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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
Website: www.smebank.org

Auditors

M/s Grant Thornton Anjum Rahman
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 19th Annual Report of SME Bank for the year ended December 31, 2020.

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.

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 has applied to SBP to grant exemption to meet the requirement of minimum paid up capital of Rs 10 billion.

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

Even under constrained circumstances there is no letup 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 101.55 million and stood at Rs. 7,602.26 million as on December 31, 2020 as compared to last year Rs. 7,500.71 million. The bank made fresh disbursement of Rs. 262 million during the year under review as compared to Rs. 139 million of last year. Working capital position of the bank also improved as compare to previous year. Net interest expense and Operating expenses decreased during the year which resulted reduction in operational loss of the bank.

As business & economic activities remained depressed, repayment commitments were dishonored by many borrowers, however due to the management's focus and strenuous efforts by the field staff, there is a decrease in non-performing portfolio and stood at Rs. 485 million at the year-end December 31, 2020 as compared to Rs. 505 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 2020

(Rs. in million)

PROFIT & (LOSS)

Income

Total Income	753.9	789.5	753.6	674.0	662.3	753.2
Interest Income	738.9	776.3	741.4	649.3	615.1	705.3

Expenses

Total Expenses	1,901.0	2,076.9	1,629.8	1,395.0	1,119.2	1,027.8
Interest Expenses	1,008.7	1,149.6	520.4	520.4	441.2	436.3
Spread (Net interest income / Gross interest income)	(0.4)	(0.5)	0.3	0.2	0.3	0.4
Loss before tax	(1,147.1)	(1,287.4)	(876.3)	(721.0)	(456.8)	(274.6)
Loss after tax	(977.2)	(1,072.3)	(825.9)	(294.0)	(199.2)	(282.2)

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	(3,160.1)	(2,512.4)	(1,693.9)	(434.3)	20.6	356.3

Liabilities

Total Liabilities	13,101.2	12,664.4	11,332.4	11,429.4	9,357.6	8,260.2
Borrowing from financial institutions	4,127.6	3,654.8	4,739.9	5,308.3	3,460.3	2,888.7
Deposits	7,602.3	7,500.7	5,721.0	5,343.7	5,228.7	4,770.2

Assets

Total Assets	9,941.1	10,152.0	9,638.5	10,995.1	9,378.2	8,616.5
Advances (net of provisions)	1,530.3	1,908.0	2,230.8	2,505.5	2,771.7	2,751.7
Investment	5,828.4	5,740.0	5,765.2	6,911.3	4,869.5	4,117.5

RATIOS

Return on Assets	-9.73%	-10.84%	-8.01%	-2.89%	-2.21%	-4.05%
Capital Adequacy Ratio (Required 10%)	-107.95%	-71.83%	-52.19%	-13.65%	-2.75%	6.79%
Earning/(Loss) per share	(4.08)	(4.48)	(3.45)	(1.23)	(0.83)	(1.18)

BUSINESS ACHIEVEMENTS

Recoveries of New portfolio	514.1	632.9	623.2	694.6	659.8	767.7
Advances disbursed during the Year	1,120.9	1,377.7	1,622.5	1,956.5	1,956.2	1,993.6
Number of SMEs Finances	198	219	366	397	481	447

OTHER INFORMATION

Number of Employees	468	480	486	497	490	495
Number of Banking branches	13	13	13	13	13	13
Total Branches/Recovery Offices	18	18	18	18	18	21

Directors' Report to the Shareholders

We are pleased to present the 19th annual report of SME Bank Limited with the audited accounts and auditors' report thereon for the year ended December 31, 2020.

Economic Review- 2020

Coronavirus disease 2019 (COVID-19) has affected global economies as major economic activities are either suspended or restricted due to epidemics. Pakistan also faced a similar situation as the implementation of the lockdown to avoid trade activities preventing Covid-19. This study focuses on the effects of COVID-19 on Pakistan's services sector and considers various published reports for this purpose. The services sector, including tourism, hospitality and transport, is likely to be most affected. Millions of SMEs will not be able to survive in the long run due to lack of cash flow while the revenue of SMEs has also been reduced. The lockdown situation will lead to weak employment and stagnation in every province of Pakistan. The above statement suggests that business-oriented programs will create jobs effectively, especially by promoting information technology and e-commerce.

CPI Inflation and Market expectation

For the month of Dec'20, headline inflation as measured by CPI clocked in at 7.97% YoY (lowest after Feb 2019's 6.8%YoY), taking 1H FY21 average inflation to 8.63% YoY compared to 11.12% corresponding period last year. The jump in index came mainly due to 13.3% YoY increase in food prices, which makes up 35% of weight of CPI basket (in particular perishable food items – up by 16.3%YoY), however transport index receded by 3.47% YoY on the back of decrease in fuel prices on YoY basis (-35% YoY in Nov'20 | -28% YoY in Dec'20). SPI for 1H FY21 period has grown by 11.48% compared to 14.87% seen in same period previous year. On MoM basis, it decreased by 2.7% in Dec'20 as compared to an increase of 1.1% a month earlier and a decrease of 2.0% in Dec'19. With this, we maintain our stance of status quo (policy rate at 7%) for January's MPS.

Foreign Exchange

Pakistan's international forex reserves rose to USD 20.3bn in Nov'20 from USD 17.9bn at the end of Dec'19. At almost 2.9 months of imports coverage, Pakistan's foreign reserves are slightly below the IMF's minimum 3 months' threshold. Moreover, an increase of PKR 248bn in Net Foreign Assets (NFA) of Pakistan's banking system in 1QFY21 is also reflected in Foreign Exchange Reserves. Causes of this increase in Net Foreign Assets was a Current Account Surplus along with deferment of some repayments of foreign loans which helped ease off pressure from foreign exchange reserves of the country.

Money Market

In 2020, the interbank market looked down sharply after achieving government targets. That was hoped that further cuts would be made in discount rate. In this scenario, the market touched a low and the SME Bank took advantage by selling lower yield bonds and booked small capital gains. Following the fluctuations in the bond market during the financial year 2020, the bank developed a further portfolio for the higher yield. Many banks took advantage of the timely decision to build the book to make it profitable in capital and to keep the book blue by positive spread between borrowing and investment.

THE STATE BANK DIVERSION

State Bank of Pakistan – The Messiah

The outbreak of the pandemic, Central Banks around the world were grappled with concerns about despondent economic activity and a drastic fall in GDP. Like much of the world, Pakistan too, initiated an aggressive round of monetary easing, slashing the policy rate by 625bps within 3 months. The SBP through its monetary policy statements and other communication made it clear that inflation targeting will take a back seat while growth revival would primarily influence monetary policy deliberations.

CHALLENGES FOR BANKS

Strong balance sheets to mitigate COVID risks

Monetary easing stressed banking spreads: As a counter measure to contain the ill-effects of the pandemic, SBP reverted to an easy monetary policy stance (reducing policy rate by a cumulative 625bp in CY20) that kept rupee-lending rates under pressure throughout CY20. The profitability of commercial banks witnessed substantial improvement during CY20 which was primarily supported by reduced interest expense and exceptional capital gains. However, the drag to the overall financial health of the banking sector came from reduced business activities due to the pandemic and higher burden of provisioning charged to build up coverage against potential losses. This turn around looks more impressive in the presence of a narrowing average interest rate spread. Indicators for the management performance of the banking sector also depicted positive trends.

Monetary tightening to initiate in 4QFY21

Going forward, when view the inflation and monetary outlook as being highly contingent on the COVID situation which has seen a recent deterioration. While the rest of the world is reeling from a perilous scenario, Pakistan's second wave is still far from being deadly as the first wave. Subsequently, it is expected oil prices to pick up in CY21 – another driver for domestic inflationary readings. Seasonality impact of the Ramazan month is also likely to drive inflation. Whereas the impact of house rent adjustments (Jan'21 and Apr'21) is also likely to translate into inflationary pressure.

POLICY RATE SCENARIO

50bps hike expected in 4QFY21, avg. inflation for FY21 at 9.26%

Premised on the aforementioned reasons, It is projected that average inflation during 2HFY21 to settle at 9.74% against 8.78% during 1HFY21. Market pundits' projections for FY21 average CPI are set at 9.26% and it is expected that an interest rate hike of 50bps in 4QFY21. It is also predicted growth deliberations to continue being on the radar of the Central Bank and hence, a very hawkish approach towards the monetary policy may not be on the cards yet.

Operational Highlights

The Bank is operating with paid up capital of Rs 2.39 billion since 2007. SME Bank has applied to State Bank to grant exemption to meet the requirement of minimum paid up capital of Rs 10 billion. 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 2020 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 2020 was 13.75 percent. At the end of the year 2020 discount rate reached at 8.00 percent with decrease of 5.75 percent, as SBP decrease discount rate to counter the effect of COVID-19 on the economy.

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 1,816 million. During the year under review income from SME lending operations decreased by an amount of Rs 41.58 million. The cost of funds decreased by an amount of Rs 140.96 million due to decrease in average cost of borrowings to 9.28% as compared to 12.23% in 2019.

The deposits of the bank has been increased by Rs. 101.55 million and stand at Rs 7,602.26 million as on December 31, 2020 as compared to last year Rs. 7,500.71 million as on December 31, 2019.

During the year 2020, the bank reversed net provision of Rs 14.77 million against non-performing loans as against charged net provision of Rs 0.63 million in 2019. Loans and advances on account of the bank's lending operation were Rs 1,816 million in 2020 compared to Rs 2,195 million in 2019.

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, 2020 were Rs 485 million whereas on December 31, 2019 was Rs 506 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, 2020. 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 27 million. Total recoveries aggregated to Rs 79.5 million (including Rs 25.05 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 1.61 to Rs 6.28 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 1,147.12 million during the year 2020 as compared to loss before tax of Rs 1,287.41 million in 2019, and Net loss of Rs 977.16 million as compared to Net loss of Rs 1,072.31 million in 2019. 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, SME Bank has applied to State Bank to grant exemption to meet the requirement of minimum paid up capital of Rs 10 billion.

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 deposits of the bank has been increased by Rs. 101.55 million and stand at Rs 7,602.26 million as on December 31, 2020.

Disbursements

Liquidity constraints notwithstanding, the bank was able to achieve disbursement of Rs 262 million during the year as compared to Rs 139 million in the previous year. The number of clients served during the year was 198 and total number of outstanding borrowers stood at 1119 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. 57.54 million as compared to loss of Rs. 35.69 million from last year. The increase in loss resulted from maturing leases, as pace of new leases written was slow and increase in provision. Net equity of the company is Rs 19.69 million (2019: Rs 77.11 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 27 million (2019: Rs. 64.46 million) to 5 clients in 2020 (2019: 10). Outstanding lease portfolio stands at Rs 343 million with 236 clients.

Customer Complaint Management

“The management believes in customer’s satisfaction through better service delivery from all aspects and thus endeavour to promote a culture that values customer’s relationship and experience. A dedicated Vigilance Department is functioning to ensure timely resolution of complaints in order to foster customer confidence. It also coordinates with other functional divisions for improvement in SOPs and mechanism for facilitating the customers at SME bank.

A comprehensive Complaint Resolution Mechanism has been designed and is in place. For effective management and handling 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 conducted every year in the bank in compliance of Conduct Assessment Framework 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’s Management has taken multiple technological initiatives in line with its customer focus and continual improvement strategy. SME Bank has replaced its proprietary Debit Cards with domestic payment scheme cards, PayPak, that are widely accepted at ATM and POS across Pakistan. The Bank has launched a high end IVR based solution for facilitating its Alternate Delivery Channel’s (ADC) customers. The Bank has upgraded its ADC infrastructure to improve its product sets and offer reliable and secure services to its customers.

To improve technology governance and risk management, the Bank has implemented various measures including development of action plans and standard operating procedures; arranging trainings of technological resources; conducting vulnerability assessment & penetration testing of its technological infrastructure; enhancement of its Management & Executive Information Systems; and testing of the resilience of its disaster recovery arrangements through regular drills.

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%. However SME bank has applied to State Bank for exemption from maintaining the CAR below benchmark.

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 & 2020 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. Punjab Revenue Authority (PRA) has also passed an order for short collection and payment of Sales Tax for the period Jan'2016-Dec'2016.

Risk Management Framework

Risk Management Division (RMD) is performing risk functions relating to various risks; particularly Credit Risk, Liquidity Risk, Interest Rate Risk & Operational Risk, compliance risk, regulatory risk and reputation risk. The SBP guidelines issued time to time on Risk Management are being included in risk management policies and procedures and the implementation of Basel-II for the bank has been exempted by SBP till its privatization.

The Bank implements its risk strategy and undertakes controlled risk-taking activities within its risk management framework. The Board of Directors at SME Bank Limited actively formulates the risk management framework wherein it provides an active approach in dealing with factors that influence the financial standing of the Bank. With the valuable guidance of BOD, the bank has a proactive approach to generate earnings and to optimize shareholder's value.

Liquidity Position and Good Quality of Credit Portfolio, remain a cornerstone to accomplish vision of the bank and measuring, analysing, controlling and monitoring risk from the frontline risk takers (i.e. business divisions) are ensured within the bank. In lines with RMC (Risk Management Committee) and BRMC (Board Risk Management Committee) which is sub-committee of the Board of Directors, the bank executes an effective risk strategy and continues to undertake controlled risk-taking activities within the risk management framework, combining core policies, procedures and process design with active portfolio management. Regular meetings of RMC and BRMC are convened to oversee the risk exposures and their trends as a result of the various initiatives undertaken by the bank. The committee reviews different aspects of the loan portfolio which, among others, include asset growth, credit quality, credit concentration, lending business trend, treasury portfolio, liquidity position and profitability analysis etc. Risk takers and Risk controllers have independent reporting lines, yet work together to increase bank's value via an efficient utilization of bank resources.

During the year 2020, the bank continued with the policy to remain selective in disbursing its loan to low risk customers & maintained a fairly diversified loan portfolio. To manage adverse outcomes in terms of unfavourable scenarios, multiple control factors in the lending structure of the bank provide additional comfort and support. Such controls range from quality of eligible collateral, pre-disbursement safety measures to post disbursement monitoring.

The bank tries an internal Operational/credit risks awareness program which is aimed at building capacity and inculcating risk aware culture in the staff through workshops/trainings/refresher courses and on-job awareness.

Green Banking

With a view to protect and safeguard against environmental risks emerging from Banks and DFIs businesses and operations, State Bank of Pakistan issued Green Banking Guidelines on October 09, 2017. In pursuance to SBP Guidelines SME Bank has established Green Banking Division to help policy initiatives of SBP for transforming country economy towards low carbon and climate resilient economy.

The bank has put in place appropriate mechanism and functions in line with SBP Green Banking Guidelines. Following measures/steps were taken for supplementing governmental and SBP efforts towards protection of environment:-

- Establishment of full-fledged Green Banking Division in line with SBP's Green Banking Guidelines and Bank Policy.

- Green Banking Policy along with Environmental Risk Management Framework was duly approved by Board of Directors and circulated for the guidance/implementation of all concerned offices/ branches.
- In house /outside training session on Green Banking capacity building were held for officials of the bank to provide awareness about the responsibility of financial sector in supporting policy initiatives of government of Pakistan and State Bank of Pakistan.
- Reporting/monitoring and implementation status of Green Banking Guidelines to State Bank of Pakistan on each quarter
- Regular sensitization of staff in branches and Head Office on Green Banking as part of organization culture.
- Review/customization of all lending products with a purpose to promote green banking facilitation, environmental friendly practices and reduction in carbon footprint.
- Approval of sending e-statements and notices/letters to the Customers for the promotion of paperless environment.
- Use of office stationery carrying Green Banking Logo for the awareness of General public / staff.
- Green Banking awareness campaign among hundreds of customers and employees.
- Necessary procedure for environmental risk management and checklist for environmental due diligence have been adopted by the bank.
- Assigned resource consumption and impact reduction targets to the branches and Head office level.

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 to divest the 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. The buyers side due diligence is completed on August 24, 2020 and the final draft of share purchase agreement (SPA) has been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA have been deliberated by the Transaction Committee and clarifications to this effect have been given to pre-qualified bidders. A joint meeting of the Transaction Committee, SBP and pre-qualified bidders held on December 29th, 2020 and December 30th, 2020 with reference to “Pre-Bid Conference” and “Valuation Model” wherein the queries of pre-qualified potential bidders have been clarified and some of them pertaining to license, merger and MCR have been forwarded to SBP for its clarification whose response is awaited

Board of Directors

Board of Directors consists of seven members/directors nominated by the Federal Government; one executive director (P&CEO), four non-executive directors, and two independent directors. Board meets frequently and ensures to meet at least every quarter.

(BoD) Board of Directors held five meetings during the year 2020. Attendance of which is given below:

Directors:	Meetings Attended
Mr. Dilshad Ali Ahmad	5
Mr. Niaz Muhammad Khan	5
Mr. Muhammad Waqas Azeem	5
Mr. Rauf Ahmad	5
Mr. Hashim Raza	5
Mr. Omar Farooq	4
Mr. Enamullah Khan	4

Board has constituted five sub-committees namely (BAC) Board Audit Committee, (BRMC) Board Risk Management Committee, (BHRC) Board Human Resource Committee, (BNC) Board Nomination Committee & (BPC) Board Procurement Committee.

Board Audit Committee

This committee consists of two independent directors and one non-executive director and has been formed to assist the Board in fulfilling its statutory and fiduciary responsibilities. This committee is advisory in nature and does not perform any management function. It assists the Board in discharging its responsibilities and in complying with good governance. During the year 2020, three meetings of (BAC) Board Audit Committee were held. Attendance in these meetings was as follows:

Directors:	Meetings Attended
Mr. Omar Farooq	3
Mr. Enamullah Khan	3
Mr. Niaz Muhammad Khan	3

Board Risk Management Committee

This Committee consists of three non-executive directors and it assists the Board in measurement and mitigation of different risks. During the year 2020, two meetings of (BRMC) Board Risk Management Committee were held. Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr. Niaz Muhammad Khan	2
Mr. Hashim Raza	2
Mr. Muhammad Waqas Azeem	2

Board Human Resource Committee

Board Human Resource Committee consists of one executive director, one non-executive director and one independent director to assist the Board in all staff related matters, policies and benefits including compensation. During the year 2020, two meetings of (BHRC) Board Human Resource Committee were held. Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr. Enamullah Khan	2
Mr. Rauf Ahmad	2
Mr. Dilshad Ali Ahmad	2

Board Procurement Committee

Board Procurement Committee comprising three directors (non-executive) has been formed to prepare, review and recommend to the Board, Procurement related policies to ensure transparency in

procurement transactions and in dealing with suppliers. During the year 2020, two meetings of (BPC) Board Procurement Committee were held. Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr. Muhammad Waqas Azeem	2
Mr. Hashim Raza	2
Mr. Rauf Ahmad	2

Board Nomination Committee

This Committee consists of one executive director, one non-executive director and one independent director. It meets on need basis. No meeting was held of (BNC) Board Nomination Committee during the year 2020.

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, 2020, 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, 2020, 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, 2020, as required under Code of Corporate Governance is annexed.

Loss per share


The basic and diluted after tax loss per share for the year 2020 is Rs. (4.08). (2019: Rs. (4.48))

Auditors

The existing auditors, M/s Grant Thornton Anjum Rehman, Chartered Accountants, will retire at conclusion of 18th Annual General Meeting.

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)

شیئر ہولڈنگ پیٹرن

حصص یافتگان کے 31 دسمبر 2020 کے بیان میں واضح کیا گیا ہے جیسا کہ کارپوریٹ گورننس کے کوڈ کے تحت درکار ہے، منسلک ہے۔

حصص میں نقصان

سال 2020 کے لئے فی شیئر بنیادی طور پر کم ہو جانے کے بعد ٹیکس خسارہ 4.08 روپے (2019: 4.48 روپے) ہے۔

آڈیٹر

موجودہ آڈیٹرز، میسرز گرانٹ تھورنٹن انجم رحمان، چارٹرڈ اکاؤنٹنٹس، 18 ویں سالانہ جنرل اجلاس کے اختتام پر ریٹائر ہو جائیں گے۔

تعریف

جبکہ بورڈ انتظامیہ اور تمام عملے کی کوششوں کو سراہتا ہے کہ وہ بینک کو موجودہ صورتحال سے باہر نکالنے کے لیے کوشاں ہیں لیکن اس سے وصولی کی مہم کو بہتر بنانے اور ادائیگیوں میں اضافہ کے لئے مزید کوششوں کی ضرورت ہے۔ بورڈ بھی اسٹیٹ بینک آف پاکستان اور دیگر ریگولیٹری حکام کی جانب سے ان کی مسلسل حمایت اور رہنمائی پر ان کا شکریہ ادا کرتا ہے اور حصص یافتگان کے ہم پر بھروسے اور اعتماد کے لیے بے حد مشکور ہے۔



دلشاد علی احمد

چیئرمین برائے میٹنگ

کارپوریٹ گورننس اور مالی رپورٹنگ کا فریم ورک

SME بینک اچھے کارپوریٹ گورننس کو دیکھنے کے لئے پر عزم ہے اور سرکاری شعبے کی کمپنیوں کے لئے حال ہی میں جاری کیے گئے گورننس فریم ورک کو بھی اپنایا 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 ہو رہی ہے کہ:

- کمپنیز ایکٹ کی ضرورت کے تحت مناسب بک آف اکاؤنٹس مرتب کی گئی ہیں۔
- سالانہ اکاؤنٹس کی تیاری میں قابل اطلاق بین الاقوامی مالیاتی رپورٹنگ کے معیارات پر عمل کیا گیا ہے۔
- تمام اکاؤنٹس رواں (موجودہ) کاروبار کی بنیاد پر مرتب کیے 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 اس کی وضاحت کی جاتی ہے۔
- بینک کے انتظام کے ذریعہ تیار کردہ مالی اعداد و شمار، 31 دسمبر، 2020 تک بینک کی حالت امور، اس مدت کے اختتام پذیر ہونے والے اس کے کاروائیوں کے نتائج، نقد بہاؤ اور ایکویٹی میں تبدیلیاں
- چیئرمین اور بورڈ کے دیگر ممبروں کی تقرری اور ان کی تقرری کی شرائط کے ساتھ اختیار کی گئی فیس / معاوضہ بھی بینک کے بہترین مفادات کے ساتھ ساتھ بہترین طریق کار کے مطابق ہے۔
- اس کے موثر نفاذ، مستقل جائزہ، اور نگرانی کے لئے خاطر خواہ انتظامات کے ساتھ، اہم خطرات کے انتظام کے لئے داخلی کنٹرول کے مناسب نظام رکھے گئے ہیں۔
- بورڈ آف ڈائریکٹرز جاری کردہ رپورٹ میں بینک کی صلاحیتوں سے مطمئن ہے۔ نوٹ 6.2 میں بیان کردہ بنیادوں پر۔
- ٹیکسوں، ڈیوٹیوں، اور محصولات کے حساب سے 31 دسمبر 2020 کو مالی اعداد و شمار کے علاوہ، ٹیکسوں، ڈیوٹیوں اور محصولات کے حساب سے کوئی معقول قانونی ادائیگی نہیں ہے۔
- عملے کے فنڈز کے لئے رکھی گئی سرمایہ کاری کی قیمت کو اکاؤنٹس میں نوٹ 34 کے نوٹ میں ظاہر کیا گیا ہے۔
- بینک نے پبلک سیکٹر کمپنیوں (کارپوریٹ گورننس) رولز، 2013 کی شقوں کی تعمیل کی ہے اور کارپوریٹ گورننس کے بہترین طریقوں سے کسی قسم کا سقم نہیں چھوڑا۔
- پچھلے چھ مالی سالوں کی رپورٹ اور مالی گوشوارہ کے اعداد و شمار سالانہ رپورٹس میں دستیاب ہیں۔

بورڈ انسانی وسائل کمیٹی

بورڈ ہیومن ریسورس کمیٹی میں ایک ایگزیکٹو ڈائریکٹر، ایک نان ایگزیکٹو ڈائریکٹر، اور ایک آزاد ڈائریکٹر شامل ہے جو بورڈ کو عملے سے متعلق تمام معاملات، پالیسیاں، اور معاوضے سمیت فوائد میں بورڈ کی مدد کرے گا۔ سال 2020 کے دوران، (بی ایچ آر سی) بورڈ ہیومن ریسورس کمیٹی کے دو اجلاس ہوئے۔ ان جلسوں میں حاضری مندرجہ ذیل تھی۔

اجلاسوں میں شرکت کی	ڈائریکٹرز
2	مسٹر انعام اللہ خان
2	مسٹر رؤف احمد
2	مسٹر دلشاد علی احمد

بورڈ خریداری کمیٹی

خریداری اور لین دین میں شفافیت کو یقینی بنانے اور سپلائرز کے لئے بورڈ، خریداری سے متعلقہ پالیسیاں تیار کرنے، اس کا جائزہ لینے اور اس کی سفارش کرنے کے لئے تین ڈائریکٹرز (غیر ایگزیکٹو) پر مشتمل بورڈ پروکیورمنٹ کمیٹی تشکیل دی گئی ہے۔ سال 2020 کے دوران، (بی پی سی) بورڈ پروکیورمنٹ کمیٹی کے دو اجلاس ہوئے۔ ان مجالس میں حاضری مندرجہ ذیل تھی

اجلاسوں میں شرکت کی	ڈائریکٹرز
2	مسٹر محمد وقاص عظیم
2	مسٹر ہاشم رضا
2	مسٹر رؤف احمد

بورڈ کی نامزدگی کمیٹی

یہ کمیٹی ایک ایگزیکٹو ڈائریکٹر، ایک نان ایگزیکٹو ڈائریکٹر، اور ایک آزاد ڈائریکٹر پر مشتمل ہے۔ اور اس کا اجلاس مشاورت سے بلایا جاتا ہے سال 2020 کے دوران (بی این سی) بورڈ کی نامزدگی کمیٹی کا کوئی اجلاس نہیں ہوا۔

بورڈ نے پانچ ذیلی کمیٹیاں تشکیل دی ہیں۔ (بی اے سی) بورڈ آڈٹ کمیٹی، (بی آر ایم سی) بورڈ رسک مینجمنٹ کمیٹی، (بی ایچ آر سی) بورڈ ہیومن ریسورس کمیٹی، (بی این سی) بورڈ نامزدگی کمیٹی اور (بی پی سی) بورڈ پروکیورمنٹ کمیٹی۔

بورڈ آڈٹ کمیٹی

یہ کمیٹی دو آزاد ڈائریکٹرز اور ایک نان ایگزیکٹو ڈائریکٹر پر مشتمل ہے اور اس کی تشکیل اور ذمہ داریوں کو نبھانے میں بورڈ کی مدد کرنے کے لئے تشکیل دی گئی ہے۔ یہ کمیٹی مشاورتی نوعیت کی ہے اور انتظامیہ کا کوئی کام انجام نہیں دیتی ہے۔ یہ بورڈ کو اپنی ذمہ داریوں کو نبھانے اور اچھی حکمرانی کی تعمیل میں معاونت کرتی ہے۔ سال 2020 کے دوران، (بی اے سی) بورڈ آڈٹ کمیٹی کے تین اجلاس ہوئے۔ ان م اجلاسوں میں حاضری مندرجہ ذیل تھی

ڈائریکٹرز	اجلاسوں میں شرکت کی
مسٹر عمر فاروق	3
مسٹر انعام اللہ خان	3
مسٹر نیاز محمد خان	3

بورڈ رسک مینجمنٹ کمیٹی

یہ کمیٹی تین غیر ایگزیکٹو ڈائریکٹرز پر مشتمل ہے اور یہ بورڈ کو مختلف خطرات کی پیمائش اور تخفیف میں معاونت کرتی ہے۔ سال 2020 کے دوران، (بی آر ایم سی) بورڈ رسک مینجمنٹ کمیٹی کے دو اجلاس ہوئے۔ ان مجالس میں حاضری مندرجہ ذیل تھی

ڈائریکٹرز	اجلاسوں میں شرکت کی
مسٹر نیاز محمد خان	3
مسٹر ہاشم رضا	3
مسٹر محمد وقاص عظیم	3

مطابق PC نے بینک کی نجکاری کے لیے سودی ڈھانچے کی سفارش کی جس نے CCOP کو بتایا جس نے 15 نومبر، 2019 کو حوالہ کردہ ٹرانزیکشن ڈھانچے کی منظوری دی تھی۔ اس کے بعد بینک کے 93.88 فیصد حصص کے حصول کے لیے سود کے ساتھ ایک مقررہ عمل کے ذریعے اس کا اخبارات میں اشتہار دیا گیا تھا۔ 13 دسمبر، 2019 کو اخبارات EOI جمع کروانے اور اہلیت کے بیانات (SOQ) جمع کروانے کی آخری تاریخ 28 فروری 2020 تھی۔ پانچ متوقع سرمایہ کاروں نے اشتہار کے خلاف اپنے SOPs جمع کروائے ہیں۔ ان میں سے چار کو SBP نے کلیئر کر دیا ہے۔ خریدار کی طرف سے یہ 24 اگست 2020 کو مکمل ہو چکا ہے، اور حصص کی خریداری کا معاہدہ (SPA) کا حتمی مسودہ تین پیشہ ور بولی دہندگان کے ساتھ شیئر کیا گیا ہے۔ ٹرانزیکشن کمیٹی کے ذریعہ SPA سے تبادلہ خیال کیا گیا ہے اور اس سلسلے میں پہلے سے تعلیم یافتہ بولی دہندگان کو وضاحتیں دی گئی ہیں۔ پری بولی کانفرنس "اور" تشخیص ماڈل" کے حوالے سے 29 دسمبر، 2020، اور 30 دسمبر، 2020 کو ٹرانزیکشن کمیٹی، اسٹیٹ بینک، اور پری بولی کوالیفائی بولی دہندگان کا مشترکہ اجلاس ہوا جس میں پہلے سے کوالیفائی صلاحیتوں کے سوالات بولی دہندگان پر واضح کیا گیا ہے اور ان میں سے کچھ لائنس، انضمام اور MCR سے متعلق ہیں اس کی وضاحت کے لئے اسٹیٹ بینک کو بھیجا دیا گیا ہے جس کے جواب کا منتظر ہے

بورڈ آف ڈائریکٹرز

بورڈ آف ڈائریکٹرز سات ممبران / ڈائریکٹرز پر مشتمل ہوتے ہیں جن کو وفاقی حکومت نے نامزد کیا ہے۔ ایک ایگزیکٹو ڈائریکٹر (P&CEO) چار نان ایگزیکٹو ڈائریکٹر، اور دو آزاد ڈائریکٹر۔ بورڈ اکثر ملاقات کرتا ہے اور کم سے کم ہر سہ ماہی میں ملنا یقینی بناتا ہے۔ (BoD) بورڈ آف ڈائریکٹرز نے سال 2020 کے دوران پانچ اجلاس کیے۔ جس کی موجودگی ذیل میں دی گئی ہے۔

اجلاسوں میں شرکت کی

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ڈائریکٹرز

مسٹر دلشاد علی احمد

مسٹر نیاز محمد خان

مسٹر محمد وقاص عظیم

مسٹر رؤف احمد

مسٹر ہاشم رضا

مسٹر عمر فاروق

مسٹر انعام اللہ خان

مدد کے لئے گرین بینکنگ ڈویژن قائم کیا ہے۔ ملکی معیشت کو پائیدار معیشت میں تبدیل کرنے کے لئے اسٹیٹ بینک SBP گرین بینکنگ کے رہنما اصولوں کے مطابق مناسب طریقہ کار اور وسائل کو بروئے کار لاتے ہوئے ہے۔ ماحولیات کے تحفظ کی خاطر حکومتی اور اسٹیٹ بینک کی کوششوں کی تکمیل کے لئے مندرجہ ذیل اقدامات کیے گئے۔

- ☐ اسٹیٹ بینک کی گرین بینکنگ گائیڈ لائنز اور بینک پالیسی کے مطابق مکمل گرین بینکنگ ڈویژن کا قیام۔
- ☐ ماحولیاتی رسک مینجمنٹ فریم ورک کے ساتھ گرین بینکنگ پالیسی کو بورڈ آف ڈائریکٹرز کے ذریعہ باقاعدگی سے منظور کیا گیا اور تمام متعلقہ دفاتر/شاخوں کی رہنمائی/عمل درآمد کے لئے سرکولیٹ کیا گیا۔
- ☐ حکومت پاکستان اور اسٹیٹ بینک آف پاکستان کے پالیسی اقدامات کی حمایت میں مالیاتی شعبے کی ذمہ داری کے بارے میں آگاہی فراہم کرنے کے لئے بینک کے عہدیداروں کے لئے گرین بینکنگ کی اہلیت کے بارے میں اندرون/بیرونی تربیتی سیشن منعقد ہوئے۔
- ☐ تنظیمی ثقافت کے ایک حصے کے طور پر ہر سہ ماہی پر اسٹیٹ بینک آف پاکستان کو گرین بینکنگ گائیڈ لائنز کی اطلاع دہندگی اور نگرانی اور نفاذ کی صورتحال۔
- ☐ گرین بینکنگ کی سہولت، ماحولیاتی دوستانہ طریقوں، اور کاربن کے نشانوں میں کمی کو فروغ دینے کے مقصد کے ساتھ تمام قرض دینے والے مصنوعات کا جائزہ لینے/تشخیص کرنا۔
- ☐ مواصلاتی ماحول کو فروغ دینے کے لئے صارفین کو ای بیانات اور نوٹس/خط بھیجنے کی منظوری۔
- ☐ عام عوام/عملے کی آگاہی کے لئے گرین بینکنگ لوگو والی آفس اسٹیشنری کا استعمال۔
- ☐ سیکڑوں صارفین اور ملازمین کے مابین گرین بینکنگ بیداری مہم۔
- ☐ بینک کے ذریعہ ماحولیاتی خطرے کے انتظام کے لئے ضروری طریقہ کار اور ماحولیاتی وجہ سے مستعد ہونے کے لئے چیک لسٹ کو اپنایا گیا ہے۔
- ☐ شاخوں اور ہیڈ آفس سطح تک وسائل کی کھپت اور اثر کو کم کرنے کے اہداف تفویض کیے گئے ہیں۔

بینک کی نجکاری

حکومت پاکستان (GOP) نے 19 نومبر، 2018 کو منعقدہ اپنے اجلاس میں فیصلہ کیا کہ نجکاری کمیشن (PC) کے توسط سے بینک کی نجکاری کا عمل دوبارہ شروع کیا جائے۔ کابینہ کمیٹی برائے نجکاری (CCOP) نے 06 مارچ، 2019 کو بینک کے GPO ایکویٹی حصص کو اسٹریٹجک سرمایہ کار کو انتظامی کنٹرول کے ساتھ بینک میں GOP ایکویٹی پر کنٹرول کرنے کی منظوری دی۔ اور اسی کے

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

لیکویڈیٹی پوزیشن اور کریڈٹ پورٹ فولیو کا معیار، بینک کے نقطہ نظر کو پورا کرنے کے لئے ایک سنگ بنیاد کی حیثیت رکھتا ہے، اور پیش آنے والے خطرات (یعنی بزنس ڈویژنز کی طرف سے) تجزیہ، کنٹرول اور نگرانی کو یقینی بنایا جاتا ہے RMC (رسک مینجمنٹ کمیٹی) اور BRMC (بورڈ رسک مینجمنٹ کمیٹی) کے ساتھ جو بورڈ آف ڈائریکٹرز کی ایک ذیلی کمیٹی ہے، بینک ایک موثر رسک لائحہ عمل پر عملدرآمد کرتا ہے اور خطرے کے انتظام کے فریم ورک کے اندر کنٹرول کر کے رسک لینے والی سرگرمیاں انجام دیتا رہتا ہے۔ فعال پورٹ فولیو مینجمنٹ کے ساتھ بنیادی پالیسیاں، طریقہ کار اور عمل، ڈیزائن کا امتزاج۔ بینک کی جانب سے کیے گئے مختلف اقدامات کے نتیجے میں خطرات کی نشاندہی اور ان کے رجحانات کی نگرانی کے لئے RMC اور BRMC کی باقاعدہ میٹنگز بلائی جاتی ہیں۔ لون کمیٹی پورٹ فولیو کے مختلف پہلوؤں کا جائزہ لیتی ہے، جن میں اثاثوں میں اضافہ کریڈٹ کا معیار، قرضے کا ارتکاز، کاروبار کا رجحان، خزانے کا قلمدان، لیکویڈیٹی پوزیشن اور منافع بخش تجزیہ وغیرہ شامل ہیں۔ بینک وسائل کے موثر استعمال کے ذریعے بینک کی قدر میں اضافہ کے لئے مل جل کر کام کریں۔

سال 2020 کے دوران، بینک نے کم خطرے والے صارفین کو اپنے قرض کی فراہمی میں کافی حد تک متنوع قرضوں کے پورٹ فولیو کو برقرار رکھنے کی پالیسی کو جاری رکھا۔ منفی حالات کو مد نظر رکھتے ہوئے منفی نتائج بینک کے قرضے کے ڈھانچے میں متعدد کنٹرول عوامل اضافی راحت اور مدد فراہم کرتے ہیں۔ قابلیت کے معیار کی جانچ پڑتال اور پہلے قرض کی فراہمی اور اس فراہمی کی نگرانی کے بعد تک کے حفاظتی اقدامات سے متعلق ہیں۔

بینک داخلی آپریشنل/کریڈٹ رسک سے متعلق آگاہی پروگرام کی کوشش کرتا ہے جس کا مقصد ورکشاپس/ٹریننگ/ریفریشر کورسز اور نوکری سے متعلق آگاہی کے ذریعہ عملے میں صلاحیت پیدا کرنا اور خطرہ سے آگاہی کا شعور پیدا کرنا ہے۔

گرین بینکنگ

بینکوں اور DFI کاروباروں اور پائے جانے والے ماحولیاتی خطرات کے تحفظ اور حفاظت کے پیش نظر، اسٹیٹ بینک آف پاکستان نے 9 اکتوبر 2017 کو گرین بینکنگ گائیڈ لائن جاری کیا۔ SBP کے رہنما اصولوں کے تحت SME بینک نے پالیسی اقدامات میں

اٹھائے گئے، بجھے سالوں میں ٹیکسوں کی بھاری کٹوتی کی وضاحت اور سرمایہ کاری کے ذرائع، وغیرہ پریکٹس کی پیروی جائزہ آفیسر کے درجہ تک جاری ہے۔

سیلز ٹیکس

محکمہ ٹیکس نے ٹیکس سال جنوری -2008 - دسمبر 2008، جنوری -2009 تا دسمبر 2009، جنوری 2010 تا دسمبر 2010، جولائی 2011 تا جون 2012، جنوری تا دسمبر 2014 جنوری 2015 تا دسمبر 2015 اور جولائی 2015 تا جون 2016 بینک کو نوٹس بھجوائے۔ بینک نے ان نوٹس کا جواب دیا اور مقدمات لڑے۔

