SME BANK LIMITED

UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

BDO Ebrahim & Co. Chartered Accountants
BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

## PRESIDENT'S MESSAGE

It is my pleasure to present the 20th Annual Report of SME Bank for the year ended December 31, 2021.

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

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

SME Bank has continued to work with a limited equity base, bank is operating with paid-up capital of Rs 2.39 billion since 2007 and has applied to State Bank 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 State Bank due to low equity and pending privatization.

Even under constrained circumstances there is no letup in the Bank's primary operations. In these circumstances we have been able to increase deposit by Rs.646 million and stood at Rs.8,248.27 million as on December 31,2021 as compared to last year Rs.7,602.26 million. The bank made fresh disbursement of Rs.476 million during the year under review as compared to Rs.262 million in the last year.

As business & economic activities remained depressed, repayment commitments were dishonored by few 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.438 million at the year-end December 31,2021 as compared to Rs.485 million last year.

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**

## DIRECTORS' REPORT TO THE SHAREHOLDERS:

We are pleased to present the 20th annual report of SME Bank Limited with the audited accounts and auditors' report thereon for the year ended December 31, 2021.

### Economic Outlook

Economy of Pakistan has recovered after better performance at coping with the Covid-19 pandemic. Despite the spread of Omicron variant, the cyclical position in the main trading partners as witnessed by the CLI remained stabilize which is encouraging for Pakistan's exports.

Pakistan is on a higher growth trajectory, compared to growth observed in FY2021. However, there is inflationary pressure due to low base effects and surge in global commodity prices. Both international food and oil prices are currently quoted at or near the upper regions of the present international commodity price cycles and drop is expected in coming months. Relief is coming from continuous government efforts, not to pass on proportionate global impact of prices on domestic consumers.

### Inflation

CPI during Jul-Nov FY2022 recorded at 9.32 percent against 8.76 percent during the same period last year. The food prices have increased globally due to shortage of supply of commodities and high demand after the post pandemic scenario. Pakistan has also been affected, as the country is a net importer of food items especially wheat, sugar, pulses and edible oil. The government is committed to sustained pressure and provide relief as full inflationary pressure was not passed on to the consumers.

### Monetary Policy

SBP raised policy rate by 100 basis points to 9.75 percent on 14th December 2021 with the objective to counter inflationary pressures. During 1st July – 03rd December, FY2022 money supply (M2) shows negative growth of 0.2 percent (Rs.41.8 billion) compared to the growth of 1.73 percent (Rs.361.3 billion) in last year. Within M2, Net Foreign Assets (NFA) decreased by Rs.147.0 billion as compared to an increase of Rs.515.9 billion in last year. On the other hand, NDA of the banking sector increased by Rs.105.2 billion as compared to a decline of Rs.154.6 billion last year. Private Sector has borrowed Rs.454.3 billion against the retirement of Rs.15.6 billion last year. Major share acquired by Manufacturing (of which textile), electricity, gas, steam and air conditioning supply and information and technology got higher credit compared to last year. The construction sector, loans amount released Rs.18.7 billion during Jul-Nov, FY2022 compared Rs.13.9 billion during same period last year.

### Foreign Investment

In Jul-Nov, FDI reached $ 797.7 million ($ 710.3 million last year) increased by 12.3 percent. FDI received from Netherlands $ 153.0 million (19.2 percent of total FDI), China $149.0 million (18.7 percent), United States $ 129.9 million (16.3 percent of total FDI), and U.E.A $ 66.8 million (8.4 percent). Power sector attracted highest FDI of $ 229.2 million (28.7 percent of total FDI), Financial business $ 155.7 million (19.5percent) Oil & Gas exploration $ 110.7 million (13.9 percent) & Communication $ 100.8 million (12.6%).

Foreign Private Portfolio Investment has registered a net outflow of $ 263.2 million during Jul-Nov FY2022. Foreign Public Portfolio Investment recorded a net outflow of $ 79.0 million. In October 2021,

an outflow of $ 1040 million was recorded due to the repayment of sukuk bond. The total foreign portfolio investment recorded an outflow of $ 342.2 million during Jul-Nov FY2022 as against outflow of $ 447.0 million last year. The total foreign investment registered an inflow of $ 455.5 million during the period under review.

**Worker's Remittances**

In Jul-Nov FY2022, workers' remittances reached $ 12.9 billion ($ 11.8 billion last year), increased by 9.7 percent. Workers' remittances continued their unprecedented streak of above $ 2.0 billion for the 18th consecutive month in November 2021. Share of remittances (Jul-Nov FY2022) from Saudi Arabia remained 25.4 percent ($ 3271.4 million), U.A.E 19.0 percent ($ 2453.3 million), U.K 13.7 percent ($ 1768.4 million), USA 10.1 percent ($ 1305.7 million), other GCC countries 11.3 percent ($ 1452.7 million), EU 11.2 percent ($ 1442.7 million), Malaysia 0.4 percent ($ 57.0 million), and other countries 8.9 percent.

**Foreign Exchange Reserves**

Pakistan's total liquid foreign exchange reserves increased to $24.6 billion on December 17, 2021, with the SBP's reserves now stood at $18.1 billion as SBP has received $3.0 billion from Saudi Arabia. Commercial banks' reserves remained at $6.5 billion.

**Commercial Banking**

The banking sector continued to strike a balance between liquidity, profitability and solvency to post a positive growth in 2021 and keep the momentum going in the year 2022 as well. With the economy headed for 5% GDP growth and interest rates continue rising in 1HCY22, the market is expected to now begin to appreciate a more palatable outlook for the overall banking sector.

