm to current year's presentation.

	As previously stated	Reclassification	After classification
<b>Non-current assets:</b>			
		Rupees	
Long-term finances and loans - secured	65,390,531	(1,075,157)	64,315,374
Long-term loans to employees - secured	-	1,075,157	1,075,157
	65,390,531	-	65,390,531
<b>Non-current assets:</b>			
Property and equipment	5,076,809	(77,838)	4,998,971
Intangibles	-	77,838	77,838
	5,076,809	-	5,076,809





## Notes to the Financial Statements

For the year ended December 31, 2019

### 40 SUBSEQUENT EVENTS

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across Pakistan and beyond, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak on the Company's financial statements, if any, will be considered in next financial statements.

### 41 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on May 28, 2020 by the Board of Directors of the Company.

**Dilshad Ali Ahmad**  
Director

**M. Shahzad**  
Chief Financial Officer

**Bilal Mustafa**  
Director

## BRANCH NETWORK

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## HEAD OFFICE

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F-6/1, Blue Area,  
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Ph.# (051) 9217000, Fax.# (051)9217001  
UAN: 111 11 00 11, 111 11 00 11  
Website: [www.smebank.org](http://www.smebank.org)

## BRANCH NETWORK

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UAN # (042) 111-11-00-11

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Fax # (051) 9213742  
UAN # (051) 111-11-00-11

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SME Bank Ltd  
Federal B-Area Branch  
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Plot # St-4-D, Block 20,  
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SME Bank Ltd  
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UAN # (052) 111-11-00-11

SME Bank Ltd  
Plot# 1-6/28 (404)  
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Fax # (081) 2836817

## RECOVERY OFFICES

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**Abbottabad**  
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Fax#(0992) 9310311

SME Bank Limited  
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24-A, Block PECHS, Shahrah-e-Faisal  
**Karachi**  
PH.#(021) 34538041-34533886

SME Bank Limited  
B # 104, Akhuwat Nagar, Airport Road  
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## **TREASURY OFFICE**

### **KARACHI**

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Shahrah-e-Faisal  
KARACHI (EAST).  
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### **KARACHI**

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PH#(021) 34383100

## **SME LEASING LTD.**

### **HEAD OFFICE**

Office # 304, 3rd Floor  
Business Arcade  
Shahrah-e-Faisal

### **KARACHI**

PH # (021) 34322128-9

## FORM OF PROXY

I/We \_\_\_\_\_ of \_\_\_\_\_ being  
a member of **SME BANK LIMITED**, hereby appoint \_\_\_\_\_  
or failing him \_\_\_\_\_ of \_\_\_\_\_  
as my/our proxy, to vote for me/us and on my/our behalf at the 17<sup>th</sup> Annual General Meeting of the  
Bank to be held on August **20, 2020** at **3:00 pm** and at any adjournment thereof.

As witness my/our hand the \_\_\_\_\_ day of \_\_\_\_\_ signed by the said  
\_\_\_\_\_ in the presence of \_\_\_\_\_.

Revenue Stamps:

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

### **Witness:**

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

### **Notes:**

1. A proxy must be a member of the Bank. However, an association (whether body corporate or not) being a member of the Bank may appoint as its proxy one of its officers though not a member of the Bank.
2. Proxy form, in order to be valid, must be duly signed and deposited at registered office of the Bank not less than 48 hours before the time of holding the meeting.



The Company Secretary

**SME Bank Ltd.**  
56-F, Nazim-ud-Din Road,  
F-6/1, Blue Area,  
Islamabad.

AFFIX  
CORRECT  
POSTAGE



***SME Bank Ltd***

small business - Big opportunities

**Head Office:**

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