اس کے نتیجے میں ٹیکس سال جنوری 2008 - دسمبر 2008 اور جنوری 2010 تا دسمبر 2010 کو دوبارہ غور کے لیے واپس بھیج دیا گیا۔ اس دوران بینک نے ایپلیٹ ٹریبونل ان لینڈ ریونیو کے ساتھ ٹیکس کی مدت جنوری 2009 - دسمبر 2009 اور جولائی 2011 - جون 2012 کے لیے ایپیلیں دائر کیں۔

پنجاب ریونیو اتھارٹی (PRA) نے جنوری -2016 - دسمبر 2016 کی مدت کے لئے سیلز ٹیکس کی مختصر وصولی اور ادائیگی کا آرڈر بھی منظور کیا ہے۔

رسک مینجمنٹ فریم ورک

متفرق خطرات، 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 ڈویژن 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 لیے میسل II کے نفاذ کو اس کی نجاتی تک مستثنیٰ قرار دیا گیا ہے۔

مزید کریڈٹ کے امور رسک کے جامع اور گہرے تخمینہ اور آزمائش کے عمل سے مشروط ہے معاہدہ کرنے والا، قرض اور ضمانت کے لیے داخلی کریڈٹ رسک ریٹنگ سسٹم موجود ہے۔ جو کریڈٹ پراسسنگ کا باقاعدہ حصہ ہیں۔ گرین بینکنگ میں SBP کے رہنما اصولوں کی تعمیل میں ماحولیاتی رسک ریٹنگ کو بھی کریڈٹ طریقہ کار میں شامل کیا گیا ہے۔ SME قرض دینے کی نوعیت، فوری کاروائی اور کارکردگی کو مد نظر رکھتے ہوئے۔ SME قرض دینے کی نوعیت، واپسی کا شیڈول اور کارکردگی کو مد نظر رکھتے ہوئے اور بینک کی اپنی کریڈٹ پالیسیوں کو یقینی بنانے کے لیے براؤنچ کی سطح پر جہاں ممکن ہے کریڈٹ رسک مینیجرز/افسران کو تعینات کیا گیا ہے۔ مقررہ حد سے زیادہ قرض کی تجاویز کا جائزہ اور منظوری ہیڈ آفس سے دی جاتی ہے۔

انکم ٹیکس

محکمہ ٹیکس نے ٹیکس سال 2001-2002، 2002-2003، 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 2001-2002 اور 2002-2003 کے لئے اسلام آباد ہائی کورٹ (IHC) میں ریفرنسز دائر کیے جن میں 2002-2003 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 2001-2002 کے لئے نوٹس موصول ہوا ہے۔ جسکی پیروی کی جارہی ہے۔

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

بینک نے ٹیکس سال 2008 اور 2010 کے لئے اپیلٹ ٹریبونل کے پاس اپیلیں دائر کی ہیں جنہیں شواہد کی تصدیق کے لئے دوبارہ جائزہ کو بھیجا دیا گیا۔ دریں اثنا، 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 کر دی جائے گی۔

ٹیکس سال 2012 کے لئے بینک کی طرف سے کمشنر (اپیل) جس نے اس معاملے کو دوبارہ غور کے لئے ڈی سی آئی آر کو واپس کر دیا۔ جبکہ اسی سال کے لئے سیکشن 113/221 کے تحت آرڈر کا مقابلہ اے ٹی آئی آر میں کیا جا رہا ہے۔ ٹیکس سال 2014 کا اندازہ آئی ٹی او 2001 کے لئے سیکشن 122(1)/(5) لگایا گیا ہے۔ ٹیکس سال 2016، 2017، 2018 اور 2020 کو آئی ٹی او 2001 کی سیکشن 120 کے تحت کیے جانے کی امید ہے۔ دریں اثنا نوٹسز سیکشن 161 کے تحت کیے گئے نوٹسز کو 205 کے ساتھ ملا کر پڑھیں جو کہ ٹیکس سال 2013، 2016 اور 2017 کے لئے بھی جاری جارہے ہیں۔ جن کی پیروی کی جارہی ہے۔

محکمہ ٹیکس نے ٹیکس سال 2005، 2006، 2006، 2008، 2009، 2010، 2011 اور 2013 کے لئے ٹیکس کا مطالبہ زیر دفعہ 205/161 تشکیل دیا جس کا مقابلہ اے ٹی آئی آر میں کی جارہی ہے۔

محکمہ ٹیکس نے ٹیکس سال 2019، زیر دفعہ 122(5A) کے لئے تخمینہ کی ترمیم کی ہے جس میں کاروبار کی رقم سے متعلق متعدد سوالات

تربیت اور ایچ آر ڈویلپمنٹ

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

انفارمیشن ٹیکنالوجی

ایس ایم ای بینک کی انتظامیہ نے اپنے صارفین کی توجہ اور مستحکم بہتری کی حکمت عملی کے مطابق متعدد تکنیکی اقدامات اٹھائے ہیں۔ ایس ایم ای بینک نے اپنے ملکیتی ڈیٹا کارڈز کو گھریلو ادائیگی اسکیم کارڈ، پے پاک سے تبدیل کر دیا ہے، جو پورے پاکستان میں اے ٹی ایم اور پی او ایس پر وسیع پیمانے پر قبول ہیں۔ بینک نے اپنے متبادل ترسیل چینل (اے ڈی سی) کے صارفین کو سہولت فراہم کرنے کے لئے ایک اعلیٰ درجے کا آئی وی آر پر مبنی حل شروع کیا ہے۔ بینک نے اپنے پروڈکٹ سیٹ کو بہتر بنانے اور اپنے صارفین کو قابل اعتماد اور محفوظ خدمات کی پیش کش کے لئے اپنے ADC انفراسٹرکچر کو اپ گریڈ کیا ہے۔

ٹیکنالوجی کی حکمرانی اور رسک مینجمنٹ کو بہتر بنانے کے لیے، بینک نے مختلف اقدامات نافذ کیے ہیں جن میں ایکشن پلانز اور معیاری آپریٹنگ طریقہ کار کی ترقی شامل ہے۔ تکنیکی وسائل کی تربیت کا انتظام؛ اس کے تکنیکی انفراسٹرکچر کا خطرہ تشخیص اور دخول جانچ اس کے انتظام اور ایگزیکٹو انفارمیشن سسٹم میں اضافہ؛ اور باقاعدگی سے مشقوں کے ذریعہ تباہی کی بحالی کے انتظامات کی جانچ پڑتال۔

بیسل II اور III

2012 میں اسٹیٹ بینک آف پاکستان نے تمام بینک کو ہدایت کی کہ وہ کوئٹیبو امپیکٹ اسٹڈی (QIS) بیسل III کے مطابق اپنی معلومات جمع کروائیں، SME بینک نے اس سٹیٹمنٹ جمع کروانے سے استثنیٰ کی درخواست اس بنیاد پر دی کہ بیسل II سے پہلے ہی معافی حاصل کر لی گئی تھی۔ اب اسٹیٹ بینک نے بیسل II اور III پر عملدرآمد کے سلسلے میں سافٹ ویئر، انسانی وسائل اور تربیت میں بڑی سرمایہ کاری سے اسکی تعمیر نو/بحکاری تک چھوٹ دی ہے۔

Capital Adequacy Return

بینک کو CAR شرح 10 فیصد پے درکار ہے۔ تاہم، ایس ایم ای بینک نے CAR کو بیچ مارک سے نیچے قائم رکھنے کے لیے استثنا کی درخواست دی ہے۔

ذخائر

تمام تر کاؤٹوں کے باوجود، بینک کا ڈیپازٹ 101.55 ملین روپے کے اضافے سے 31 دسمبر 2020 کو مبلغ 7,602.26 ملین روپے تھا۔

ادائیگیاں (Disbursements)

لیکویڈیٹی میں دباؤ کے باوجود، بینک اس سال کے دوران 262 ملین روپے کی قرض فراہمی حاصل کرنے میں کامیاب رہا ہے جبکہ اس سے پہلے سال کے 139 ملین روپے تھے۔ سال کے دوران خدمات انجام دینے والے قرض خواہوں کی تعداد 198 تھی اور سال کے اختتام پر بقیہ قرض لینے والوں کی کل تعداد 1119 تھی۔

لیز پر کاروبار

ایس ایم ای لیزنگ جو کہ بینک کا ایک ذیلی ادارہ ہے اور سال 2002 میں بنایا گیا، نے اس سال 57.54 ملین روپے کا قبل از ٹیکس خسارہ پوسٹ کیا۔ جبکہ پچھلے سال یہ خسارہ 35.69 ملین روپے تھا خسارہ بڑھنے کی وجہ اجاروں کی تکمیل، نئے اجاروں کے اجرا میں سست روی اور مالی لاگت زیادہ تھی۔ کمپنی کی صافی ایکویٹی 19.69 ملین (2019 قیمت 77.11 ملین ہے۔ پا کرانے طویل مدتی درجہ بندی B (2018:B+) اور قلیل مدتی درجہ بندی B تفویض کی۔

ایس ایم ای لیزنگ نے 27 ملین روپے (2019:64.46 ملین روپے) کی لیزنگ 5 صارفین کو 2020 میں کی (2019:10)۔ اس طرح واجب الادا لیز پورٹ فولیو 236 Clients کے ساتھ 343 ملین روپے رہا۔

صارفین شکایات کا انتظام

شکایات کے ازالہ کے لیے ایک جامع طریقہ کار موجود ہے شکایات کے موثر ازالہ کے لیے شکایات کے ازالہ کا نظام: کمپلیٹ منیجمنٹ سسٹم (سی ایم ایس) تیار کیا گیا ہے۔ اور بینک میں لاگو کیا گیا ہے۔ یہ صارفین کو اپنی شکایت بینک میں درج کروانے کے لیے ایک سے زیادہ ذرائع فراہم کرتا ہے۔ اس میں شکایت دہندگان کی رسید، ریکارڈنگ، تفتیش، ازالہ اور جواب دینے کے لیے مفصل رہنما 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 شکایات کی حوصلہ افزائی کے رد عمل کی بھی عمل کرتا ہے۔

سے مستقبل میں، ہم توقع کرتے ہیں کہ محصولات میں اضافہ کر کے اور اپنی اچھی کارکردگی سے غیر فعال قرضوں کے حجم کو کم کر کے نقصانات کو کم کریں گے۔

SME لیزنگ لمیٹڈ کو دیے جانے والے قرض کے سلسلے میں SME بینک نے پاکستان اسٹیٹ بینک کو سٹنگل پارٹی سے متعلق ایک حد تک چھوٹ دینے کے لئے درخواست دی تھی۔ اسٹیٹ بینک آف پاکستان نے ایس ایم ای لیزنگ کے لیے 150 ملین روپے کی رعایت 31 دسمبر 2019 تک کی مدت کے لئے دی۔ یا تنظیم نو/نچکاری کی تکمیل جو پہلے ہی سے ہے۔

اداشدہ سرمایہ

2007 سے بینک 2.39 ارب روپے کی ادائیگی شدہ سرمایہ کے ساتھ کام کر رہا ہے۔ اسٹیٹ بینک کے رہنما اصولوں کے مطابق بینکوں کے لیے یہ ضروری قرار دیا گیا ہے کہ وہ اداشدہ سرمایہ کی کم از کم حد 10 بلین روپے تک اضافہ کریں۔ تاہم بینک نے اسٹیٹ بینک کو اس MCR سے استثناء کی درخواست کی ہوئی ہے۔

مالیاتی گوشوارے

مالی حسابات بین الاقوامی اکاؤنٹنگ معیارات کے مطابق تیار کیے گئے ہیں جیسا کہ پاکستان میں لاگو ہوتا ہے، سٹیٹ بینک پروڈینشل ریگولیشنز اینڈ کمپنیز ایکٹ 2017 مالی بیانات سے متعلق نوٹ میں انکشافات قانون کے تقاضوں اور انضباطی حکام کے ذریعہ جاری کردہ رہنما خطوط کے مساوی ہیں۔

مالی رپورٹنگ پر اندرونی کنٹرول

بورڈ بینک میں داخلی کنٹرول کے موثر نظام کے وجود کو یقینی بنانے کے لئے پوری طرح پر عزم ہے اور ان سسٹم کی اہلیت اور سالمیت کا مستقل جائزہ لے رہا ہے۔ تاہم، بورڈ نے تسلیم کیا ہے کہ اس طرح کے نظام قابل قبول سطح پر پنے خطرات کو ختم کرنے کے بجائے انتظام کرنے کے لئے بنائے گئے ہیں۔ لہذا، نافذ کردہ نظام کسی بھی طرح کی مادی غلط تشخیص اور نقصان کی موجودگی کے خلاف صرف معقول اور نہ ہی مکمل یقین دہانی فراہم کر سکتے ہیں۔

جب کہ بورڈ بینک کے داخلی کنٹرول کے نظام کا مجموعی ذمہ دار ہے، اس نے خطرے کی نشاندہی کرنے اور اس خطرے کو کم کرنے کے لئے کارروائی کرنے کے لئے ان داخلی کنٹرول سسٹم کے نفاذ کو انتظامیہ کے سپرد کیا ہے۔ یہ داخلی کنٹرول سسٹم بورڈ میں ان سسٹم کی تاثیر کا اندازہ لگانے کے نظریہ کے ساتھ بورڈ کے باقاعدہ جائزہ سے مشروط ہیں۔

بینک کے ذخائر میں 101.55 ملین روپے اضافہ کیا گیا ہے اور 31 دسمبر 2020ء تک یہ 7,602.26 ملین روپے رہا ہے، پچھلے سال 31 دسمبر 2019ء کو اس رقم کے مقابلے میں 7,500.71 ملین روپے تھا۔

بینک نے سال 2020 کے دوران غیر فعال قرضوں کی مد میں 14.77 ملین روپے کی خالص پروویژن provision واپس کی جبکہ 2019 میں 0.63 ملین روپے کی خالص پروویژن provision چارج کی۔ بینک کا Loan Portfolio 2019 میں 2,195 ملین روپے کے مقابلے میں 2020 میں 1,816 ملین روپے ہے۔

افراط زر اور سود کی شرح میں اضافے جیسے وسیع معاشی عوامل نے ملک میں کاروباری سرگرمیوں اور شرح نمو کو بڑی حد تک کمزور کر دیا۔ جس کے نتیجے میں بینک کے قرض دہندگان کی ادائیگی کی صلاحیت اور طرز عمل متاثر ہوا لیکن ان رکاوٹوں کے باوجود بینک انتظامیہ بینک نے ناقابل وصول قرضوں کو کم کرنے کے لئے مستقل طور پر کوششیں کی۔ 31 دسمبر 2020 کو بینک کے غیر وصول شدہ قرضوں کا حجم کم ہو کر 485 ملین روپے ہو گیا جو کہ 31 دسمبر 2019 میں 506 ملین روپے تھا۔

بینک نے ایس ایم ای لیزنگ لمیٹڈ (SMEL) میں 215.46 ملین روپے کی سرمایہ کاری کی ہے جو ان مالیاتی بیانات میں 80.75 ملین روپے ظاہر کی گئی ہے اور 31 دسمبر 2020 تک واجب الادا رینگ فنانس مبلغ 142.16 ملین روپے ظاہر کیا گیا ہے۔ کمپنی نے سال کے دوران بنیادی طور پر توجہ دی ہے اپنے پورٹ فولیو سے بازیافت کے ذریعہ داخلی نقد رقم پیدا اور اس سے نئے معیار کے کاروبار میں اضافے کے لئے سرمایہ کاری کی۔ کمپنی 27 ملین روپے مالیت کی تازہ لیزیں کرنے میں کامیاب ہوئی ہے۔ مجموعی طور پر بازیافت 79.5 ملین روپے (غیر پر فارم پورٹ فولیو سے 25.05 ملین روپے سمیت) بنتی ہے۔ پچھلے 3 سالوں میں لکھے گئے نئے کاروبار میں جو شرح طے کی گئی تھی جو کہ نہ ہونے کے برابر ہے۔ پچھلے 52 ہفتوں کے دوران اس کے حصص کی مارکیٹ ویلیو فی حصص 1.61 روپے سے 6.28 روپے کے درمیان رہی۔ بینک وقتاً فوقتاً کسی بھی خرابی کے ثبوت کے لئے SMEL میں اپنی سرمایہ کاری کا جائزہ لیتا رہتا ہے۔ SMEL میں سرمایہ کاری کی وصولی کی رقم کا استعمال میں اس کی قیمت کے تعین کے حوالہ سے کیا جاتا ہے۔ بینک اس کی استعمال میں اس کی قیمت کا حساب کرنے کے لئے SMEL کی موجودہ ویلیو کی تکنیک اور مالی تخمینے کا استعمال کرتا ہے۔

بینک نے سال 2020 میں قبل از ٹیکس خسارے کا تعین 1,147.12 ملین روپے کیا جب کہ سال 2019 میں قبل از ٹیکس خسارے کا حجم 1,287.41 ملین روپے تھا اور 2019 میں 1,072.31 ملین روپے کے خالص نقصان کے مقابلے میں 977.16 ملین روپے کا خالص نقصان ہوا۔ نقصانات اٹھانے کی وجہ زیر التواء نجکاری، تنظیم نو، محدود رسائی، ایکویٹی کی ناکافی سطح، اور معاشی حالت کی وجہ

بنیاد پر چلانا بذات خود ایک چیلنج ہے۔

اسٹیٹ بینک آف پاکستان کی جانب سے پابندیوں کی روشنی میں سال 2020 کے دوران براؤنچ کے نیٹ ورک میں کوئی تبدیلی نہیں کی گئی اور بینک 13 کمرشل بینکنگ براؤنچز اور پانچ ریکوری آفیسرز کے ساتھ چلتا رہا۔

شرح سود کا پس منظر

اسٹیٹ بینک آف پاکستان کا ڈسکاؤنٹ ریٹ سال 2020 کے شروع میں 13.75 فیصد تھا۔ سال کے آخر میں، 2020 کی رعایت کی شرح 5.75 فیصد کی کے ساتھ 8.00 فیصد تک پہنچ گئی، کیونکہ اسٹیٹ بینک آف پاکستان نے معیشت پر COVID-19 کے اثرات کا مقابلہ کرنے کے لئے رعایت کی شرح میں کمی کی ہے۔

کریڈٹ ریٹنگ

PACRA کریڈٹ ریٹنگ ایجنسی کی جانب سے مورخہ 22 نومبر 2018 کو بینک کو طویل المیعاد CCC کی کریڈٹ ریٹنگ اور مختصر مدتی کریڈٹ ریٹنگ بی (سنگل بی) 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 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 عوامل کی وجہ سے محدود ہے حالانکہ انتظامیہ کاروباری عمل کو بہتر بنانے کے اقدامات کر رہی ہے۔

آپریشنل (کارگزاری کے) نتائج

محدود ایکویٹی اور فنڈز کی کمی کے باوجود، انتظامیہ اسٹیٹ بینک آف پاکستان کے 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 ایڈونسز کا پورٹ فولیو 1,816 ملین روپے رہا۔ زیر نظر سال کے دوران SME / ایس ایم ای لینڈنگ آپریشن سے آمدنی میں 41.58 ملین روپے کمی ہوئی۔ اس کے علاوہ ڈپازٹس اور قرضہ جات کی لاگت میں مبلغ 140.96 ملین روپے کی کمی ہوئی۔ ڈپازٹ کی اوسط لاگت 2019 میں 12.23 فیصد کے مقابلہ میں 9.28 فیصد رہی۔

میں قرضوں کی شرحوں کو CY20 میں دباؤ میں رکھا۔ تجارتی بینکوں کے منافع میں CY20 کے دوران کافی حد تک بہتری دیکھنے میں آئی جس کی وجہ بنیادی طور پر کم شرح سود اور غیر معمولی سرمایہ سے فائدہ اٹھایا گیا۔ تاہم، بینکاری کے شعبے کی مجموعی مالی پوزیشن وباء کی وجہ سے کاروباری سرگرمیوں میں کمی چارجز کی فراہمی کا بوجھ کی وجہ سے ہے۔ ممکنہ نقصانات سے بچنے کی اہمیت پر زور دینا ایک محدود اوسط شرح سود پھیلاؤ کی موجودگی میں یہ زیادہ متاثر کن دکھائی دے رہا ہے۔ بینکاری کے شعبے میں انتظامی کارکردگی کے اشارے اور مثبت رجحانات کی عکاسی کرتا ہے۔

سخت مانیٹری پالیسی 4QFY21 میں شروع کرنے کے لئے

آگے بڑھتے وقت، جب افراط زر اور مانیٹری نقطہ نظر سے کرونا کی بگڑتی ہوئی صورتحال کا جائزہ لیں۔ اگرچہ باقی دنیا اس خطرناک صورتحال سے دوچار ہے، پاکستان میں اس کی دوسری لہر ابھی تک پہلی لہر کی طرح جان لیوا ثابت ہونے سے دور ہے۔ اس کے بعد، توقع کی جارہی ہے کہ تیل کی قیمتیں CY/21 میں بڑھ جائیں گی۔ رمضان ماہ اور موسمی اثرات سے بھی مہنگائی بڑھنے کا امکان ہے۔ جبکہ گھر کے کرایے میں ایڈجسٹمنٹ (جنوری 21 اور اپریل 21) کے دوران بھی مہنگائی کے دباؤ میں اضافہ ہونے کا امکان ہے۔

پالیسی کی شرح کا پس منظر

مالی سال 21FY میں اضافے کی توقع اوسط 9.26 فیصد 4QFY21 میں bps50 اضافے کی توقع ہے۔ مذکورہ بالا وجوہات کی بناء پر، یہ پیش گوئی کی گئی ہے کہ 2HFY21 کے دوران اوسط افراط زر 9.74 فیصد پر طے ہو جائے گا جو 1HFY21 کے دوران 8.78 فیصد تھا۔ مالی سال 21 کے اوسط CPI کے لئے مارکیٹ کے پنڈتوں کے تخمینے 9.26 فیصد ہیں اور توقع ہے کہ 4QFY21 میں سود کی شرح bps50 اضافہ کیا جائے گا۔ یہ بھی مرکزی بینک کے ریڈار پر ترقی پر بحث جاری رکھنے کی پیش گوئی کی گئی ہے لہذا مانیٹری پالیسی کے بارے میں ایک بہت ہی گھٹیا رویہ ابھی تک کارڈ پر نہیں ہو سکتا ہے۔

اہم نکات

بینک سال 2007 سے مبلغ 2.39 بلین روپے کے ادا شدہ سرمایہ سے کام کر رہا ہے۔ ایس ایم ای بینک ادا شدہ سرمایہ کی کم از کم 10 بلین روپے کی ضروریات کو پورا کرنے کے لیے استثناء کی درخواست اسٹیٹ بینک کو کر چکا ہے۔ شراکت داروں نے مورخہ 17 اکتوبر 2009 کی میٹنگ میں یہ مشورہ دیا کہ بینک ادا شدہ سرمایہ میں اضافہ کرتے ہوئے سرمایہ پالیسی پر نظر ثانی کی جائے اور انتظامیہ نے اس سلسلے میں وزارت مالیات سے رابطہ کیا۔ بورڈ نے نوٹ کیا کہ بینک کی آئندہ کی نجکاری کے پیش نظر اسٹیٹ بینک آف پاکستان میں کاروبار میں توسیع پر پابندی ہے۔ اور ایک انتہائی تنگ اکیویٹی کی بنیاد پر جس کا حجم 2 ارب روپے سے بھی کم ہے۔ بینک کو پائیدار

غیر ملکی زرمبادلہ

پاکستان کے بین الاقوامی غیر ملکی ذخائر میں Nov, 20 میں 20.3 بلین امریکی ڈالر تک اضافہ ہوا جو کہ Dec, 19 کے اختتام تک 17.9 فیصد بلین امریکن ڈالر تھا۔ تقریباً 2.9 ماہ کی درآمدی کوریج کے مطابق پاکستان کے غیر ملکی ذخائر قدرے آئی ایم ایف کی 3 ماہ کی کم از کم سطح سے نیچے آگئے مزید یہ کہ خالص غیر ملکی اثاثوں (NFA) میں 248 بلین پاکستانی روپے کا اضافہ ہوا 1QFY21 غیر ملکی زرمبادلہ کے ذخائر کی جھلک پاکستان کے بینکاری نظام میں بھی نظر آتی ہے۔ نیٹ غیر ملکی اثاثوں میں اس اضافے کی وجوہات غیر ملکی قرضوں کی کچھ ادائیگیوں کو موخر کرنے کے ساتھ کرنٹ اکاؤنٹ سرپلس ہونا جس سے ملک کے زرمبادلہ کے ذخائر سے دباؤ کم کرنے میں مدد ملی۔

کرسی مارکیٹ

2020 میں، حکومتی اہداف کے حصول کے بعد انٹر بینک مارکیٹ میں تیزی سے نیچے کی طرف جاتے دیکھا گیا۔ اس سے امید کی جارہی تھی کہ ڈسکاونٹ ریٹ میں مزید کمی لائی جائے گی۔ اس منظر نامے میں، مارکیٹ کمی کی کم ترین حد تک پہنچ گئی اور ایس ایم ای بینک نے کم پیداوار کے بانڈ فروخت کر کے چھوٹے سرمائے سے فائدہ اٹھایا۔ مالی سال 2020 کے دوران بانڈ مارکیٹ میں اتار چڑھاؤ کے بعد، بینک نے زیادہ پیداوار کے لیے مزید پورٹ فولیو تیار کیا۔ بہت سے بینکوں نے بروقت فیصلہ کر کے اور اس کو منافع بخش بنانے کے لیے ایک کتاب تیار کی قرضوں کے حصول اور سرمایہ کاری کے درمیان مثبت رجحان کو نیلی کتاب میں محفوظ کیا۔

اسٹیٹ بینک آف پاکستان - مسیحا

دنیا بھر میں وبائی مرض کی وبا پھیل جانے کے بعد، سنٹرل بینکوں کو مایوس کن معاشی سرگرمی اور جی ڈی پی میں زبردست گراؤ کے بارے میں تشویش کا سامنا کرنا پڑا۔ دنیا کی بیشتر ممالک کی طرح، پاکستان نے بھی، مالیاتی نرمی کا ایک دور شروع کیا، 3 ماہ کے اندر اندر پالیسی کی شرح کو 625bps تک کم کر دیا۔ اسٹیٹ بینک نے اپنے مانیٹری پالیسی بیانات اور دیگر مواصلات کے ذریعہ یہ واضح کیا کہ افراط زر کو ہدف بنا کر پچھلی سطح پر لے جائے گا جبکہ نمو کی بحالی پر سوچ بچار جو کہ بنیادی طور پر مانیٹری پالیسی پر اثر انداز ہوتی ہے۔

بینکوں کے لیے چیلنج:

Covid خطرات کم کرنے کے لئے مضبوط بیلنس شیٹ

بینکنگ کے پھیلاؤ کے لیے مانیٹری میں نرمی پر زور دیا گیا: وبائی مرض کے مضر اثرات پر قابو پانے کے اسناد کے طور پر، اسٹیٹ بینک ایک آسان مالیاتی پالیسی موقف کی طرف لوٹ آیا (CY20) میں مجموعی 625bp کے ذریعہ پالیسی کی شرح کو کم کرنا جس نے روپوں

ڈائریکٹر رپورٹ برائے شراکت داران (حصص یافتگان)

ایس ایم ای بینک لمیٹڈ کی 19 ویں سالانہ رپورٹ برائے سال 31 دسمبر 2020 کو اختتام پذیر ہونے والے سال کے آئیڈیٹر کی آڈٹ شدہ گوشواروں اور ان سے متعلق آڈٹ رپورٹ پیش کرتے ہوئے ہم انتہائی مسرت محسوس کر رہے ہیں۔

اقتصادی جائزہ 2020

Covid-19 کرونا وائرس 2019 نے بڑی بڑی عالمی معیشتوں کے عمل کو بری طرح متاثر کیا اور اس وباؤ نے تمام تر کام کے عمل کو معطل اور محدود کر دیا۔ پاکستان کو بھی ایسے ہی حالات کا سامنا کرنا پڑا اور لاک ڈاؤن نافذ ہونے Covid-19 کے پھیلاؤ کی وجہ سے تمام تر کاروباری سرگرمیاں ختم ہو کر رہ گئیں۔ اس مطالعہ میں پاکستان میں Covid-19 کے اثرات پر توجہ مبذول کروائی گئی ہے اور اس مقصد کے لئے سروس سیکٹر اور شائع ہونے والی مختلف رپورٹوں پر غور کیا گیا ہے۔ اس سے سروس سیکٹر بشمول سیاحت، اور ٹرانسپورٹ کے شعبے سب سے زیادہ متاثر ہوئے۔ جس کی وجہ سے لاکھوں SMEs کیش فلو کی کمی کی وجہ سے طویل عرصہ تک اپنا وجود قائم نہیں رکھ سکیں گے جبکہ اس سے SMEs کی آمدن میں کمی واقع ہوئی۔ جب کہ لاک ڈاؤن کی یہ صورتحال پاکستان کے ہر صوبے میں روزگار اور استحکام کی کمزوری کا باعث بنے گی مذکورہ بالا تجویز کہ کاروبار پر مبنی پروگرام خاص طور پر انفارمیشن ٹیکنالوجی اور ای کامرس کو مؤثر طریقے سے فروغ دے کر روزگار کے مواقع پیدا کئے جائیں گے۔

CPI افراط زر اور مارکیٹ کی توقع

دسمبر 2020 کے مہینے میں CPI کی شرح میں افراط زر کی شرح 7.97 تک پہنچ گئی۔ (فروری 2019 کے بعد انتہائی کم ترین شرح 6.8YoY پر تھی)۔ گذشتہ سال کی اسی مدت میں 11.12 تھی اس کے مقابلے میں 1HFY21 اوسط افراط زر 8.63YoY رہی۔ انڈیکس کی یہ چھلانگ بنیادی طور پر خورد و نوش کی اشیاء کی قیمتوں میں 13.3 فیصد YoY اضافے کی وجہ بنی۔ جس سے CPI Basket میں خورد و نوش کا وزن 35 فیصد ہو گیا۔ (خاص طور پر ناقص خورد و نوش کی اشیاء میں 16.3 فیصد YoY تک اضافہ ہو گیا)۔ تاہم ٹرانسپورٹ انڈیکس میں 3.47 فیصد YoY تک کمی واقع ہوئی۔ ایندھن کی قیمتوں میں کمی کی بنیاد (نومبر 20 میں 35 فیصد سے کم ہوئی اور دسمبر 20 میں 28 YOY فیصد کم ہوئی)۔ SPI کے لئے 1HFY21 مدت دسمبر 2020 میں 11.48 فیصد اضافہ ہوا ہے جبکہ پچھلے سال اسی عرصے میں یہ 14.87 فیصد تھا۔ MoM کی بنیاد پر اس میں دسمبر 2020 میں 2.7 فیصد کمی ہوئی تھی جیسا کہ اس کے مقابلے میں ایک مہینہ پہلے اس میں 1.1 فیصد اضافہ ہوا اور یہ کم ہو کر دسمبر 2019 میں 2.0 فیصد رہ گیا۔ اس کے ساتھ، ہم جنوری کے لئے MPS (جمود کی شرح 7 فیصد) کے اپنے موقف کو برقرار رکھتے ہیں۔

Shareholding Pattern

The pattern of shareholding as at December 31, 2020 is given below ;

Sr. #	Categories of Shareholders	No. of Share holder	Shares held	Percentage
1	President of Pakistan (on behalf of Federal Government)	1	224,615,978	93.88
2	National Bank of Pakistan	1	6,121,095	2.56
3	United Bank Limited	1	3,975,003	1.66
4	Habib Bank Limited	1	1,987,501	0.83
5	MCB Bank Limited	1	1,490,619	0.62
6	Allied Bank Limited	1	774,351	0.32
7	Industrial Development Bank Limited	1	286,146	0.12
Directors				
8	Mr. Dilshad Ali Ahmad	1	1	-
9	Mr. Hashim Raza	1	1	-
10	Mr. Niaz Muhammad Khan	1	1	-
11	Mr. Waqas Azeem	1	1	-
12	Mr. Ruaf Ahmad	1	1	-
13	Mr. Omar Farooq	1	1	-
14	Mr. Enamullah Khan	1	1	-
	Total	14	239,250,700	100

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

Statement of Compliance with Public Sector Companies (Corporate Governance) Rules, 2013 For the year ended December 31, 2020

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)	✓		
2.	The Board has the requisite percentage of independent directors. At present the board includes:	3(2)	✓		
3.	The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.	3(5)	✓		
4.	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Act.	3(7)	✓		All the Directors are nominee of GoP. SBP has cleared their fit and propriety criteria.
5.	The chairman of the board is working separately from the chief executive of the Bank.	4(1)		✓	As per MoF Letter # F.No.8(1) IF-II/2019-554 dated July 16,2020 directed President/CEO to preside the meetings of the Board under Section 11(3)(8) of Bank (Nationalization) Act,1974.

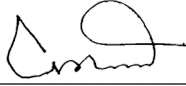
6.	The chairman has been elected by the Board of directors except where Chairman of the Board has been appointed by the Government.	4(4)	✓		As per MoF Letter # F.No.8(1)IF-II/2019-554 dated July 16, 2020 that President/CEO has been advised to preside the meetings of the Board under Section 11(3)(8) of Bank (Nationalization) Act, 1974.
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		Mr. Dilshad Ali Ahmad Appointed as President & CEO vide Notification No F.No.8(2)-IF-II/2018-503 dated June 16, 2020.
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)	✓		
18.	a) The board has met at least four times during the year.	6(1)	✓		
	b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings.	6(2)	✓		
	c) The minutes of the meetings were appropriately recorded and circulated.	6(3)	✓		
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)		✓	As Board constituted on July 8, 2020 therefore performance of senior management shall be assessed in forthcoming meeting of the Board in March 2021
20.	The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9	✓		
21.	(a) The Board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end.	10	✓		
	(b) In case of listed PSCs, the Board has prepared half yearly accounts and undertaken limited scope review by the auditors.		N/A		
	(c) The Board has placed the annual financial statements on the Bank's website.		✓		
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		✓	As Board constituted on July 8, 2020 therefore Orientation Course will be arranged in first half of the year 2021 after approval of the Board in coming Board Meeting.

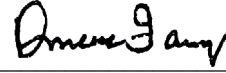
23.	a) The board has formed the requisite committees, as specified in the Rules.	12	✓																		
	b) The committees were provided with written term of reference defining their duties, authority and composition.		✓																		
	c) The minutes of the meetings of the committees were circulated 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>3</td><td>Mr. Omar Frooq</td></tr><tr><td>Human Resource Committee</td><td>3</td><td>Mr. Enamullah Khan</td></tr><tr><td>Procurement Committee</td><td>3</td><td>Mr. Waqas Azeem</td></tr><tr><td>Risk Management Committee</td><td>3</td><td>Mr. Niaz Muhammad Khan</td></tr><tr><td>Nomination Committee</td><td>3</td><td>No meeting was held during the year</td></tr></table>		Committee			Number of members	Name of Chair	Audit Committee	3	Mr. Omar Frooq	Human Resource Committee	3	Mr. Enamullah Khan	Procurement Committee	3	Mr. Waqas Azeem	Risk Management Committee	3	Mr. Niaz Muhammad Khan	Nomination Committee	3
	Committee	Number of members	Name of Chair																		
Audit Committee	3	Mr. Omar Frooq																			
Human Resource Committee	3	Mr. Enamullah Khan																			
Procurement Committee	3	Mr. Waqas Azeem																			
Risk Management Committee	3	Mr. Niaz Muhammad Khan																			
Nomination Committee	3	No meeting was held during the year																			
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.	<div>The board has formed an audit committee, with defined and written terms of reference, and having the following members:</div> <table><tr><th>Name of member</th><th>Category</th><th>Professional background</th></tr><tr><td>Mr. Omar Farooq</td><td>Independent</td><td>Businessman</td></tr><tr><td>Mr. Enamullah Khan</td><td>Independent</td><td>Businessman</td></tr><tr><td>Mr. Niaz Muhammad Khan</td><td>Non-Executive Director</td><td>SJS Ministry of Industries & Production</td></tr></table> <div>The chief executive and chairman of the Board are not members of the audit committee.</div>	Name of member	Category	Professional background	Mr. Omar Farooq	Independent	Businessman	Mr. Enamullah Khan	Independent	Businessman	Mr. Niaz Muhammad Khan	Non-Executive Director	SJS Ministry of Industries & Production	21 (1) and 21(2)	✓		
Name of member	Category	Professional background															
Mr. Omar Farooq	Independent	Businessman															
Mr. Enamullah Khan	Independent	Businessman															
Mr. Niaz Muhammad Khan	Non-Executive Director	SJS Ministry of Industries & Production															
32	(a) The chief financial officer, the chief internal auditor, and a representative of the external auditors attended all meetings of the audit committee at which issues relating to accounts and audit were discussed. (b) The audit committee met the external auditors, at least once a year, without the presence of the chief financial officer, the chief internal auditor and other executives. (c) The audit committee met the chief internal auditor and other members of the internal audit function, at least once a year, without the presence of chief financial officer and the external auditors.	21(3)	✓ ✓ ✓														
33.	(a) The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee. (b) The chief internal auditor has requisite qualification and experience prescribed in the Rules. (c) The internal audit reports have been provided to the external auditors for their review.	22	✓ ✓ ✓														
34.	The external auditors of the 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)	✓		
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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, 2020

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 Bank 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.	8(2)	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	As Board constituted on July 8, 2020 therefore performance of senior management shall be assessed in forthcoming meeting of the Board in March 2021.
2.	11	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.	As Board constituted on July 8, 2020 therefore Orientation Course will be arranged in first half of the year 2021 after approval of the Board in coming Board Meeting.



CEO
Dilshad Ali Ahmad



Independent Director
Omer Farooq

Statement of Internal Control

For the year ended December 31, 2020

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 the Statement of Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013

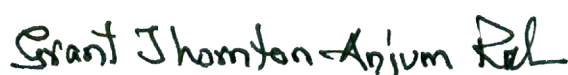
We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors (the Board) of SME Bank Limited (“the Bank”) for the year ended December 31, 2020 to comply with Regulation 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 December 31, 2020.