**Way Forward**

In the first four months of the current FY, Pakistan remains on a higher growth trajectory, accelerating from the growth rate observed in FY2021. However, inflation may ease out in the coming months due to the declining commodity prices in the global market. In addition, relief may also come from continuous Government efforts to soften food prices in the local markets by following appropriate fiscal and monetary policies.

While these developments and policies may keep the monthly price dynamics in check, the current stress on the trade balance is expected to soften, easing exchange rate pressure and subsequently stabilizing the MoM inflation.

**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 2021 and the Bank continued to operate with 13 commercial banking branches and five recovery offices.

**Interest Rate Scenario**

SBP policy rate at the beginning of the year 2021 was 7.00 percent. At the end of the year 2021 discount rate reached at 9.75 percent with increase of 2.75 percent.

**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.1,880 million. During the year under review income from SME lending operations decreased by an amount of Rs.25.72 million. The cost of funds decreased by an amount of Rs.291.03 million due to decrease in average cost of borrowings to 7.21% as compared to 9.28% in 2020.

The deposits of the bank has been increased by Rs.646 million and stand at Rs.8,248.27 million as on December 31, 2021 as compared to last year Rs.7,602.26 million as on December 31, 2020.

During the year 2021, the bank reversed net provision of Rs.18.33 million against non-performing loans as against net provision reversal of Rs.14.77 million in 2020. Loans and advances on account of the bank's lending operation were Rs.1,880 million in 2021 compared to Rs.1,816 million in 2020.

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, 2021 were Rs.438 million whereas on December 31, 2020 it was Rs.485 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.134.69 million as at December 31, 2021. 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 and working capital" worth Rs.17.704 million. Total recoveries aggregated to Rs.83.256 million (including Rs.51.468 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.2.3 to Rs.5.00 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.1,051.45 million during the year 2021 as compared to loss before tax of Rs.1,147.12 million in 2020, and Net loss of Rs.942.42 million as compared to Net loss of Rs.977.16 million in 2020. 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 but 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.646 million and stand at Rs.8,248.27 million as on December 31, 2021.

**Disbursements**

Liquidity constraints notwithstanding, the bank was able to achieve fresh disbursement of Rs.476 million during the year as compared to Rs.262 million in the previous year while the number of clients served during the year was 129 as compared to 103 in the previous year and total number of outstanding borrowers stood at 1075 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.13.13 million as compared to loss of Rs.57.35 million from last year. The decrease in loss resulted from recoveries of NPLs; reversal of provisions. Net equity of the company is Rs.6.54 million (2020: Rs.19.56 million). PACRA has assigned the long-term rating of B- (2020: B) and a short term rating of A4 (2020: B).

SME Leasing disbursed Rs.17.704 million (2020: Rs.27 million) to 6 clients in 2021 (2020: 6). Outstanding portfolio (lease and working capital) stands at Rs.328.689 million with 221 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. Seventeen (17) complaints were received during the year 2021 which have been resolved and no complaint was pending as on 31-12-2021. Moreover, 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**

Information Technology function has successfully maintained the IT Operations by maximizing the benefits through risks and resources optimization. IT as an enabler has improved its various processes to ensure consistent service delivery with-in the applicable constraints. Various technology initiatives are in pipe line for delivery of digital solutions for the customers that shall be rolling out in the future.

Cyber Security Action Plan has been designed to ensure that gaps in resources and skills are filled along with adoption of industry security practices for ensuring the confidentiality, integrity and availability. IT Steering Committee and IT Security Team under guidance of the Board is managing the different technological aspects of the Bank.

**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, 2003, 2004, 2005, 2006, 2008, 2009, 2010, 2011, 2012, 2013, 2016, 2017 & 2019.

The Tax Department filed references in Islamabad High Court (IHC) for the Tax Year 2001-02, 2003 & 2004 which are being contested.

For the tax year 2005 tax department has filed an appeal with the Appellate Tribunal Inland Revenue (ATIR) against the decision.

The Bank has filed appeals with the ATIR for the Tax Years 2008 & 2010 among which Tax Year 2008 is 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 2011 Notice u/s 161/205 is responded appropriately upon which no further action by the Tax Department.

For the tax year 2012 Order was passed u/s 221/113 of the ITO, 2001 which was paid under protest, meanwhile appeal is also filed by the bank with the ATIR. In another instance appeal filed with the Commissioner (Appeals) against Order u/s 161/205 of the ITO, 2001 for the same year is remanded back.

For the Tax Year 2013 appeal filed with the Commissioner (Appeals) by the Bank is remanded back.

For the Tax Year 2016 Notice is issued u/s 122(9) of the ITO, 2001 by the Additional commissioner which is being contested. The tax Department has also passed an Order u/s 161/205 against the Bank for the same year which is pending before ATIR.

For the Tax Year 2017 Order u/s 161/205 has also been passed against which appeal with the Commissioner (Appeals) has been instituted.

For the Tax Year 2019 a notice u/s 122(5A) of the ITO, 2001 has been responded. No further action by the Tax Department yet.

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.

**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.

For the Tax Period Jan'2008 - Dec'2008 and Jan'2010-Dec'2010 Bank filed appeals with the ATIR have been remanded back for fresh consideration of the cases.

For the Tax Period Jan'2009-Dec'2009 and Jul'2011-Jun'2012 the bank has filed appeals with the ATIR.

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 preforming risk functions relating to various risks; particularly Credit Risk, Liquidity Risk, Interest Rate Risk & Operational Risk, compliance risk, regulatory risk, Environmental Risk of projects for SMEs financing 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 (at least quarterly) are convened to oversee the risk exposures and their trends as a result of the various initiatives undertaken by the bank. The committees also review 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 2021, 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.