GRANT THORNTON ANJUM RAHMAN

Chartered Accountants

Audit Engagement Partner: Hassan Riaz

Islamabad

Date: March 06, 2021

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SME BANK LIMITED
UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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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, 2020, and the unconsolidated profit and loss account, the 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, the unconsolidated profit and loss account and the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the 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, 2020 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. 144.747 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 of the Bank;
- b) Deferred tax asset of Rs. 874.915 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) were transferred to the 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. 977.164 million (2019: Rs. 1,072.309 million) resulting into accumulated losses of Rs. 5,761.702 million (2019: Rs. 4,811.162 million). As of December 31, 2020, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,160.083 million (2019: Rs. 2,512.445) 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. 4.684 billion (2019: Rs. 7.859 billion) though the situation is improved as compared to last year but it still 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%. 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 the possession of Bank's 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 Bank's 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 the 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, on other information obtained prior to the date of this auditors' report, 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, the unconsolidated statement of changes in equity and the 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 Hassaan Riaz

Grant Thornton Anjum Rahman

GRANT THORNTON ANJUM RAHMAN

Chartered Accountants

Islamabad

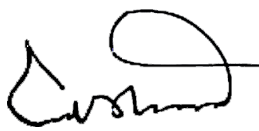
Dated: March 06, 2021

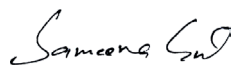
UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

		2020	2019
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	668,727	650,565
Balances with other banks	8	2,123	4,537
Lendings to financial institutions		-	-
Investments	9	5,828,353	5,739,975
Advances	10	1,530,344	1,907,995
Fixed assets	11	472,184	532,112
Intangible assets	12	1,756	1,331
Deferred tax assets - net	13	874,915	752,294
Other assets	14	562,685	563,192
		9,941,087	10,152,001
LIABILITIES			
Bills payable	15	99,986	51,543
Borrowings	16	4,127,613	3,654,771
Deposits and other accounts	17	7,602,262	7,500,708
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,271,309	1,457,424
		13,101,170	12,664,446
NET LIABILITIES		(3,160,083)	(2,512,445)
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Surplus/(deficit) on revaluation of assets - net of tax	20	2,586	(300,316)
Unappropriated loss		(5,761,702)	(4,811,162)
		(3,160,083)	(2,512,445)
CONTINGENCIES AND COMMITMENTS		21	

The annexed notes from 1 to 42 and annexure-1 form an integral part of these unconsolidated financial statements.


Dilshad Ali Ahmad
President/CEO


Sameena Gul
Chief Financial Officer


Omer Farooq
Director


Hashim Raza
Director



Rauf Ahmad
Director


UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2020

	Note	2020 (Rupees in '000)	2019
Mark-up/ return/ interest earned	22	738,948	776,306
Mark-up/ return/ interest expensed	23	1,008,663	1,149,619
Net mark-up/ interest loss		(269,715)	(373,313)
NON MARK-UP/ INTEREST INCOME			
Fee and commission income	24	10,914	9,933
Dividend income		1,629	2,247
Foreign exchange income		-	-
Income / (loss) from derivatives		-	-
Gain/(loss) on securities	25	815	7
Other income	26	1,576	980
Total non-markup/ interest income		14,934	13,167
Total loss		(254,781)	(360,146)
NON MARK-UP/ INTEREST EXPENSES			
Operating expenses	27	837,299	877,195
Workers Welfare Fund		-	-
Other charges	28	69,559	69,426
Total non-markup/ interest expenses		906,858	946,621
Loss before provisions		(1,161,639)	(1,306,767)
Provisions and write offs - net	29	(14,521)	(19,358)
LOSS BEFORE TAXATION		(1,147,118)	(1,287,409)
Taxation	30	(169,954)	(215,100)
LOSS AFTER TAXATION		(977,164)	(1,072,309)
Basic/diluted (loss) per share (rupees)	31	(4.08)	(4.48)

The annexed notes from 1 to 42 and annexure-1 form an integral part of these unconsolidated financial statements.


Dilshad Ali Ahmad
 President/CEO


Sameena Gul
 Chief Financial Officer


Omer Farooq
 Director


Hashim Raza
 Director


Rauf Ahmad
 Director

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

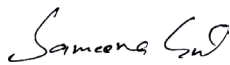
For the year ended December 31, 2020

	2020	2019
	(Rupees in '000)	
Net loss after taxation	(977,164)	(1,072,309)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods		
Movement in deficit on revaluation of investment	302,902	135,489
Items that will not be reclassified to profit and loss account in subsequent periods		
Remeasurement gain on defined benefit obligations - net	26,624	118,237
Total comprehensive loss	(647,638)	(818,583)

The annexed notes from 1 to 42 and annexure-1 form an integral part of these unconsolidated financial statements.



Dilshad Ali Ahmad
President/CEO



Sameena Gul
Chief Financial Officer



Omer Farooq
Director



Hashim Raza
Director




Rauf Ahmad
Director


UNCONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2020

	2020	2019
Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(1,147,118)	(1,287,409)
Less: Dividend income	(1,629)	(2,247)
	(1,148,747)	(1,289,656)
Adjustments:		
Depreciation	72,445	70,687
Amortization	1,346	1,296
Provision and write-offs	(14,521)	(19,358)
Loss/(gain) on sale of fixed assets	(589)	32
Mark-up expense on leased liability against ROU assets	69,451	67,337
	128,132	119,994
	(1,020,615)	(1,169,662)
(Increase)/ decrease in operating assets		
Lendings to financial institutions	-	-
Held-for-trading securities	-	-
Advances	392,419	322,140
Other assets (excluding advance taxation)	35,049	20,407
	427,468	342,547
Increase/ (decrease) in operating liabilities		
Bills payable	48,443	(67,245)
Borrowings from financial institutions	472,842	(1,085,124)
Deposits	101,554	1,779,700
Other liabilities (excluding current taxation)	(147,477)	284,238
	475,362	911,569
	(117,785)	84,454
	(2,515)	(2,627)
Income tax paid		
Net cash flow generated (used in)/ from operating activities	(120,300)	81,827
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment/disinvestment in available-for-sale securities	215,247	180,455
Net investment in held-to-maturity securities	-	-
Dividend received	1,629	2,247
Investment in operating fixed assets	(3,065)	(731)
Proceeds from sale of fixed assets	891	768
Net cash flow generated from investing activities	214,702	182,739
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligation	(78,654)	(69,541)
Net cash flow (used in) from financing activities	(78,654)	(69,541)
Decrease in cash and cash equivalents	15,748	195,025
Cash and cash equivalents at beginning of the period	655,102	460,077
Cash and cash equivalents at end of the period	670,850	655,102

The annexed notes from 1 to 42 and annexure-1 form an integral part of these unconsolidated financial statements.


Dilshad Ali Ahmad
 President/CEO


Sameena Gul
 Chief Financial Officer


Omer Farooq
 Director


Hashim Raza
 Director



Rauf Ahmad
 Director


UNCONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the year ended December 31, 2020

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
	(Rupees in '000)				
Balance as at January 01, 2019	2,392,507	206,526	(435,805)	(3,857,090)	(1,693,862)
Total comprehensive income for the year ended December 31, 2019					
Net loss after taxation	-	-	-	(1,072,309)	(1,072,309)
Other comprehensive income - net of tax	-	-	135,489	118,237	253,726
Balance as at December 31, 2019	2,392,507	206,526	(300,316)	(4,811,162)	(2,512,445)
Total comprehensive income for the year ended December 31, 2020					
Net loss after taxation	-	-	-	(977,164)	(977,164)
Other comprehensive income - net of tax	-	-	302,902	26,624	329,526
Balance as at December 31, 2020	2,392,507	206,526	2,586	(5,761,702)	(3,160,083)

The annexed notes from 1 to 42 and annexure-1 form an integral part of these unconsolidated financial statements.


Dilshad Ali Ahmad
 President/CEO


Sameena Gul
 Chief Financial Officer


Omer Farooq
 Director


Hashim Raza
 Director


Rauf Ahmad
 Director

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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), credit rating of the Bank was “CCC” in the long term and “B” (Single B) in the short term. Subsequent to above, the credit rating of Bank has not been updated.

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 said 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. Although further relaxation of MCR has not been granted but SBP has not objected the non-compliance of MCR as it is fully aware about the progress of the privatization of the Bank.

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 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 format prescribed by the State Bank of Pakistan vide BPRD Circular No. 02 of 2018 dated January 25, 2018.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

- 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 thousand of rupees, unless otherwise stated.

3 STATEMENT OF COMPLIANCE

- 3.1** These unconsolidated 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.

- 3.2 Standards, interpretations of and amendments to published accounting and reporting standards that are not yet effective in the current year**
Following standards have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of their applicability in Pakistan:

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

		Effective date (annual periods beginning on or after)
IFRS 1	First-Time Adoption of International Financial Reporting Standards (Amendments)	January 01, 2009
IFRS 17	Insurance Contracts	January 01, 2022
Following standards and amendments to published accounting standards will be effective in future periods and have not been early adopted by the Bank.		
IFRS 7 & IFRS 9	Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	January 01, 2021
IFRS 9	Financial Instruments	January 1, 2021
IFRS 4	Insurance Contracts (Amendments)	January 1, 2021
IFRS 3	Business Combinations (Amendments)	January 1, 2022
IAS 16	Property, plant and equipment (Amendments)	January 1, 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (Amendments)	January 1, 2022
IAS 1	Presentation of Financial Statements (Amendments)	January 1, 2023
IFRS 10 & IAS 28	Consolidated Financial Statements & Investment in Associates and Joint Ventures (Amendments)	Not yet finalized

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

There are certain new and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these unconsolidated financial statements.

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.

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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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 (note 5.2)
- ii) Provision/impairment against investments, advances and other assets (note 5.7)
- iii) Valuation and impairment of available for sale securities (note 5.7)
- iv) Useful life and residual value of property and equipment and intangible assets (note 5.5)
- v) Taxation (note 5.9)
- vi) Staff retirement benefits (note 5.10)
- vii) Leases (note 5.6)

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.

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 unconsolidated 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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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 unconsolidated 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. 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.

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 unconsolidated profit and loss account. These regulations prescribe an age based criteria 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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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 freehold/ 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.

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 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 Bank as a lessee

The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying asset.

Right-of-use (RoU) assets

At the commencement date of the lease, the right-of-use asset is initially measured at the present value of lease liability. Subsequently, RoU assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. RoU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

Lease liability

At the commencement date of the lease, the Bank recognizes lease liability measured at the present value of the consideration (lease payments) to be made over the lease term and is adjusted for lease prepayments. The lease payments are discounted using the interest rate implicit in the lease, unless it is not readily determinable, in which case the lessee may use the incremental rate of borrowing. After the commencement date, the carrying amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made.

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

Incremental borrowing rate (IBR)

The IBR is the rate of markup that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Bank estimates the IBR using observable inputs such as market interest rates.

5.7 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.

Notes to the Unconsolidated Financial Statements

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5.8 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.

5.9 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 unconsolidated 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.

5.10 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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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.

5.11 Revenue recognition

5.11.1 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.

5.11.2 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 unconsolidated profit and loss account over the remaining period of maturity on time apportionment basis.

5.11.3 Dividend income

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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

5.11.4 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.

5.12 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.

5.13 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.

5.14 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 unconsolidated profit and loss account is stated net off expected recoveries.

5.15 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.

5.16 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:

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

5.16.1 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.

5.16.2 Geographical segments

The Bank operates only in Pakistan.

5.17 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.

5.18 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 unconsolidated financial statements of the Company except for certain disclosures as mentioned in note 37.

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 to divest the 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. The buyers side due diligence is completed on August 24, 2020 and the final draft of share purchase agreement (SPA) has been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA have been deliberated by the Transaction Committee and clarifications to this effect have been given to pre-qualified bidders. A joint meeting of the Transaction Committee, SBP and pre-qualified bidders held on December 29th, 2020 and December 30th, 2020 with reference to "Pre-Bid Conference" and "Valuation Model" wherein the queries of pre-qualified potential bidders have been clarified and some of them pertaining to license, merger and MCR have been forwarded to SBP for its clarification whose response is awaited.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

6.2 Going concern assumption and minimum capital requirement

During the current year the Bank incurred a net loss of Rs. 977.164 million (2019: Rs. 1,072.309 million) resulting into accumulated losses of Rs. 5,761.702 million (2019: Rs. 4,811.162 million). As of December 31, 2020, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,160.083 million (2019: Rs. 2,512.445) 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. 4.684 billion (2019: Rs. 7.859 billion) though the situation is improved as compare to last year but it still 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%. 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, 2021. Thereafter, the Bank also vide its latest letter No. SMEBL: HO: CFO&CS: 01:2021/1609/430 dated January 18, 2021 has requested SBP to allow exemption from MCR till June 30, 2021 or privatization of the Bank whichever is earlier. MoF and management of the Bank are hopeful of a favorable response as SBP has not objected the non-compliance of MCR. Moreover, the process of privatization of the Bank is at the advance stage as five prospective investors have submitted their Statement of Qualifications (SOQs), out of which four have been cleared by SBP. The buyers side due diligence is completed on August 24, 2020 and the final draft of share purchase agreement (SPA) has been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA have been deliberated by the Transaction Committee and clarifications to this effect have been given to pre-qualified bidders. A joint meeting of the Transaction Committee, SBP and pre-qualified bidders held on December 29 & 30 2020 and December 30, 2020 with reference to "Pre-Bid Conference" and "Valuation Model" wherein the queries of pre-qualified potential bidders have been clarified and some of them pertaining to license, merger and MCR have been forwarded to SBP for its clarification whose response is awaited. Considering the current stage of the privatization process 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 till the privatization. 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, 2020

7. CASH AND BALANCES WITH TREASURY BANKS	Note	2020	2019
		(Rupees in '000)	
In hand			
Local currency		175,571	123,638
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in:			
Local currency current accounts	7.1	419,782	468,270
With National Bank of Pakistan in:			
Local currency current accounts		73,334	58,486
Prize bonds		40	171
		<u>668,727</u>	<u>650,565</u>
7.1 Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.			
8. BALANCES WITH OTHER BANKS	Note	2020	2019
		(Rupees in '000)	
In Pakistan:			
On current accounts		500	500
On deposit accounts		11,623	14,037
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>2,123</u>	<u>4,537</u>
8.1 Particulars of provision for doubtful placement with a bank			
Opening balance		(10,000)	(10,000)
Charge for the year		-	-
Reversals		-	-
		<u>-</u>	<u>-</u>
Closing balance		<u>(10,000)</u>	<u>(10,000)</u>

Provision for doubtful balance is in respect of deposit of Rs. 10 million (2019: Rs. 10 million) with Indus Bank Limited which is under liquidation.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

9. INVESTMENTS	9.1 Investment by type	Note	2020				2019			
			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)			
	Available-for-sale securities									
	Federal Government Securities	9.2.1	5,679,985	-	750	5,680,735	5,895,232	-	(301,559)	5,593,673
	Shares		42,542	(15,770)	3,370	30,142	42,542	(15,770)	1,847	28,619
	Mutual Funds		1,870	-	(142)	1,728	1,870	-	65	1,935
			5,724,397	(15,770)	3,978	5,712,605	5,939,644	(15,770)	(299,647)	5,624,227
	Held-to-maturity securities									
	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
	Subsidiary	9.1.1	215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
	Total Investment		5,975,616	(151,241)	3,978	5,828,353	6,190,863	(151,241)	(299,647)	5,739,975
	* TDR of Rs. 35 million (2019: Rs. 35 million) was under lien at year end.									
	9.1.1 SME Leasing Limited (SMEL)									
	Holding Percentage									
	Country									
	Total assets									
	Total liabilities									
	Total Revenue									
	Total Expenses									
	Loss after taxation									
	Total comprehensive loss									

9.1.1 SME Leasing Limited (SMEL)

Holding Percentage
Country

2020	2019
73.14%	73.14%
Pakistan	Pakistan
Rupees in 000	
405,618	481,720
386,058	404,612
21,955	26,578
65,252	66,693
(57,676)	(35,694)
(57,547)	(34,574)

For the year ended December 31, 2020

SMME Leasing Limited (SMEL) was incorporated on July 12, 2002 as a public limited company under the repealed Companies Ordinance, 1984. Up to the year 2005, SMEL was a wholly owned subsidiary of the Bank, however, a public offering of 10 million ordinary shares was made during the year 2006 at an offer price of Rs. 11 per share. The Bank subscribed for 1,405,205 shares in SMEL and now holds 73.14% shares in SMEL. SMEL is listed on Pakistan Stock Exchange. This investment is designated as a 'Strategic Investment' in terms of BPD Circular Letter No. 16 dated August 1, 2006. SMEL continue to operate on a net loss basis and the Bank maintains provision of Rs. 134,709 million (2019: Rs. 134,709 million) against the aforesaid investment of Rs. 215,457 million.

9.2 Investment by segment:

2020				2019			
Cost / Amortized Cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortized Cost	Provision for diminution	Surplus / (Deficit)	Carrying Value

(Rupees in '0000)

(Rupees in '0000)

Federal Government Securities

2,820,478	-	(499)	2,819,979	-	1,061,452	-	1,060,818
2,859,507	-	1,249	2,860,756	-	4,833,780	-	4,532,855
5,679,985	-	750	5,680,735	-	5,895,232	-	5,593,673

Shares

14,999	(14,697)	3,370	3,672	14,999	(14,697)	1,847	2,149
27,543	(1,073)	-	26,470	27,543	(1,073)	-	26,470
42,542	(15,770)	3,370	30,142	42,542	(15,770)	1,847	28,619

Mutual Funds

1,216	-	76	1,292		
654	-	(218)	436	1,216	1,370
1,870	-	(142)	1,728	654	565
				1,870	1,935

Non Government Debt Securities

35,000	-	35,000	35,000
762	(762)	-	-
35,762	(762)	35,000	35,000

Subsidiary

	215,457	-	80,748	215,457	(134,709)	-	80,748
	5,975,616	3,978	5,828,353	6,190,863	(151,241)	(299,647)	5,739,975

9.2.1 Investment given as collateral

Note	(Rupees in '000)
9.2.2	1,560,528
9.2.2	2,456,991
	3,560,826
	4,017,519
	3,560,826

9.2.2.2 These represent market value of securities at reporting date.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
9.3 Provision for diminution in value of investments	(Rupees in '000)	
Opening balance	151,241	171,241
Charge / reversals		
Charge for the year	-	-
Reversal for the year	-	-
Reversal on disposals	-	(20,000)
	-	(20,000)
Transfers - net	-	-
Amount written off	-	-
Closing balance	151,241	151,241

9.3.1 Particulars of provision against debt securities category of classification

	2020		2019	
	NPI	Provision	NPI	Provision
Domestic	(Rupees '000)			
Other assets especially mentioned				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	762	762	762	762
	762	762	762	762

9.4 Quality of Available-for-sale Securities

	2020	2019
Federal Government Securities - Government guaranteed	Cost/Amortised cost	
	(Rupees '000)	
Market Treasury Bill	2,820,478	1,061,452
Pakistan Investment Bonds	2,859,507	4,833,780
	5,679,985	5,895,232
Shares	2020	2019
	Cost	
	(Rupees '000)	
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

	2020		2019	
	Cost	Breakup value	Cost	Breakup value
Unlisted / delisted Companies	(Rupees '000)			
Note				
- ISE Towers REIT Management Company Limited	9.4.1	18,000	46,885	18,000
- LSE Financial Services Limited	9.4.1	8,440	19,606	8,440
- News-v/s Credit Information Services (Pvt) Limited.		100	30	100
- Companies delisted from stock exchange	9.4.2	1,003	-	1,003
		27,543	66,521	27,543
				63,370

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

Notes to the Unconsolidated Financial Statements

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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	Total paid up value
		(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
			<u>1,003</u>

Mutual Funds

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

2020	2019
Cost	
(Rupees '000)	
654	654
1,216	1,216
<u>1,870</u>	<u>1,870</u>

9.5 Particulars relating to Held to Maturity securities are as follows:

Non Government Debt Securities

Unlisted

- A/A-1
- Unrated

2020	2019
Cost	
(Rupees '000)	
35,000	35,000
762	762
<u>35,762</u>	<u>35,762</u>

Notes to the Unconsolidated Financial Statements

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	Performing		Non Performing		Total	
	2020	2019	2020	2019	2020	2019
10. ADVANCES						
Loans, cash credits, running finances, etc- In Pakistan						
Extended by:						
Defunct RDFC & SBFC	-	-	4,881,305	4,882,321	4,881,305	4,882,321
SME Bank Ltd	1,331,056	1,689,296	484,794	505,657	1,815,850	2,194,953
Due from employees	67,066	80,338	6,188	6,188	73,254	86,526
	1,398,122	1,769,634	5,372,287	5,394,166	6,770,409	7,163,800
Net investment in finance lease	280	280	973	973	1,253	1,253
Advances - gross	1,398,402	1,769,914	5,373,260	5,395,139	6,771,662	7,165,053
Provision for non-performing advances						
Specific provision	-	-	(5,232,725)	(5,257,050)	(5,232,725)	(5,257,050)
General provision	(8,593)	(8)	-	-	(8,593)	(8)
	(8,593)	(8)	(5,232,725)	(5,257,050)	(5,241,318)	(5,257,058)
Advances - net of provision	1,389,809	1,769,906	140,535	138,089	1,530,344	1,907,995
10.1 Includes net investment in finance lease as disclosed below:						
	2020		2019			
	Not later than one year	later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years
	973	-	-	973	973	-
Lease rentals receivable	280	-	-	280	280	-
Residual value	1,253	-	-	1,253	1,253	-
Minimum lease payments	-	-	-	-	-	-
Financial charges for future periods	-	-	-	-	-	-
Present value of minimum lease payments	1,253	-	-	1,253	1,253	-
	-	-	-	-	-	-
	1,253	-	-	1,253	1,253	-
10.2 Particulars of advances (Gross)						
In local currency					2020	2019
In foreign currencies					(Rupees in '000)	
					6,771,662	7,165,053
					-	-
					6,771,662	7,165,053

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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 acquirer (NBP) acknowledge, declare and confirm the transfer, assignment and vesting of all rights, interests, privileges, title, powers and remedies in favor of the acquirer 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 was amount equal to 50% of 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 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 Board of Directors 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 Board of Directors held on May 16, 2011 and July 13, 2011 respectively by overruling to verdict of the Board of Directors given on the issue in 75th Meeting of Board of Directors held on March 04, 2013.

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.

Notes to the Unconsolidated Financial Statements

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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 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 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 transfer of the portfolios as approved by the board of directors 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 tri-party Agreement the Bank has transferred and surrendered all the recoveries, rights, obligation, claims and liabilities of the referred loan portfolios in favor 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 books of the Bank to books of NBP but NBP did not respond.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

10.4 Advances include Rs. 5,373.260 million (2019: Rs. 5,395.139 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	2020		2019	
		Non Performing Loans	Provision	Non Performing Loans	Provision
(Rupees in '000)					
Domestic					
Other Assets Especially Mentioned		1,397	41	6,613	2
Substandard		21,498	91	10,763	36
Doubtful		15,333	1,258	43,808	326
Loss		5,335,032	5,231,335	5,333,955	5,256,686
	10.4.1	5,373,260	5,232,725	5,395,139	5,257,050

10.4.1 This include non performing loans and provision of Rs: 484.794 million and Rs: 344.317 million respectively (2019: Rs. 505.657 million & Rs. 367.670 million) relating to SME portfolio.

10.5 Particulars of provision against advances

	2020			2019		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	5,257,050	8	5,257,058	5,257,662	25	5,257,687
Charge/(Reversal)						
Charge for the year	22,631	8,587	31,218	24,874	-	24,874
Reversal for the year	(45,984)	(2)	(45,986)	(24,229)	(17)	(24,246)
	(23,353)	8,585	(14,768)	645	(17)	628
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(972)	-	(972)	(1,257)	-	(1,257)
Closing balance	5,232,725	8,593	5,241,318	5,257,050	8	5,257,058

10.5.1 General provision has been recorded at the rate of 1% (2019: 1%) of unsecured performing small enterprises portfolio plus a buffer which approximates to 4.5% (2019: Nil) of covid affected borrowers who availed SBP enabled deferment.

10.5.2 The FSV benefit availed in last years has been increased by Rs. 13.327 million, which has resulted decrease in 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 period would have been increased by Rs. 13.327 million (2019: increased by Rs. 26.044 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 115.490 million (2019: Rs. 102.163 million).

10.5.3 Particulars of provisions against advances	2020			2019		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	5,232,725	8,593	5,241,318	5,257,050	8	5,257,058
In foreign currencies	-	-	-	-	-	-
	5,232,725	8,593	5,241,318	5,257,050	8	5,257,058

10.6 Particulars of Write Off:

	2020	2019
(Rupees in '000)		
10.6.1 Against provisions	-	-
Directly charged to Profit & Loss account	-	-
	-	-
10.6.2 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, 2020 is given at Annexure-1.

11. FIXED ASSETS

11.1 Property and Equipment

At January 01, 2020

Year ended December 2020

At December 31, 2020

Rate of depreciation (percentage)

At January 01, 2019

Year ended December 2019At December 31, 2019Rate of depreciation (percentage)

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
	(Rupees in '000)	
11.2 Right of use assets		
Opening net book value	497,593	547,718
Additions	11,525	-
Depreciation	(53,874)	(50,125)
Closing net book value	455,244	497,593

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 '000)							
Vehicles							
Suzuki Bolan	393	393	-	300	300	Insurance claim	United Insurance Co.
Toyota Corolla	2,014	1,712	302	403	101	As per Bank policy	Mr. Dilshad Ali Ahmad
Toyota Corolla	1,885	1,885	-	188	188	As per Bank policy	Mr. Sohail Ishtiaq Khan
2020	4,292	3,990	302	891	589		
2019	1,920	1,120	800	768	(32)		

11.4 Gross carrying amount of fully depreciated assets that are still in use was Rs. 197.521 million (2019: Rs. 177.157 million).

12 INTANGIBLE ASSETS

	2020	2019
	Computer software	Computer software
	(Rupees in '000)	
At January 1		
Cost	30,787	30,561
Accumulated amortization and impairment	29,456	28,160
Net book value	1,331	2,401
Year ended December 31		
Opening net book value	1,331	2,401
Additions:		
- developed internally	-	-
- directly purchased	1,771	226
	1,771	2,627
Disposals	-	-
Amortization charge	1,346	1,296
Closing net book value	1,756	1,331
As December 31		
Cost	32,558	30,787
Accumulated amortization and impairment	30,802	29,456
Net book value	1,756	1,331
Rate of amortization (percentage)	33.33	33.33
Useful life	3 years	3 years

12.1 Gross carrying amount of fully depreciated intangible assets that are still in use was Rs. 28.103 million (2019: Rs. 26.946 million).

Notes to the Unconsolidated Financial Statements

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13. DEFERRED TAX ASSET - NET		2020	2019
	Note	(Rupees in '000)	(Rupees in '000)
Deferred tax asset arising in respect of:			
Unabsorbed depreciation and amortization		82,155	77,530
Unused tax losses		808,488	675,433
	13.1	890,643	752,963
Deferred tax (liability) / asset arising in respect of:			
Surplus on revaluation of investment		(1,392)	(669)
Remeasurement of defined benefit plan		(14,336)	-
	13.2	874,915	752,294

13.1 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.

13.2 Reconciliation of deferred tax	2020		2019	
	Balance at January 1,	Recognized in profit and loss account	Balance at December 31,	Recognized in profit and loss account
	at January 1,	OCI	at January 1,	OCI
Deferred tax asset arising in respect of:				
Accelerated tax depreciation & amortization	71,121	6,409	77,530	-
Unused tax losses	455,457	219,976	675,433	-
	526,578	226,385	752,963	-
Deferred tax liability arising in respect of:				
Surplus on revaluation of investment	(883)	-	(669)	214
Remeasurement of defined benefit plan	-	-	-	-
	525,695	226,385	752,294	214

13.3 Temporary differences for which no deferred tax asset is recognized due to uncertain timing of future taxable profits

	2020	2019
	(Rupees in '000)	(Rupees in '000)
Amount of unrecognized deferred tax	2,112,905	2,034,898
	739,517	712,214

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

14. OTHER ASSETS	Note	2020	2019
		(Rupees in '000)	
Income/mark-up accrued in local currency - net of provision	14.1	130,491	168,490
Advances, deposits, advance rent and other prepayments		21,891	24,279
Advance taxation - net	14.2	243,077	208,288
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured	35.2	5,552	5,412
Receivable from NBP		2,966	1,853
Receivable from subsidiary company		4,157	2,212
Receivable from Equity Participation Fund		1,760	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		76,731	75,742
		680,039	680,301
Less: Provision held against other assets	14.4	117,354	117,109
Other assets (net of provision)		562,685	563,192

14.1 The balance has been arrived at after adjusting interest in suspense of Rs. 4,053.680 million (2019: Rs. 4,066.115 million) which includes Rs: 261.192 million (2019: Rs. 273.869 million) relating to SME portfolio.

14.2 This includes the effect of refunds aggregating to Rs. 232.599 million (2019: Rs. 232.599 million) due from government. In respect of tax years 2003 and 2004 the tax authorities disallowed the Bank's claims for provisions for bad debts and SBP's share in profits of the Bank. Subsequently, the Appellate Tribunal Inland Revenue (ATIR) through its order dated February 10, 2011 has ruled in favor of the Bank which results 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 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 (2019: 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 the 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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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. 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 April 04, 2021. As per latest valuation report dated January 20, 2021, the market value of the Property was Rs. 232.573 million.

14.4 Provision held against other assets

	2020	2019
	(Rupees in '000)	
Advances, deposits, advance rent & other prepayments	2,705	2,706
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	5,148	5,148
Other receivables - SME Portfolio	43,709	43,461
Legal charges recoverable from borrowers - SBFC & RDFC	22,659	22,661
Trading right entitlement certificate - TREC	21,560	21,560
Others	1,933	1,933
	117,354	117,109

14.4.1 Movement in provision held against other assets

Opening balance	117,109	117,095
Charge for the year	2,929	3,054
Reversals for the year	(2,682)	(3,040)
	247	14
Transferred to NBP	(2)	-
Closing balance	117,354	117,109

Notes to the Unconsolidated Financial Statements

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		2020	2019
		(Rupees in '000)	
15. BILLS PAYABLE	Note		
In Pakistan		99,986	51,543
Outside Pakistan		-	-
		99,986	51,543
16. BORROWINGS			
Secured			
Repurchase agreement borrowings			
State Bank of Pakistan	16.2	3,941,151	1,137,846
Financial Institutions	16.2	74,596	2,442,609
		4,015,747	3,580,455
Unsecured			
Borrowing from State Bank of Pakistan			
Financing facility for storage of agricultural produce	16.3	111,866	74,316
		4,127,613	3,654,771
16.1 Particulars of borrowings with respect to Currencies			
In local currency		4,127,613	3,654,771
In foreign currencies		-	-
		4,127,613	3,654,771

16.2 These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 7.18% to 7.40% (2019: 13.38% to 13.75%) per annum for period upto seven days (2019: upto two months). REPO transactions are secured against investment of the Bank in Government securities.

16.3 This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agri Produce (FFSAP). These carry mark up rate's ranging from 2.0% to 3.25% per annum and is repayable in quarterly instalments.

17. DEPOSITS AND OTHER ACCOUNTS

	2020			2019		
	In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total
	(Rupees in '000)					
Customers						
Current accounts	1,195,828	-	1,195,828	499,200	-	499,200
Savings deposits	3,357,871	-	3,357,871	3,153,652	-	3,153,652
Term deposits	2,405,940	-	2,405,940	3,207,339	-	3,207,339
Margin accounts	80,594	-	80,594	112,398	-	112,398
	7,040,233	-	7,040,233	6,972,589	-	6,972,589
Financial Institutions						
Current accounts	24	-	24	24	-	24
Savings deposits	502,005	-	502,005	471,695	-	471,695
Term deposits	60,000	-	60,000	56,400	-	56,400
Margin accounts	-	-	-	-	-	-
	562,029	-	562,029	528,119	-	528,119
	7,602,262	-	7,602,262	7,500,708	-	7,500,708

	2020	2019
	(Rupees in '000)	
17.1 Composition of deposits		
Individuals	1,560,869	1,149,907
Government (Federal and Provincial)	956,673	721,679
Public Sector Entities	53,509	46,543
Banking Companies	-	-
Non-Banking Financial Institutions	562,029	528,119
Private Sector	4,469,182	5,054,460
	7,602,262	7,500,708

17.2 Total deposits include eligible deposits of Rs. 2,489,865 million (2019: Rs. 2,349,577 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, 2020

		2020	2019
18. OTHER LIABILITIES	Note	(Rupees in '000)	
Mark-up/ return/ interest payable in local currency		108,779	218,915
Unearned commission on guarantees		2,799	1,875
Accrued expenses		10,077	11,819
Sundry creditors	18.1	161,757	172,039
Branch adjustment account		1,386	586
Payable against employees' benefit plans			
Defined benefit pension	34.7	337,993	370,155
Defined benefit funded gratuity scheme	34.7	4,833	14,172
Unfunded compensated absences	34.7	68,328	95,297
Security deposits against lease		280	280
Leased liability against right of use assets	18.2	541,078	538,756
Employees' VSS payments withheld		12,603	12,603
Income tax withheld payable		19,603	19,311
Others		1,793	1,616
		1,271,309	1,457,424

18.1 This include Rs. 90.615 million (2019: Rs. 90.615 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of stale bills payable Rs. 59.287 million (2019: Rs. 72.847 million).

18.2 This represents lease liability under IFRS 16 :

	2020	2019
	(Rupees in '000)	
Opening net book value	538,756	540,961
- Additions	11,525	-
- Interest	69,451	67,337
- Payment	(78,654)	(69,542)
Closing net book value	541,078	538,756

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

19. SHARE CAPITAL

19.1 Authorized Capital

2020	2019		2020	2019
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

19.2 Issued, subscribed and paid up capital

2020	2019	Ordinary shares	2020	2019
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

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	7	-	-	-
	239,250,700	100	2,392,507	2,392,507

20. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

	Note	2020	2019
		(Rupees in '000)	
Surplus/(deficit) on revaluation of Available-for-sale securities			
- Federal Government securities	9.1	750	(301,559)
- Listed companies/mutual funds		3,228	1,912
		3,978	(299,647)
Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities			
- Federal Government securities		(263)	-
- Listed companies/mutual funds	12	(1,129)	(669)
		2,586	(300,316)

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

21.	CONTINGENCIES AND COMMITMENTS	Note	2020	2019
			(Rupees in '000)	
	- Guarantees	21.1	229,498	261,582
	- Commitments	21.2	4,278,596	3,842,670
	- Other contingent liabilities	21.3	1,192,987	1,157,757
			5,701,081	5,262,009
21.1	Guarantees			
	Financial guarantees		-	-
	Performance guarantees	21.1.1	229,498	261,582
	Other guarantees		-	-
			229,498	261,582
21.1.1	This include expired letter of guarantees/performance aggregating to Rs. 69.690 million (2019: Rs. 34.142 million) for which formalities for return of original documents are in process.			
21.2	Commitments	Note	2020	2019
			(Rupees in '000)	
	Commitments in respect of:			
	- forward government securities transactions	21.2.1	4,017,519	3,560,826
	- forward lending	21.2.2	259,813	280,608
	Commitments for acquisition of:			
	- operating fixed assets		1,264	987
	- intangible assets		-	249
	Other commitments	21.2.3	-	-
			4,278,596	3,842,670
21.2.1	Commitments in respect of forward government securities transactions			
	Sale and repurchase agreements		4,017,519	3,560,826
21.2.2	Commitments in respect of forward lending			
	Undrawn facilities		202,613	174,708
	Commitments to extend credit		57,200	105,900
			259,813	280,608
21.2.3	Other commitments			
	Bills for collection			
	Payable in Pakistan		-	-
21.3	Other contingent liabilities		1,192,987	1,157,757
	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 favor 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 favorable outcome and therefore no provision has been made for these effect in the unconsolidated financial statements.		612,707	612,707

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
	(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 and therefore no provision in this respect has been recorded in these unconsolidated financial statements.	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. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad 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, 2020

	2020	2019
	(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 no. ITA No.857/IB/2006 dated April 05, 2007. Tax department has filed income tax reference with the Islamabad High Court having no. I.T.R. 48 of 2007.	118,721	118,721
j) Back benefits and claims of staff/employees under litigation.	67,550	32,320
k) Sales Demands of Rs. 0.791 million and Rs. 17.098 million were created for the year 2008 & 2010 respectively during proceedings of sales audit. Against the said demands advance payments of Rs. 0.299 million and Rs. 3.743 million respectively were made to avail stay against recovery of entire amount. Appellate Tribunal Inland Revenue has remanded both cases back to the Commissioner for fresh proceedings, which have not been initiated yet. Furthermore, sales demands amounting Rs. 1.708 million & Rs. 1.045 million were created for the year 2009 and 2012 respectively during proceedings of sales audit. Against the said demands advance payments of Rs. 0.577 million & Rs.1.045 million respectively were made to avail stay against recovery of entire amount. Both appeals are pending before Appellate Tribunal Inland Revenue for fixation of hearing. The management strongly believes for favorable outcome in the said cases.		
	<u>20,998</u>	<u>20,998</u>

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

		2020	2019
	Note	(Rupees in '000)	
22. MARK-UP/ RETURN/ INTEREST EARNED			
On loans and advances to Customers			
Extended by:			
Defunct RDFC & SBFC		-	-
SME Bank Limited		249,305	289,673
		<u>249,305</u>	<u>289,673</u>
Employees		3,548	3,914
Financial Institution - SME Leasing Limited - a subsidiary company		19,555	20,400
		<u>272,408</u>	<u>313,987</u>
On investments in			
Available for sale securities		460,667	454,326
Held to maturity securities		4,293	3,595
		<u>464,960</u>	<u>457,921</u>
On deposits with financial institutions		288	405
Lendings to financial institutions		1,292	3,993
		<u>738,948</u>	<u>776,306</u>
23. MARK-UP/ RETURN/ INTEREST EXPENSED			
On deposits		632,225	596,499
On securities sold under repurchase agreements		372,606	550,778
On SBP Refinance Scheme		2,023	1,029
Brokerage and commission		1,566	1,081
Bank charges		243	232
		<u>1,008,663</u>	<u>1,149,619</u>
24. FEE & COMMISSION INCOME			
Branch banking customer fees		3,002	2,155
Card related fees		435	431
Credit related fees		2,403	2,709
Commission on guarantees		4,995	4,526
Commission on remittances		59	95
Others		20	17
		<u>10,914</u>	<u>9,933</u>
25. GAIN / (LOSS) ON SECURITIES			
Realised	25.1	815	7
Unrealised - held for trading		-	-
		<u>815</u>	<u>7</u>
25.1 Federal Government Securities - net		815	7
Shares		-	-
		<u>815</u>	<u>7</u>
26. OTHER INCOME			
Gain on sale of operating fixed assets - net		289	-
Fee on fund managed by the Bank -EPF		974	974
Claim against stolen vehicle		300	-
Others		13	6
		<u>1,576</u>	<u>980</u>

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

		2020	2019
	Note	(Rupees in '000)	
27. OPERATING EXPENSES			
Total compensation expense	27.1	631,765	664,192
Property expense			
Rent & taxes		4,563	7,553
Insurance		1,202	1,343
Utilities cost		19,642	21,136
Security (including guards)		16,124	15,480
Repair & maintenance		6,490	5,948
Depreciation		54,654	50,905
Others		-	-
		102,675	102,365
Information technology expenses			
Software maintenance		4,616	4,466
Hardware maintenance		1,668	1,953
Depreciation		4,923	5,106
Amortization		1,346	1,296
Network charges		13,463	14,253
Others		277	807
		26,293	27,881
Other operating expenses			
Directors' fees, allowances and other expenses		2,659	-
Legal and professional charges		4,463	4,732
Outsourced services costs		26,589	26,630
Travelling and conveyance		1,698	5,260
NIFT clearing charges		2,049	1,837
Depreciation		12,868	14,676
Training & development		1,191	1,679
Postage & courier charges		711	853
Communications		4,492	4,755
Stationery and printing		4,572	5,170
Marketing, advertisement & publicity		1,163	1,148
Donations		-	-
Auditors' remuneration	27.3	1,358	1,068
Vehicle running and maintenance		3,727	4,512
Entertainment		2,253	2,478
Subscription, books and newspapers		3,532	2,962
Deposits premium		2,713	3,617
Loss on sale of operating fixed assets - net		-	32
Others		528	1,348
		76,566	82,757
		837,299	877,195

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

27.1 Total compensation expense

		2020	2019
	Note	(Rupees in '000)	
Managerial Remuneration			
- Fixed		291,206	280,133
- Variable			
Cash award		298	165
Charge for defined benefit plans			
- pension fund and gratuity	34.7	100,775	115,434
- funded gratuity scheme	34.7	11,389	10,541
- unfunded compensated absences	34.7	(25,528)	15,050
Contribution to defined contribution plan - benevolent fund		256	429
Rent & house maintenance		95,804	90,429
Utilities		29,874	27,767
Medical		40,966	38,399
Conveyance		14,909	14,035
Telephone		4,115	3,937
Uniform allowance		1,133	1,167
Child education allowance		7,254	7,159
Group insurance		1,202	1,215
Overtime		1,302	1,442
Adhoc relief		2,163	1,221
Leave absence		6,798	5,927
Leave fare assistance		13,615	13,839
Rental in lieu of vehicle		6,272	6,538
Reimbursement of vehicle running & maintenance		25,961	28,609
Staff welfare benefits		2,001	756
		631,765	664,192

27.2 Total cost for the year included in other operating expenses relating to outsourced activities is Rs 26.589 million (2019: Rs 26.630 million) related to companies incorporated in Pakistan. Material outsourcing arrangements include the services of messengers, drivers and electronic financial transaction (EFT).

27.3 Auditors' remuneration

	2020	2019
	(Rupees in '000)	
Audit fee	928	928
Fee for other statutory certifications	116	116
Fee for audit of employees funds	24	24
Special review	290	-
Out-of-pocket expenses	-	-
	1,358	1,068

28. OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	108	2,089
Right of use assets - unwinding of present value	69,451	67,337
	69,559	69,426

29. PROVISIONS & WRITE OFFS - NET

Provisions against lending to financial institutions	-	-
Provisions/(reversal of provision) for diminution in value of investment	-	(20,000)
Provisions/(reversal of provision) against loans & advances	(14,768)	628
Other provisions / written off directly:		
- against other assets	247	14
Bad debts written off directly	-	-
	(14,521)	(19,358)

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

30. TAXATION

		2020	2019
	Note	(Rupees in '000)	
Current	30.2	11,624	11,285
Prior years	30.3	(43,898)	-
Deferred		(137,680)	(226,385)
		<u>(169,954)</u>	<u>(215,100)</u>

30.1 Relationship between tax expense and accounting loss

Loss before tax		<u>(1,147,118)</u>	<u>(1,287,409)</u>
Applicable tax rate		35%	35%
		2020	2019
		(Rupees in '000)	
Tax on loss		(401,491)	(450,593)
Deferred tax asset recognised during the year		(137,680)	(226,385)
Tax effect of income taxed at lower rate		36	28
Minimum tax		11,588	11,257
Other permanent differences		<u>357,593</u>	<u>450,593</u>
		<u>(169,954)</u>	<u>(215,100)</u>

30.2 Provision for current year tax expense is charged on minimum tax rate of 1.50% of the turnover due to tax losses of the Bank for the year ended December 31, 2020.

30.3 This represents the effect which reconciles the balance of advance tax with the tax position of the Bank as per tax returns and assessment orders pertaining to assessment years/ tax years 2001-2020.

31. BASIC/ DILUTED LOSS PER SHARE

	2020	2019
	(Rupees in '000)	
Net loss after tax for the year	<u>(977,164)</u>	<u>(1,072,309)</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>(4.08)</u>	<u>(4.48)</u>

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

32. CASH AND CASH EQUIVALENTS

		2020	2019
	Note	(Rupees in '000)	
Cash and balances with treasury banks	7	668,727	650,565
Balances with other banks	8	2,123	4,537
		<u>670,850</u>	<u>655,102</u>

33. STAFF STRENGTH

	2020	2019
	Numbers	
Permanent	163	170
On contract	196	203
	<u>359</u>	<u>373</u>
Average number of employees		
Permanent	167	173
On contract	200	196
	<u>367</u>	<u>369</u>

33.1 In addition to the above, 109 (2019: 107) employees of outsourcing services companies were assigned to the Bank.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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 scheme 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 eligible 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:			
	-	Pension fund	163	170
	-	Gratuity fund	196	202
	-	Compensated absences	163	170
34.3	Principal actuarial assumptions			
	The actuarial valuations were carried out as at December 31, 2020 using the following significant assumptions:			
	Valuation discount rate - per annum			
	Salaries increase rate - per annum (Short Term - 1 year)			
	Expected return on plan assets - per annum			
	Pension indexation rate - per annum			
	Normal retirement age (NRA)			
	Mortality rate			
	Withdrawal rate			
	Effective salary increase timing			
	Moderate			
	SLIC 2001-05			
	60 years			
	7.75%			
	11.75%			
	9.75%			
	11.75%			
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Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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

	2020		2019	
	Pension fund	Gratuity fund	Pension fund	Gratuity fund
				Compensated Absences
Present value of obligations	1,622,825	111,679	1,484,477	102,736
Fair value of plan assets	(1,284,832)	(106,846)	(1,114,322)	(88,564)
(Receivable) / payable	337,993	4,833	370,155	14,172

34.5 Movement in defined benefit obligations

	(Rupees '000)	
	2020	2019
Obligations at the beginning of the year	1,484,477	1,403,012
Current service cost	60,562	9,223
Interest cost	171,709	11,113
Benefit paid by the Bank	(46,245)	(26,508)
Past service cost	-	-
Actuarial loss/(gain)	(47,678)	(145,069)
Obligations at the end of the year	1,622,825	1,484,477

34.6 Movement in fair value of plan assets

	2020	2019
Fair value at the beginning of the year	1,114,322	88,564
Expected return on plan assets	131,496	10,043
Contribution to the fund	102,069	10,636
Benefits paid during the year	(46,245)	(4,453)
Actuarial (loss)/ gain	(16,810)	2,056
Fair value at the end of the year	1,284,832	106,846

34.7 Movement in net liability under defined benefit schemes

	2020	2019
Opening balance	370,155	14,172
Charge / (reversal) for the year	100,775	11,389
Re-measurement loss/(gain) recognised in OCI during the year (34.8.2)	(30,868)	(10,092)
Contribution by the Bank	(102,069)	(10,636)
Closing balance	337,993	4,833

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

	2020			2019		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
34.8 Charge for defined benefit plans						
34.8.1 Cost recognised in profit and loss						
			(Rupees '000)			
Current service cost	60,562	9,622	5,885	61,950	9,223	4,476
Net interest on defined benefit asset/liability	40,213	1,767	11,113	53,484	1,318	11,038
Past service cost	-	-	-	-	-	(16,392)
Actuarial (gain)/loss recognised - P&L	-	-	(42,526)	-	-	15,928
	100,775	11,389	(25,528)	115,434	10,541	15,050
34.8.2 Re-measurements recognised in OCI						
Experience adjustment						
- Loss / (gain) on obligation	(47,678)	(8,036)	42,526	(145,069)	(7,437)	5,821
- Loss / (gain) on plan assets	16,810	(2,056)	-	31,642	2,627	-
- Actuarial (gain)/loss recognised - P&L	-	-	(42,526)	-	-	(5,821)
Total re-measurements loss / (gain) recognised in OCI	(30,868)	(10,092)	-	(113,427)	(4,810)	5,821
34.9 Components of plan assets						
			(Rupees '000)			
Cash and cash equivalents			18,657	283	101	-
Term Deposits Receipts (TDRs)			1,266,175	106,563	1,114,221	88,564
			1,284,832	106,846	1,114,322	88,564
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:						
			(Rupees '000)			
Current liability	1,622,825	111,679	68,328	1,484,477	102,736	95,297
1% increase in discount rate	1,453,577	101,382	64,990	1,324,349	93,113	90,174
1% decrease in discount rate	1,828,515	123,554	71,933	1,679,496	113,876	100,868
1% increase in expected rate of salary increase	1,702,910	124,241	72,296	1,568,819	114,503	101,370
1% decrease in expected rate of salary increase	1,547,714	100,646	64,603	1,405,820	92,442	89,637
1 Year Mortality age set back	1,651,587	111,774	-	1,461,272	102,826	-
1 Year Mortality age set forward	1,596,307	111,583	-	1,509,668	102,645	-

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For the year ended December 31, 2020

Expected charge / (reversal) for the next financial year				
The Bank contributes to the pension and gratuity funds according to the actuary's advice.				
Expected charge for the next financial year				
Maturity profile				
The weighted average duration of the obligation (in years)				
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.				
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.				
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.				
Disclosure for current and previous four annual years of Pension				
Deficit position				
Present value of obligation				
Fair value of plan assets				
Net defined benefit liability				
Experience adjustments				
Remeasurement (gain)/loss on obligation				
Remeasurement (gain)/loss on plan asset				
Other comprehensive income				

For the year ended December 31, 2020

34.16 Disclosure for current and previous four annual years of Gratuity

Deficit position
Present value of obligation
Fair value of plan assets
Net defined benefit liability

Experience adjustments
Remeasurement (gain)/loss on obligation
Remeasurement (gain)/loss on plan asset
Other Comprehensive Income

Benevolent Fund (defined benefit plan)

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.

	2020		2019			
	Officers Benevolent Fund	Staff Benevolent Fund	Total	Officers Benevolent Fund	Staff Benevolent Fund	Total
	(Rupees '000)			(Rupees '000)		
Actuarial liability for active employees	14,982	3,310	18,292	13,671	2,960	16,631
Actuarial liability for beneficiaries	1,935	194	2,129	1,279	215	1,494
Total actuarial liability	16,917	3,504	20,421	14,950	3,175	18,125
Fair value of plan assets	(20,570)	(5,403)	(25,973)	(18,495)	(5,042)	(23,537)
Funding surplus	(3,653)	(1,899)	(5,552)	(3,545)	(1,867)	(5,412)
Receivable from fund	-	-	-	-	-	-
Asset recognized in balance sheet	(3,653)	(1,899)	(5,552)	(3,545)	(1,867)	(5,412)
The amount recognized in the profit and loss account is as follows:						
Expense for the year	212	44	256	348	81	429
Funding surplus	-	-	-	-	-	-
	212	44	256	348	81	429

The amount recognized in the profit and loss account is as follows:

Expense for the year

Funding surplus

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
	(Rupees '000)	
Cash and cash equivalents	50	84
Term Deposits Receipts (TDRs)	25,923	23,453
	<u>25,973</u>	<u>23,537</u>

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:

	2020	2019
	(Rupees '000)	(Rupees '000)
Current liability	20,421	18,125
1% increase in discount rate	19,537	17,290
1% decrease in discount rate	21,371	19,028
1% increase in expected rate of salary increase	20,421	18,125
1% decrease in expected rate of salary increase	<u>20,421</u>	<u>18,125</u>

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.

35.6 Maturity profile

	2020	2019
	11.08	11.42

The weighted average duration of the obligation (in years)

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

36. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

36.1 Total Compensation Expense

Items	2020			2019		
	Non-Executives Directors	President / CEO	Executives	Non-Executives Directors	President / CEO	Executives
(Rupees '000)						
Fees and allowances etc.	1,480	-	-	-	-	-
Managerial remuneration						
i) Fixed	-	5,465	115,659	-	2,444	107,622
ii) Total variable	-	-	-	-	-	-
Charge for defined benefit plan	-	1,456	43,545	-	1,764	44,033
Rent & house maintenance	-	4,049	33,843	-	1,344	30,597
Utilities	-	1,247	11,539	-	244	10,424
Medical	-	726	11,432	-	367	10,346
Conveyance	-	-	789	-	-	566
Motor car running & maintenance	-	-	26,717	-	500	26,265
Others	1,179	1,193	24,883	-	731	22,929
Total	2,659	14,136	268,407	-	7,394	252,782
Number of Persons	6	1	70	-	1	64

Executives mean employees, other than the chief executive and directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year.

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

Sr. No.	Name of Director	2020					
		Meeting fees and allowances paid					
		For Board Committees					
		For Board Meetings	Board Audit Committee	Risk Management Committee	Human Resource Committee	Board Procurement Committee	Total
(Rupees in '000)							
1	Mr. Niaz Muhammad Khan	175	55	40	25	-	295
2	Mr. Muhammad Waqas Azeem	150	-	25	-	25	200
3	Mr. Rauf Ahmad	175	-	-	40	40	255
4	Mr. Enamullah Khan	150	55	-	90	-	295
5	Mr. Hashim Raza	175	-	40	-	40	255
6	Mr. Omar Farooq	125	55	-	-	-	180
	Total amount paid	950	165	105	155	105	1,480
Sr. No.	Name of Director	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)							
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	Total amount paid	-	-	-	-	-	-

36.3 The President/CEO and certain executives were also provided with free use of Bank's owned and maintained cars in accordance with their terms of employment.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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 break-up value of these investments as per their latest available audited financial statements.

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

	December 31, 2020				
	FAIR VALUE				Total
	Level 1	Level 2	Level 3	carrying / notional value	
37.1 On balance sheet financial instruments					
Financial assets measured at fair value					
- Investments					
Government securities (T bills and PIBs)	-	5,680,735	-	-	5,680,735
Ordinary shares of listed companies/Mutual funds	5,400	-	-	-	5,400
Ordinary shares of unlisted companies	-	-	-	26,470	26,470
Financial assets not measured at fair value					
- Bank balances with treasury banks	-	-	-	493,156	493,156
- Balances with other banks	-	-	-	2,123	2,123
- Lending to financial institutions	-	-	-	-	-
- Advances	-	-	-	1,530,344	1,530,344
- Other assets	-	-	-	142,648	142,648
- Other Investment (COI/TDR)	-	-	-	35,000	35,000
- Subsidiary					
SME Leasing Limited	-	-	-	80,748	80,748

On balance sheet financial instruments (continued)

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

December 31, 2019				
	FAIR VALUE			
	Level 1	Level 2	Level 3	carrying / notional value
(Rupees in '000)				
Note				
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
Financial assets not measured at fair value				
- Bank balances with treasury banks	-	-	-	526,927
- Balances with other banks	-	-	-	4,537
- Lending to financial institutions	-	-	-	-
- Advances	-	-	-	1,907,995
- Other assets	-	-	-	176,185
- Other Investment (COI/TDR)	-	-	-	35,000
Subsidiary- SME Leasing Limited	-	-	-	80,748

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 and liabilities, 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

For the year ended December 31, 2020

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, 2020		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	466,252	272,696	738,948
Inter segment revenue - net	-	256,154	256,154
Non mark-up/return/interest income	2,444	12,490	14,934
Total income	468,696	541,340	1,010,036
Segment direct expenses	394,016	1,521,505	1,915,521
Inter segment expenses allocation	256,154	-	256,154
Total expenses	650,170	1,521,505	2,171,675
Provisions	-	(14,521)	(14,521)
Loss before tax	(181,474)	(965,644)	(1,147,118)
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Balance Sheet			
Cash & bank balances	378,678	292,172	670,850
Investments	5,828,353	-	5,828,353
Net inter segment lending	-	2,307,691	2,307,691
Lending to financial institutions	-	-	-
Advances - Performing	-	1,389,809	1,389,809
- Non-performing	-	140,535	140,535
Others	764,707	1,146,833	1,911,540
Total Assets	6,971,738	5,277,040	12,248,778
Borrowings	4,015,747	111,866	4,127,613
Deposits & other accounts	-	7,602,262	7,602,262
Net inter segment borrowing	2,307,691	-	2,307,691
Others	367,719	1,003,576	1,371,295
Total Liabilities	6,691,157	8,717,704	15,408,861
Equity	280,581	(3,440,664)	(3,160,083)
Total Equity & liabilities	6,971,738	5,277,040	12,248,778
Contingencies & Commitments	4,017,519	1,683,562	5,701,081

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

	December 31, 2019		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
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)		
Balance Sheet			
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
Total Assets	6,835,939	6,498,502	13,334,441
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	6,835,939	6,498,502	13,334,441
Contingencies & Commitments	3,560,826	1,680,185	5,241,011

Assumptions used:

- Unallocatable assets representing 7.41% (December 31, 2019: 6.19%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 4.48% (December 31, 2019: 5.26%) 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, 2020

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, 2020					December 31, 2019					
	Subsidiary	Key	Equity	Employees	Employees	Subsidiary	Key	Equity	Employees	Employees	
	SMEL	Management	Participation	benefit	Provident	SMEL	Management	Participation	benefit	Provident	
	Personnel	Fund	plans	Trust	Trust	Personnel	Fund	plans	Trust	Trust	
	(Rupees in '000)					(Rupees in '000)					
Investments											
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	-	-	-	-	
Advances											
Opening balance	142,156	10,301	-	-	-	141,556	15,252	-	-	-	
Addition (total debits) during the year	50,510	5,862	-	-	-	72,471	8,789	-	-	-	
Repaid (total credits) during the year	(47,919)	(8,294)	-	-	-	(71,871)	(13,740)	-	-	-	
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-	
Closing balance	144,747	7,869	-	-	-	142,156	10,301	-	-	-	
Provision held against advances	-	-	-	-	-	-	-	-	-	-	
Other Assets											
Interest / mark-up accrued	4,157	6,875	-	-	-	2,212	6,652	-	-	-	
Receivable from staff retirement fund	-	-	-	5,552	-	-	-	-	5,412	-	
Other receivable	-	-	1,760	-	-	-	-	611	-	-	
Deposits and other accounts											
Opening balance	-	11,181	454,276	1,155,429	5,000	1,562	4,702	412,774	811,006	12,769	
Received during the year	15,770	111,282	38,233	205,546	36,073	22,456	104,916	41,502	350,205	33,890	
Withdrawn during the year	-	(113,472)	-	(712)	(35,717)	-	(98,603)	-	(5,782)	(41,659)	
Transfer in / (out) - net	(15,770)	116	-	-	-	(24,018)	166	-	-	-	
Closing balance	-	9,107	492,509	1,360,263	5,356	-	11,181	454,276	1,155,429	5,000	

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For the year ended December 31, 2020

	December 31, 2020						December 31, 2019					
	Subsidiary SME	Key Management Personnel	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	(Rupees in '000)	Subsidiary SME	Key Management Personnel	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	(Rupees in '000)
Other Liabilities												
Interest / mark-up payable	-	32	2,301	58,593	23		-	106	4,341	72,000	52	
Payable to staff retirement fund	-	-	-	411,154	-		-	-	-	479,624	-	
Others liabilities	-	-	-	-	-		-	-	-	-	-	
Contingencies and Commitments	-	-	-	-	-		-	-	-	-	-	
Income												
Mark-up / return / interest earned	19,555	444	-	-	-		20,400	480	-	-	-	
Fee and commission income	-	-	974	-	-		-	-	974	-	-	
Expense												
Mark-up / return / interest expense	-	1,027	36,193	129,527	366		-	1,015	43,073	107,170	988	
Fees and other expenses	-	-	-	-	-		-	-	-	-	-	
Remuneration and allowances	-	67,283	-	-	-		-	70,746	-	-	-	
Charge for the period relating to employees benefit plans	-	-	-	86,892	-		-	-	-	141,454	-	
The total amount of deposits held by President/CEO with the Bank on December 31, 2020 was Rs. 21,770 million (2019: Rs. 4,805 million) bearing annual markup of Rs. 1.842 million (2019: Rs. 0.033 million) with accrued markup of Rs. 1.190 million (2019: Rs. 0.024 million) at year end.												
	Description		Interest rate									
Principal terms of loan facility to SME	Running finance facility upto Rs. 150 million		6 months Kibor + 4.0%									
Principal terms of deposit to Equity Participation Fund	Remunerative deposits		5.50% to 11.25%									
Principal terms of deposit to Employee Benefit Plans	Remunerative deposits		5.50% to 13.65%									
Principal terms of deposit to Employee Provident Trust	Remunerative deposits		5.50% to 11.50%									

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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:

	2020	2019
	(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)	(5,761,702)	(4,811,162)
	(3,162,669)	(2,212,129)
Less: Adjustments		
Goodwill/intangible Assets	1,756	1,331
Investment in equity of subsidiary	80,748	80,748
Deficit on revaluation of available for sale investments	-	300,316
	82,504	382,395
<i>Total tier I capital</i>	(3,245,173)	(2,594,524)
<i>Tier II capital</i>	8,593	8
<i>Eligible tier III capital</i>	-	-
Total regulatory capital (a)	(3,236,580)	(2,594,516)

	2020		2019	
	Book value	Risk adjusted value	Book value	Risk adjusted value
	(Rupees in '000)		(Rupees in '000)	
<i>Credit risk</i>				
Balance sheet items:				
Cash and other liquid assets	670,850	425	655,102	907
Investments/ lending to financial institutions	5,828,353	66,870	5,739,975	65,554
Loans and advances	1,530,344	906,226	1,907,995	1,150,542
Fixed assets	472,184	472,184	532,112	532,112
Deferred tax assets	874,915	874,915	752,294	752,294
Other assets	562,685	271,708	563,192	278,432
	9,939,331	2,592,328	10,150,670	2,779,841
Off balance sheet items				
Weighted Non-funded exposures	191,773	95,887	206,700	103,350
	191,773	95,887	206,700	103,350
Credit risk-weighted exposures (b)	10,131,104	2,688,215	10,357,370	2,883,191
Market risk		310,065		728,771
Market risk-weighted exposures	-	310,065	-	728,771
Total risk-weighted exposures (c)		2,998,280		3,611,962
<i>Capital adequacy ratio credit risk</i> [(a) / (b) x 100]		-120.40%		-89.99%
<i>Total capital adequacy ratio</i> [(a) / (c) x 100]		-107.95%		-71.83%

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 under BASEL II till restructuring/privatization and has granted exemption from implementation of Basel III Capital Instructions till restructuring/privatization vide SBP letter # BPRD/BA&CPD/646/000886/16 dated January 12, 2016. Accordingly, the Bank computes capital adequacy ratio 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.

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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	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Chemical and pharmaceuticals	111,411	143,223	97,163	97,069	95,790	93,852
Agriculture, forestry, hunting and fishing	232,240	232,496	201,808	201,927	201,808	201,927
Mining & quarrying	9,053	9,053	9,053	9,053	9,053	9,053
Textile	384,761	374,198	336,914	337,056	336,103	336,233
Cement	-	-	-	-	-	-
Footwear and leather garments	66,622	63,968	61,449	59,850	58,111	58,115
Automobile and transportation equipment	40,059	50,024	23,060	20,324	20,798	19,379
Financial	184,343	189,942	-	-	-	-
Insurance	-	-	-	-	-	-
Electronics and electrical appliances	51,819	54,999	13,693	15,307	10,484	10,582
Construction	214,008	306,148	72,297	67,420	67,271	67,316
Power (electricity), gas, water and sanitary	61,804	76,089	6,775	7,255	3,606	3,956
Wholesale and trade	1,709,199	1,811,169	1,516,354	1,524,041	1,488,007	1,488,633
Transport, storage, and communication	100,225	99,016	20,597	20,841	7,515	3,398
Individuals	1,117,892	1,136,643	1,050,826	1,050,840	1,050,826	1,050,840
Services	271,260	348,358	140,416	140,796	101,519	100,039
Government	-	-	-	-	-	-
Others	2,216,966	2,269,727	1,822,855	1,843,360	1,781,834	1,813,727
	6,771,662	7,165,053	5,373,260	5,395,139	5,232,725	5,257,050

41.1.2 Segment by sector

Public/ Government	-	-	-	-	-	-
Private	6,771,662	7,165,053	5,373,260	5,395,139	5,232,725	5,257,050
	6,771,662	7,165,053	5,373,260	5,395,139	5,232,725	5,257,050

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41.1.3 Contingencies and Commitments

Credit risk by industry sector

	2020	2019
	(Rupees in '000)	
Chemical and pharmaceuticals	137	379
Agriculture, forestry, hunting and fishing	73	4
Mining & quarrying	-	-
Textile	4,968	6,556
Cement	-	-
Sugar	-	-
Footwear and leather garments	-	-
Automobile and transportation equipment	20,767	10,002
Financial	4,041,976	3,568,670
Insurance	-	-
Electronics and electrical appliances	7,386	7,253
Construction	232,467	266,385
Power (electricity), gas, water and sanitary	24,200	25,403
Wholesale and trade	60,943	89,761
Exports/ Imports	-	-
Transport, storage and communication	-	18,000
Individuals	67,550	34,620
Services	71,955	11,294
Government	1,071,751	1,071,751
Others	96,908	151,931
	5,701,081	5,262,009

Credit risk by public/private sector

Public/ Government	1,071,751	1,071,751
Private	4,629,330	4,190,258
	5,701,081	5,262,009

41.1.4 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposure's) aggregated to Rs. 681.998 million (2019: Rs. 795.836 million) are as following

	2020	2019
	(Rupees in '000)	
Funded	526,337	618,945
Non funded	155,661	176,891
Total exposure	681,998	795,836

The sanctioned limits against these top 10 exposure's aggregated to Rs 833.938 million (2019: Rs. 901.404 million)

Total funded classified therein

	2020		2019	
	Amount	Provision held	Amount	Provision held
	(Rupees in '000)			
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	-	-	-	-

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41.1.5 Advances - Province/Region-wise Disbursement & Utilization

Province/region	2020						
	Disbursements	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
		(Rupees in '000)					
Punjab	395,460	395,460	-	-	-	-	-
Sindh	341,600	-	341,600	-	-	-	-
KPK including FATA	38,400	-	-	38,400	-	-	-
Balochistan	138,950	-	-	-	138,950	-	-
Islamabad	206,500	120,300	-	25,200	-	61,000	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-	-
Total	1,120,910	515,760	341,600	63,600	138,950	61,000	-

Advances - Province/Region-wise Disbursement & Utilization

Province/Region	2019						
	Disbursements	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
		(Rupees in '000)					
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	-

41.1.6 IMPACT OF COVID- 19

The outbreak of coronavirus has severely affected national and global economies. Various businesses are facing different issues with a certain degree of losses. Particularly, businesses are facing problems such as a decrease in demand, supply chain disruptions, raw material shortage, and transportation disruptions, among others. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate Covid-19 impact.

The State Bank of Pakistan (SBP) has responded to the crisis by cutting the policy rate by 625 basis points to 7 percent and by introducing regulatory measures to maintain banking system soundness and to sustain economic activity. These include (i) reducing the capital conservation buffer by 100 basis points to 1.5 percent; (ii) increasing the regulatory limit for retail asset classification by 44 percent to Rs.180 million, thus resulting in reduced risk weighted assets; (iii) relaxing the debt burden ratio for consumer loans from 50 percent to 60 percent; (iv) allowing banks to defer clients' payment of principal on loan obligations by one year; (v) relaxing regulatory criteria for restructured/rescheduled loans for borrowers who require relief beyond the extension of principal repayment for one year; and (vi) control unemployment, offered refinance facilities to customers for meeting their salary expense. COVID 19 has also impacted the banks in Pakistan from various facets which include increase in credit risk pertaining to loans and advances portfolio, reduced fee income due to slowdown in economic activity, operational issues such as operations of branches and managing investment banking activities including arrangement of syndicate loans, debt and capital advisory services etc.

As the current economic crisis unfolds against the backdrop of a public health emergency, the disruption to economic activity put strain on the solvency of customers and certain distressed customers sought help for financial hardships. Around 95 Covid affected borrowers of the Bank have availed the SBP enabled deferment/restructuring and rescheduling relief. The full potential effect of the economic stress is difficult to predict given the uncertain economic environment, however, the management of the Bank is closely monitoring the performance of its borrowers specially those who availed the SBP enabled deferment facility. In view of above the Bank has also increased its vigilance in respect of its credit review procedures. Given the uncertainty that may prevail until the pandemic is over the management of the Bank believes that it is prudent to maintain a general provision at the rate of 4.5% (approximately) in respect of borrowers who have availed the SBP enabled packages. Had this additional provision of Rs.8.582 million not been made, advances and the loss after tax for year ended would have been higher by Rs. 8.582 million and Rs. 5.57 million respectively.

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

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41.2.1 Balance sheet split by trading and banking books

	2020			2019		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	(Rupees in '000)					
Cash and balances with treasury banks	668,727	-	668,727	650,565	-	650,565
Balances with other banks	2,123	-	2,123	4,537	-	4,537
Lendings to financial institutions	-	-	-	-	-	-
Investments	147,618	5,680,735	5,828,353	146,302	5,593,673	5,739,975
Advances	1,530,344	-	1,530,344	1,907,995	-	1,907,995
Fixed assets	472,184	-	472,184	532,112	-	532,112
Intangible assets	1,756	-	1,756	1,331	-	1,331
Deferred tax assets	874,915	-	874,915	752,294	-	752,294
Other assets	562,685	-	562,685	563,192	-	563,192
	4,260,352	5,680,735	9,941,087	4,558,328	5,593,673	10,152,001

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.

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Mismatch of interest rate sensitive assets and liabilities	Effective Yield/Interest rate	2020										Non-interest bearing financial instruments
		Total	Exposed to Yield/Interest risk								Above 10 years	
			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		668,727	-	-	-	-	-	73	-	-	-	668,727
Balances with other banks	2.00%	2,123	1,082	-	174	-	-	-	82	-	196	500
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	8.18%	5,828,353	468,355	2,402,483	2,457,829	1,475	409,105	1,475	-	-	8,358	80,748
Advances	13.99%	1,530,344	78,957	94,458	318,944	348,881	37,263	348,881	601,613	44,860	4,496	-
Other assets		142,648	-	-	-	-	-	-	-	-	-	142,648
		8,172,195	548,394	2,496,941	2,776,947	350,429	446,450	601,613	44,876	13,050	872	892,623
Liabilities												
Bills payable		99,986	-	-	-	-	-	-	-	-	-	99,986
Borrowings from financial institutions	9.28%	4,127,613	4,018,652	3,572	6,219	10,163	18,949	16,082	31,543	22,433	-	-
Deposits and other accounts	8.58%	7,602,262	1,534,348	1,053,927	1,183,830	483,616	32,125	4,000	200	2,033,770	-	1,276,446
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		295,009	-	-	-	-	-	-	-	-	-	295,009
		12,124,870	5,553,000	1,057,499	1,190,049	493,779	51,074	20,082	31,743	2,056,203	-	1,671,441
On-balance sheet gap		(3,952,675)	(5,004,606)	1,439,442	1,586,898	(143,350)	395,376	581,531	13,133	(2,043,153)	872	(778,818)
Off-balance sheet financial instruments												
Commitments to extend credit		259,813	259,813	-	-	-	-	-	-	-	-	-
Commitments against repo borrowing		4,017,519	4,017,519	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		4,277,332	4,277,332	-	-	-	-	-	-	-	-	-
Total Yield / Interest Risk Sensitivity Gap												
Cumulative Yield/ Interest Risk Sensitivity Gap		(9,281,938)	1,439,442	1,439,442	1,586,898	(143,350)	395,376	581,531	13,133	(2,043,153)	872	-
Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities												
		(9,281,938)	(7,842,496)	(6,403,052)	(6,253,598)	(6,398,948)	(6,003,572)	(5,422,041)	(5,408,908)	(7,451,189)	-	-
		(Rupees '000)	(Rupees '000)									
Total financial assets as per note 41.2.4		8,172,195	12,124,870									
Add non-financial assets:			976,300									
Fixed assets		472,184										
Intangible assets		1,756										
Deferred tax assets		874,915										
Other assets		420,037										
Balance as per Balance Sheet		9,941,087	13,101,170									
41.2.4.2 Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.												
41.2.4.3 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. 8,172.20 million (2019: Rs. 8,479.26 million), the financial assets which were subject to interest rate risk amounted to Rs. 7,279.57 million (2019: Rs. 7,571.26 million). Investments and other assets amounting to Rs. 5,728.64 million (2019: Rs. 5,670.15 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.												

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Mismatch of interest rate sensitive assets and liabilities												
Effective Yield/Interest rate	2019	Exposed to Yield/Interest risk										Non-interest bearing financial instruments
		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)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		650,565	-	-	-	-	-	-	-	-	-	650,565
Balances with other banks	3.00%	4,537	2,881	-	156	175	-	34	418	-	-	500
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	8.80%	5,739,975	915,927	541,511	1,414	4,188,555	-	-	8,011	-	-	80,748
Advances	13.04%	1,907,995	22,958	63,741	415,270	40,413	1,114,240	14,085	1,084	3,682	-	-
Other assets		176,185	-	-	-	-	-	-	-	-	-	176,185
		8,479,257	941,766	605,252	416,840	4,229,143	1,114,240	14,119	9,513	3,682	-	907,998
Liabilities												
Bills payable		51,543	-	-	-	-	-	-	-	-	-	51,543
Borrowings from financial institutions	12.23%	3,654,771	3,107,648	476,748	7,830	14,504	12,207	18,729	12,649	-	-	-
Deposits and other accounts	9.95%	7,500,708	1,532,481	1,150,319	800,352	25,267	25,725	-	1,885,393	-	-	611,622
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		416,992	-	-	-	-	-	-	-	-	-	416,992
		11,624,014	4,640,129	1,627,067	808,182	39,771	37,932	18,729	1,898,042	-	-	1,080,157
On-balance sheet gap		(3,144,757)	(3,698,363)	(1,021,815)	(391,342)	4,189,372	1,076,308	(4,610)	(1,888,529)	3,682	-	(172,159)
Off-balance sheet financial instruments												
Commitments to extend credit		280,608	-	-	-	-	-	-	-	-	-	-
Commitments against repo borrowing		3,560,826	3,090,439	470,387	-	-	-	-	-	-	-	-
Off-balance sheet gap		3,841,434	3,371,047	470,387	-	-	-	-	-	-	-	-
Total Yield/ Interest Risk Sensitivity Gap												
Cumulative Yield/ Interest Risk Sensitivity Gap		(7,069,410)	(1,492,202)	(1,237,301)	(391,342)	4,189,372	1,076,308	(4,610)	(1,888,529)	3,682	-	-
Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities												
(Rupees '000)												
Total financial assets		8,479,257										
Add non-financial assets:												
Fixed assets		532,112										
Intangible assets		1,331										
Deferred Tax Assets		752,294										
Other assets		387,007										
Balance as per Balance Sheet		10,152,001										
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. 8,479.26 million (2018: Rs. 8,624.58 million), the financial assets which were subject to interest rate risk amounted to Rs. 7,571.26 million (2018: Rs. 7,930.91 million). Investments and other assets amounting to Rs. 5,670.15 million (2018: Rs. 5,694.99 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.												

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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

		2020									
		(Rupees in '000)									
	Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 to 1 month	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 1 year	Over 1 year to 5 years
		day	days	days	1 month	months	months	months	months	1 year	years
Assets											
Cash and balances with treasury banks	668,727	668,727	-	-	-	-	-	-	-	-	-
Balances with other banks	2,123	2,123	-	-	-	-	-	-	-	-	-
Lending to financial institutions											
Investments	5,828,353	15,610	35,248	3,973	419,220	886,626	2,453,856	-	8,358	406,899	80,748
Advances	1,530,344	185,672	33,914	30,732	76,063	121,213	230,771	128,334	88,654	231,148	135,511
Fixed assets	472,184	-	-	-	5,637	5,588	15,741	14,345	13,955	51,022	74,009
Intangible assets	1,756	-	-	-	124	72	166	166	166	603	243,630
Deferred tax assets - net	874,915	-	-	-	-	-	-	-	-	874,915	-
Other assets	562,685	3,275	19,656	22,932	67,148	2,777	244,544	43	157,133	267	42,098
	9,941,087	875,407	88,818	57,637	568,192	1,639,875	2,945,078	142,888	268,266	1,564,587	372,174
Liabilities											
Bills payable	99,986	99,986	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	4,127,613	-	4,015,747	2,218	687	379	6,219	5,045	5,118	18,949	22,433
Deposits and other accounts	7,602,262	5,055,728	28,490	13,306	192,858	303,098	1,185,235	65,763	428,611	36,125	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,271,309	9,269	55,941	62,931	154,902	1,884	5,518	5,588	5,036	12,000	33,401
	13,101,170	5,164,983	4,098,178	78,455	348,447	305,361	1,196,972	76,396	438,765	67,074	64,944
Net assets	(3,160,083)	(4,289,576)	(4,009,360)	(20,818)	219,745	718,099	1,748,106	66,492	(170,499)	1,497,513	144,611
Share capital	2,592,507										
Reserves	206,526										
Surplus/(Deficit) on revaluation of assets	2,586										
Unappropriated profit	(5,761,702)										
	(3,160,083)										

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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

	2019												
	Up to 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 to 1 year	Over 9 months to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years	
Total	(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	4,188,555	-	-	88,759	
Advances	356,547	8,586	303	19,664	38,154	50,714	327,578	169,442	167,821	216,212	212,920	194,511	
Fixed assets	532,112	-	-	5,861	5,859	5,834	17,481	16,684	57,053	47,280	80,398	278,279	
Intangible assets	1,331	-	-	107	106	107	320	224	228	14	-	-	
Deferred tax assets - net	752,294	-	-	-	-	-	-	-	752,294	-	-	-	
Other assets	563,192	85,081	7	16,378	3,369	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	4,181,656	49,770	4,876	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	161,266	9,620	27,110	22,715	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
Net assets	(3,285,308)	(1,397,918)	(696,249)	(808,096)	(633,596)	(430,832)	(940,966)	(126,381)	(294,738)	5,113,352	215,870	254,449	(433,696)
Share capital	2,392,507	-	-	-	-	-	-	-	-	-	-	-	-
Reserves	206,526	-	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) on revaluation of assets	(300,316)	-	-	-	-	-	-	-	-	-	-	-	-
Unappropriated profit	(4,811,162)	-	-	-	-	-	-	-	-	-	-	-	-
	(2,512,445)	-	-	-	-	-	-	-	-	-	-	-	-

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

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

2020										
		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
Total		(Rupees in '000)								
Assets										
Cash and balances with treasury banks	668,727	593,907	15,888	1,322	3,510	-	-	-	54,100	-
Balances with other banks	2,123	1,582	-	174	73	82	-	16	196	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	5,828,353	468,355	2,402,483	2,457,829	1,475	409,105	-	-	89,106	-
Advances	1,530,344	56,558	78,912	354,422	340,925	230,767	327,234	135,526	5,128	872
Fixed assets	472,184	5,636	11,126	15,741	28,300	51,022	42,718	74,009	160,019	83,613
Intangible assets	1,756	124	196	166	333	603	334	-	-	-
Deferred tax assets - net	874,915	-	-	-	-	874,915	-	-	-	-
Other assets	562,685	113,011	5,554	244,544	157,176	-	267	35	42,098	-
	9,941,087	1,239,173	2,514,159	3,074,198	531,792	1,566,494	370,553	209,586	350,647	84,485
Liabilities										
Bills payable	99,986	86,609	-	-	-	-	-	-	13,377	-
Borrowings from financial institutions	4,127,613	4,018,652	3,572	6,219	10,163	18,949	16,082	31,543	22,433	-
Deposits and other accounts	7,602,262	2,268,034	1,059,674	1,185,663	494,175	32,125	4,000	200	2,558,391	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,271,309	280,888	3,771	4,964	11,178	12,000	12,191	33,401	659,527	253,389
	13,101,170	6,654,183	1,067,017	1,196,846	515,516	63,074	32,273	65,144	3,253,728	253,389
Net assets	(3,160,083)	(5,415,010)	1,447,142	1,877,352	16,276	1,503,420	338,280	144,442	(2,903,081)	(168,904)
Share capital	2,392,507									
Reserves	206,526									
Unappropriated profit	(5,761,702)									
Surplus/(Deficit) on revaluation of assets	2,586									
	(3,160,083)									

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, 2020

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

		2019							
		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)							
		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	Above 10 years
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	-	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	-	23,084	3,682
Fixed assets	532,112	5,861	11,693	17,481	34,067	57,053	489,792	163,598	114,681
Intangible assets	1,331	107	213	320	449	228	14	-	-
Deferred tax assets	752,294	-	-	-	-	752,294	-	-	-
Other assets	563,192	140,054	1,623	209,467	159,100	2	9	52,407	-
	10,152,001	1,704,715	717,606	635,631	611,375	5,238,605	537,095	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	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	683,878	320,389
	12,664,446	5,419,855	1,632,790	1,476,438	819,319	51,488	45,886	2,851,560	320,389
Net assets	(2,512,445)	(3,715,140)	(915,184)	(840,807)	(207,944)	5,187,117	491,209	(2,465,320)	(202,026)
Share capital	2,392,507								
Reserves	206,526								
Unappropriated profit	(4,811,162)								
Surplus on revaluation of assets	(300,316)								
	(2,512,445)								

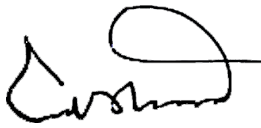
In compliance with the BSD circular letter No. 03 of 2011 dated February 22, 2011, all assets and liabilities with contractual maturities have been reported as per their remaining maturities, and where contractual maturities are not available, such assets and liabilities have been reported as per their 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.