**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.
- 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 environmental consciousness.
- 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.
- 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. Drafts of the bidding documents i.e. instruction to Bidders (ITB) and Share Purchase Agreements (SPA) could not be finalized. Board of Privatization Commission in its meeting held on November 25, 2021 has recommended to be delisted SME Bank Limited from list of privatizations. As Financial Adviser (FA) of Privatization Commission has asserted that despite all efforts and iterative interactions with the pre-qualified bidders to date positive feedback from the pre- qualified bidders is not forthcoming and owing to the deteriorating financial position of the FA has recommended to shelve the Transaction. Recommendation of the Board of Privatization was presented to Cabinet Committee on Privatization (CCoP) in its meeting held on December 31, 2021. The CCoP discussed delisting of SME Bank Ltd. from the active privatization program. The meeting, after a detailed discussion constituted a committee under the chairmanship of the Finance Minister and representatives from SBP,SECP, Finance Division and Privatization Division to evaluate alternative options for proceeding further.

**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 six meetings during the year 2021. Attendance of which is given below:

| Directors: | Meetings Attended |
|---|---|
| Mr. Dilshad Ali Ahmad | 6 |
| Mr. Waqar–ud–Din Siddiqui | 3 |
| Mr. Muhammad Waqas Azeem | 6 |
| Mr. Rauf Ahmad | 6 |
| Mr. Hashim Raza | 6 |
| Mr. Omar Farooq | 6 |
| Mr. Enamullah Khan | 6 |

Board has constituted five sub-committees namely (BAC) Board Audit Committee, (BRMC) Board Risk Management Committee, (BHR&RC) Board Human Resource and Remuneration 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 2021, four meetings of (BAC) Board Audit Committee were held. Attendance in these meetings was as follows:

| Directors: | Meetings Attended |
|---|---|
| Mr. Omar Farooq | 4 |
| Mr. Enamullah Khan | 3 |
| Mr. Waqar–ud–Din Siddiqui | 2 |
| Mr. Rauf Ahmad | 2 |

**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 2021, four meetings of (BRMC) Board Risk Management Committee were held. Attendance in these meetings was as follows:

| Directors | Meetings Attended |
|---|---|
| Mr. Hashim Raza | 4 |
| Mr. Muhammad Waqas Azeem | 4 |
| Mr. Omar Farooq | 4 |

**Board Human Resource and Remuneration Committee**

Board Human Resource and Remuneration 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 2021, four meetings of (BHR&RC) Board Human Resource Committee were held. Attendance in these meetings was as follows:

| Directors | Meetings Attended |
|---|---|
| Mr. Dilshad Ali Ahmad | 4 |
| Mr. Rauf Ahmad | 4 |
| Mr. Enamullah Khan | 4 |

**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 2021, one meetings of (BPC) Board Procurement Committee were held. Attendance in these meetings was as follows:

| Directors | Meetings Attended |
|---|---|
| Mr. Hashim Raza | 1 |
| Mr. Muhammad Waqas | 1 |
| Mr. Rauf Ahmad | 1 |

**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 2021.

**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, 2021, 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, 2021, 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, 2021, as required under Code of Corporate Governance is annexed.

**Loss per share**

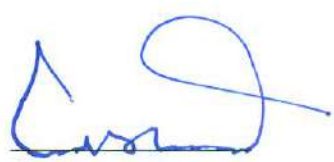
The basic and diluted after tax loss per share for the year 2021 is Rs.(3.94). (2020: Rs.(4.08)

**Auditors**

The present auditors, Messrs' BDO Ebrahim & Co., Chartered Accountants, have completed their assignment for the year ended December 31, 2021 shall retire and being eligible, they have offered themselves for reappointment. As advised by Board Audit Committee, Board recommends appointment of Messrs' BDO Ebrahim & Co., Chartered Accountants as auditors of the Bank for the year ending December 31, 2022. The appointment is subject to approval in the 19th 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)**

BDO

Tel: +92 51 260 4461-5
Fax: +92 51 260 4468
www.bdo.com.pk

3rd Floor,
Saeed Plaza,
22-East Blue Area,
Islamabad-44000,
Pakistan.

## 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 of SME Bank Limited ("the Bank") for the year ended December 31, 2021.

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

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

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

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, 2021.

**ISLAMABAD**

**DATE:** 0 5 MAR 2022

**CHARTERED ACCOUNTANTS**
Engagement Partner: Abdul Qadeer

**UDIN: CR202110095vc6gFCtRK**

**Statement of Compliance**
**with the Public Sector Companies (Corporate Governance) Rules, 2013**
**For the year ended December 31, 2021**

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:

<table>
<tr><th>Sr. No.</th><th>Provision of the Rules</th><th>Rule No.</th><th>Y</th><th>N</th><th>Remarks</th></tr>
<tr><td></td><td></td><td></td><td colspan="3">Tick the relevant box</td></tr>
<tr><td>1.</td><td>The independent directors meet the criteria of independence, as defined under the Rules.</td><td>2(d)</td><td>✓</td><td></td><td></td></tr>
<tr><td>2.</td><td>The Board has the requisite percentage of independent directors. At present the board includes:
<table>
<tr><th>Category</th><th>Names</th><th>Date of appointment</th></tr>
<tr><td>Independent Directors</td><td>Mr. Omar Farooq<br>Mr. Enamullah Khan</td><td>08-07-2020<br>08-07-2020</td></tr>
<tr><td>Executive Directors</td><td>Mr. Dilshad Ali Ahmad</td><td>16-10-2018</td></tr>
<tr><td>Non-Executive Directors</td><td>Mr. Hashim Raza<br>Waqar-ud-Din Siddiqui<br>Mr. Waqas Azeem<br>Mr. Rauf Ahmad</td><td>08-07-2020<br>05-05-2021<br>08-07-2020<br>08-07-2020</td></tr>
</table></td><td>3(2)</td><td>✓</td><td></td><td></td></tr>
<tr><td>3.</td><td>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.</td><td>3(5)</td><td>✓</td><td></td><td></td></tr>
<tr><td>4.</td><td>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.</td><td>3(7)</td><td>✓</td><td></td><td>All the Directors are nominee of GoP. SBP has cleared their fit and propriety criteria.</td></tr>
<tr><td>5.</td><td>The chairman of the board is working separately from the chief executive of the Bank.</td><td>4(1)</td><td></td><td>✓</td><td>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.</td></tr>
</table>

| | | | | | |
|---|---|---|---|---|---|
| 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 | | |
| 8. | (a) The Bank has prepared a "Code of Conduct" to ensure that professional standards and corporate values are in place.<br>(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)<br>(c) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices. | 5(4) | ✓<br>✓<br>✓ | | |
| 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.<br>b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings.<br>c) The minutes of the meetings were appropriately recorded and circulated. | 6(1)<br>6(2)<br><br>6(3) | ✓<br>✓<br><br>✓ | | |
| 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.<br>*Strike out whichever is not applicable | 8 (2) | ✓ | | |
| 20. | The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained. | 9 | ✓ | | |
| 21. | (a) The Board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end.<br>(b)In case of listed PSCs, the Board has prepared half yearly accounts and undertaken limited scope review by the auditors.<br>(c)The Board has placed the annual financial statements on the Bank's website. | 10 | ✓<br><br>N/A<br>✓ | | |
| 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 | ✓ | | |
| 23. | a) The board has formed the requisite committees, as specified in the Rules.<br>b) The committees were provided with written term of reference defining their duties, authority and composition.<br>c) The minutes of the meetings of the committees were circulated to all the board members.<br>d) The committees were chaired by the following non-executive directors: | 12 | ✓<br>✓<br>✓<br>✓ | | |
| 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 | ✓ | | |

| 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.Hashim Raza |
| Nomination Committee | 3 | No meeting was held during the year |

| | | | | | |
|---|---|---|---|---|---|
| 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.<br>(b) The annual report of the Bank contains criteria and details of remuneration of each director. | 19 | ✓<br>✓ | | |
| 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. | The board has formed an audit committee, with defined and written terms of reference, and having the following members:<br><br>The chief executive and chairman of the Board are not members of the audit committee. | 21 (1) and 21(2) | ✓ | | |
| 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.<br>(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.<br>(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) | ✓<br>✓<br>✓ | | |
| 33. | (a) The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee.<br>(b) The chief internal auditor has requisite qualification and experience prescribed in the Rules.<br>(c) The internal audit reports have been provided to the external auditors for their review. | 22 | ✓<br>✓ | | |
| 34. | The external auditors of the Bank have confirmed that the firm and all its partners are in compliance with International | 23(4) | ✓ | | |

| Name of member | Category | Professional background |
|---|---|---|
| Mr. Omar Farooq | Independent | Businessman |
| Mr. Enamullah Khan | Independent | Businessman |
| Mr. Waqar-ud-din Siddiqui | Non-Executive Director | JS(MED) Ministry of Industries & Production |

| | | | | | |
|---|---|---|---|---|---|
| | Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan. | | | | |
| 35. | The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services. | 23(5) | ✓ | | |

CEO
Dilshad Ali Ahmad

Independent Director

Tel: +92 51 260 4461-5
Fax: +92 51 260 4468
www.bdo.com.pk

3rd Floor,
Saeed Plaza,
22-East Blue Area,
Islamabad-44000,
Pakistan.

## INDEPENDENT AUDITORS 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, 2021, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity, the unconsolidated cash flow statement for the year then ended, along with unaudited certified return received from the branches except for seven 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 possible 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 cash flow statement 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, 2021 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

### *Basis for Qualified Conclusion*

1. The Bank has Investment in its subsidiary, SME Leasing Limited (SMEL), which is carried in these financial statements at Rs. 80.748 million (net of provision of Rs. 134.709 million) and has an outstanding running finance exposure of Rs. 134.689 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 and its possible effect on accumulated losses of the Bank.

2. We were not able to verify deferred tax asset of Rs. 1,008.206 million due to brought forward losses. This has been recognized in the current financial statements as in the opinion of the



BDO Ebrahim & Co. Chartered Accountants
BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

management, there is certainty regarding realisability of the amount from expected net profits arising on the future privatization of the Bank.

3. 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 Honourable High Court, Islamabad. The High Court ruled in favour of the tax department vide its Order dated March 13, 2018 which was also upheld by the Honourable Supreme Court of Pakistan through its order date June 03, 2018. Therefore, the Bank has no legal basis to continue to recognize the receivable as an asset.