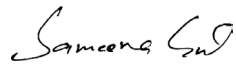
Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

42. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on March 06, 2021.


Dilshad Ali Ahmad
President/CEO


Sameena Gul
Chief Financial Officer


Omer Farooq
Director


Hashim Raza
Director


Rauf Ahmad
Director

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2020

Annex-I referred to Note 10.7 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:										Rs. In thousands		
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				Principal written-off	Interest/ Mark-up written-off	Other financial relief/ waiver provided	TOTAL	
				Principal	Interest/ Mark-up	Others	Total					
1	Chenab Chemical Industries Chenab Chemical Chowk Bawa Chak, Sargodha Road, Faisalabad	Rashid Ghulam Rasool Ahmed Tahir	Ghulam Rasool Mian Muhammad Tahir	-	2,915	171	3,086	-	-	1,130	1,130	
2	Allah Wale Cloth House Shop #2 Danish plaza Chowk Yateem Khana Lahore	Zia Ur Rehman Sethi	Sh. Abdul Rehman	-	396	170	566	-	-	362	362	
3	A.M Garments House No-31, Street No-2, Murad Street,Sodival Bund Road Lahore.	Muhammad Ilyas Muhammad Ibrahim	Abdul Hamid Mahar Natha.	-	643	197	840	-	-	1,219	1,219	
4	Muhammad Ali & Brothers House No-315/A, Muslim Pura Sokh Nahar Baghbanpura Lahore	Muhammad Ali Muhammad Akram Rezwana Ali	Ghulam-Mohi-ud-Din Muhammad Ali Ramzan Ali Shah	-	611	184	795	-	-	525	525	
5	Super Aero Delux Sanitary	Muhammad Riaz	Muhammad Jamil	-	1,385	26	1,411	-	1,385	26	1,411	
6	Modernage Public School & College House No. 11, Sapna Lodge, Circular Road, Abbottabad	Abdul Wahid Mir Sumaira Wahid	Muhammad Ramzan Mir Abdul Wahid Mir	3,206	8	2,048	5,262	-	-	961	961	
7	Sangam Marriage Hall Near Pasnur Bypass Gaga Daska, Sialkot	Mirza Shahid Mehmood Mirza Abdul Qayyum	Muhammad Siddique Muhammad Siddique	-	154	995	1,149	-	-	383	383	
8	Zafar Iqbal Surgical Maker Circular Road near Chawinda Flour Mills, Daska	Zafar Iqbal	Munir Ahmed	-	633	71	704	-	-	906	906	
Total				3,206	6,745	3,862	13,813	-	1,385	5,512	6,897	

SMEBL: HO: CFO&CS: 2021/

NOTICE OF 18th ANNUAL GENERAL MEETING

To

All Members of the Bank
M/s Grant Thornton Anjum Rahman

Notice is hereby given that 18th Annual General Meeting of SME Bank Limited will be held on **Tuesday, March 30, 2021 at 03:30 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 12th Extra-Ordinary General Meeting of shareholders of the Company held on October 29, 2020.
2. To receive, consider and adopt the Audited Financial Statements of the Bank and Consolidated Statements for the year ended 31st December 2020 , 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 2020.
4. To appoint Auditors and to fix their remuneration for the year ending December 31, 2021.
5. To approve the Board Remuneration Policy of the Bank, recommended by the Board of Directors for Shareholders' approval on post facto basis.
6. To transact any other business with the permission of the Chair.

By Order of the Board

Islamabad
Dated: March 9, 2021

Sameena Gul
Acting 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, 2020

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INDEPENDENT AUDITOR'S REPORT

To the members of SME Bank Limited

Report on the Audit of the Consolidated Financial Statements

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, 2020 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 true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan.

Basis for Qualified Opinion

- a) Deferred tax asset of Rs. 874.915 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 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
- 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.

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.

Material uncertainties relating to Going Concern

- 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. 977.164 million (2019: Rs. 1,072.309 million) resulting into accumulated losses of Rs. 5,761.702 million (2019: Rs. 4,811.162 million). As of December 31, 2020, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,160.083 million (2019: Rs. 2,512.445 million) 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. 4.684 billion (2019: Rs. 7.859 billion) though the situation is improved as compared to last year but it still 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%. 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. 57.676 million (2019: Rs. 35.694 million) for the year ended December 31, 2020, resulting in accumulated loss of Rs. 348.905 million (2019: Rs. 291.358 million) as at balance sheet date and as of that date the Company's current liabilities exceed its current assets by Rs. 67.288 million (2019: Rs. 54.805 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 matters

- i. We draw attention to note 1.1.3 to the consolidated financial statements which states the status of non-compliance with the Regulation 4 of Non-Banking Finance Companies and Notified Entities Regulation, 2008. Our opinion is not modified in respect of this matter.
- ii. 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.

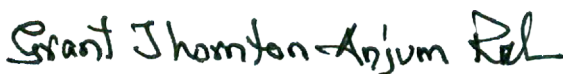
As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 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 Hassaan Riaz



GRANT THORNTON ANJUM RAHMAN

Chartered Accountants

Islamabad

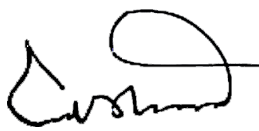
Date: March 06, 2021

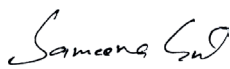
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

		2020	2019
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	8	668,793	650,638
Balances with other banks	9	3,683	5,252
Lendings to financial institutions		-	-
Investments	10	5,747,605	5,659,227
Advances	11	1,770,540	2,224,724
Fixed assets	12	483,858	548,676
Intangible assets	13	1,756	1,331
Deferred tax assets - net	14	874,915	752,294
Other assets	15	557,699	558,296
		10,108,849	10,400,438
LIABILITIES			
Bills payable	16	99,986	51,543
Borrowings	17	4,127,986	3,655,144
Deposits and other accounts	18	7,602,262	7,500,708
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	20	1,499,886	1,709,128
		13,330,120	12,916,523
NET LIABILITIES		(3,221,271)	(2,516,085)
REPRESENTED BY			
Share capital	21	2,392,507	2,392,507
Reserves		234,660	234,660
Surplus/(deficit) on revaluation of assets - net of tax	22	2,586	(300,316)
Unappropriated loss		(5,862,189)	(4,869,557)
		(3,232,436)	(2,542,706)
Non-controlling interest		11,165	26,621
		(3,221,271)	(2,516,085)
CONTINGENCIES AND COMMITMENTS			
	24		

The annexed notes from 1 to 45 and annexure-1 form an integral part of these consolidated financial statements.


Dilshad Ali Ahmad
 President/CEO


Sameena Gul
 Chief Financial Officer


Omer Farooq
 Director


Hashim Raza
 Director

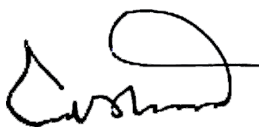

Rauf Ahmad
 Director

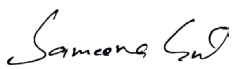
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2020

		2020	2019
	Note	(Rupees in '000)	
Mark-up/ return/ interest earned	25	741,043	782,461
Mark-up/ return/ interest expensed	26	1,008,842	1,149,641
Net mark-up/ interest loss		(267,799)	(367,180)
NON MARK-UP/ INTEREST INCOME			
Fee and commission income	27	10,914	9,933
Dividend income		1,629	2,247
Foreign exchange income		-	-
Income / (loss) from derivatives		-	-
Gain/(loss) on securities	28	815	7
Other income	29	1,881	1,000
Total non-markup/ interest income		15,239	13,187
Total loss		(252,560)	(353,993)
NON MARK-UP/ INTEREST EXPENSES			
Operating expenses	30	880,981	921,426
Workers Welfare Fund		-	-
Other charges	31	71,395	71,463
Total non-markup/ interest expenses		952,376	992,889
Loss before provisions		(1,204,936)	(1,346,882)
Provisions and write offs - net	32	(465)	(24,089)
LOSS BEFORE TAXATION		(1,204,471)	(1,322,793)
Taxation	33	(169,630)	(214,790)
LOSS AFTER TAXATION		(1,034,841)	(1,108,003)
Attributable to:			
Equity holders of the Bank		(1,019,350)	(1,098,416)
Non-controlling interest		(15,491)	(9,587)
Loss available for appropriation		(1,034,841)	(1,108,003)
Basic/diluted (loss) per share (rupees)	34	(4.26)	(4.59)

The annexed notes from 1 to 45 and annexure-1 form an integral part of these consolidated financial statements.


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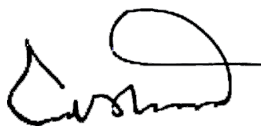

Rauf Ahmad
 Director

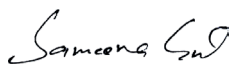
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

	2020	2019
	(Rupees in '000)	
Net loss after taxation	(1,034,841)	(1,108,003)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods		
Movement in deficit on revaluation of investment - net	302,902	135,489
Items that will not be reclassified to profit and loss account in subsequent periods		
Remeasurement gain on defined benefit obligations - net	26,753	119,357
Total comprehensive loss	(705,186)	(853,157)
Attributable to :		
Equity holders of the Bank	(689,730)	(843,871)
Non-controlling interest	(15,456)	(9,286)
	(705,186)	(853,157)

The annexed notes from 1 to 45 and annexure-1 form an integral part of these consolidated financial statements.


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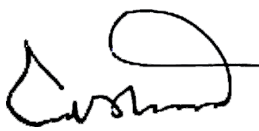

Rauf Ahmad
 Director

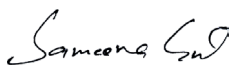
CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2020

		2020	2019
	Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(1,204,471)	(1,322,793)
Less: Dividend income		(1,629)	(2,247)
		(1,206,100)	(1,325,040)
Adjustments:			
Depreciation	32	76,025	74,127
Amortization		1,346	1,374
Provision and write-offs		(465)	(24,089)
Loss/(gain) on sale of fixed assets		(899)	29
Mark-up expense on leased liability against ROU assets		71,287	69,374
		147,294	120,815
		(1,058,806)	(1,204,225)
(Increase)/ decrease in operating assets			
Lendings to financial institutions		-	-
Held-for-trading securities		-	-
Advances		454,896	360,998
Other assets (excluding advance taxation)		35,103	21,280
		489,999	382,278
Increase/ (decrease) in operating liabilities			
Bills payable		48,443	(67,245)
Borrowings from financial institutions		472,842	(1,085,124)
Deposits		101,554	1,781,262
Other liabilities (excluding current taxation)		(167,643)	278,187
		455,196	907,080
		(113,611)	85,133
Income tax paid		(2,803)	(2,978)
Net cash flow generated from/(used in) operating activities		(116,414)	82,155
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment/disinvestment in available-for-sale securities		215,247	180,455
Net investment in held-to-maturity securities		-	-
Dividend received		1,629	2,247
Investment in operating fixed assets		(3,211)	(1,003)
Proceeds from sale of fixed assets		1,201	771
Net cash flow (used in)/generated from investing activities		214,866	182,470
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of lease obligation		(81,866)	(73,380)
Net cash flow (used in)/generated from financing activities		(81,866)	(73,380)
Decrease in cash and cash equivalents		16,586	191,245
Cash and cash equivalents at beginning of the period		655,890	464,645
Cash and cash equivalents at end of the period	35	672,476	655,890

The annexed notes from 1 to 45 and annexure-1 form an integral part of these consolidated financial statements.


Dilshad Ali Ahmad
 President/CEO


Sameena Gul
 Chief Financial Officer


Omer Farooq
 Director


Hashim Raza
 Director


Rauf Ahmad
 Director

For the year ended December 31, 2020

The annexed notes from 1 to 45 and annexure-1 form an integral part of these consolidated financial statements.


Rauf Ahmad
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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 (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, the credit rating of Bank has not been updated.

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 said 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. Although further relaxation of MCR has not been granted but SBP has not objected the non-compliance of MCR as it is fully aware about the progress of the privatization of the Bank.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

1.1.3 SME Leasing Limited

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% (2019: 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 PACRA Credit Rating Agency has assigned a long term rating of B (2019: B) and a short-term rating of B (2019: B) to the Company in the month of April 2020.

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.

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 not complied with said requirement of NBFC Regulations 2008 of maintaining minimum capital requirement.

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.

Intra-group balances and transactions have been eliminated.

3. BASIS OF PRESENTATION

3.1 These consolidated financial statements have been presented in accordance with the format prescribed by the State Bank of Pakistan vide BPRD Circular No. 02 of 2018 dated January 25, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

- 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.

4. STATEMENT OF COMPLIANCE

- 4.1** 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 consolidated 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.

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

Following standards have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of their applicability in Pakistan:

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

Standard		Effective date (accounting periods beginning on or after)
IFRS 1	First Time adoption of International Financial Reporting Standards (amendments)	July 01, 2009
IFRS 17	Insurance Contracts	January 01, 2022
Following standards and amendments to published accounting standards will be effective in future periods and have not been early adopted by the group		
Standard		Effective date (accounting periods beginning on or after)
IFRS 7 & IFRS 9	Interest Rate Benchmark Reform–Phase 2– Amendments to Financial Instruments	January 01, 2021
IFRS 4	Insurance Contracts (Amendments)	January 01, 2021
IFRS 3	Business Combinations (Amendments)	January 01, 2022
IAS 16	Property, plant and equipment (Amendments)	January 01, 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (Amendments)	January 01, 2022
IAS 1	Presentation of Financial Statements (Amendments)	January 01, 2023
IFRS 10 & IAS 28	Consolidated Financial Statements & Investment in Associates and Joint Ventures (Amendments)	Not yet finalized

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

There are certain new and amended standards, interpretations and amendments that are mandatory for the Group's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or do not have any significant effect on the Group's operations and are therefore not detailed in these consolidated financial statements.

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 and lease liabilities under IFRS 16 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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:

- i) Classification of investments (note 10.2)
- ii) Provision/impairment against investments (note 10.2), advances (note 11.4) and other assets (note 15.4)
- iii) Valuation and impairment of available for sale securities (note 5.2)
- iv) Useful life and residual value of property and equipment and intangible assets (note 5.5)
- v) Taxation (note 5.10)
- vi) Staff retirement benefits (note 5.11)
- vii) Leases (note 5.5)
- viii) Classification and provision of net investment in finance lease (note 6.10, 6.10.1)

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. Significant accounting policies are enumerated as follows:

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 lending's.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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 consolidated 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.

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 for classification of non-performing loans and advances and computing provision/allowance there against. Such

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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.

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

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.

Right-of-use (RoU) assets

At the commencement date of the lease, the right-of-use asset is initially measured at the present value of lease liability. Subsequently, RoU assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. RoU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

Lease liability

At the commencement date of the lease, the Bank recognizes lease liability measured at the present value of the consideration (lease payments) to be made over the lease term and is adjusted for lease prepayments. The lease payments are discounted using the interest rate implicit in the lease, unless it is not readily determinable, in which case the lessee may use the incremental rate of borrowing. After the commencement date, the carrying amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made.

Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

Incremental borrowing rate (IBR)

The IBR is the rate of markup that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Bank estimates the IBR using observable inputs such as market interest rates.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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.

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 Group 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'.

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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 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 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.

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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 account on a basis account 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 account over the lease term on the same basis as the finance lease income.

6.10.1 Provision for potential lease losses and doubtful loans and receivables

Specific provision for potential lease losses and doubtful loans and receivables are made based in the appraisal of each lease or loan on the basis of the requirements of the NBFC Regulations.

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.

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 Group'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

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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).

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

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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 Group'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.

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 37.

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 to divest the GOP's 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)

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was February 28, 2020. Five prospective investors have submitted their SOQs against the advertisement, out of that four have been cleared by SBP. The buyers side due diligence is completed on August 24, 2020 and the final draft of share purchase agreement (SPA) has been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA have been deliberated by the Transaction Committee and clarifications to this effect have been given to pre-qualified bidders. A joint meeting of the Transaction Committee, SBP and pre-qualified bidders held on December 29th, 2020 and December 30th, 2020 with reference to “Pre-Bid Conference” and “Valuation Model” wherein the queries of pre-qualified potential bidders have been clarified and some of them pertaining to license, merger and MCR have been forwarded to SBP for its clarification whose response is awaited.

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. 977.164 million (2019: Rs. 1,072.309 million) resulting into accumulated losses of Rs. 5,761.702 million (2019: Rs. 4,811.162 million). As of December 31, 2020, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,160.083 million (2019: Rs. 2,512.445) 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. 4.684 billion (2019: Rs. 7.859 billion) though the situation is improved as compare to last year but it still 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%. 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, 2021. Thereafter, the Bank also vide its latest letter No. SMEBL: HO: CFO&CS: 01:2021/1609/430 dated January 18, 2021 has requested SBP to allow exemption from MCR till June 30, 2021 or privatization of the Bank whichever is earlier. MoF and management of the Bank are hopeful of a favorable response as SBP has not objected the non-compliance of MCR. Moreover, the process of privatization of the Bank is at the advance stage as five prospective investors have submitted their Statement of Qualifications (SOQs), out of which four have been cleared by SBP. The buyers side due diligence is completed on August 24, 2020 and the final draft of

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share purchase agreement (SPA) has been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA have been deliberated by the Transaction Committee and clarifications to this effect have been given to pre-qualified bidders. A joint meeting of the Transaction Committee, SBP and pre-qualified bidders held on December 29 & 30 2020 and December 30, 2020 with reference to “Pre-Bid Conference” and “Valuation Model” wherein the queries of pre-qualified potential bidders have been clarified and some of them pertaining to license, merger and MCR have been forwarded to SBP for its clarification whose response is awaited. Considering the current stage of the privatization process 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 till the privatization. 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.

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, 2020, the Company has incurred loss of Rs. 57.676 million (2019: Rs. 35.694 million) for the year ended December 31, 2020, resulting in accumulated loss of Rs. 348.905 (2019: Rs. 291.358 million) as at balance sheet date and as of that date the Company's current liabilities exceed its current assets by Rs. 67.288 million (2019: Rs. 54.805 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:

- The Holding Company (the Bank) has granted a short term running finance facility to SMEL amounting to Rs. 150 million out of which Rs. 144.747 million has been utilized as at December 31, 2020 (2019: Rs. 142.156 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

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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. 20.714 million (2019: Rs. 17.612 million) has been recovered.
- Efforts are also being made by the management to reduce the overall cost of the Company.

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8. CASH AND BALANCES WITH TREASURY BANKS	Note	2020	2019
		(Rupees in '000)	
In hand			
Local currency		175,637	123,705
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in:			
Local currency current accounts	8.1	419,782	468,276
With National Bank of Pakistan in:			
Local currency current accounts		73,334	58,486
Prize bonds		40	171
		<u>668,793</u>	<u>650,638</u>

8.1 Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.

9. BALANCES WITH OTHER BANKS	Note	2020	2019
		(Rupees in '000)	
In Pakistan:			
On current accounts		1,966	1,133
On deposit accounts		11,717	14,119
Provision for doubtful balance with a bank	9.1	(10,000)	(10,000)
		<u>3,683</u>	<u>5,252</u>

9.1 Particulars of provision for doubtful placement with a bank

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 (2019: 10 million) with Indus Bank Limited which is under liquidation.

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10. INVESTMENTS

10.1 Investment by type

Available-for-sale securities

Federal Government Securities
Shares
Mutual Funds

Note

2020				2019			
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)			
5,679,985	-	750	5,680,735	5,895,232	-	(301,559)	5,593,673
42,542	(15,770)	3,370	30,142	42,542	(15,770)	1,847	28,619
1,870	-	(142)	1,728	1,870	-	65	1,935
5,724,397	(15,770)	3,978	5,712,605	5,939,644	(15,770)	(299,647)	5,624,227
Total Investment				Total Investment			
5,760,159	(16,532)	3,978	5,747,605	5,975,406	(16,532)	(299,647)	5,659,227

* TDR of Rs. 35 million (2019: Rs. 35 million) was under lien at year end.

10.2 Investment by segment:

Federal Government Securities

Market Treasury Bills (MTBs)
Pakistan Investment Bonds (PIBs)

Shares

Listed companies
Unlisted companies

Mutual Funds

Open end
Close end - Listed

Non Government Debt Securities

- Term Deposit Receipts (TDRs)
- Certificates of Investments (COIs)

Total Investment

2020				2019			
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)			
2,820,478	-	(499)	2,819,979	1,061,452	-	(634)	1,060,818
2,859,507	-	1,249	2,860,756	4,833,780	-	(300,925)	4,532,855
5,679,985	-	750	5,680,735	5,895,232	-	(301,559)	5,593,673
14,999	(14,697)	3,370	3,672	14,999	(14,697)	1,847	2,149
27,543	(1,073)	-	26,470	27,543	(1,073)	-	26,470
42,542	(15,770)	3,370	30,142	42,542	(15,770)	1,847	28,619
1,216	-	76	1,292	1,216	-	154	1,370
654	-	(218)	436	654	-	(89)	565
1,870	-	(142)	1,728	1,870	-	65	1,935
35,000	-	-	35,000	35,000	-	-	35,000
762	(762)	-	-	762	(762)	-	-
35,762	(762)	-	35,000	35,762	(762)	-	35,000
5,760,159	(16,532)	3,978	5,747,605	5,975,406	(16,532)	(299,647)	5,659,227

10.2.1 Investment given as collateral

Market Treasury Bills (MTBs)
Pakistan Investment Bonds (PIBs)

		2020	2019
Note		(Rupees in '000)	
10.2.2		1,560,528	-
10.2.2		2,456,991	3,560,826
		4,017,519	3,560,826

10.2.2 These represent market value of securities at reporting date.

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	2020	2019
10.3 Provision for diminution in value of investments	(Rupees in '000)	
Opening balance	16,532	36,532
Charge / reversals		
Charge for the year	-	-
Reversal for the year	-	-
Reversal on disposals	-	(20,000)
	-	(20,000)
Transfers - net	-	-
Amount written off	-	-
Closing balance	16,532	16,532

10.3.1 Particulars of provision against debt securities category of classification

	2020		2019	
	NPI	Provision	NPI	Provision
Domestic				
Other assets especially mentioned				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	762	762	762	762
	762	762	762	762

10.4 Quality of Available-for-sale Securities

	2020	2019
Federal Government Securities - Government guaranteed	Cost/Amortised cost	
	(Rupees '000)	
Market Treasury Bill	2,820,478	1,061,452
Pakistan Investment Bonds	2,859,507	4,833,780
	5,679,985	5,895,232
Shares	2020	2019
	Cost	
	(Rupees '000)	
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

	2020		2019	
	Cost	Breakup value	Cost	Breakup value
Unlisted / delisted Companies	(Rupees '000)			
Note				
- ISE Towers REIT Management Company Limited	10.4.1	18,000	46,885	18,000
- LSE Financial Services Limited	10.4.1	8,440	19,606	8,440
- News-v/s Credit Information Services (Pvt) Limited.		100	30	100
- Companies delisted from stock exchange	10.4.2	1,003	-	1,003
		27,543	66,521	27,543
				63,370

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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 (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
			1,003

Mutual Funds

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

2020	2019
Cost	
(Rupees '000)	
654	654
1,216	1,216
1,870	1,870

10.5 Particulars relating to Held to Maturity securities are as follows:

Non Government Debt Securities

Unlisted

- A/A-1
- Unrated

2020	2019
Cost	
(Rupees '000)	
35,000	35,000
762	762
35,762	35,762

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11.3 Non-Performing Loan (NPL) portfolios of defunct SBFC & RDFC to National Bank of Pakistan (NBP)

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 acquirer (NBP) acknowledge, declare and confirm the transfer, assignment and vesting of all rights, interests, privileges, title, powers and remedies in favor of the acquirer 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 was amount equal to 50% of 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 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 Board of Directors 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 Board of Directors held on May 16, 2011 and July 13, 2011 respectively by overruling to verdict of the Board of Directors given on the issue in 75th Meeting of Board of Directors held on March 04, 2013.

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).

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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 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 transferred 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 board of directors 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 tri-party Agreement the Bank has transferred and surrendered all the recoveries, rights, obligation, claims and liabilities of the referred loan portfolios in favor 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 books of the Bank to books of NBP but NBP did not respond.

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11.4 Advances include Rs. 5,636.894 million (2019: Rs. 5,665.665 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	2020		2019	
		Non Performing Loans	Provision	Non Performing Loans	Provision
(Rupees in '000)					
Domestic					
Other Assets Especially Mentioned		1,572	41	9,260	2
Substandard		23,836	676	10,763	36
Doubtful		15,333	1,258	44,116	326
Loss		5,596,153	5,390,652	5,601,526	5,402,532
	11.4.1	5,636,894	5,392,627	5,665,665	5,402,896

11.4.1 This include non performing loans and provision of Rs. 484.794 million and Rs. 344.317 million respectively (2019: Rs. 505.657 million & Rs. 367.670 million) relating to SME portfolio.

11.5 Particulars of provision against advances

Note	2020			2019		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,402,896	8	5,402,904	5,408,239	25	5,408,264
Charge/(Reversal)						
Charge for the year	57,402	8,587	65,989	37,866	-	37,866
Reversal for the year	(66,699)	(2)	(66,701)	(41,952)	(17)	(41,969)
	(9,297)	8,585	(712)	(4,086)	(17)	(4,103)
Amounts written off	11.6	-	-	-	-	-
Reversal of provision of transferred portfolio		(972)	(972)	(1,257)	-	(1,257)
Closing balance		5,392,627	8,593	5,401,220	8	5,402,904

11.5.1 General provision has been recorded at the rate of 1% (2019: 1%) of unsecured performing small enterprises portfolio plus a buffer which approximates to 4.5% (2019: Nil) of covid affected borrowers who availed SBP enabled deferment.

11.5.2 The FSV benefit availed in last years has been increased by Rs. 13.327 million (2019: increased by Rs. 26.044 million) and reduced by 18.244 million (2019: Rs. reduced by 6.122 million) for the Bank and SMEL respectively (net of FSV benefit availed during the year), which has resulted in net decreased 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 lower by Rs. 4.917 million (2019: higher by Rs. 19.922 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 219.047 million (2019: Rs. 223.964 million).

Particulars of provisions against advances	2020			2019		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	5,392,627	8,593	5,401,220	5,402,896	8	5,402,904
In foreign currencies	-	-	-	-	-	-
	5,392,627	8,593	5,401,220	5,402,896	8	5,402,904

11.6 Particulars of Write Off:

Particulars of Write Off:	2020		2019	
	(Rupees in '000)		(Rupees in '000)	
Against provisions	-	-	-	-
Directly charged to Profit & Loss account	-	-	-	-
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, 2020 is given at Annexure-1.

Notes to the Consolidated Financial Statements

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12. FIXED ASSETS

	Note	2020 (Rupees in '000)	2019 (Rupees in '000)
Property and equipment	12.1	20,844	39,029
Right of use assets	12.2	463,014	509,647
		483,858	548,676

12.1 Property and Equipment

	2020						
	Freehold Land	Leasehold Land	Building on Freehold Land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles
At January 01, 2020	(Rupees '000)						
Cost	-	450	25,114	39,561	10,942	181,964	47,407
Accumulated depreciation/impairment	-	-	16,674	37,404	10,328	158,431	43,572
Net book value	-	450	8,440	2,157	614	23,533	3,835
Year ended December 2020							
Opening net book value	-	450	8,440	2,157	614	23,533	3,835
Additions	-	-	-	56	7	1,377	-
Disposals	-	-	-	-	-	-	(302)
Depreciation charge	-	-	(1,256)	(2,077)	(409)	(12,499)	(3,082)
Closing net book value	-	450	7,184	136	212	12,411	451
At December 31, 2020							
Cost	-	450	25,114	39,617	10,949	183,323	43,115
Accumulated depreciation/impairment	-	-	17,930	39,481	10,737	170,912	42,664
Net book value	-	450	7,184	136	212	12,411	451
Rate of depreciation (percentage)			5	33.33	20	15 & 33.33	20

	2019						
	Freehold Land	Leasehold Land	Building on Freehold Land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles
At January 01, 2019	(Rupees '000)						
Cost	-	450	25,114	39,522	10,930	181,257	49,327
Accumulated depreciation/impairment	-	-	15,418	34,780	9,737	145,613	40,677
Net book value	-	450	9,696	4,742	1,193	35,644	8,650
Year ended December 2019							
Opening net book value	-	450	9,696	4,742	1,193	35,644	8,650
Additions	-	-	-	39	12	726	-
Disposals	-	-	-	-	-	-	(800)
Depreciation charge	-	-	(1,256)	(2,624)	(591)	(12,837)	(4,015)
Closing net book value	-	450	8,440	2,157	614	23,533	3,835
At December 31, 2019							
Cost	-	450	25,114	39,561	10,942	181,964	47,407
Accumulated depreciation/impairment	-	-	16,674	37,404	10,328	158,431	43,572
Net book value	-	450	8,440	2,157	614	23,533	3,835
Rate of depreciation (percentage)			5	33.33	20	15 & 33.33	20

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
12.2 Right of use assets	(Rupees in '000)	
Opening net book value	509,647	562,451
Additions	11,525	-
Deletion	(1,456)	-
Depreciation	(56,702)	(52,804)
Closing net book value	<u>463,014</u>	<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
(Rupees in '000)							
Vehicles							
Suzuki Bolan	393	393	-	300	300	Insurance claim	United Insurance Co.
Toyota Corolla	2,014	1,712	302	403	101	As per Bank policy	Mr. Dilshad Ali Ahmad
Toyota Corolla	1,885	1,885	-	188	188	As per Bank policy	Mr. Sohail Ishtiaq Khan
2020	<u>4,292</u>	<u>3,990</u>	<u>302</u>	<u>891</u>	<u>589</u>		
2019	<u>1,920</u>	<u>(1,120)</u>	<u>800</u>	<u>(768)</u>	<u>32</u>		

12.4 Gross carrying amount of fully depreciated assets that are still in use was Rs. 207.577 million (2019: Rs. 185.471 million).

13 INTANGIBLE ASSETS

	2020	2019
Computer software	(Rupees in '000)	
At January 1		
Cost	32,294	32,068
Accumulated amortization and impairment	30,963	29,589
Net book value	<u>1,331</u>	<u>2,479</u>
Year ended December 31		
Opening net book value	1,331	2,479
Additions:		
- developed internally	-	-
- directly purchased	1,771	226
	3,102	2,705
Disposals	-	-
Amortization charge	1,346	1,374
Closing net book value	<u>1,756</u>	<u>1,331</u>
As December 31		
Cost	34,065	32,294
Accumulated amortization and impairment	32,309	30,963
Net book value	<u>1,756</u>	<u>1,331</u>
Rate of amortization (percentage)	33.33	33.33
Useful life	3 years	3 years

13.1 Gross carrying amount of fully depreciated intangible assets that are still in use was Rs. 29.610 million (2019: Rs. 28.453 million).

Notes to the Consolidated Financial Statements

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14. DEFERRED TAX ASSET - NET	Note	2020 (Rupees in '000)	2019
Deferred tax asset arising in respect of:			
Unabsorbed depreciation and amortization		82,155	77,530
Unused tax losses		808,488	675,433
	14.1	890,643	752,963
Deferred tax (liability) / asset arising in respect of:			
Surplus on revaluation of investment		(1,392)	(669)
Remeasurement of defined benefit plan		(14,336)	-
	14.2	874,915	752,294

14.1 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.

14.2 Reconciliation of deferred tax	2020			
	Balance at January 1,	Recognized in profit and loss account	Recognized in OCI	Balance at December 31
Deferred tax asset arising in respect of:				
Accelerated tax depreciation & amortization	71,121	6,409	-	77,530
Unused tax losses	455,457	219,976	-	675,433
	526,578	226,385	-	752,963
Deferred tax liability arising in respect of:				
Surplus on revaluation of investment	(883)	-	214	(669)
Remeasurement of defined benefit plan	-	-	-	-
	525,695	226,599	214	752,294
Deferred tax (liability)/asset - net				

14.3 Temporary differences for which no deferred tax asset is recognized due to uncertain timings of future taxable profits	2020	2019
Amount of unrecognized deferred tax		
	(Rupees in '000)	
	2,263,319	2,467,164
	783,137	837,571

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15. OTHER ASSETS	Note	2020	2019
		(Rupees in '000)	
Income/mark-up accrued in local currency - net of provision	15.1	131,142	168,537
Advances, deposits, advance rent and other prepayments		28,615	29,716
Advance taxation - net	15.2	234,873	200,120
Non banking asset acquired in satisfaction of claims	15.3	147,066	147,066
Due from benevolent fund- unsecured		5,552	5,412
Receivable from NBP		2,966	1,853
Receivable from subsidiary company		-	-
Receivable from Equity Participation Fund		1,760	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		76,731	75,742
		675,053	675,405
Less: Provision held against other assets	15.4	117,354	117,109
Other assets (net of provision)		557,699	558,296

15.1 The balance has been arrived at after adjusting interest in suspense of Rs. 4,053.680 million (2019: Rs. 4,066.115 million) which includes Rs: 261.192 million (2019: Rs. 273.869 million) relating to SME portfolio.

15.2 This includes the effect of refunds aggregating to Rs. 232.599 million (2019: Rs. 232.599 million) due from government. In respect of tax years 2003 and 2004 the tax authorities disallowed the Bank's claims for provisions for bad debts and SBP's share in profits of the Bank. Subsequently, the Appellate Tribunal Inland Revenue (ATIR) through its order dated February 10, 2011 has ruled in favor of the Bank which results 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 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 (2019: 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 the 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. 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 April 04, 2021. As per latest valuation report dated January 20, 2021, the market value of the Property was Rs. 232.573 million (2019: Rs. 224.368 million).

Notes to the Consolidated Financial Statements

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15.4 Provision held against other assets

	2020	2019
	(Rupees in '000)	
Advances, deposits, advance rent & other prepayments	2,705	2,706
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	5,148	5,148
Other receivables - SME Portfolio	43,709	43,461
Legal charges recoverable from borrowers - SBFC & RDFC	22,659	22,661
Trading right entitlement certificate - TREC	21,560	21,560
Others	1,933	1,933
	117,354	117,109

15.4.1 Movement in provision held against other assets

Opening balance	117,109	118,800
Charge for the year	2,929	3,054
Reversals for the year	(2,682)	(3,040)
	247	14
Transferred to NBP	(2)	-
Amount written off	-	(1,705)
Closing balance	117,354	117,109

Notes to the Consolidated Financial Statements

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			2020	2019
			(Rupees in '000)	
16. BILLS PAYABLE	Note			
In Pakistan			99,986	51,543
Outside Pakistan			-	-
			<u>99,986</u>	<u>51,543</u>
17. BORROWINGS				
Secured				
Repurchase agreement borrowings				
State Bank of Pakistan	17.2		3,941,151	1,137,846
Financial Institutions	17.2		74,596	2,442,609
Long term financial - SMEL	17.3		373	373
			<u>4,016,120</u>	<u>3,580,828</u>
Unsecured				
Borrowing from State Bank of Pakistan				
Financing facility for storage of agricultural produce	17.4		111,866	74,316
			<u>4,127,986</u>	<u>3,655,144</u>
17.1 Particulars of borrowings with respect to Currencies				
In local currency			4,127,986	3,655,144
In foreign currencies			-	-
			<u>4,127,986</u>	<u>3,655,144</u>
17.2	These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 7.18% to 7.40% (2019: 13.38% to 13.75%) per annum for period upto one months (2019: upto two months). REPO transactions are secured against investment of the Bank in Government securities.			
17.3	This represents balance due against financing facilities amounting to Rs. 0.373 million (2019: 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 Agri Produce (FFSAP)". These carry mark up rate's ranging from 2.0% to 3.25% per annum (2019: 2.0% to 3.25% per annum) and is repayable in quarterly instalments.			