4. 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 as 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 Auditors Responsibilities for the Audit of the unconsolidated 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 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 financial statements which describes that during the current period, the Bank incurred a net loss of Rs. 942.421 million (December 31, 2020 Rs. 977.164 million) resulting into accumulated losses of Rs. 6,846.330 million (December 31, 2020 Rs. 5,761.702 million). As of December 31, 2021 the reporting date, total liabilities of the bank have exceeded its total assets by Rs. 4,260.976 million (December 31, 2020: 3,160.083 million) indicating the negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative capital of Rs. 4,260.976 million (2020 Rs. 3,160.083) which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs 10,000 million and the Capital Adequacy Ratio (CAR) of 10%. 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. Further, the Bank is in the process of privatization whereby Privatization Commission has referred the case to Cabinet Committee on Privatization (CCoP) on December 31, 2021. The CCoP has constituted a committee to evaluate alternative options for further processing. As stated in note 6.2, these conditions indicate the


BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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 the following matters:

1. Note 14.3 to the financial statements, which describes in detail the status of possession of the Bank's property located in Lahore.

2. Note 6.1 to the financial statements, which describes in detail the current status of privatization of SME Bank.

Our opinion is not modified in respect of these matters.

**Information Other than the Unconsolidated Financial Statements and Auditors Report Thereon**

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the unconsolidated financial statements and our auditors 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, 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 the 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.


BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

## Auditors 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 auditors 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 auditors 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 auditors 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.


BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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 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 and the unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement (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 and the transactions of the Bank which have come to our notice have been within the powers of the Bank; 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.

**Other Matter**

The financial statements of SME Bank Limited for the year ended December 31, 2020 were audited by another firm of Chartered Accountants, who had expressed qualified opinion vide their report dated March 06, 2021.

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

The engagement partner on the audit resulting in this independent auditors report is Abdul Qadeer.

**ISLAMABAD**

**DATED:** 05 MAR 2022

**UDIN: AR202110095BZqPa35oz**

**BDO EBRAHIM & CO.**
**CHARTERED ACCOUNTANTS**


BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

**SME BANK LIMITED**
**Unconsolidated Statement of Financial Position**
**As at December 31, 2021**

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **ASSETS** | | | |
| Cash and balances with treasury banks | 7 | **824,944** | 668,727 |
| Balances with other banks | 8 | **2,737** | 2,123 |
| Lendings to financial institutions | | **-** | - |
| Investments | 9 | **4,237,715** | 5,828,353 |
| Advances | 10 | **1,596,181** | 1,530,344 |
| Fixed assets | 11 | **424,240** | 472,184 |
| Intangible assets | 12 | **1,455** | 1,756 |
| Deferred tax assets - net | 13 | **1,008,206** | 874,915 |
| Other assets | 14 | **512,849** | 562,685 |
| | | **8,608,327** | 9,941,087 |
| **LIABILITIES** | | | |
| Bills payable | 15 | **19,071** | 99,986 |
| Borrowings | 16 | **3,206,289** | 4,127,613 |
| Deposits and other accounts | 17 | **8,248,271** | 7,602,262 |
| Liability against assets subject to finance lease | | **-** | - |
| Sub-ordinated loans | | **-** | - |
| Deferred tax liabilities | | **-** | - |
| Other liabilities | 18 | **1,395,672** | 1,271,309 |
| | | **12,869,303** | 13,101,170 |
| **NET LIABILITIES** | | **(4,260,976)** | (3,160,083) |
| **REPRESENTED BY** | | | |
| Share capital | 19 | **2,392,507** | 2,392,507 |
| Reserves | | **206,526** | 206,526 |
| Surplus/(deficit) on revaluation of assets - net of tax | 20 | **(13,679)** | 2,586 |
| Unappropriated loss | | **(6,846,330)** | (5,761,702) |
| | | **(4,260,976)** | (3,160,083) |
| **CONTINGENCIES AND COMMITMENTS** | 21 | - | - |

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

President/CEO | Chief Financial Officer | Director | Director | Director

**SME BANK LIMITED**
**Unconsolidated Profit and Loss Account**
**For the year ended December 31, 2021**

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Mark-up/ return/ interest earned | 22 | **609,592** | 738,948 |
| Mark-up/ return/ interest expensed | 23 | **717,637** | 1,008,663 |
| Net mark-up/ interest loss | | **(108,045)** | (269,715) |
| **NON MARK-UP/ INTEREST INCOME** | | | |
| Fee and commission income | 24 | **14,009** | 10,914 |
| Dividend income | | **2,580** | 1,629 |
| Foreign exchange income | | **-** | - |
| Income / (loss) from derivatives | | **-** | - |
| Gain/(loss) on securities | 25 | **925** | 815 |
| Other income | 26 | **2,169** | 1,576 |
| Total non-markup/ interest income | | **19,683** | 14,934 |
| Total Income/(loss) | | **(88,362)** | (254,781) |
| **NON MARK-UP/ INTEREST EXPENSES** | | | |
| Operating expenses | 27 | **911,354** | 837,299 |
| Workers Welfare Fund | | **-** | - |
| Other charges | 28 | **69,183** | 69,559 |
| Total non-markup/ interest expenses | | **980,537** | 906,858 |
| Loss before provisions | | **(1,068,899)** | (1,161,639) |
| Provisions and write offs - net | 29 | **(17,452)** | (14,521) |
| **LOSS BEFORE TAXATION** | | **(1,051,447)** | (1,147,118) |
| Taxation | 30 | **(109,026)** | (169,954) |
| **LOSS AFTER TAXATION** | | **(942,421)** | (977,164) |
| **Basic/diluted (loss) per share (rupees)** | 31 | **(3.94)** | (4.08) |

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

| President/CEO | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

**SME BANK LIMITED**
**Unconsolidated Statement of Comprehensive Income**
**For the year ended December 31, 2021**

| | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| **Net loss after taxation** | **(942,421)** | (977,164) |
| **Other comprehensive income** | | |
| **Items that may be reclassified to profit and loss account in subsequent periods** | | |
| Movement in deficit on revaluation of investment - net | **(16,265)** | 302,902 |
| **Items that will not be reclassified to profit and loss account in subsequent periods** | | |
| Remeasurement gain on defined benefit obligations - net | **(142,207)** | 26,624 |
| **Total comprehensive loss** | **(1,100,893)** | (647,638) |