Notes to the Consolidated Financial Statements

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18. DEPOSITS AND OTHER ACCOUNTS

	2020			2019		
	In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total
(Rupees in '000)						
Customers						
Current accounts	1,195,828	-	1,195,828	499,200	-	499,200
Savings deposits	3,357,871	-	3,357,871	3,153,652	-	3,153,652
Term deposits	2,405,940	-	2,405,940	3,207,339	-	3,207,339
Margin accounts	80,594	-	80,594	112,398	-	112,398
	7,040,233	-	7,040,233	6,972,589	-	6,972,589
Financial Institutions						
Current accounts	24	-	24	24	-	24
Savings deposits	502,005	-	502,005	471,695	-	471,695
Term deposits	60,000	-	60,000	56,400	-	56,400
Margin accounts	-	-	-	-	-	-
	562,029	-	562,029	528,119	-	528,119
	7,602,262	-	7,602,262	7,500,708	-	7,500,708

18.1 Composition of deposits	2020	2019
	(Rupees in '000)	
Individuals	1,560,869	1,149,907
Government (Federal and Provincial)	956,673	721,679
Public Sector Entities	53,509	46,543
Banking Companies	-	-
Non-Banking Financial Institutions	562,029	528,119
Private Sector	4,469,182	5,054,460
	7,602,262	7,500,708

- 18.2 Total deposits include eligible deposits of Rs. 2,489.865 million (2019: Rs. 2,349.577 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 Consolidated Financial Statements

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19 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2020		2019	
	Minimum lease	Present value	Minimum lease	Present value
	(Rupees in '000)			
Not later than one year	4,201	2,914	4,392	2,489
Later than one year and not later than five years	8,392	7,214	13,184	10,506
Total minimum lease payments	12,593	10,128	17,576	12,995
Financial charges not due yet	(2,465)	-	(4,581)	-
Present value of minimum lease payments	10,128	10,128	12,995	12,995

20. OTHER LIABILITIES

	Note	(Rupees in '000)	
Mark-up/ return/ interest payable in local currency		108,833	218,846
Unearned commission on guarantees		2,799	1,875
Accrued expenses		10,875	13,026
Sundry creditors	20.1	161,781	172,041
Branch adjustment account		1,386	586
Payable against employees' benefit plans			
Defined benefit pension			
The Bank	37.7	337,993	370,155
Defined benefit funded gratuity scheme			
The Bank - funded	37.7	4,833	14,172
SMEL - unfunded	37.17	9,165	7,623
Unfunded compensated absences			
The Bank	37.7	68,328	95,297
SMEL		2,960	2,501
Payable on termination/maturity of lease		2,132	1,323
Security deposits against lease		201,466	224,043
Leased liability against right of use assets	20.2	551,206	551,751
Employees' VSS payments withheld		12,603	12,603
Income tax withheld payable		19,603	19,311
Others		3,923	3,975
		1,499,886	1,709,128

20.1 This include Rs. 90.615 million (2019: Rs. 90.615 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of stale bills payable Rs. 59.287 million (2019: Rs. 72.847 million).

20.2 This represents lease liability under IFRS 16 :

	Note	2020	2019
		(Rupees in '000)	
Opening net book value		538,756	540,961
- Additions		11,525	-
- Interest		69,451	67,337
- Payment		(78,654)	(69,542)
Closing net book value		541,078	538,756
Liabilities against assets subject to finance lease - SMEL	19	10,128	12,995
Closing net book value		551,206	551,751

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21. SHARE CAPITAL

21.1 Authorized Capital

2020	2019		2020	2019
Number of Shares			(Rupees in '000)	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs. 10 each	<u>10,000,000</u>	<u>10,000,000</u>

21.2 Issued, subscribed and paid up capital

2020	2019	Ordinary shares	2020	2019
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
<u>239,250,700</u>	<u>239,250,700</u>		<u>2,392,507</u>	<u>2,392,507</u>

21.3 Break-up of share capital is as follows:	Number of shares	%		
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	7	-	-	-
	<u>239,250,700</u>	<u>100</u>	<u>2,392,507</u>	<u>2,392,507</u>

22. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

	Note	2020	2019
		(Rupees in '000)	
Surplus/(deficit) on revaluation of			
Available-for-sale securities			
- Federal Government securities	10.1	750	(301,559)
- Listed companies/mutual funds		3,228	1,912
		<u>3,978</u>	<u>(299,647)</u>
Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities			
- Federal Government securities		(263)	-
- Listed companies/mutual funds		(1,129)	(669)
		<u>2,586</u>	<u>(300,316)</u>

Notes to the Consolidated Financial Statements

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23. NON-CONTROLLING INTEREST- (NCI)

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

SME Leasing Limited

	2020	2019
NCI percentage	26.859%	26.859%
	2020	2019
	(Rupees in '000)	
ASSETS		
Current assets		
Cash and bank balances	1,626	788
Advances	5,007	3,370
Prepayments and other receivables	846	904
Accrued interest on loans	651	47
Current maturity of non-current assets	150,082	163,025
	158,212	168,134
Non-current assets		
Long term finances and loans	47,709	58,664
Net investment in finance leases	187,152	237,196
Long term deposits and prepayments	871	1,162
Fixed assets	3,904	4,510
Right of use assets	7,770	12,054
	247,406	313,586
Total assets	405,618	481,720
LIABILITIES		
Current liabilities		
Trade and other payables	5,040	4,870
Unclaimed dividend	-	20
Mark-up accrued on borrowings	4,211	2,143
Short term borrowings	144,790	142,156
Current maturity of non-current liabilities	57,382	60,591
Provision for compensated absences	2,960	2,501
Current maturities of liabilities against assets subject to finance lease	2,914	2,489
Provision for taxation - net	8,204	8,168
	225,501	222,938
Non-current liabilities		
Liabilities against assets subject to finance lease	7,214	10,506
Long term deposits	144,178	163,545
Defined benefit obligations	9,165	7,623
	160,557	181,674
Total liabilities	386,058	404,612
NET ASSETS	19,560	77,108
Carrying amount of NCI	11,165	26,621

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	2020	2019
	(Rupees in '000)	
Revenue	21,955	26,578
Loss for the year	(57,677)	(35,694)
Other comprehensive income	129	1,120
Total comprehensive income	(57,548)	(34,574)
Loss attributable to NCI	(15,491)	(9,587)
Other comprehensive income allocated to NCI	35	301
Cash flows from operating activities	297	(1,834)
Cash flows from investment activities	1,620	(270)
Cash flows from financing activities, before dividends to NCI	(3,713)	(3,839)
Cash flows from financing activities-cash dividends to NCI	-	-
Net (decrease)/increase in cash and cash equivalents	(1,796)	(5,943)
SME Leasing Limited has its principal place of business in Pakistan.		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

24.	CONTINGENCIES AND COMMITMENTS	Note	2020	2019
			(Rupees in '000)	
	- Guarantees	24.1	229,498	261,582
	- Commitments	24.2	4,278,596	3,842,670
	- Other contingent liabilities	24.3	1,192,987	1,157,757
			5,701,081	5,262,009
24.1	Guarantees			
	Financial guarantees		-	-
	Performance guarantees	24.1.1	229,498	261,582
	Other guarantees		-	-
			229,498	261,582
24.1.1	This include expired letter of guarantees/performance aggregating to Rs. 69.690 million (2019: Rs. 34.142 million) for which formalities for return of original documents are in process.			
24.2	Commitments	Note	2020	2019
			(Rupees in '000)	
	Commitments in respect of:			
	- forward government securities transactions	24.2.1	4,017,519	3,560,826
	- forward lending	24.2.2	259,813	280,608
	Commitments for acquisition of:			
	- operating fixed assets		1,264	987
	- intangible assets		-	249
	Other commitments	24.2.3	-	-
			4,278,596	3,842,670
24.2.1	Commitments in respect of forward government securities transactions			
	Sale and repurchase agreements		4,017,519	3,560,826
24.2.2	Commitments in respect of forward lending			
	Undrawn facilities		202,613	174,708
	Commitments to extend credit		57,200	105,900
			259,813	280,608
24.2.3	Other commitments			
	Bills for collection			
	Payable in Pakistan		-	-
24.3	Other contingent liabilities		1,192,987	1,157,757
	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 favor 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 favorable outcome and therefore no provision has been made for these effect in the consolidated financial statements.		612,707	612,707

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
	(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 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 and therefore no provision in this respect has been recorded in these consolidated financial statements.	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. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad 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 Consolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
	(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 no. ITA No.857/IB/2006 dated April 05, 2007. Tax department has filed income tax reference with the Islamabad High Court having no. I.T.R. 48 of 2007.	118,721	118,721
j) Back benefits and claims of staff/employees under litigation.	67,550	32,320
k) Sales Demands of Rs. 0.791 million and Rs. 17.098 million were created for the year 2008 & 2010 respectively during proceedings of sales audit. Against the said demands advance payments of Rs. 0.299 million and Rs. 3.743 million respectively were made to avail stay against recovery of entire amount. Appellate Tribunal Inland Revenue has remanded both cases back to the Commissioner for fresh proceedings, which have not been initiated yet. Furthermore, sales demands amounting Rs. 1.708 million & Rs. 1.045 million were created for the year 2009 and 2012 respectively during proceedings of sales audit. Against the said demands advance payments of Rs. 0.577 million & Rs.1.045 million respectively were made to avail stay against recovery of entire amount. Both appeals are pending before Appellate Tribunal Inland Revenue for fixation of hearing. The management strongly believes for favorable outcome in the said cases.		
	20,998	20,998

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

		2020	2019
	Note	(Rupees in '000)	
25. MARK-UP/ RETURN/ INTEREST EARNED			
On loans and advances to customers		253,111	296,505
On investment in finance lease to customers		17,777	19,634
		<u>270,888</u>	<u>316,139</u>
Employees		3,608	4,003
		<u>274,496</u>	<u>320,142</u>
On investments in			
Available for sale securities		460,667	454,326
Held to maturity securities		4,293	3,595
		<u>464,960</u>	<u>457,921</u>
On deposits with financial institutions		295	405
On securities purchased under resale agreements		-	91
On clean lending		376	113
On call money lending		916	3,789
		<u>741,043</u>	<u>782,461</u>
26. MARK-UP/ RETURN/ INTEREST EXPENSED			
On deposits		632,225	596,499
On securities sold under repurchase agreements		372,606	550,778
On SBP Refinance Scheme		2,023	1,029
Brokerage and commission		1,566	1,081
Bank charges		422	254
		<u>1,008,842</u>	<u>1,149,641</u>
27. FEE & COMMISSION INCOME			
Branch banking customer fees		3,002	2,155
Card related fees		435	431
Credit related fees		2,403	2,709
Commission on guarantees		4,995	4,526
Commission on remittances		59	95
Others		20	17
		<u>10,914</u>	<u>9,933</u>
28. GAIN / (LOSS) ON SECURITIES			
Realised	28.1	815	7
Unrealised - held for trading		-	-
		<u>815</u>	<u>7</u>
28.1 Federal government securities - net		815	7
Shares		-	-
		<u>815</u>	<u>7</u>
29. OTHER INCOME			
Gain on sale of operating fixed assets - net		289	-
Fee on fund managed by the Bank -EPF		974	974
Claim against stolen vehicle		610	-
Others		8	26
		<u>1,881</u>	<u>1,000</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

		2020	2019
	Note	(Rupees in '000)	
30. OPERATING EXPENSES			
Total compensation expense	30.1	661,840	692,552
Property expense			
Rent & taxes		4,820	8,060
Insurance		2,384	2,311
Utilities cost		21,198	22,884
Security (including guards)		16,124	15,480
Repair & maintenance		6,898	6,428
Depreciation		57,958	56,650
Others		-	-
		109,382	111,813
Information technology expenses			
Software maintenance		4,797	4,737
Hardware maintenance		1,668	1,953
Depreciation		4,946	5,140
Amortization		1,346	1,374
Network charges		13,463	14,253
Others		309	833
		26,529	28,290
Other operating expenses			
Directors' fees, allowances and other expenses		3,174	660
Legal and professional charges		7,441	7,486
Outsourced services costs	30.2	26,589	26,630
Travelling and conveyance		2,388	6,699
NIFT clearing charges		2,049	1,837
Depreciation		13,121	12,337
Training & development		1,194	2,287
Postage & courier charges		801	937
Communications		4,492	4,755
Stationery and printing		5,043	5,876
Marketing, advertisement & publicity		1,260	1,476
Donations		-	-
Auditors' remuneration	30.3	1,980	1,578
Vehicle running and maintenance		3,945	4,986
Entertainment		2,522	2,699
Subscription, books and newspapers		3,568	3,022
Deposits premium		2,713	3,617
Loss on sale of operating fixed assets - net		-	29
Others		950	1,860
		83,230	88,771
		880,981	921,426

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

30.1 Total compensation expense

	Note	2020 (Rupees in '000)	2019
Managerial Remuneration			
- Fixed		305,439	293,255
- Variable			
Cash award		298	165
Charge for defined benefit plans			
- pension fund and gratuity	37.7	100,775	115,434
- funded gratuity scheme	37.7	11,389	10,541
- unfunded gratuity scheme - SMEL		1,722	2,433
- funded staff provident fund - SMEL		776	730
- unfunded compensated absences	37.7	(25,528)	15,050
Contribution to defined contribution plan - benevolent fund		256	429
Rent & house maintenance		101,517	95,678
Utilities		31,297	29,079
Medical		42,389	39,711
Conveyance		14,909	14,035
Telephone		4,232	3,974
Uniform allowance		1,133	1,167
Child education allowance		7,326	7,240
Group insurance		1,202	1,215
Overtime		1,302	1,442
Adhoc relief		2,163	1,221
Leave absence		8,322	7,276
Leave fare assistance		13,615	14,226
Rental in lieu of vehicle		6,272	6,538
Reimbursement of vehicle running & maintenance		27,714	30,622
Staff welfare benefits		3,320	1,091
		661,840	692,552

30.2 Total cost for the year included in other operating expenses relating to outsourced activities is Rs 26.589 million (2019: Rs 26.630 million) related to companies incorporated in Pakistan. Material outsourcing arrangements include the services of messengers, drivers and electronic financial transaction (EFT).

30.3 Auditors' remuneration

	2020 (Rupees in '000)	2019
Audit fee	1,213	1,178
Fee for other statutory certifications	228	222
Fee for audit of employees funds	24	24
Special review	340	-
Out-of-pocket expenses	175	154
	1,980	1,578

31. OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	108	2,089
Right of use assets - unwinding of present value	71,287	69,374
	71,395	71,463

32. PROVISIONS & WRITE OFFS - NET

Provisions against lending to financial institutions	-	-
Provisions/(reversal of provision) for diminution in value of investment	-	(20,000)
Provisions/(reversal of provision) against loans & advances	(712)	(4,103)
Other provisions / written off directly against other assets	247	14
Bad debts written off directly	-	-
	(465)	(24,089)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

33. TAXATION

		2020	2019
	Note	(Rupees in '000)	
Current	33.2	11,948	11,595
Prior years	33.3	(43,898)	-
Deferred		(137,680)	(226,385)
		<u>(169,630)</u>	<u>(214,790)</u>

33.1 Relationship between tax expense and accounting loss

Loss before tax	(1,204,471)	(1,322,793)
Applicable tax rate	35%	35%
	(Rupees in '000)	
Tax on loss	(421,565)	(462,978)
Deferred tax asset recognized during the year	(137,680)	(226,385)
Tax effect of income taxed at lower rate	36	28
Minimum tax	11,912	11,567
Other permanent differences	377,667	462,978
	<u>(169,630)</u>	<u>(214,790)</u>

33.2 Provision for current year tax expense is charged on minimum tax rate of 1.50% of the turnover due to tax losses of the Group for the year ended December 31, 2020.

33.3 This represents the effect which reconciles the balance of advance tax with the tax position of the Bank as per tax returns and assessment orders pertaining to assessment years/ tax years 2001-2020.

33.4 Current status of tax assessments

The income tax assessments of the SME Leasing (SMEL) 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. 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

		2020	2019
	Note	(Rupees in '000)	
Net loss after tax for the year		<u>(1,019,350)</u>	<u>(1,098,416)</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>(4.26)</u>	<u>(4.59)</u>

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

35. CASH AND CASH EQUIVALENTS

		2020	2019
		(Rupees in '000)	
Cash and balances with treasury banks	8	668,793	650,638
Balances with other banks	9	3,683	5,252
		<u>672,476</u>	<u>655,890</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
36. STAFF STRENGTH	(Numbers)	
Permanent	163	170
On contract	228	235
	391	405
Average number of employees		
Permanent	167	173
On contract	232	229
	399	402

36.1 In addition to the above, 109 (2019: 107) employees of outsourcing services companies were assigned to the Bank.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

37.	DEFINED BENEFIT PLANS				
37.1	General description	The Bank operates the following schemes for all its eligible employees. Contributions are made in accordance with the actuarial recommendations.			
37.1.1	Pension and Gratuity Fund (defined benefit scheme)	The scheme 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.			
37.1.2	Gratuity Fund (Defined benefit scheme)	- The Bank operates a defined benefit funded gratuity scheme for all eligible employees.			
37.1.3	Unfunded compensated absences	- The Bank provides compensated absences, an unfunded scheme, as per entitlement to all its permanent employees.			
37.2	Number of Employees under the scheme	The number of employees covered under the following defined benefit schemes are:			
			2020	(Numbers)	2019
	- Pension fund		163		170
	- Gratuity fund		196		202
	- Compensated absences		163		170
37.3	Principal actuarial assumptions	The actuarial valuations were carried out as at December 31, 2020 using the following significant assumptions:			
	Valuation discount rate - per annum	2020	2019		
	Salaries increase rate - per annum (short term - 1 year)	10.25%		11.75%	
	Expected return on plan assets - per annum	8.25%		9.75%	
	Pension indexation rate - per annum	10.25%		11.75%	
	Normal retirement age (NRA)	6.25%		7.75%	
	Mortality rate	60 years		60 years	
	Withdrawal rate	SLIC 2001-05		SLIC 2001-05	
	Effective salary increase timing	Moderate		Low	
		January 1st, 2021		January 1st, 2020	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

37.4 Reconciliation of (receivable from) / payable to defined benefit plans	2020			2019		
	Pension fund	Gratuity fund	Compensated Absences	Pension fund	Gratuity fund	Compensated Absences
			(Rupees '000)			
Present value of obligations	1,622,825	111,679	68,328	1,484,477	102,736	95,297
Fair value of plan assets	(1,284,832)	(106,846)	-	(1,114,322)	(88,564)	-
(Receivable) / payable	337,993	4,833	68,328	370,155	14,172	95,297
37.5 Movement in defined benefit obligations						
Obligations at the beginning of the year	1,484,477	102,736	95,297	1,403,012	90,898	80,304
Current service cost	60,562	9,622	5,885	61,950	9,223	4,476
Interest cost	171,709	11,810	11,113	191,092	12,341	11,038
Benefit paid by the Bank	(46,245)	(4,453)	(1,441)	(26,508)	(2,289)	(57)
Past service cost	-	-	-	-	-	(16,392)
Actuarial loss/(gain)	(47,678)	(8,036)	(42,526)	(145,069)	(7,437)	15,928
Obligations at the end of the year	1,622,825	111,679	68,328	1,484,477	102,736	95,297
37.6 Movement in fair value of plan assets						
Fair value at the beginning of the year	1,114,322	88,564	-	1,014,038	80,168	-
Expected return on plan assets	131,496	10,043	-	137,608	11,023	-
Contribution to the fund	102,069	10,636	-	20,826	2,289	-
Benefits paid during the year	(46,245)	(4,453)	-	(26,508)	(2,289)	-
Actuarial (loss)/ gain	(16,810)	2,056	-	(31,642)	(2,627)	-
Fair value at the end of the year	1,284,832	106,846	-	1,114,322	88,564	-
37.7 Movement in net liability under defined benefit schemes						
Opening balance	370,155	14,172	95,297	388,974	10,730	80,304
Charge / (reversal) for the year	100,775	11,389	(25,528)	115,434	10,541	15,050
Re-measurement loss/(gain) recognized in OCI during the year (37.8.2)	(30,868)	(10,092)	-	(113,427)	(4,810)	-
Contribution by the Bank	(102,069)	(10,636)	(1,441)	(20,826)	(2,289)	(57)
Closing balance	337,993	4,833	68,328	370,155	14,172	95,297

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

	2020			2019		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
			(Rupees '000)			
Current service cost	60,562	9,622	5,885	61,950	9,223	4,476
Net interest on defined benefit asset/liability	40,213	1,767	11,113	53,484	1,318	11,038
Past service cost	-	-	-	-	-	(16,392)
Actuarial (gain)/loss recognized - P&L	-	-	(42,526)	-	-	15,928
	100,775	11,389	(25,528)	115,434	10,541	15,050
Re-measurements recognized in OCI						
Experience adjustment						
- Loss / (gain) on obligation	(47,678)	(8,036)	42,526	(145,069)	(7,437)	(15,928)
- Loss / (gain) on plan assets	16,810	(2,056)	-	31,642	2,627	-
- Actuarial (gain)/loss recognized - P&L	-	-	(42,526)	-	-	15,928
Total re-measurements loss / (gain) recognized in OCI	(30,868)	(10,092)	-	(113,427)	(4,810)	-
Components of plan assets						
Cash and cash equivalents						-
Term Deposits Receipts (TDRs)						88,564
						88,564

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:

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

	2020		2019	
	Pension fund	Gratuity fund	Compensated Absences	
				Pension fund
				Gratuity fund
				Compensated Absences

37.11 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 '000)		
Expected charge for the next financial year	89,907	12,713	12,677

37.12 Maturity profile

The weighted average duration of the obligation (in years)

	2020	2019
Funding policy	11.08	11.42

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 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.

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.

Notes to the Consolidated Financial Statements

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37.15 Disclosure for current and previous four annual years of pension

Deficit position

Present value of obligation
Fair value of plan assets
Net defined benefit liability

Experience adjustments

Remeasurement (gain)/loss on obligation
Remeasurement (gain)/loss on plan asset
Other Comprehensive Income

37.16 Disclosure for current and previous four annual years of gratuity

Deficit position

Present value of obligation
Fair value of plan assets
Net defined benefit liability

Experience adjustments

Remeasurement (gain)/loss on obligation
Remeasurement (gain)/loss on plan asset
Other Comprehensive Income

	2020	2019	2018	2017	2016
			(Rupees in '000)		
Present value of obligation	1,622,825	1,484,477	1,403,012	1,244,580	1,017,166
Fair value of plan assets	(1,284,832)	(1,114,322)	(1,014,038)	(911,160)	(805,739)
Net defined benefit liability	337,993	370,155	388,974	333,420	211,427
Experience adjustments					
Remeasurement (gain)/loss on obligation	(47,678)	(145,069)	7,146	72,564	76,969
Remeasurement (gain)/loss on plan asset	16,810	31,642	18,231	21,354	10,133
Other Comprehensive Income	(30,868)	(113,427)	25,377	93,918	87,102
	2020	2019	2018	2017	2016
			(Rupees in '000)		
Present value of obligation	111,679	102,736	90,898	77,987	67,626
Fair value of plan assets	(106,846)	(88,564)	(80,168)	(71,035)	-
Net defined benefit liability	4,833	14,172	10,730	6,952	67,626
Experience adjustments					
Remeasurement (gain)/loss on obligation	(8,036)	(7,437)	(1,675)	4,282	10,317
Remeasurement (gain)/loss on plan asset	(2,056)	2,627	2,052	-	-
Other Comprehensive Income	(10,092)	(4,810)	377	4,282	10,317

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

37.17 DEFINED BENEFIT OBLIGATIONS-SMEL

The Company operates an unapproved and unfunded gratuity scheme for all of its permanent employees. Number of employees covered under the scheme are 27 (2019: 28).

Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on December 31, 2020 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

		2020	2019
Valuation discount rate		11.25%	11.25%
Expected long term rate of increase in salary level		11.25%	11.25%
		2020	2019
37.17.1 Liability in statement of financial position	Note	(Rupees in '000)	
Present value of defined benefit obligation	37.17.2	9,165	7,624
37.17.2 Movement in liability during the year			
Balance at the beginning of the year		7,624	9,091
Charged to statement of profit or loss account		1,723	2,433
Remeasurements chargeable in other comprehensive income	37.17.5	(129)	(1,120)
Benefits paid during the year		(52)	(2,780)
Balance at the end of the year		9,165	7,624
37.17.3 Reconciliation of the present value of defined benefit obligations			
Present value of obligations at beginning of the year		8	9,091
Current service cost		868	1,413
Interest cost		855	1,020
Past service cost		-	-
Benefits paid during the year		(52)	(2,780)
Remeasurements (gain) / losses chargeable in other comprehensive income		(129)	(1,120)
Present value of obligations at the end of the year		9,165	7,624
37.17.4 Charged to statement of profit or loss account			
Current services cost		868	1,413
Past service cost		-	-
Interest cost		855	1,020
		1,723	2,433
37.17.5 Remeasurements (gain) / losses chargeable in other comprehensive income			
Actuarial (gains) / losses on obligation		(20)	(23)
Experience adjustment		(109)	(1,097)
Total re-measurements recognized in other comprehensive income		(129)	(1,120)

Notes to the Consolidated Financial Statements

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37.17.6 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 in '000)	Rate effect
Original liability	9,165	11.25%
1% increase	10,082	12.25%
1% decrease	8,249	10.25%
Salary increase rate effect	(Rupees in '000)	Rate effect
Original liability	9,165	11.25%
1% increase	10,082	12.25%
1% decrease	9,073	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.

37.17.7 Maturity profile

The weighted average duration of the obligation (in years)

2020	2019
10	10

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

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.

	2020			2019		
	Officers Benevolent Fund	Staff Benevolent Fund	Total	Officers Benevolent Fund	Staff Benevolent Fund	Total
	(Rupees '000)					
38.2 Actuarial liability for active employees	14,982	3,310	18,292	13,671	2,960	16,631
Actuarial liability for beneficiaries	1,935	194	2,129	1,279	215	1,494
Total actuarial liability	16,917	3,504	20,421	14,950	3,175	18,125
Fair value of plan assets	(20,570)	(5,403)	(25,973)	(18,495)	(5,042)	(23,537)
Funding surplus	(3,653)	(1,899)	(5,552)	(3,545)	(1,867)	(5,412)
Receivable from fund	-	-	-	-	-	-
Asset recognized in balance sheet	(3,653)	(1,899)	(5,552)	(3,545)	(1,867)	(5,412)
The amount recognized in the profit and loss account is as follows:						
Expense for the year	212	44	256	348	81	429
Funding surplus	-	-	-	-	-	-
	212	44	256	348	81	429
38.3 Break-up of category of assets						
	2020			2019		
	(Rupees '000)					
Cash and cash equivalents	50			84		
Term Deposits Receipts (TDRs)	25,923			23,453		
	25,973			23,537		

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:

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
	(Rupees '000)	
Current liability	20,421	18,125
1% increase in discount rate	19,537	17,290
1% decrease in discount rate	21,371	19,028
1% increase in expected rate of salary increase	20,421	18,125
1% decrease in expected rate of salary increase	20,421	18,125

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)	2020	2019
	11.08	11.42

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 27 (2019: 28). 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	2020	2019
Expected long term rate of increase in salary level	11.25%	11.25%
	11.25%	11.25%

38.7.2 Liability in statement of financial position

Present value of defined benefit obligation

38.7.3 Movement in liability during the year

Balance as at January 01	2020	2019
Charged to profit and loss account	(Rupees in '000)	
Premeasurements loss chargeable in other comprehensive income	7,623	9,091
Benefits paid during the year	1,722	2,433
Closing balance	(129)	(1,120)
	(51)	(2,781)
	9,165	7,623

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

	2020	2019
38.7.4 Reconciliation of the present value of defined benefit obligations		
Present value of obligations as at January 01	(Rupees in '000)	
Current service cost	7,623	9,091
Interest cost	868	1,413
Past service cost	854	1,020
Benefits paid during the year	-	-
Premeasurements loss chargeable in other comprehensive income	(51)	(2,781)
Present value of obligations as at December 31	(129)	(1,120)
	<u>9,165</u>	<u>7,623</u>
38.7.5 Charge for the year		
Current services cost	868	1,413
Past service cost	-	-
Interest cost	854	1,020
	<u>1,722</u>	<u>2,433</u>
38.7.6 Re-measurements recognized in other comprehensive income		
Actuarial gains on obligation	(20)	(23)
Experience adjustment	(109)	(1,097)
Total re-measurements recognized in other comprehensive income	<u>(129)</u>	<u>(1,120)</u>
38.7.7 Sensitivity analysis		
Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the employee benefit schemes. The increase/(decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:		
Discount rate effect		
Original liability	9,165	11.25%
1% increase	10,081	12.25%
1% decrease	8,248	10.25%
Salary increase rate effect		
Original liability	9,165	11.25%
1% increase	10,081	12.25%
1% decrease	9,073	10.25%
The sensitivity analysis prepared 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.		
38.7.8 Maturity profile		
The weighted average duration of the obligation (in years)	2020	2019
	<u>10</u>	<u>10</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

39. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

39.1 Total Compensation Expense

Items	2020			2019		
	Non-Executives Directors	President / CEO	Executives	Non-Executives Directors	President / CEO	Executives
(Rupees '000)						
Fees and allowances etc.	1,995	-	-	660	-	-
Managerial remuneration						
i) Fixed	-	5,465	120,217	-	2,444	110,782
ii) Total variable	-	-	-	-	-	-
Charge for defined benefit plan	-	1,456	43,644	-	1,764	45,582
Rent & house maintenance	-	4,049	35,437	-	1,344	31,891
Utilities	-	1,247	11,937	-	244	10,710
Medical	-	726	12,716	-	367	10,662
Conveyance	-	-	789	-	-	566
Motor car running & maintenance	-	-	26,717	-	500	26,265
Others	1,179	1,193	25,075	-	731	23,654
Total	3,174	14,136	276,532	660	7,394	260,112
Number of Persons	12	1	74	6	1	69

Executives mean employees, 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

		2020					
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 Procurement Committee	Total
(Rupees '000)							
1	Mr. Niaz Muhammad Khan	175	55	40	25	-	295
2	Mr. Muhammad Waqas	150	-	25	-	25	200
3	Mr. Rauf Ahmad	175	-	-	40	40	255
4	Mr. Enamullah Khan	150	55	-	90	-	295
5	Mr. Hashim Raza	175	-	40	-	40	255
6	Mr. Omar Farooq	125	55	-	-	-	180
	Total amount paid	950	165	105	155	105	1,480
		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 '000)							
1	Due to absence of board no meetings of the board and its committees held during the current year.	-	-	-	-	-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

Remuneration paid to directors for participation in board and committee meetings of the SMEL

		2020					
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	75	-	-	10	-	85
2	Mr. Mubeen Mufti	75	30	-	-	-	105
3	Mst Sameena Gul	25	-	-	-	-	25
4	Mr. Bilal Mustafa	75	-	10	10	-	95
5	Mr. Javed Mehmood	75	30	10	-	-	115
6	Mst. Darakshan S. Vohra	50	20	10	10	-	90
	Total amount paid	375	80	30	30	-	515

		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	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

- 39.3 The President/CEO and certain executives were also provided with free use of Group's owned and maintained cars in accordance with their terms of employment.

Notes to the Consolidated Financial Statements

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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 break-up value of these investments as per their latest available audited financial statements.

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

December 31, 2020					
FAIR VALUE					
	Level 1	Level 2	Level 3	carrying / notional value	Total
	(Rupees in '000)				
	Note				
40.1 On balance sheet financial instruments					
Financial assets measured at fair value					
- Investments					
Government Securities (T' bills and PIBs)	-	5,680,735	-	-	5,680,735
Ordinary shares of listed companies/Mutual funds	5,400	-	-	-	5,400
Ordinary shares of unlisted companies	-		-	26,470	26,470
Financial assets not measured at fair value					
- Bank balances with treasury banks	40.2	-	-	493,156	493,156
- Balances with other banks	40.2	-	-	3,683	3,683
- Lending to financial institutions	40.2	-	-	-	-
- Advances	40.2	-	-	1,770,540	1,770,540
- Other assets	40.2	-	-	139,142	139,142
-Other Investment (COI/TDR)	40.2	-	-	35,000	35,000
<hr/>					
On balance sheet financial instruments (continued)					

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

December 31, 2019				
FAIR VALUE				
	Level 1	Level 2	Level 3	carrying / notional value
(Rupees in '000)				
Note				
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
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

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 and liabilities, 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 recognize 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

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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, 2020			
	Trading & Sales	Commercial Banking	Other leasing operations	Total
	(Rupees in '000)			
Profit & Loss				
Net mark-up/return/profit	466,252	253,141	21,650	741,043
Inter segment revenue - net	-	256,154	-	256,154
Non mark-up/return/interest income	2,444	12,490	305	15,239
Total income	468,696	521,785	21,955	1,012,436
Segment direct expenses	394,016	1,521,505	45,697	1,961,218
Inter segment expenses allocation	256,154	-	-	256,154
Total expenses	650,170	1,521,505	45,697	2,217,372
Provisions	-	(14,521)	14,056	(465)
Loss before tax	(181,474)	(985,199)	(37,798)	(1,204,471)
	Trading & Sales	Commercial Banking	Other leasing operations	Total
	(Rupees in '000)			
Balance Sheet				
Cash & Bank balances	378,678	292,172	1,626	672,476
Investments	5,747,605	-	-	5,747,605
Net inter segment lending	-	2,307,691	-	2,307,691
Lending to financial institutions	-	-	-	-
Advances - Performing	-	1,245,062	281,211	1,526,273
- Non-performing	-	140,535	103,732	244,267
Others	764,707	1,142,676	10,845	1,918,228
Total Assets	6,890,990	5,128,136	397,414	12,416,540
Borrowings	4,015,747	111,866	373	4,127,986
Deposits & other accounts	-	7,602,262	-	7,602,262
Net inter segment borrowing	2,307,691	-	-	2,307,691
Others	367,719	1,003,576	228,577	1,599,872
Total Liabilities	6,691,157	8,717,704	228,950	15,637,811
Equity	199,833	(3,589,568)	168,464	(3,221,271)
Total Equity & liabilities	6,890,990	5,128,136	397,414	12,416,540
Contingencies & Commitments	4,017,519	1,683,562	-	5,701,081

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

	December 31, 2019			
	Trading & Sales	Commercial Banking	Other leasing operations	Total
	(Rupees in '000)			
Profit & Loss				
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)
	Trading & Sales	Commercial Banking	Other leasing operations	Total
	(Rupees in '000)			
Balance Sheet				
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
Total Assets	6,755,191	6,354,134	473,553	13,582,878
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

Assumptions used:

- Unallocatable assets representing 7.25% (December 31, 2019: 6.03%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.94% (December 31, 2019: 6.93%) 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, 2020

42. RELATED PARTY TRANSACTIONS

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

	December 31, 2020				December 31, 2019			
	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)							
Investments								
Opening balance	-	-	-	-	-	-	-	-
Investment made during the period/year	-	-	-	-	-	-	-	-
Investment redeemed / disposed off during the period/year	-	-	-	-	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-	-
Provision for diminution in value of investments	-	-	-	-	-	-	-	-
Advances								
Opening balance	10,301	-	-	-	15,252	-	-	-
Addition (total debits) during the year	5,862	-	-	-	8,789	-	-	-
Repaid (total credits) during the year	(8,294)	-	-	-	(13,740)	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-
Closing balance	7,869	-	-	-	10,301	-	-	-
Provision held against advances	-	-	-	-	-	-	-	-
Other Assets								
Interest / mark-up accrued	6,875	-	-	-	5,880	611	-	-
Receivable from staff retirement fund	-	-	5,552	-	-	-	5,412	-
Other receivable	-	1,760	-	-	-	-	-	-
Deposits and other accounts								
Opening balance	11,181	454,276	1,155,429	5,000	4,702	412,774	811,006	12,769
Received during the year	111,282	38,233	205,546	36,073	104,916	41,502	350,205	33,890
Withdrawn during the year	(113,472)	-	(712)	(35,717)	(98,603)	-	(5,782)	(41,659)
Transfer in / (out) - net	116	-	-	-	166	-	-	-
Closing balance	9,107	492,509	1,360,263	5,356	11,181	454,276	1,155,429	5,000

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	December 31, 2020				December 31, 2019			
	Key Management Personnel	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Key Management Personnel	Equity Participation Fund	Employees benefit plans	Employees Provident Trust
Other Liabilities								
Interest / mark-up payable	32	2,301	58,593	23	106	4,341	72,000	52
Payable to staff retirement fund	-	-	411,154	-	-	-	479,624	-
Others liabilities	-	-	-	-	-	-	-	-
Contingencies and Commitments								
	-	-	-	-	-	-	-	-

	(Rupees in '000)				
Income					
Mark-up / return / interest earned	444	-	-	480	-
Fee and commission income	-	974	-	-	974
Expense					
Mark-up / return / interest expense	1,027	36,193	129,527	366	1,015
Fees and other expenses	-	-	-	-	-
Remuneration and allowances	67,283	-	-	70,746	-
Charge for the period relating to employees benefit plans	-	-	86,892	-	141,454

The total amount of deposits held by President/CEO with the Bank on December 31, 2020 was Rs. 21.770 million (2019: Rs. 4.805 million) bearing annual markup of Rs. 1.842 million (2019: Rs. 0.033 million) with accrued markup of Rs. 1.190 million (2019: Rs. 0.024 million) at year end.

	Description	Interest rate
Principal terms of deposit to Equity Participation Fund	Remunerative deposits	5.50% to 11.25%
Principal terms of deposit to Employee Benefit Plans	Remunerative deposits	5.50% to 13.65%
Principal terms of deposit to Employee Provident Trust	Remunerative deposits	5.50% to 11.50%

During the year SME Leasing contributed Rs. 0.776 million (2019: Rs. 0.665 million) towards provident fund.

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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:

	2020	2019		
Regulatory capital base	(Rupees in '000)			
<i>Tier I capital</i>				
Shareholders capital/assigned capital	2,392,507	2,392,507		
Reserves	234,660	234,660		
Non-controlling interest	11,165	26,621		
Unappropriated/unremitted profits (net of losses)	(5,862,189)	(4,869,557)		
	(3,223,857)	(2,215,769)		
Less: Adjustments				
Goodwill/intangible Assets	1,756	1,331		
Investment in equity of subsidiary	-	-		
Deficit on revaluation of available for sale investments	-	300,316		
	1,756	301,647		
<i>Total tier I capital</i>	(3,225,613)	(2,517,416)		
<i>Tier II capital</i>	8,593	8		
<i>Eligible tier III capital</i>	-	-		
Total regulatory capital (a)	(3,217,020)	(2,517,408)		
Risk-weighted exposures	2020	2019		
	Book value	Risk adjusted value	Book value	Risk adjusted value
<i>Credit risk</i>	(Rupees in '000)			
Balance sheet items:				
Cash and other liquid assets	672,476	737	655,890	1,050
Investments/ lending to financial institutions	5,747,605	66,870	5,659,227	65,554
Loans and advances	1,770,540	1,061,323	2,224,724	1,347,509
Fixed assets	483,858	483,858	548,676	548,676
Deferred tax assets	874,915	874,915	752,294	752,294
Other assets	557,699	274,926	558,296	281,704
	10,107,093	2,762,629	10,399,107	2,996,787
Off balance sheet items				
Weighted Non-funded exposures	191,773	95,887	206,700	103,350
	191,773	95,887	206,700	103,350
Credit risk-weighted exposures (b)	10,298,866	2,858,516	10,605,807	3,100,137
Market risk		310,065		728,771
Market risk-weighted exposures	-	310,065	-	728,771
Total risk-weighted exposures (c)		3,168,581		3,828,908
<i>Capital adequacy ratio credit risk</i> [(a) / (b) x 100]		-112.54%		-81.20%
<i>Total Capital adequacy ratio</i> [(a) / (c) x 100]		-101.53%		-65.75%

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 under BASEL II till restructuring/privatization and has granted exemption from implementation of Basel III Capital Instructions till restructuring/privatization vide SBP letter # BPRD/BA&CPD/646/000886/16 dated January 12, 2016. Accordingly, the Bank computes capital adequacy ratio 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.

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44. RISK MANAGEMENT

44.1 Credit risk

Credit risk represents the accounting loss that would be recognized 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.

44.1.1 Advances

Credit risk by industry sector

	Gross Advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Chemical and pharmaceuticals	148,669	179,898	107,471	105,771	103,717	101,354
Agriculture, forestry, hunting and fishing	233,526	233,782	202,883	203,002	202,883	203,002
Mining & quarrying	9,053	9,053	9,053	9,053	9,053	9,053
Textile	419,179	426,831	355,498	352,142	350,715	342,930
Cement	-	-	-	-	-	-
Footwear and leather garments	83,065	79,332	74,239	71,503	62,113	60,344
Automobile and transportation equipment	140,009	149,469	85,817	72,397	69,252	65,546
Financial	39,596	47,786	-	-	-	-
Insurance	-	-	-	-	-	-
Electronics and electrical appliances	51,819	54,999	13,693	15,307	10,484	10,582
Construction	217,100	311,340	74,956	70,079	69,930	69,975
Power (electricity), gas, water and sanitary	61,804	76,089	6,775	7,255	3,606	3,956
Wholesale and trade	1,718,561	1,820,807	1,523,227	1,530,671	1,489,957	1,490,818
Transport, storage, and communication	107,028	105,819	24,920	25,164	8,761	4,351
Individuals	1,117,892	1,136,643	1,050,826	1,050,840	1,050,826	1,050,840
Services	453,266	547,418	236,291	240,299	156,508	157,022
Government	-	-	-	-	-	-
Others	2,371,193	2,448,362	1,871,245	1,912,182	1,804,822	1,833,123
	7,171,760	7,627,628	5,636,894	5,665,665	5,392,627	5,402,896

44.1.2 Segment by sector

Public/ Government	-	-	-	-	-	-
Private	7,171,760	7,627,628	5,636,894	5,665,665	5,392,627	5,402,896
	7,171,760	7,627,628	5,636,894	5,665,665	5,392,627	5,402,896

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44.1.3 Contingencies and Commitments

Credit risk by industry sector

	2020	2019
	(Rupees in '000)	
Chemical and pharmaceuticals	137	379
Agriculture, forestry, hunting and fishing	73	4
Mining & quarrying	-	-
Textile	4,968	6,556
Cement	-	-
Sugar	-	-
Footwear and leather garments	-	-
Automobile and transportation equipment	20,767	10,002
Financial	4,041,976	3,568,670
Insurance	-	-
Electronics and electrical appliances	7,386	7,253
Construction	232,467	266,385
Power (electricity), gas, water and sanitary	24,200	25,403
Wholesale and trade	60,943	89,761
Exports/ Imports	-	-
Transport, storage and communication	-	18,000
Individuals	67,550	34,620
Services	71,955	11,294
Government	1,071,751	1,071,751
Others	96,908	151,931
	5,701,081	5,262,009

Credit risk by public/private sector

Public/ Government	1,071,751	1,071,751
Private	4,629,330	4,190,258
	5,701,081	5,262,009

44.1.4 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 681.998 million (2019: Rs. 795.836 million) are as following

	2020	2019
	(Rupees in '000)	
Funded	526,337	618,945
Non funded	155,661	176,891
Total Exposure	681,998	795,836

The sanctioned limits against these top 10 exposures aggregated to Rs 833.938 million (2019: Rs. 901.404 million)

Total funded classified therein

	2020		2019	
	Amount	Provision held	Amount	Provision held
	(Rupees in '000)			
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	-	-	-	-

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44.1.5 Advances - Province/Region-wise Disbursement & Utilization

Province/Region	2020						
	Disbursements	Utilization					AJK including Gilgit-Baltistan
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	
				(Rupees in '000)			
Punjab	395,460	395,460	-	-	-	-	-
Sindh	368,600	-	358,600	3,000	-	7,000	-
KPK including FATA	38,400	-	-	38,400	-	-	-
Balochistan	138,950	-	-	-	138,950	-	-
Islamabad	206,500	120,300	-	25,200	-	61,000	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-	-
Total	1,147,910	515,760	358,600	66,600	138,950	68,000	-

Advances - Province/Region-wise Disbursement & Utilization

Province/Region	2019					
	Disbursements	Utilization				
	Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
			(Rupees in '000)			
Punjab	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	214,640	273,400	37,500	-

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44.1.6 IMPACT OF COVID-19

The Bank

The outbreak of coronavirus has severely affected national and global economies. Various businesses are facing different issues with a certain degree of losses. Particularly, businesses are facing problems such as a decrease in demand, supply chain disruptions, raw material shortage, and transportation disruptions, among others. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate Covid-19 impact.

The State Bank of Pakistan (SBP) has responded to the crisis by cutting the policy rate by 625 basis points to 7 percent and by introducing regulatory measures to maintain banking system soundness and to sustain economic activity. These include (i) reducing the capital conservation buffer by 100 basis points to 1.5 percent; (ii) increasing the regulatory limit for retail asset classification by 44 percent to Rs.180 million, thus resulting in reduced risk weighted assets; (iii) relaxing the debt burden ratio for consumer loans from 50 percent to 60 percent; (iv) allowing banks to defer clients' payment of principal on loan obligations by one year; (v) relaxing regulatory criteria for restructured/rescheduled loans for borrowers who require relief beyond the extension of principal repayment for one year; and (vi) control unemployment, offered refinance facilities to customers for meeting their salary expense. COVID 19 has also impacted the banks in Pakistan from various facets which include increase in credit risk pertaining to loans and advances portfolio, reduced fee income due to slowdown in economic activity, operational issues such as operations of branches and managing investment banking activities including arrangement of syndicate loans, debt and capital advisory services etc.

As the current economic crisis unfolds against the backdrop of a public health emergency, the disruption to economic activity put strain on the solvency of customers and certain distressed customers sought help for financial hardships. Around 95 Covid affected borrowers of the Bank have availed the SBP enabled deferment/restructuring and rescheduling relief. The full potential effect of the economic stress is difficult to predict given the uncertain economic environment, however, the management of the Bank is closely monitoring the performance of its borrowers specially those who have availed the SBP enabled deferment facility. In view of above the Bank has also increased its vigilance in respect of its credit review procedures. Given the uncertainty that may prevail until the pandemic is over the management of the Bank believes that it is prudent to maintain a general provision at the rate of 4.5% (approximately) in respect of borrowers who have availed the SBP enabled packages. Had this additional provision of Rs.8.582 million not been made, advances and the loss after tax for year ended would have been higher by Rs. 8.582 million and Rs. 5.57 million respectively.

SME Leasing

Financial relief offered by the State Bank of Pakistan (SBP) to the customers of financial institutions governed by it, the Securities and Exchange Commission of Pakistan (SECP) vide its Circular (the Circular) dated March 31, 2020 allowed NBFCs to defer customers' principal repayments on their finance obligations by up to one year along with relaxing other regulatory criteria related to restructuring / rescheduling of financing limits. As per the Circular, the customers were required to apply by June 30, 2020 to avail the deferment. SECP subsequently extended the deadline for application till September 30, 2020.

The Company has processed all the eligible deferment requests received and agreed with its customers. The management of the Company has approved a total of 8 customers availing finance lease arrangements with aggregate balance of Rs. 43.48 million as per the treatment prescribed in the Circular. All necessary legal and procedural arrangements were executed to ensure the timely processing of eligible deferment requests. Furthermore, the recovery status and credit risk of financing exposures under both regular and deferred arrangements are being closely monitored amid changing economic and overall situation in the country due to COVID-19.

For the year ended December 31, 2020

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 Bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effect on the profitability of the Group.

44.2.1 Balance sheet split by trading and banking books

	2020		2019	
	Banking book	Trading book	Total	(Rupees in '000)
Cash and balances with treasury banks	668,793	-	668,793	650,638
Balances with other banks	3,683	-	3,683	5,252
Lendings to financial institutions	-	-	-	-
Investments	66,870	5,680,735	5,747,605	65,554
Advances	1,770,540	-	1,770,540	2,224,724
Fixed assets	483,858	-	483,858	548,676
Intangible assets	1,756	-	1,756	1,331
Deferred tax assets	874,915	-	874,915	752,294
Other assets	557,699	-	557,699	558,296
	4,428,114	5,680,735	10,108,849	4,806,765
				5,593,673
				10,400,438

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.

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Mismatch of interest rate sensitive assets and liabilities													
Effective Yield/Interest rate	On-balance sheet financial instruments	2020										Non-interest bearing financial instruments	
		Exposed to Yield/Interest risk											
		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)													
		668,793	-	-	-	-	73	-	-	-	196	-	668,793
2.00%	Cash and balances with treasury banks	3,683	1,176	-	-	174	-	82	-	16	-	-	1,966
8.18%	Balances with other banks												
11.56%	Lending to financial institutions												
	Investments	5,747,605	468,355	2,402,483	2,457,829	1,475	409,105	-	-	-	8,358	-	-
	Advances	1,770,540	344,770	101,763	191,519	405,625	64,529	612,106	44,860	-	4,496	872	-
	Other assets	139,142	-	-	-	-	-	-	-	-	-	-	139,142
		8,329,763	814,301	2,504,246	2,649,522	407,173	473,716	612,106	44,876	13,050	872	-	809,901

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Mismatch of interest rate sensitive assets and liabilities

Effective Yield/Interest rate	Exposed 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		Above 10 years
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	650,638	-	-	-	-	-	-	-	-	-	650,638
Balances with other banks	5,252	2,963	-	373	156	175	-	34	418	-	1,133
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	101,049	77,871	108,895	447,821	91,022	1,174,305	218,995	1,084	3,682	-
Other assets	174,020	-	-	-	-	-	-	-	-	-	174,020
	8,713,861	1,019,939	619,382	113,077	449,391	4,279,752	1,174,305	219,029	9,513	3,682	825,791
Liabilities											
Bills payable	51,543	-	-	-	-	-	-	-	-	-	51,543
Borrowings from financial institutions	3,651,144	3,107,648	476,748	4,829	7,830	14,504	12,207	18,729	12,649	-	-
Deposits and other accounts	7,500,708	1,532,481	1,150,319	1,469,549	800,352	25,267	25,725	-	1,885,393	-	611,622
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	433,486	-	-	-	-	-	-	-	-	-	433,486
	11,640,881	4,640,129	1,627,067	1,474,378	808,182	39,771	37,932	18,729	1,898,042	-	1,096,651
	(2,927,020)	(3,620,190)	(1,007,685)	(1,361,301)	(358,791)	4,239,981	1,136,373	200,300	(1,888,529)	3,682	(270,860)
On-balance sheet gap											
Off-balance sheet financial instruments											
Commitments to extend credit	280,608	-	-	-	-	-	-	-	-	-	-
Commitments against repo borrowing	3,560,826	3,090,439	470,387	-	-	-	-	-	-	-	-
Off-balance sheet gap	3,841,434	3,371,047	470,387	-	-	-	-	-	-	-	-

Total Yield/ Interest Risk Sensitivity Gap	(6,991,237)	(1,478,072)	(1,361,301)	(358,791)	4,239,981	1,136,373	200,300	(1,888,529)	3,682	-
Cumulative Yield/ Interest Risk Sensitivity Gap	(6,991,237)	(8,469,309)	(9,830,610)	(10,189,401)	(5,949,420)	(4,813,047)	(4,612,747)	(6,501,276)	(6,497,594)	-
Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities										
Total financial assets	8,713,861	(Rupees '000)								
Add non-financial assets:		(Rupees '000)								
Fixed assets	548,676	11,640,881								
Intangible assets	1,331	1,275,642								
Deferred Tax Assets	752,294									
Other assets	384,276									
Balance as per Balance Sheet	10,400,438	12,916,523								
Total financial liabilities										
Add non-financial liabilities:										
Other liabilities										
Balance as per Balance Sheet										

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. 8,713.86 million (2019: Rs. 8,895.3 million), the financial assets which were subject to interest rate risk amounted to Rs. 7,888.07 million (2019: Rs. 8,281.85 million). Investments and other assets amounting to Rs. 5,670.15 million (2019: Rs. 5,694.99 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.

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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

		2020									
		(Rupees in '000)									
	Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 1 year	Over 1 year to 5 years
Assets											
Cash and balances with treasury banks	668,793	668,793	-	-	-	-	-	-	-	-	-
Balances with other banks	3,683	3,683	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-
Investments	5,747,605	15,610	35,248	3,973	419,220	1,517,815	886,626	2,453,856	8,358	99,147	135,511
Advances	1,770,540	185,672	33,914	30,732	341,876	1,20,876	138,535	142,768	155,600	16,740	5,698
Fixed assets	483,858	-	-	-	5,637	5,869	6,101	16,584	15,835	166	243,630
Intangible assets	1,756	-	-	-	124	-	72	166	-	-	-
Deferred tax assets - net	874,915	-	-	-	-	-	-	-	-	-	-
Other assets	557,699	3,290	15,594	23,040	68,068	3,264	3,264	237,804	1,507	158,597	42,098
	10,108,849	877,048	84,756	57,745	834,925	1,647,948	1,034,598	2,851,178	173,108	283,008	291,426
Liabilities											
Bills payable	99,986	99,986	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	4,127,986	-	4,015,747	2,218	1,060	379	3,193	6,219	5,045	5,118	22,433
Deposits and other accounts	7,602,262	5,055,728	28,490	13,306	192,858	303,098	293,048	1,185,235	65,763	428,611	36,125
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,499,886	9,269	53,995	62,931	327,952	6,673	12,449	24,643	14,498	8,056	12,000
	13,330,120	5,164,983	4,098,232	78,455	521,870	310,150	308,690	1,216,097	85,306	441,765	67,074
Net assets	(3,221,271)	(4,287,935)	(4,013,470)	(20,710)	313,055	1,337,798	725,908	1,635,081	87,802	(158,757)	1,501,754
Share capital	2,392,507										
Reserves	234,660										
Surplus/(Deficit) on revaluation of assets	2,586										
Unappropriated profit	(5,862,189)										
Non-controlling interest	11,165										
	(3,221,271)										

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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 year
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	650,638	650,638	-	-	-	-	-	-	-	-
Balances with other banks	5,252	5,252	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	46,654	-	-	-	-	-	-	-
Investments	5,659,227	1,942	7,287	427	866,904	119	541,392	707	4,188,555	8,011
Advances	2,224,724	434,638	15,576	7,287	39,193	54,430	66,990	204,759	167,821	212,920
Fixed assets	548,676	-	-	-	6,179	6,168	6,452	18,310	60,761	194,511
Intangible assets	1,331	-	-	-	107	106	107	225	228	278,279
Deferred tax assets - net	752,294	-	-	-	-	-	320	-	752,294	-
Other assets	558,296	68	82,954	91	16,617	3,725	3,014	1,454	1,200	8,621
	10,400,438	1,092,538	145,184	7,805	929,000	64,548	617,955	225,455	5,170,859	298,452
Liabilities										
Bills payable	51,543	51,543	-	-	-	-	-	-	-	-
Borrowings from financial institutions	3,655,144	1,327,203	49,770	682,490	1,571,430	1,906	2,597	4,751	14,212	12,485
Deposits and other accounts	7,500,708	4,181,656	-	4,876	118,843	656,492	1,469,549	273,888	25,266	-
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	16,414	42,782	29,316
	12,916,523	4,298,955	1,536,028	696,986	1,760,316	683,869	173,120	295,053	82,260	133,384
Net assets	(2,516,085)	(3,206,417)	(1,390,844)	(689,181)	(831,316)	(619,321)	(444,835)	(69,598)	(30,859)	(255,727)
Share capital	2,392,507									
Reserves	234,660									
Surplus/(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

For the year ended December 31, 2020

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

		2020								
		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
Total		(Rupees in '000)								
Assets										
Cash and balances with treasury banks	668,793	593,973	15,888	1,322	3,510	-	-	-	54,100	-
Balances with other banks	3,683	3,142	-	174	73	82	-	16	196	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	5,747,605	468,355	2,402,483	2,457,829	1,475	409,105	-	-	8,358	-
Advances	1,770,540	322,371	86,217	226,997	397,669	258,033	337,727	135,526	5,128	872
Fixed assets	483,858	5,917	11,688	16,584	29,985	54,393	46,088	75,571	160,019	83,613
Intangible assets	1,756	124	196	166	333	603	334	-	-	-
Deferred tax assets - net	874,915	-	-	-	-	874,915	-	-	-	-
Other assets	557,699	115,358	5,554	236,340	157,176	871	267	35	42,098	-
	10,108,849	1,509,240	2,522,026	2,939,412	590,221	1,598,002	384,416	211,148	269,899	84,485
Liabilities										
Bills payable	99,986	86,609	-	-	-	-	-	-	13,377	-
Borrowings from financial institutions	4,127,986	4,019,025	3,572	6,219	10,163	18,949	16,082	31,543	22,433	-
Deposits and other accounts	7,602,262	2,268,034	1,059,674	1,185,663	494,175	32,125	4,000	200	2,558,391	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,499,886	453,993	8,559	15,526	30,303	20,910	15,191	33,401	668,614	253,389
	13,330,120	6,827,661	1,071,805	1,207,408	534,641	71,984	35,273	65,144	3,262,815	253,389
Net assets	(3,221,271)	(5,318,421)	1,450,221	1,732,004	55,580	1,526,018	349,143	146,004	(2,992,916)	(168,904)
Share capital	2,392,507									
Reserves	234,660									
Unappropriated profit	(5,862,189)									
Surplus/(Deficit) on revaluation of assets	2,586									
Non-controlling interest	11,165									

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, 2020

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

		2019							
		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)							
Assets									
Cash and balances with treasury banks	650,638	572,189	16,291	1,145	3,039	-	-	-	-
Balances with other banks	5,252	4,096	-	373	156	175	-	34	-
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	752,294	-	-	-	-	752,294	-	-	-
Other assets	538,296	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	118,363
Liabilities									
Bills payable	51,543	44,647	-	-	-	-	-	-	-
Borrowings from financial institutions	3,655,144	3,107,648	476,748	4,829	7,830	14,504	12,207	18,729	-
Deposits and other accounts	7,500,708	1,876,726	1,151,879	1,469,549	803,425	25,267	25,725	-	-
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	320,389
	12,916,523	5,461,508	1,638,722	1,480,095	828,134	88,115	73,899	166,477	320,389
Net assets									
Share capital	(2,516,085)	(3,675,496)	(906,059)	(975,331)	(182,354)	5,205,969	526,969	245,935	(202,026)
Reserves	2,392,507	-	-	-	-	-	-	-	-
Unappropriated profit	234,660	-	-	-	-	-	-	-	-
Surplus on revaluation of assets	(4,869,557)	-	-	-	-	-	-	-	-
Non-controlling interest	(300,316)	-	-	-	-	-	-	-	-
	26,621	-	-	-	-	-	-	-	-
	(2,516,085)	-	-	-	-	-	-	-	-

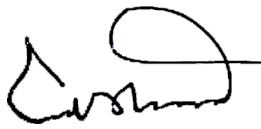
In compliance with the BSD circular letter No. 03 of 2011 dated February 22, 2011, all assets and liabilities with contractual maturities have been reported as per their remaining maturities, and where contractual maturities are not available, such assets and liabilities have been reported as per their 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.

Notes to the Consolidated Financial Statements

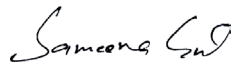
For the year ended December 31, 2020

45. DATE OF AUTHORIZATION


These financial statements were authorized for issue by the Board of Directors of the Bank on March 06, 2021.



Dilshad Ali Ahmad
President/CEO



Sameena Gul
Chief Financial Officer



Omer Farooq
Director



Hashim Raza
Director



Rauf Ahmad
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020

Rs. In thousands									
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
				Principal	Interest/Mark-up	Total			
1	Chenab Chemical Industries Chenab Chemical Chowk Bawa Chak, Sangodha Road, Faisalabad	Rashid Ghulam Rasool (33100-0772213-3) Ahmed Tahir (33100-9864183-7)	Ghulam Rasool Mian Muhammad Tahir	-	2,915	171	3,086	-	1,130
2	Allah Wale Cloth House Khana Lahore	Zia Ur Rehman Sethi (35202-2422719-3)	Sh. Abdul Rehman	-	396	170	566	-	362
3	A.M Garments Street, Sodawal Bund Road Lahore.	Muhammad Ilyas Muhammad Ibrahim (31102-6459500-7) (35202-6459500-1)	Abdul Hamid Mahar Natha	-	643	197	840	-	1,219
4	Muhammad Ali & Brothers Nahar Baghbanpura Lahore	Muhammad Ali Muhammad Akram Rizwan Ali (35201-1809073-7) (35200-6583291-3) (35201-6545579-3)	Ghulam-Mohi-ud-Din Muhammad Ali Ramzan Ali Shah	-	611	184	795	-	525
5	Super Aero Delux Sanitary	Muhammad Riaz (34101-8594362-9)	Muhammad Jamil	-	1,385	26	1,411	1,385	26
6	Modernage Public School & College Road, Abbottabad	Abdul Wahid Mir Sumaira Wahid (13101-0993629-9) (13101-0936866-2)	Muhammad Ramzan Mir Abdul Wahid Mir	3,206	8	2,048	5,262	-	961
7	Sangam Marriage Hall Near Pasrur Bypass Gage Daska, Sialkot	Mirza Shahid Mehmood Mirza Abdul Qayyum (34601-1458235-3) (34601-5176278-9)	Muhammad Siddique Muhammad Siddique	-	154	995	1,149	-	383
8	Zafar Iqbal Surgical Maker Daska	Zafar Iqbal (34601-2744542-3)	Munir Ahmed	-	633	71	704	-	906
Total				3,206	6,745	3,862	13,813	-	5,512
								1,385	6,897



SME LEASING LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SME LEASING LIMITED

Review Report to the Statement of Compliance with the Listed Companies (Code of Corporate Governance) Regulation 2019 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, 2020 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 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. 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.

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, 2020.

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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S. No.	Statement of Compliance reference	Description
<i>Statement of Compliance as per Public Sector Companies (Corporate Governance) Rules, 2013</i>		
	23	Company does not have nomination committee.
	2A (1)	The company does not comply with the requirement of minimum number of directors.
<i>Statement of Compliance as per Listed Companies (Code of Corporate Governance) Regulations, 2019</i>		
	24	The Chief Financial Officer also holds the position of Company Secretary.
	31	Performance appraisal of the Internal Auditor was not performed during the year.

Grant Thornton Anjum Rahman

Chartered Accountants

Karachi

Dated: March 04, 2021

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SME LEASING LIMITED

Report on the Audit of the Financial Statements

Qualified 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, 2020** 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, 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, 2020 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

Taxation – net includes an amount of Rs. 8.1 million (2019: Rs. 8.1 million) which was pertaining to prior years as provision for taxation. In order to ascertain the above, we requested supporting documents and management informed us that they are unable to locate these documents. We were unable to substantiate "Taxation – net" amounting to Rs. 8.1 million due to non-availability of records and being old in nature. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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 within the meaning of 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 qualified opinion.

Material Uncertainty relating to Going Concern

We draw attention to note 1.4 to the financial statements which states that the Company has incurred a net loss of Rs. 57.676 million (December 31, 2019: Rs. 35.694 million), resulting in accumulated losses of Rs. 348.906 million (December 31, 2019: Rs. 291.358 million) as at statement of financial position date and as of that date the Company's current liabilities exceed its current assets by Rs. 67.154 million (December 31, 2019: Rs. 54.804 million). Further, it is fully explained in note 1.2, application with the Securities and Exchange Commission of Pakistan for renewal of license to operate as a leasing company is still pending.

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 modified in respect of this matter.

Emphasis of Matter

We draw attention to note 1.3 to the financial statements which states the status of non-compliance with the Regulation 4 of Non-Banking Finance Companies and Notified Entities Regulations, 2008. Our opinion is not modified in respect of this matter

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was 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 matter. In addition to the matters described in the 'Basis for Qualified Opinion' and the 'Material Uncertainty Related to Going Concern' section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter is as follows:

S. No.	Key audit matter	How the matter was addressed in our audit
1.	<p>Impairment allowance for potential lease and loan losses</p> <p>Refer to notes 9, 10 and 15 to the financial statements and the accounting policy in notes 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. 323.368 million and Rs. 61.08 respectively having provision of Rs. 148.813 million and Rs. 11.088 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"> - obtaining an understanding and evaluating the design of the key controls; - performing 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. - 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. - testing 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.

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) except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, 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;



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- 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: March 04, 2021



STATEMENT OF FINANCIAL POSITION

As at December 31, 2020

		2020	2019
	Note	Rupees	
ASSETS			
Non-current assets			
Property and equipment	6	3,903,811	4,510,324
Right-of-use asset	7	7,770,109	12,053,712
Intangible asset	8	-	-
Net investment in finance leases	9	187,152,253	237,195,651
Long term finances and loans - secured	10	47,385,562	57,932,105
Long-term loans to employees - secured	11	323,196	732,683
Long-term deposits and prepayments	12	870,558	1,162,410
Total non-current assets		247,405,489	313,586,885
Current assets			
Advances	13	5,007,025	3,369,958
Prepayments and other receivables	14	1,496,938	951,154
Current maturity of non current assets	15	150,082,218	163,024,745
Cash and bank balances	16	1,626,307	787,718
Total current assets		158,212,488	168,133,575
Total assets		405,617,977	481,720,460
EQUITY AND LIABILITIES			
Share capital and reserves			
Authorized share capital			
100,000,000 (2019: 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
Revenue reserves			
Reserve against future losses		10,447,052	10,447,052
Accumulated losses		(348,905,989)	(291,358,265)
		(338,458,937)	(280,911,213)
Total shareholders' equity		19,560,340	77,108,064
Non-current liabilities			
Liabilities against assets subject to finance lease	21	7,214,310	10,505,675
Long-term deposits	9	144,177,595	163,545,094
Defined benefit obligations	23	9,164,855	7,623,230
Total non-current liabilities		160,556,760	181,673,999
Current liabilities			
Trade and other payables	17	5,040,042	4,870,238
Unclaimed dividend		-	19,694
Mark-up accrued on borrowings	18	4,211,211	2,143,384
Short term borrowings - secured	19	144,790,638	142,156,359
Current maturity of non-current liabilities	20	57,381,913	60,590,939
Current maturity of liabilities against finance lease assets	21	2,913,768	2,489,296
Provision for compensated absences	22	2,959,558	2,500,565
Taxation - net		8,203,747	8,167,922
Total current liabilities		225,500,877	222,938,397
Total equity and liabilities		405,617,977	481,720,460
Contingencies and commitments	25		

The annexed notes from 1 to 42 form an integral part of these financial statements.

M. Shahzad
Chief Financial OfficerMuhammad Mubeen Mufti
DirectorJaved Mehmood
DirectorBilal Mustafa
Director

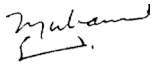
* Filling for vacancy of CEO in process.

**STATEMENT OF PROFIT AND LOSS ACCOUNT**

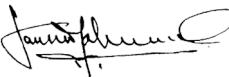
For the year ended December 31, 2020

	Note	2020 ----- Rupees-----	2019
REVENUE			
Income from operations	26	21,583,297	26,466,198
Other operating income			
Other income	27	371,609	111,440
Total revenue		21,954,906	26,577,638
EXPENSES			
Administrative and general	28	(43,681,689)	(44,233,719)
Finance cost	29	(21,569,869)	(22,459,467)
Total expenses		(65,251,558)	(66,693,186)
Operating loss before reversals / (provisions)		(43,296,652)	(40,115,548)
(PROVISIONS)/REVERSALS			
(Provisions)/reversals for potential lease losses - net	9.6	(12,461,567)	3,510,494
(Provisions)/reversals for loans and receivables - net	10.2	(1,594,618)	1,220,483
Total (provisions) / reversals		(14,056,185)	4,730,977
LOSS BEFORE TAXATION		(57,352,837)	(35,384,571)
Taxation	30	(323,749)	(309,759)
LOSS FOR THE YEAR		(57,676,586)	(35,694,330)
Loss per share - basic and diluted	31	(1.80)	(1.12)

The annexed notes from 1 to 42 from an integral part of these financial statements.


M. Shahzad
 Chief Financial Officer


Muhammad Mubeen Mufti
 Director


Javed Mehmood
 Director


Bilal Mustafa
 Director

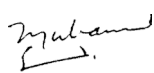
* Filling for vacancy of CEO in process.

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended December 31, 2020

	Note	2020 ----- Rupees-----	2019
Loss for the year		(57,676,586)	(35,694,330)
Other comprehensive loss			
<i>Items that will be reclassified to profit or loss account in subsequent years</i>			
Actuarial gain on defined benefit obligation	23	128,862	1,120,142
<i>Items not to be reclassified to profit or loss account in subsequent years</i>		-	-
Total comprehensive loss for the year		(57,547,724)	(34,574,188)

The annexed notes from 1 to 42 form an integral part of these financial statements.


M. Shahzad
 Chief Financial Officer


Muhammad Mubeen Mufti
 Director


Javed Mehmood
 Director


Bilal Mustafa
 Director

* Filling for vacancy of CEO in process.

**STATEMENT OF CASH FLOWS**

For the year ended December 31, 2020

	Note	2020 ----- Rupees-----	2019
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(57,352,837)	(35,384,571)
Adjustment for:			
Depreciation and amortization	28	3,579,845	3,517,675
Gratuity expense	23.2	1,722,387	2,433,115
Provision for compensated absences	22	1,524,411	1,348,605
Finance cost	29	21,569,869	22,459,467
Gain on disposal of property and equipment	27	(310,128)	(2,500)
Provisions/(reversals) for potential lease losses - net	9.6	12,461,567	(3,510,494)
Provisions/(reversals) for loans and receivables - net	10.2	1,594,618	(1,220,483)
		<u>42,142,569</u>	<u>25,025,385</u>
Operating loss before working capital changes		(15,210,268)	(10,359,186)
Movement in working capital			
(Increase) / decrease in operating assets			
Net investment in lease		48,409,860	33,002,556
Finances and loans		11,893,462	5,211,350
Long-term loans to employees - secured		599,710	-
Prepayments and other receivables		(545,784)	259,087
Long-term deposits and prepayments		291,852	(337,509)
Long term deposits paid		(22,576,525)	(6,771,981)
Advances		(1,637,067)	(24,013)
		<u>36,435,508</u>	<u>31,339,490</u>
(Decrease) / increase in operating liabilities			
Trade and other payables		169,804	1,126,383
Unclaimed dividend		(19,694)	-
		<u>150,110</u>	<u>1,126,383</u>
Cash generated from operations		21,375,350	22,106,687
Financial charges paid		(19,734,352)	(19,579,127)
Interest income received		61,481	108,940
Gratuity paid	23.3	(51,900)	(2,780,405)
Benefits paid	22	(1,065,418)	(1,339,631)
Taxes paid		(287,924)	(350,627)
		<u>(21,078,113)</u>	<u>(23,940,850)</u>
Net cash generated from / (used in) operating activities		297,236	(1,834,163)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure	6	(145,600)	(272,011)
Proceeds from disposal of fixed assets	27	1,766,000	2,500
Net cash generated /(used in) from investing activities		1,620,400	(269,511)
CASH FLOW FROM FINANCING ACTIVITIES			
Lease rentals paid		(3,713,326)	(3,839,362)
Net cash used in financing activities		(3,713,326)	(3,839,362)
Net decrease in cash and cash equivalents		(1,795,690)	(5,943,036)
Cash and cash equivalents at beginning of the year		(141,368,641)	(135,425,605)
Cash and cash equivalents at end of the year	34	(143,164,331)	(141,368,641)

The annexed notes from 1 to 42 from an integral part of these financial statements.

M. Shahzad
Chief Financial Officer**Muhammad Mubeen Mufti**
Director**Javed Mehmood**
Director**Bilal Mustafa**
Director

* Filling for vacancy of CEO in process.



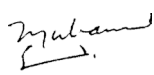
STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

	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, 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	-	-	-	-	(35,694,330)	(35,694,330)
Other comprehensive loss						
	-	-	-	-	1,120,142	1,120,142
Actuarial gain on defined benefit obligation						
Balance as at December 31, 2019	320,000,000	10,000,000	28,019,277	10,447,052	(291,358,265)	77,108,064
Balance as at January 01, 2020						
Balance as at January 01, 2020	320,000,000	10,000,000	28,019,277	10,447,052	(291,358,265)	77,108,064
Total Comprehensive loss for the year ended December 31, 2020						
Loss for the year	-	-	-	-	(57,676,586)	(57,676,586)
Other comprehensive loss						
	-	-	-	-	128,862	128,862
Actuarial gain on defined benefit obligation						
Balance as at December 31, 2020	320,000,000	10,000,000	28,019,277	10,447,052	(348,905,989)	19,560,340

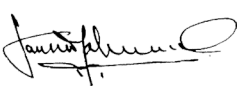
* Share premium and Statutory reserves are reflected as capital reserves in statement of financial position.

The annexed notes from 1 to 42 form an integral part of these financial statements.


M. Shahzad
 Chief Financial Officer

* Filling for vacancy of CEO in process.


Muhammad Mubeen Mufti
 Director


Javed Mehmood
 Director


Bilal Mustafa
 Director



Notes to the Financial Statements

For the year ended December 31, 2020

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% (2019: 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 PACRA Credit Rating Agency has assigned a long term rating of B (2019: B) and a short-term rating of B (2019: B) to the Company in the month of April 2020.
- 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** 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 not complied with said requirement of NBFC Regulations 2008 of maintaining minimum capital requirement.
- 1.4** During the year ended December 31, 2020, the Company has incurred a net loss of Rs. 57.676 million (December 31, 2019: Rs. 35.694 million), resulting in accumulated losses of Rs. 348.906 million (December 31, 2019: Rs. 291.358 million) at the end of the year. Further, the net assets of the Company amounts to Rs. 19.694 million (December 31, 2019: Rs. 77.108 million). The Company has negative cash and cash equivalent of Rs. 143.164 million (December 31, 2019: Rs. 141.368 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. 67.154 million (2019: Rs. 54.805 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 had granted relaxation the Parent Company relaxation of the aforesaid requirement, which had expired on December 31, 2019. During the year, the Parent Company has requested SBP to allow exemption form related party exposure limit till December 31, 2020 and correspondence regarding this was in progress till year end.

“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 financials are prepared using going concern assumption considering the factors mentioned below:



Notes to the Financial Statements

For the year ended December 31, 2020

- The holding company has granted a short term running finance facility to the Company amounting to Rs. 150 million out of which Rs. 144.747 million has been utilized as at December 31, 2020 (2019: Rs. 142.156 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 June 30, 2022 and 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. 25,048 million (2019: Rs. 17.612 million) has been recovered.
- 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.

2 SUMMARY OF SIGNIFICANT TRANSACTIONS AND BALANCES

		2020	2019
	Note	----- Rupees-----	
Net lease disbursements	2.1	<u>27,000,000</u>	64,460,000
Recoveries	2.2	<u>79,532,814</u>	<u>113,127,363</u>

2.1 This represents amount disbursed against new leases written during the year.

2.2 This represents recoveries from non-performing loans amounting to Rs. 20,714,737 (2019: Rs. 17,612,272) and regular parties amounting to Rs. 58,818,077 (2019: Rs. 95,515,091).

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). In case where requirements differ, the provision or directives issued under the Companies Act, 2017, NBFC Rules, 2003 and NBFC Regulations, 2008 shall prevail.



Notes to the Financial Statements

For the year ended December 31, 2020

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 Pakistan 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.

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 estimate is 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.

The significant judgments made by the management in applying the accounting policies and the key sources of estimating uncertainty were the same as those applied to financial statements for the year ended December 31, 2019.

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 30).
- Classification and provision of net investment in finance lease and loans and finances (notes 5.9, 5.10, 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 5.8 and 23).
- Staff compensated absences (note 5.8 and 22).
- Impairment of non-financial assets (note 5.14).

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.



Notes to the Financial Statements

For the year ended December 31, 2020

Standard or Interpretation	Effective Date (Annual periods beginning on or after)
IAS 1 "Presentation of financial statements (amendments)"	January 1, 2020
IAS 8 "Accounting policies, change in accounting estimates and errors (amendments)"	January 1, 2020
IFRS 3 "Business Combinations (amendments)"	January 1, 2020

There are certain other new and amended standards, interpretations and amendments that are mandatory for the Company's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or will not have any significant effect on the Company's operations and are, therefore, not detailed in these financial statements.

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

Standard or Interpretation	Effective Date (Annual periods beginning on or after)
IFRS 9, IAS 39, IFRS7, IFRS4, and IFRS16 Interest Rate Benchmark Reform Phase 2	January 1, 2021
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	January 1, 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	January 1, 2022
IFRS 17 and IFRS 4 Ammenment to IFRS 17 Insurance Contracts	January 1, 2022
IFRS 1, IFRS 9, IFRS 16 and IAS 41 Annual Improvements to IFRS Standards 2018-2020 cycle	January 1, 2022
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	January 1, 2022

The above standards, amendments and interpretations are not expected to have a material impact on the Company's financial statements when they become effective.

4.3 Standards, amendments and interpretations to the published standards that are notified by the Securities and Exchange Commission of Pakistan (SECP)

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

Standard or Interpretation	Effective Date (Annual periods beginning on or after)
Financial Instruments - IFRS 9	January 1, 2022

The SECP vide S.R.O. 1332(I)/2019 has modify the effective date for applicability of



Notes to the Financial Statements

For the year ended December 31, 2020

International Financial Reporting Standard - Financial Instruments (IFRS-9) in place of International Accounting Standard (IAS-39) (Financial Instruments: recognition and Measurement) for Non Banking Finance Companies as “Reporting period/year ending on or after 30 June, 2020.

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 cash flows.

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 account 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 put to 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.

Gains or losses on sale of assets are charged to the statement of profit or loss account in the period in which they arise.

5.3 Right-of-use assets

The Company recognizes 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 recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments



Notes to the Financial Statements

For the year ended December 31, 2020

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.

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 account.

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.

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



Notes to the Financial Statements

For the year ended December 31, 2020

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 account.

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 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 account on a basis account 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 account 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 in the appraisal of each lease or loan on the basis of the requirements of the NBFC Regulations.

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



Notes to the Financial Statements

For the year ended December 31, 2020

to statement of profit or loss account 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 trade 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 account. 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:

Investment at fair value through profit or loss (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 account.

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 account over the term of the investment.



Notes to the Financial Statements

For the year ended December 31, 2020

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 account.

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 carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss account.

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 account.

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 account 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



Notes to the Financial Statements

For the year ended December 31, 2020

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 Contingent liabilities

A contingent liability is disclosed when the Company has a possible obligation as a result of past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or the Company has a present legal or constructive obligation that arise from past events but it is not probable that an outflow of resources embodying benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

5.18 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.

5.19 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.

5.20 Revenue recognition

- The Company 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.
- 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.



Notes to the Financial Statements

For the year ended December 31, 2020

5.21 Earnings / (loss) per share

The Company presents basic and diluted earnings / (loss) per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary share holders 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.

5.22 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.

5.23 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. Consequently, during the current year the Company has transferred an amount of Rs. nil due to loss (2019: Rs. nil) to its statutory reserve.