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

| President/CEO | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

**SME BANK LIMITED**
**Unconsolidated Statement of Change in Equity**
**For the year ended December 31, 2021**

| | Share capital | Statutory reserve | Surplus/(deficit) on revaluation of investments | Unappropriated loss | Total |
|---|---|---|---|---|---|
| | | | (Rupees in '000) | | |
| **Balance as at January 01, 2020** | **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)** |
| **Total comprehensive income for the year ended December 31, 2021** | | | | | |
| Net loss after taxation | - | - | - | (942,421) | (942,421) |
| Other comprehensive income - net of tax | - | - | (16,265) | (142,207) | (158,472) |
| **Balance as at December 31, 2021** | **2,392,507** | **206,526** | **(13,679)** | **(6,846,330)** | **(4,260,976)** |

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

President/CEO | Chief Financial Officer | Director | Director | Director

**SME BANK LIMITED**
**Unconsolidated Cash Flow Statement**
**For the year ended December 31, 2021**

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Loss before taxation | | **(1,051,447)** | (1,147,118) |
| Less: Dividend income | | **(2,580)** | (1,629) |
| | | **(1,054,027)** | (1,148,747) |
| **Adjustments:** | | | |
| Depreciation | | **64,505** | 72,445 |
| Amortization | | **1,078** | 1,346 |
| Provision and write-offs | | **(17,452)** | (14,521) |
| Loss/(gain) on sale of fixed assets | | **(1,159)** | (589) |
| Mark-up expense on leased liability against ROU assets | | **69,183** | 69,451 |
| | | **116,155** | 128,132 |
| | | **(937,872)** | (1,020,615) |
| **(Increase)/ decrease in operating assets** | | | |
| Lendings to financial institutions | | **-** | - |
| Held-for-trading securities | | **-** | - |
| Advances | | **(47,509)** | 392,419 |
| Other assets (excluding advance taxation) | | **42,487** | 35,049 |
| | | **(5,022)** | 427,468 |
| **Increase/ (decrease) in operating liabilities** | | | |
| Bills payable | | **(80,915)** | 48,443 |
| Borrowings from financial institutions | | **(921,324)** | 472,842 |
| Deposits | | **646,009** | 101,554 |
| Other liabilities (excluding current taxation) | | **(28,268)** | (147,477) |
| | | **(384,498)** | 475,362 |
| | | **(1,327,392)** | (117,785) |
| Income tax paid | | **(2,746)** | (2,515) |
| **Net cash flow generated (used in)/ from operating activities** | | **(1,330,138)** | (120,300) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Net investment/disinvestment in available-for-sale securities | | **1,573,663** | 215,247 |
| Net investment in held-to-maturity securities | | **-** | - |
| Dividend received | | **2,580** | 1,629 |
| Investment in operating fixed assets | | **(4,559)** | (3,065) |
| Proceeds from sale of fixed assets | | **1,186** | 891 |
| **Net cash flow generated from investing activities** | | **1,572,870** | 214,702 |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Payment of lease obligation | | **(85,901)** | (78,654) |
| **Net cash flow (used in) from financing activities** | | **(85,901)** | (78,654) |
| **Decrease in cash and cash equivalents** | | **156,831** | 15,748 |
| Cash and cash equivalents at beginning of the year | | **670,850** | 655,102 |
| **Cash and cash equivalents at end of the year** | 32 | **827,681** | 670,850 |

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

| President/CEO | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

## 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.

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. 24, dated July 05, 2021, has deferred the applicability of IFRS 9, Financial Instruments until January 01, 2022. 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 APPLICATION OF NEW STANDARDS, AMENDSMENTS AND INTERPRETATIONS TO PUBLISHED APPROVED ACCOUNTING AND REPORTING STANDARDS

### 3.2.1 New accounting standards, amendments and IFRS interpretations that are effective for the year ended December 31, 2021

The following stantdards, amendments and interpretations are effective for the year ended December 31, 2021. These standards, amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the financial statements other than certain additional disclosures.

| | Effective date (annual periods beginning on or after) |
|---|---|
| Amendments to IFRS 16 'Leases' - Covid - 19 related rent consessions | June 01, 2020 |
| Interest Rate Benchmarch Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) | January 01, 2021 |

Certain annual improvements have also been made to a number of IFRSs.

### 3.2.2 New accounting standards, amendments and interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

| | |
|---|---|
| Amendmends to IFRS 3 'Business Combinations' - Reference to the conceptual framework | January 01, 2022 |
| Amendments to IFRS 16 'Leases' - Extended practical relief regarding Covid - 19 related rent consessions | April 01, 2021 |
| Amendmends to IAS 1'Presentation of Financial Statements' - Classification of liabilities as current or non-current | January 01, 2023 |
| Amendmends to IAS 1'Presentation of Financial Statements' - Disclosure of Accounting Policies | January 01, 2023 |
| Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Definition of Accounting Estimates | January 01, 2023 |
| Amendments to IAS 12 'Income Taxes' - Deferred Tax related to Assets and Liabilities arising from a single transaction | January 01, 2023 |
| Amendmends to IAS 16 'Property, Plant and Equipment' - Proceeds before intended use | January 01, 2022 |
| Amendmends to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' - Onerous Contracts - Cost of fulfilling a contract | January 01, 2022 |

The following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which have not been adopted locally by the Securities and Exchange Commission of Pakistan (SECP):

| | |
|---|---|
| IFRS 1 | First Time Adoption of International Financial Reporting Standards |
| IFRS 17 | Insurance Contracts |

As per BPRD Circular Letter No. 24 of 2021 dated July 05, 2021 of SBP, effective date of IFRS 9 implementation is January 01, 2022. IFRS 9, Financial Instruments: Classification and Measurement, addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'expected credit losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL approach has an impact on assets of the Bank which are exposed to credit risk. The Bank is in the process of assessing the full impact of this standard and the Bank awaits final guidelines from SBP for application of some aspects of IFRS 9.