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. This was applicable when the company was deposit taking NBFC till year 2008, however, subsequently when the status of company changed from deposit taking NBFC to non-deposit taking NBFC, this policy is no more applicable. Therefore, no such reserve has been created by the Company for the year ended December 31, 2020.

5.24 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.

5.25 Deposits and prepayments

These are initially recognised at cost being the fair value of the consideration paid. Subsequently,



Notes to the Financial Statements

For the year ended December 31, 2020

these are stated at cost less impairment losses, if any which equals to the fair value of the consideration to be received in future.

5.26 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.

5.27 Expenses

Operating expenses are recognised in the statement of profit or loss account upon utilisation of the service or at the date of their origin.

5.28 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.

5.29 Finance cost

Finance cost on short term borrowings and lease liabilities is recognised in statement of 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, 2020

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Notes to the Financial Statements

For the year ended December 31, 2020

7 RIGHT-OF-USE ASSET

	C O S T			ACCUMULATED DEPRECIATION			BOOK VALUE
	As at January 1, 2020	Adjustment on transition to IFRS 16	Additions/transfer	Disposal	As at Dec 31, 2020	For the year On disposal	As at Dec 31, 2020
(Rupees)							
2020							
Office premises	12,950,191	-	-	-	12,950,191	2,590,038	5,180,082
Motor Vehicles	1,782,700	-	-	1,782,700	-	237,693	-
	14,732,891	-	-	1,782,700	12,950,191	2,827,731	7,770,109

	C O S T			ACCUMULATED DEPRECIATION			BOOK VALUE
	As at January 01, 2019	Adjustment on transition to IFRS 16	Additions/transfer	Disposal	As at Dec 31, 2019	For the year On disposal	As at Dec 31, 2019
(Rupees)							
2019							
Office premises	-	12,950,191	-	-	12,950,191	2,590,044	10,360,147
Motor Vehicles	-	-	1,782,700	-	1,782,700	89,135	1,693,565
	-	12,950,191	1,782,700	-	14,732,891	2,679,179	12,053,712

7.1 Particulars of Disposal of Right of used assets

	Original Cost	Accumulated Depreciation	Written Down Value	Sales Proceeds	Profit / (Loss) on Disposal	Particulars of Buyer	Relationship
	Rupees						
Motor Vehicle							
Suzuki Cultus	1,782,700	326,828	1,455,872	1,760,000	304,128	Insurance Company	Third party
	1,782,700	326,828	1,455,872	1,760,000	304,128		



Notes to the Financial Statements

For the year ended December 31, 2020

8 INTANGIBLE ASSET

Software and licenses

	2020	2019
	Rupees	Rupees
Note		
8.1	-	-

8.1 Movement of intangible assets

	C O S T				ACCUMULATED AMMORTIZATION		BOOK VALUE	Depreciation Rate per annum
	As at January 1, 2020	Additions/ transfer	Disposal	As at Dec 31, 2020	As at January 1, 2020	For the year		
Owned					(Rupees)			%
Software and licenses	1,507,142	-	-	1,507,142	1,507,142	-	1,507,142	33%
	1,507,142	-	-	1,507,142	1,507,142	-	1,507,142	-

	C O S T				ACCUMULATED AMMORTIZATION		BOOK VALUE	Depreciation Rate per annum
	As at January 1, 2019	Additions/ transfer	Disposal	As at Dec 31, 2019	As at January 1, 2019	For the year		
Owned					(Rupees)			%
Software and licenses	1,507,142	-	-	1,507,142	1,429,304	77,838	1,507,142	33%
	1,507,142	-	-	1,507,142	1,429,304	77,838	1,507,142	-



Notes to the Financial Statements

For the year ended December 31, 2020

	Note	2020	2019
		Rupees	
9 NET INVESTMENT IN FINANCE LEASES			
Net investment in finance leases	9.1	323,368,379	383,222,542
Less: Current maturity	15	(136,216,126)	(146,026,891)
		187,152,253	237,195,651

9.1 Net investment in finance leases

		December 31, 2020			December 31, 2019		
		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
	Note	(Rupees)					
Minimum lease payments	9.3	332,473,338	252,615,664	79,857,674	363,613,847	266,683,943	96,929,904
Add: Residual Value of leased assets	9.4	201,186,275	144,177,595	57,008,680	223,762,800	163,545,094	60,217,706
Gross Investment in leases		533,659,613	396,793,259	136,866,354	587,376,647	430,229,037	157,147,610
Less: Unearned lease Income		(12,813,448)	(12,163,220)	(650,228)	(18,120,622)	(6,999,903)	(11,120,719)
Less: Markup held in Suspense Account		(48,664,406)	(48,664,406)	-	(49,681,670)	(49,681,670)	-
		(61,477,854)	(60,827,626)	(650,228)	(67,802,292)	(56,681,573)	(11,120,719)
		472,181,759	335,965,633	136,216,126	519,574,355	373,547,464	146,026,891
Less: Provision for potential lease losses	9.6	(148,813,380)	(148,813,380)	-	(136,351,813)	(136,351,813)	-
Net Investment in Finance leases		323,368,379	187,152,253	136,216,126	383,222,542	237,195,651	146,026,891

9.2 The internal rate of return (IRR) on lease contract receivable ranges from 9.5% to 25% per annum (2019: 9.5% to 25% per annum).

9.3 This include amount receivable in respect of non performing leases of Rs. 199.204 million (2019: Rs. 124.601 million) which have not been fully provided due to forced sales value benefit amounting to Rs. 87.345 million (2019: Rs. 150.100 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. 144.988 million (2019: Rs. 145.463 million).

9.5 Lease rentals received during the year aggregate to Rs. 79.533 million (2019: Rs. 113.127 million). Lease disbursed during the year amounts to Rs. 27 million (2019: Rs. 64.460 million).



Notes to the Financial Statements

For the year ended December 31, 2020

	Note	2020	2019
		Rupees-----	
9.6 Provision for potential lease losses			
Balance at the beginning of the year		136,351,813	139,862,307
Provision for the year		29,052,904	9,403,368
Recovered during the year		(16,591,337)	(12,913,862)
Net provision		12,461,567	(3,510,494)
Balance at the end of the year		148,813,380	136,351,813
10 LONG TERM FINANCES AND LOANS - SECURED			
Customers			
-considered good	10.1	20,351,243	24,244,705
-considered doubtful		51,818,056	59,818,056
	10.3	72,169,299	84,062,761
Less: Provision for doubtful finances and loans - net	10.2	(11,088,650)	(9,494,030)
		61,080,649	74,568,731
Less: Current maturity			
Customers	15	(13,695,087)	(16,636,626)
		47,385,562	57,932,105
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 11.35% to 17.33% (2019: 15% to 27%) per annum.		
		2020	2019
10.2 Provision for doubtful finances and loans - net		Rupees-----	
Balance at the beginning of the year		9,494,030	10,714,513
Provision for the year		5,718,015	3,588,157
Recovered during the year		(4,123,397)	(4,808,640)
Net provision		1,594,618	(1,220,483)
Balance at the end of the year		11,088,648	9,494,030
10.3	This includes non performing loans of Rs. 59.140 million (2019: Rs. 75.661 million) which have not been fully provided due to FSV benefits amount to Rs. 63.832 million (2019: 76.025 million).		
11 LONG-TERM LOANS TO EMPLOYEES - SECURED		2020	2019
	Note	Rupees-----	
Related parties - considered good			
- house loans		-	155,352
- car loans		494,201	938,559
	11.1&11.2	494,201	1,093,911
Less: Current maturity	15	(171,005)	(361,228)
		323,196	732,683
11.1 Movement in loan to employees			
Balance at the beginning of the year		1,093,911	1,504,534
Disbursements		49,500	89,567
Repayments		(649,210)	(500,190)
Balance at the end of the year		494,201	1,093,911



Notes to the Financial Statements

For the year ended December 31, 2020

- 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% (2019: 5% to 7 %) per annum.

12 LONG-TERM DEPOSITS AND PREPAYMENTS

		2020	2019
	Note	Rupees-----	
Other deposits	12.1	787,222	787,222
Prepayments		864,004	1,062,373
Less: Current maturity	14	(780,668)	(687,185)
Non-current prepayments		83,336	375,188
		<u>870,558</u>	<u>1,162,410</u>

12.1 Other deposits

Deposit On Rent: Branches	711,000	711,000
Deposit - Central Depository Company	50,000	50,000
Miscellaneous Deposits	14,422	14,422
Deposit On BRR Security Vault	11,800	11,800
	<u>787,222</u>	<u>787,222</u>

13 ADVANCES

Considered good - unsecured

- employees	13.1	1,678,710	1,180,216
- legal advisors	13.2	2,289,853	2,053,200
- others		137,426	136,542
- Advance against lease vehicle		886,036	-
- SBP deposit		15,000	-
		<u>5,007,025</u>	<u>3,369,958</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.

		2020	2019
	Note	Rupees-----	
14 PREPAYMENTS AND OTHER RECEIVABLES			
Prepayments		780,668	838,786
Other receivable		65,000	65,000
Accrued interest on long term finances and loans		651,270	47,368
		<u>1,496,938</u>	<u>951,154</u>

15 CURRENT MATURITY OF NON CURRENT ASSETS

Current maturity of :

- Net investment in finance leases	9	136,216,126	146,026,891
- Long term finances and loans	10	13,695,087	16,636,626
- Long term loans to employees	11	171,005	361,228
		<u>150,082,218</u>	<u>163,024,745</u>



Notes to the Financial Statements

For the year ended December 31, 2020

		2020	2019
	Note	Rupees	Rupees
16 CASH AND BANK BALANCES			
Balance with State Bank of Pakistan in current account		-	6,282
Balances with banks in:			
- Current accounts		1,466,000	633,408
- Saving accounts	16.1	93,895	81,616
Cash in hand		66,412	66,412
		<u>1,626,307</u>	<u>787,718</u>
16.1	These carry profit rate of 5.5% to 11.25% per annum (2019: 4% per annum).		
17 TRADE AND OTHER PAYABLES			
Payable on termination/maturity of leases		2,132,445	1,323,320
Insurance payable		1,829,706	2,023,774
Accrued expenses		798,429	1,206,715
Others		255,933	316,429
Sales tax payable		23,529	-
		<u>5,040,042</u>	<u>4,870,238</u>
18 MARK-UP ACCRUED ON BORROWINGS			
Interest accrued on:			
- Short term borrowings	18.1	4,211,211	2,143,384
18.1	This amount represents accrued interest payable to the holding company.		
19 SHORT TERM BORROWINGS - SECURED			
Short term borrowings	19.1	144,790,638	142,156,359
19.1	The Company has a running finance facility available from the holding company amounting to Rs.150 million (2019: Rs.150 million) at mark-up rates ranging between 11.35% to 17.33% (2019: 10.43% to 17.33%) per annum. Above arrangements are secured by way of hypothecation of the Company's specific leased assets and related receivables of the Company.		
20 CURRENT MATURITY OF NON-CURRENT LIABILITIES			
Long term deposits	9.1	57,008,680	60,217,706
Long term finance	20.1	373,233	373,233
		<u>57,381,913</u>	<u>60,590,939</u>



Notes to the Financial Statements

For the year ended December 31, 2020

- 20.1** This represents balance due against financing facilities amounting to Rs. 0.373 million (2019: 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 CURRENT MATURITY OF LIABILITIES AGAINST FINANCE LEASE ASSETS

	2020		2019	
	Minimum Lease Payment	Present value	Minimum Lease Payment	Present value
	Rupees-----		Rupees-----	
Upto one year	4,200,835	2,913,768	4,392,078	2,489,296
Later than one year but not later than five years	8,392,048	7,214,310	-	-
Total minimum lease payments	12,592,883	10,128,078	13,183,867	10,505,675
Less: Finance charges not due yet	(2,464,805)	-	(4,580,974)	-
Present value of minimum lease payments	10,128,078	10,128,078	12,994,971	12,994,971
Less: Current portion	(2,913,768)	(2,913,768)	(2,489,296)	(2,489,296)
Non-current portion	7,214,310	7,214,310	10,505,675	10,505,675

22 PROVISION FOR COMPENSATED ABSENCES

Changes in present value of defined benefit obligations

	2020	2019
	Rupees-----	
Present value of defined benefit obligations- Opening	2,500,565	2,491,591
Current service cost	1,266,197	820,743
Interest cost on defined benefit obligation	221,384	241,385
Benefits paid	(1,065,418)	(1,339,631)
Remeasurement		
- Actuarial gains from changes in assumptions	(5,872)	(4,307)
- Experience adjustments	42,702	290,784
Present value of defined benefit obligations- Closing	2,959,558	2,500,565

Expenses to be charged to statement of profit or loss account

	2020	2019
	Rupees-----	
Current service cost	1,266,197	820,743
Experience adjustments	42,702	290,784
Actuarial gains from changes in financial assumptions	(5,872)	(4,307)
Interest cost on defined benefit obligation	221,384	241,385
Expense chargeable to statement of profit or loss account	1,524,411	1,348,605

Changes in net liability

	2020	2019
	Rupees-----	
Statement of financial position liability- Opening	2,500,565	2,491,591
Expenses chargeable to statement of profit or loss account	1,524,411	1,348,605
Benefits paid	(1,065,418)	(1,339,631)
Statement of financial position liability- Closing	2,959,558	2,500,565



Notes to the Financial Statements

For the year ended December 31, 2020

23 DEFINED BENEFIT OBLIGATIONS

The Company operates an unapproved and unfunded gratuity scheme for all of its permanent employees. Number of employees covered under the scheme are 27 (2019: 28).

Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on December 31, 2020 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

		2020	2019
Valuation discount rate		11.25%	11.25%
Expected long term rate of increase in salary level		11.25%	11.25%
23.1 Liability in statement of financial position	Note	----- Rupees-----	
Present value of defined benefit obligation	23.2	<u>9,164,855</u>	<u>7,623,230</u>
23.2 Movement in liability during the year			
Balance at the beginning of the year		7,623,230	9,090,662
Charged to statement of profit or loss account	28.1	1,722,387	2,433,115
Remeasurements chargeable in other comprehensive income	23.5	(128,862)	(1,120,142)
Benefits paid during the year		(51,900)	(2,780,405)
Balance at the end of the year		<u>9,164,855</u>	<u>7,623,230</u>
23.3 Reconciliation of the present value of defined benefit obligations			
Present value of obligations at beginning of the year		7,623,230	9,090,662
Current service cost		867,693	1,412,804
Interest cost		854,694	1,020,311
Past service cost		-	-
Benefits paid during the year		(51,900)	(2,780,405)
Remeasurements gain chargeable in other comprehensive income		(128,862)	(1,120,142)
Present value of obligations at the end of the year		<u>9,164,855</u>	<u>7,623,230</u>
23.4 Charged to statement of profit or loss account			
Current services cost		867,693	1,412,804
Past service cost		-	-
Interest cost		854,694	1,020,311
		<u>1,722,387</u>	<u>2,433,115</u>
23.5 Remeasurements gain chargeable in other comprehensive income			
Actuarial gains on obligation		(19,855)	(23,258)
Experience adjustment		(109,007)	(1,096,884)
Total re-measurements recognized in other comprehensive income		<u>(128,862)</u>	<u>(1,120,142)</u>



Notes to the Financial Statements

For the year ended December 31, 2020

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	9,164,855	11.25%
1% increase	10,081,341	12.25%
1% decrease	8,248,370	10.25%

Salary increase rate effect	Rupees	Rate effect
Original liability	9,164,855	11.25%
1% increase	10,081,341	12.25%
1% decrease	9,073,206	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

	2020	2019
The weighted average duration of the obligation (in years)	10	10

24 ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2020 (Number of shares)	2019		2020	2019
			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
32,000,000	32,000,000		320,000,000	320,000,000

- 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, 2020, The holding company and its nominees hold 73.14% (2019: 73.14%) ordinary shares of the Company.



Notes to the Financial Statements

For the year ended December 31, 2020

25 CONTINGENCIES AND COMMITMENTS

25.1 Contingencies

There are no contingencies as at December 31, 2020 (2019: Nil).

25.2 Commitments

There are no commitments as at December 31, 2020 (2019: Nil).

		2020	2019
	Note	Rupees	
26 INCOME FROM OPERATIONS			
Income from finance leases		17,776,964	19,634,038
Income on finances and loans		3,806,333	6,832,160
		<u>21,583,297</u>	<u>26,466,198</u>
27 OTHER INCOME			
Income from financial assets			
Mark-up on loan to employees		59,299	89,003
Profit on bank account/return on investment		6,998	-
Income from non-financial assets			
Gain on disposal of fixed assets		310,128	2,500
Other (loss)/income		(4,816)	19,937
		<u>371,609</u>	<u>111,440</u>
28 ADMINISTRATIVE AND GENERAL			
Salaries, allowances and other benefits	28.1	30,075,743	28,359,429
Depreciation and amortization	6, 7 & 8	3,579,845	3,517,675
Legal and professional		2,977,654	2,754,034
Insurance		1,182,235	970,843
Travelling, conveyance and entertainment		958,947	1,660,194
Electricity, gas and water		887,010	958,523
Telephone and postage		759,466	899,205
Miscellaneous		599,259	782,187
Auditors' remuneration	28.6	622,000	509,825
Directors' fee	28.4	515,000	660,000
Printing and stationery		471,352	706,202
Repairs and maintenance		441,005	479,549
Rent, rates and taxes		257,372	507,025
Vehicle running		218,273	474,076
Advertising		97,363	327,545
Books and periodicals		36,165	59,407
Training and development		3,000	608,000
		<u>43,681,689</u>	<u>44,233,719</u>



Notes to the Financial Statements

For the year ended December 31, 2020

28.1	Salaries allowance and other benefits include:	Note	2020	2019
			Rupees	
	Staff gratuity fund	23.4	1,722,387	2,433,115
	Staff provident fund		775,716	665,233
	Compensated absences	22	1,524,411	1,348,605
			<u>4,022,514</u>	<u>4,446,953</u>

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:

	2020		2019	
	Chief Executive Officer	Executive	Chief Executive Officer	Executives
	(Rupees)			
Managerial remuneration	1,576,625	2,981,253	1,057,813	2,101,935
Housing and utilities	500,813	1,490,629	528,906	1,050,968
Provident fund	26,709	72,000	-	-
Medical and other perquisites	463,343	628,017	105,781	210,194
Gratuity	-	-	1,548,800	-
Leave encashment	-	192,500	270,911	67,375
Leave fare assistance	-	-	387,200	-
	<u>2,567,490</u>	<u>5,364,399</u>	<u>3,899,411</u>	<u>3,430,472</u>
Number of person(s)	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>

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	Auditors' remuneration	2020	2019
		Rupees	
	Annual audit fee	285,000	250,000
	Half yearly review fee	56,000	55,600
	9 Month review fee	56,000	-
	Fee for other certifications	50,000	50,000
	Out of pocket expenses	175,000	154,225
		<u>622,000</u>	<u>509,825</u>

29 FINANCE COST

Mark-up on short term borrowings	19,611,282	20,290,115
Interest expense for leasing arrangements	1,835,517	2,036,840
Bank charges	123,070	132,512
	<u>21,569,869</u>	<u>22,459,467</u>



Notes to the Financial Statements

For the year ended December 31, 2020

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.43.620 million (2019: Rs. 125.357 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:

	2019	2018	2017
	-----Rupees-----		
Tax provision as per accounts	309,759	349,920	333,598
Tax payable/paid as per tax return	350,627	349,920	383,785

31 LOSS PER SHARE - BASIC AND DILUTED

	2020	2019
	----- Rupees-----	
Loss after taxation attributable to ordinary shareholders	<u>(57,676,586)</u>	<u>(35,694,330)</u>

(Number of shares)

Weighted average number of outstanding ordinary shares	<u>32,000,000</u>	<u>32,000,000</u>
--	-------------------	-------------------

	2020	2019
	----- Rupees-----	
Loss per share - basic and diluted	<u>(1.80)</u>	<u>(1.12)</u>

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, 2020

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.

		2020	2019
	Note	Rupees	Rupees
32.1 Balances			
SME Bank Limited (holding company)			
Short term borrowing	19	144,790,638	142,156,359
32.2 Transactions			
SME Bank Limited (holding company)			
Mark up on short-term borrowings	29	19,611,282	20,290,115
Acquisition of short term borrowing facility-net		2,634,279	600,317
Rent expense paid for Peshawar branch		550,272	544,805
Key management personnel			
Key management remuneration		7,931,889	7,329,883
Staff provident fund			
Company's contribution towards provident fund	28.1	775,716	665,233
		Unaudited	Audited
		2020	2019
33 Provident fund	Note	Rupees	Rupees
Size of the fund (Net assets)		5,674,170	5,418,176
Cost of Investment made		5,719,414	5,282,289
Percentage of investment made		100.80%	97.49%
Fair value of investments		5,851,465	5,608,363

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.

		2020	2019
	Note	Rupees	Rupees
34 Cash and cash equivalents			
Cash and bank balances	16	1,626,307	787,718
Short term borrowings	19	(144,790,638)	(142,156,359)
		<u>(143,164,331)</u>	<u>(141,368,641)</u>



Notes to the Financial Statements

For the year ended December 31, 2020

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, 2020

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, 2020 is as follows:

	2020		2019	
	Statement of financial position	Maximum exposure	Statement of financial position	Maximum exposure
	(Rupees)			
Bank balances	1,559,895	1,559,895	721,306	715,024
Advances	152,426	152,426	136,542	136,542
Net investment in finance lease	323,368,379	323,368,379	383,222,542	383,222,542
Long term finances and loans	61,080,649	61,080,649	74,568,731	74,568,731
Long-term loans to employees	494,201	494,201	1,093,911	1,093,911
Deposits and other receivables	852,222	852,222	899,590	899,590
	387,507,771	387,507,771	460,642,622	460,636,340

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	2020	2019
A1+	0.00%	0.00%
A-1+	99.13%	99.13%
Others	0.87%	0.87%
	100%	100%

35.1.4 Description of collateral held

The Company's leases are secured against assets leased out. In a few leases additional collaterals are also obtained.

Details of exposures and the collateral as at December 31, 2020 against them are as follows:



Notes to the Financial Statements

For the year ended December 31, 2020

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 on sale.

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.

35.1.4 Impairment losses and past due balances

	2020			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognized
	(Rupees)			
Not past due	130,495,171	13,043,817	117,451,354	-
1 - 179 days	19,416,042	651,270	18,764,772	-
180 days - 1 year	-	-	-	-
More than 1 year	234,537,815	58,474,212	335,965,633	(159,902,030)
	<u>384,449,028</u>	<u>72,169,299</u>	<u>472,181,759</u>	<u>(159,902,030)</u>
	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	67,378,767	373,547,464	(145,845,843)
	<u>490,439,687</u>	<u>84,062,761</u>	<u>519,574,355</u>	<u>(145,845,843)</u>

35.1.5 Concentration of credit risk - net 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 fund based exposures with reference to a particular sector or group of leases.

Details of the composition of leases and loans and finances portfolio of the Company are given below:



Notes to the Financial Statements

For the year ended December 31, 2020

	2020		2019	
	Rupees	Percentage	Rupees	Percentage
Public Transport Services	99,353,265	15.86%	99,445,189	14.51%
Printing & Packaging	56,780,997	9.06%	59,389,249	8.66%
Miscellaneous	55,650,938	8.88%	33,863,905	4.94%
Film Processing	47,365,497	7.56%	48,744,973	7.11%
Oil & Gas	42,958,603	6.86%	49,316,299	7.20%
Food & Beverages	40,569,788	6.48%	42,898,326	6.26%
Health Care	40,277,035	6.43%	56,529,752	8.25%
Garments	30,850,275	4.92%	38,339,582	5.59%
Cargo Carriers	29,661,613	4.74%	24,697,886	3.60%
Entertainment	28,862,877	4.61%	31,122,877	4.54%
Rubber	28,681,331	4.58%	58,935,095	7.21%
Leather & Tannery	17,164,218	2.74%	15,364,218	2.24%
Engineering	16,500,306	2.63%	16,925,999	2.47%
Textile	14,092,568	2.25%	14,293,784	2.09%
Plastic	13,950,099	2.23%	12,894,665	1.88%
Gems & Jeweler	13,781,662	2.20%	13,921,662	2.03%
Pharma	12,236,745	1.95%	12,236,745	1.79%
Education	10,229,377	1.63%	17,651,360	2.58%
Confectionary	9,107,485	1.45%	9,637,726	1.41%
Communication	6,802,623	1.09%	6,802,623	0.99%
Construction & Building Products	5,192,256	0.83%	5,192,256	0.76%
Chemicals	4,086,174	0.65%	24,438,035	3.57%
Fisheries	1,285,857	0.21%	1,285,857	0.19%
Dates	551,021	0.09%	550,947	0.08%
Furniture	421,872	0.07%	441,872	0.06%
	626,414,482	100%	694,920,882	100%

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, 2020

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 cash flows. The amounts in the table are the gross nominal undiscounted cash flows (including interest payments).

	2020			
	Total	Contractual cash flow	Up to one year	Two to five years
	(Rupees)			
Financial Liabilities				
Trade and other payables	5,040,042	5,040,042	5,040,042	-
Lease liability	10,128,078	10,128,078	2,913,768	7,214,310
Short term borrowings	144,790,638	144,790,638	144,790,638	-
Long term finances	373,233	373,233	373,233	-
Long term deposits	201,186,275	201,186,275	57,008,680	144,177,595
Markup accrued	4,211,211	4,211,211	4,211,211	-
	<u>365,729,477</u>	<u>365,729,477</u>	<u>214,337,572</u>	<u>151,391,905</u>
	2019			
	Total	Contractual cash flow	Up to one year	Two to five years
	(Rupees)			
Financial Liabilities				
Accrued and other liabilities	4,870,238	4,870,238	4,870,238	-
Lease liability	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 - secured	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	-
	<u>386,300,985</u>	<u>386,300,985</u>	<u>212,250,216</u>	<u>174,050,769</u>

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 monitoring exposure on marketable securities 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, 2020

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, investment in government securities, bank balances and borrowing from banks. The Company carries a mix of fixed and floating rate financial instruments.

At December 31, 2020, details of the interest rate profile of the Company's interest bearing financial instruments were as follows:

	Effective interest rate %	Carrying amount	
		2020	2019
Fixed rate instruments		----- Rupees-----	
Financial assets			
Net investments in finance lease	9.5% to 25%	323,368,379	383,222,542
Long term finance and loans	15% to 27%	61,080,649	74,568,731
Long-term loans to employees - secured	5% to 7%	494,201	1,093,911
		384,943,229	458,885,184
Financial liabilities			
Long term finance	0%	373,233	373,233
Liabilities against assets subject to finance lease	17.33% to 18.26%	10,128,078	12,994,971
		10,501,311	13,368,204
Variable rate instruments			
Financial assets			
Bank balances	5.5% to 11.25%	93,895	81,616
		93,895	81,616
Financial liabilities			
Short term borrowings	10.43% to 17.33%	144,790,638	142,156,359
		144,790,638	142,156,359

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. 0.144 million (2019: Rs. 0.142 million). This analysis assumes that all other variables, remain constant. The analysis is performed on the same basis which were used for the year ended December 31, 2019.



Notes to the Financial Statements

For the year ended December 31, 2020

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:

		2020			
Effective mark-up / interest / profit rate %	Total	Exposed to mark-up / interest / profit rate risk			
		Upto three months	More than three months and up to one year	More than one year	
------(Rupees) -----					
Financial assets					
Cash and bank balances	5.5% to 11.25%	93,895	93,895	-	-
Long term finances and loans	15% to 27%	61,080,649	13,043,817	-	47,385,562
Long-term loans to employees - secured	5% to 7%	494,201	-	171,005	323,196
Net investment in finance lease	9.5% to 25%	323,368,379	-	136,216,126	187,152,253
Total financial assets as on December 31, 2020		385,037,124	13,137,712	136,387,131	234,861,011
Financial liabilities					
Lease liability	17.33%	10,128,078	598,001	2,315,767	7,214,310
Short term borrowings	10.43% to 17.33%	144,790,638	-	144,790,638	-
Long term finances	0%	373,233	373,233	-	-
Total financial liabilities as on December, 2020		155,291,949	971,234	147,106,405	7,214,310
On balance sheet gap		229,745,175	12,166,478	(10,719,274)	227,646,701
Total interest rate sensitivity gap		229,745,175	12,166,478	1,447,204	229,093,905

2019					
Effective mark-up / interest / profit rate %	Total	Exposed to mark-up / interest / profit rate risk			
		Upto three months	More than three months and up to one year	More than one year	
------(Rupees)-----					
Financial assets					
Cash and bank balances	4.0%	81,616	81,616	-	-
Long term finances and loans	15% to 27%	74,568,731	16,636,626	-	57,932,105
Long-term loans to employees	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 liability	17.33%	12,994,971	438,657	2,050,639	10,505,675
Short term borrowings	10.43% to 17.33%	142,156,359	-	142,156,359	-
Long term finances	0%	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



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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, 2020.

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:

	2020	2019
	----- Rupees -----	
Total debt	10,128,078	12,994,971
Total equity	19,560,340	77,108,064
Total capital employed	29,688,418	90,103,035
Gearing ratio	34.11%	14.42%

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, 2020

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, 2020, there were no transfers between Level 1, Level 2 or Level 3 of fair value measurements.

As at December 31, 2020, the Company held the following classes of financial instruments measured at fair value:

December 31, 2020	Note	Carrying amount			Fair value				
		Cash and cash equivalent	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets									
Cash and bank balance	16	1,626,307	-	-	1,626,307	-	-	-	-
Advances	13	-	5,007,025	-	5,007,025	-	-	-	-
Deposits, prepayments and other receivables	14	-	1,496,938	-	1,496,938	-	-	-	-
Long term finances and loans and accrued interest thereon	10	-	61,080,649	-	61,080,649	-	-	-	-
Net investment in finance leases	9	-	323,368,379	-	323,368,379	-	-	-	-
		<u>1,626,307</u>	<u>390,952,991</u>	<u>-</u>	<u>392,579,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities									
Accrued and other liabilities	17	-	-	5,040,042	5,040,042	-	-	-	-
Accrued mark-up on borrowings	18	-	-	4,211,211	4,211,211	-	-	-	-
Short term borrowings	19	144,790,638	-	-	144,790,638	-	-	-	-
Provision for compensated absences	22	-	-	2,959,558	2,959,558	-	-	-	-
Long term finances	20	-	-	373,233	373,233	-	-	-	-
Long term deposits	9	-	-	7,214,310	7,214,310	-	-	-	-
Defined benefit obligations	23	-	-	9,164,855	9,164,855	-	-	-	-
Lease liabilities	21	-	-	10,128,078	10,128,078	-	-	-	-
		<u>144,790,638</u>	<u>-</u>	<u>39,091,287</u>	<u>183,881,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>



Notes to the Financial Statements

For the year ended December 31, 2020

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, 2019	Carrying amount		Fair value			
	Cash and cash equivalent	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2
					Level 3	Total
Financial assets						
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	-	-
Financial liabilities						
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 obligations	-	-	7,623,230	7,623,230	-	-
Lease liabilities	-	-	12,994,971	12,994,971	-	-
	142,156,359	-	41,011,296	183,167,655	-	-



Notes to the Financial Statements

For the year ended December 31, 2020

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.

	2020		
	Finance lease	Loans and receivables	Others
	(Rupees)		
			Total
Segment revenue	17,776,964	3,806,333	21,954,906
Segment profit	30,238,531	5,400,951	36,011,091
Segment result			36,011,091
Unallocated cost			
Finance cost			(21,569,869)
Administrative and general expenses			(43,681,689)
			(65,251,558)
Loss before tax			(57,352,837)
Taxation			(323,749)
Loss after tax			(57,676,586)
Other information			
Segment assets	323,368,379	61,080,649	-
Unallocated assets			21,168,949
Total assets			405,617,977
Segment liabilities	203,814,410	-	-
Unallocated liabilities			182,243,227
Total liabilities			386,057,637
Net assets			19,560,340
Capital expenditure	-	-	145,600

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 investments, dividend income and mark-up on government securities.



Notes to the Financial Statements

For the year ended December 31, 2020

	2019				
	Finance lease	Loans and receivables	Investment	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
<i>Unallocated cost</i>					
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)
<i>Other information</i>					
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	226,993,289	-	-	-	226,993,289
Unallocated liabilities				177,619,107	177,619,107
Total liabilities					404,612,396
Net assets					77,108,064
Capital expenditure	-	-	-	(272,011)	(272,011)

37.3 Geographical segment analysis

The Company's operations are restricted to Pakistan only.

38 IMPACT OF COVID-19 ON THE FINANCIAL STATEMENTS

The World Health Organisation declared COVID-19 a global pandemic in March 2020. Like other parts of the world, Pakistan also went into lockdown to reduce the spread of pandemic. The lockdown globally impacted the economies and businesses in different facets. In Pakistan, the financial sector encountered an overall increase in credit risk pertaining to its loans and advances portfolio in certain sectors, reduced income due to slowdown in business activity, operational issues such as preventing spread of virus at work place and managing cyber security threat, etc. Subsequent to the financial year-end and before the approval of these financial statements, most of the lockdown restrictions have been lifted by the Government especially related to businesses and their operations. The major aspects of COVID-19 on the Company's risk management policies are discussed below along with measures and controls adopted to mitigate those risks.

Similar to the financial relief offered by the State Bank of Pakistan (SBP) to the customers of financial institutions governed by it, the Securities and Exchange Commission of Pakistan (SECP) vide its Circular (the Circular) dated March 31, 2020 allowed NBFCs to defer customers' principal repayments on their finance obligations by up to one year along with relaxing other regulatory criteria related to restructuring / rescheduling of financing limits. As per the Circular, the customers were required to apply by June 30, 2020 to avail the deferment. SECP subsequently extended the deadline for application till September 30, 2020.



Notes to the Financial Statements

For the year ended December 31, 2020

The Company has processed all the eligible deferment requests received and agreed with its customers. The management of the Company has approved a total of 8 customers availing finance lease arrangements with aggregate balance of Rs. 43.48 million as per the treatment prescribed in the Circular. All necessary legal and procedural arrangements were executed to ensure the timely processing of eligible deferment requests. Furthermore, the recovery status and credit risk of financing exposures under both regular and deferred arrangements are being closely monitored amid changing economic and overall situation in the country due to COVID-19.

39 NUMBER OF EMPLOYEES

The number of employees as on the year end were 32 (2019: 32) and average number of employees during the year were 33 (2019: 33).

40 SUBSEQUENT EVENTS

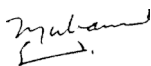
No adjusting or significant non-adjusting events have occurred between the date of report and date of authorization.

41 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purposes of comparison and better presentation. No significant rearrangements or reclassifications have been made in these financial statements during the current year.

42 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on 04 March, 2021 by the Board of Directors of the Company.


M. Shahzad
Chief Financial Officer


Muhammad Mubeen Mufti
Director


Javed Mehmood
Director


Bilal Mustafa
Director

* Filling for vacancy of CEO in process.

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BRANCH NETWORK

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HEAD OFFICE

56-F, Nazim-ud-Din Road,
F-6/1, Blue Area,
Islamabad.
Ph.# (051) 9217000, Fax.# (051)9217001
UAN: 111 11 00 11
Website: www.smebank.org

BRANCH NETWORK

SME Bank Ltd
Lahore Main Branch
84-B-1, Gulberg - III
Ghalib Market
LAHORE
PH # (042) 35772130, 35772015
Fax # (042) 35772178
UAN # (042) 111-11-00-11

SME Bank Ltd
Alamgir Building Ground Floor
17-Edwards Road
(Mouj Darya Road)
LAHORE CITY.
PH # (042) 37224180, 37221008,
37224183,37224190
Fax (042) 37220663

SME Bank Ltd
923-Block-B, Maulana Shaukat Ali Road,
Faisal Town,
LAHORE.
PH # (042) 35218601-5,
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56-F, Nazim-ud-Din Road,
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Fax # (051) 9213742
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State Life Building,
Ground Floor, 34-The Mall,
PESHAWAR
PH # (091) 5262780, 5285939, 5262779
Fax # (091) 285177
UAN (091) 111-11-00-11

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26-27-J, Trust Plaza, G.T. Road,
GUJRANWALA.
PH # (055) 9220767, 9200443
Fax # (055) 9200243
UAN # (055) 111-11-00-11

SME Bank Ltd
Junaid Plaza, Iqbal Road,
Near Committee Chowk,
RAWALPINDI.
PH # (051) 5553902, 5553922

SME Bank Ltd
Karachi Main Branch
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Chorangi,
KARACHI.
Ph # 2587144-6
Fax # (021) 32587144-46
UAN # (021) 111-11-00-11

SME Bank Ltd
Federal B-Area Branch
S 4 & S 5, Latif Terrace
Plot # St-4-D, Block 20,
FEDERAL B-AREA KARACHI
PH # (021) 36800771-3
Fax # (021) 36366947
UAN # (021) 111-11-00-11

SME Bank Ltd
Plot # LS-4, Sector 12,
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KARACHI.
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Fax # (021) 6653425

SME Bank Ltd
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Satyana Road,
FAISALABAD.
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Fax # (041) 9220483
UAN # (041) 111-11-00-11

SME Bank Ltd
Ground Floor, Al-Amin Building,
Opp. SCCI Paris Road,
SIALKOT.
PH # (052) 4266055, 9250566-7
Fax # (052) 4265041
UAN # (052) 111-11-00-11

SME Bank Ltd
Plot# 1-6/28 (404)
M.A. Jinnah Road,
QUETTA.
PH # (081) 2836816
Fax # (081) 2836817

RECOVERY OFFICES

SME Bank Ltd
Model Services Building,
56-F, Nazim-ud-Din Road,
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Ph.# (051) 9217000
Fax # (51) 9217001

SME Bank Limited
17-E Edwards Road,
Lahore
PH.#(042) 37312078, 37355358

SME Bank Limited
Flat#06, Cantonment Plaza,
Abbottabad Cantt.
Abbottabad
PH.#(0992) 9310159
Fax#(0992) 9310311

SME Bank Limited
801-802, 8th Floor, Park Avenue
24-A, Block PECHS, Shahrāh-e-Faisal
Karachi
PH.#(021) 34538041-34533886

SME Bank Limited
B # 104, Akhuwat Nagar, Airport Road
Sukkur
PH.#(071) 5804556-7

TREASURY OFFICE

KARACHI

801-802, 8TH Floor, Park Avenue
24-A, Block PECHS
Shahrah-e-Faisal
KARACHI (EAST).
PH#(021) 34382310, 34382311

AUDIT OFFICES

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17 - Edward (Syed Mouj Darya) Road
LAHORE
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KARACHI

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Park Avenue
24-A, Block PECHS
Shahrah-e-Faisal
KARACHI (EAST).
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 18th Annual General Meeting of the
Bank to be held on **March 30, 2021 at 3:30 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.

<p>The Company Secretary</p> <p>SME Bank Ltd. 56-F, Nazim-ud-Din Road, F-6/1, Blue Area, Islamabad.</p>	<p>AFFIX CORRECT POSTAGE</p>
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