## 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 the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follow:

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

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

### 5.1 Cash and cash equivalents

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

### 5.2 Investments

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

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

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

**Held for trading**

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

**Held to maturity**

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

**Available for sale**

These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value except in case of unquoted securities where market value is not

available, which are carried at the lower of cost and break-up value less provision for diminution in value, if any. Surplus/(deficit) on revaluation is taken to 'surplus/(deficit) on revaluation of assets' account shown as part of equity. On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus/(deficit) on revaluation of assets' below equity is included in the profit and loss account for the year.

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

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

**Investment in subsidiary**

Investment in subsidiary is carried at cost less impairment, if any. 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 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 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 Advances are written off when there is no realistic prospect of recovery.

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

### Capital work-in-progress

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

### Operating fixed assets-owned

These are stated at cost less impairment loss and accumulated depreciation except for 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.

**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**

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.

### 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 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.

### 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.

#### 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:

#### 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 issued completed on August 24, 2020 and the final draft of share purchase agreement (SPA) had been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA were deliberated by the Transaction Committee and clarifications to this effect were 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 were clarified and some of them pertaining to license, merger and MCR were forwarded to State Bank of Pakistan for its clarification. Drafts of the bidding documents i.e. instruction to Bidders (ITB) and Share Purchase Agreements (SPA) could not be finalized. Board of Privatization Commission in its meeting held on November 25, 2021 has recommended to delist SME Bank Limited from the list of privatization. Financial Adviser (FA) of Privatization Commission has asserted that despite all efforts and iterative interactions with the pre-qualified bidders to date, positive feedback from the pre- qualified bidders is not forthcoming and owing to the deteriorating financial position of the Bank, FA has recommended to shelve the Transaction. Recommendation of the Board of Privatization was presented to Cabinet Committee

on Privatization (CCoP) in its meeting held on December 31, 2021. The CCoP discussed delisting of SME Bank Limited from the active privatization program. The meeting, after a detailed discussion constituted a committee under the chairmanship of the Finance Minister and representatives from SBP, SECP, Finance Division and Privatization Division to evaluate alternative options for proceeding further.

### 6.2 Going concern assumption and minimum capital requirement

During the current year the Bank incurred a net loss of Rs. 942.421 million (2020: Rs. 977.164 million) resulting into accumulated losses of Rs. 6,846.330 million (December 31, 2020: Rs. 5,761.702 million). As of December 31, 2021, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 4,260.976 million (December 31, 2020: Rs. 3,160.083) indicating the complete erosion of the Bank's equity, which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10%. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. These conditions indicate the existence of material uncertainty that may cast a significant doubt on the Bank's ability to continue as going concern and therefore it may not be able to realize its assets and discharge its liabilities in the ordinary course of business. To overcome the same, the Government of Pakistan (GoP) being the majority shareholder with 93.88% shareholding in the Bank has initiated the process of privatization of the Bank. The MoF through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of regulatory requirements till June 30, 2020. Thereafter, the Bank also vide its latest letter No. SMEBL: HO: CFO & CS: 07:2021/1712/4306 dated July 07, 2021 has requested SBP to allow exemption from MCR till December 31, 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 has been described in Note 6.1 above. Based upon the options being considered in CCoP and support from MoF, 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. CASH AND BALANCES WITH TREASURY BANKS | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| In hand | | | |
| Local currency | | **146,066** | 175,571 |
| In transit - local currency | | **-** | - |
| With State Bank of Pakistan (SBP) in: | | | |
| Local currency current accounts | 7.1 | **584,093** | 419,782 |
| With National Bank of Pakistan in: | | | |
| Local currency current accounts | | **94,767** | 73,334 |
| Prize bonds | | **18** | 40 |
| | | **824,944** | 668,727 |

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 | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| In Pakistan: | | | |
| On current accounts | | **500** | 500 |
| On deposit accounts | | **12,237** | 11,623 |
| Provision for doubtful balance with a bank | 8.1 | **(10,000)** | (10,000) |
| | | **2,737** | 2,123 |

**8.1 Particulars of provision for doubtful placement with a bank**

| | | |
|---|---|---|
| Opening balance | **(10,000)** | (10,000) |
| Charge for the year | **-** | - |
| Reversals | **-** | - |
| | **-** | - |
| Closing balance | **(10,000)** | (10,000) |

Provision for doubtful balance is in respect of deposit of Rs. 10 million (2020: Rs. 10 million) with Indus Bank Limited which is under liquidation.

## 9. INVESTMENTS

### 9.1 Investment by type

| | Note | 2021 Cost / Amortized cost | 2021 Provision for diminution | 2021 Surplus / (Deficit) | 2021 Carrying value | 2020 Cost / Amortized cost | 2020 Provision for diminution | 2020 Surplus / (Deficit) | 2020 Carrying value |
|---|---|---|---|---|---|---|---|---|---|
| | | (Rupees in '000) | | | | (Rupees in '000) | | | |
| **Available-for-sale securities** | | | | | | | | | |
| Federal Government Securities | 9.2.1 | **4,106,322** | **-** | **(15,522)** | **4,090,800** | 5,679,985 | - | 750 | 5,680,735 |
| Shares | | **42,542** | **(15,863)** | **2,941** | **29,620** | 42,542 | (15,770) | 3,370 | 30,142 |
| Mutual Funds | | **1,870** | **(218)** | **(105)** | **1,547** | 1,870 | - | (142) | 1,728 |
| | | **4,150,734** | **(16,081)** | **(12,686)** | **4,121,967** | 5,724,397 | (15,770) | 3,978 | 5,712,605 |
| **Held-to-maturity securities** | | | | | | | | | |
| Non Government Debt Securities | | | | | | | | | |
| - Term Deposit Receipts (TDRs) | 9.1.1 | **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** | 9.1.2 | **215,457** | **(134,709)** | - | **80,748** | 215,457 | (134,709) | - | 80,748 |
| Total Investment | | **4,401,953** | **(151,552)** | **(12,686)** | **4,237,715** | 5,975,616 | (151,241) | 3,978 | 5,828,353 |

9.1.1 TDR of Rs. 35 million (2020: Rs. 35 million) was under lien at year end.

### 9.1.2 SME Leasing Limited (SMEL)

| | 2021 | 2020 |
|---|---|---|
| Holding Percentage | **73.14%** | 73.14% |
| Country | **Pakistan** | Pakistan |
| | **Rupees in 000** | |
| Total assets | **346,546** | 405,618 |
| Total liabilities | **340,011** | 386,058 |
| Total Revenue | **21,394** | 21,955 |
| Total Expenses | **62,580** | 65,252 |
| Loss after taxation | **(13,399)** | (57,676) |
| Total comprehensive loss | **(13,025)** | (57,547) |

SME Leasing Limited (SMEL) was incorporated on July 12, 2002 as a public limited company under the repealed Companies Ordinance, 1984. Upto 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 01, 2006. SMEL continue to operate on a net loss basis and the Bank maintains provision of Rs. 134.709 million (2020: Rs. 134.709 million) against the aforesaid investment of Rs. 215.457 million.

9.2 Investment by segment:

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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) | | | |
| **Federal Government Securities** | | | | | | | | |
| Market Treasury Bills (MTBs) | 3,704,057 | - | (6,845) | 3,697,212 | 2,820,478 | - | (499) | 2,819,979 |
| Pakistan Investment Bonds (PIBs) | 402,265 | - | (8,677) | 393,588 | 2,859,507 | - | 1,249 | 2,860,756 |
| | 4,106,322 | - | (15,522) | 4,090,800 | 5,679,985 | - | 750 | 5,680,735 |
| **Shares** | | | | | | | | |
| Listed companies | 14,999 | (14,790) | 2,941 | 3,150 | 14,999 | (14,697) | 3,370 | 3,672 |
| Unlisted companies | 27,543 | (1,073) | - | 26,470 | 27,543 | (1,073) | - | 26,470 |
| | 42,542 | (15,863) | 2,941 | 29,620 | 42,542 | (15,770) | 3,370 | 30,142 |
| **Mutual Funds** | | | | | | | | |
| Open end | 1,216 | - | (13) | 1,203 | 1,216 | - | 76 | 1,292 |
| Close end - Listed | 654 | (218) | (92) | 344 | 654 | - | (218) | 436 |
| | 1,870 | (218) | (105) | 1,547 | 1,870 | - | (142) | 1,728 |
| **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** | | | | | | | | |
| SME Leasing Limited | 215,457 | (134,709) | - | 80,748 | 215,457 | (134,709) | - | 80,748 |
| Total Investment | 4,401,953 | (151,552) | (12,686) | 4,237,715 | 5,975,616 | (151,241) | 3,978 | 5,828,353 |

9.2.1 Investment given as collateral

| | | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Market Treasury Bills (MTBs) | 9.2.2 | 2,705,670 | 1,560,528 |
| Pakistan Investment Bonds (PIBs) | 9.2.2 | 393,588 | 2,456,991 |
| | | 3,099,258 | 4,017,519 |

9.2.2 These represent market value of securities at reporting date.

| 9.3 Provision for diminution in value of investments | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| Opening balance | **151,241** | 151,241 |
| Charge / reversals | | |
| Charge for the year | **311** | - |
| Reversal for the year | **-** | - |
| Reversal on disposals | **-** | - |
| | **311** | - |
| Transfers - net | **-** | - |
| Amount written off | **-** | - |
| Closing balance | **151,552** | 151,241 |

**9.3.1 Particulars of provision against debt securities category of classification**

| | 2021 | | 2020 | |
|---|---|---|---|---|
| **Domestic** | **NPI** | **Provision** | NPI | Provision |
| | (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 | 2021 | 2020 |
|---|---|---|
| | Cost/Amortised cost | |
| | (Rupees '000) | |
| **Federal Government Securities - Government guaranteed** | | |
| Market Treasury Bill | **3,704,057** | 2,820,478 |
| Pakistan Investment Bonds | **402,265** | 2,859,507 |
| | **4,106,322** | 5,679,985 |

| Shares | 2021 | 2020 |
|---|---|---|
| | Cost | |
| **Listed Companies** | (Rupees '000) | |
| - 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 |

| | | 2021 | | 2020 | |
|---|---|---|---|---|---|
| **Unlisted / delisted Companies** | | **Cost** | **Breakup value** | Cost | Breakup value |
| | **Note** | (Rupees '000) | | | |
| - ISE Towers REIT Management | 9.4.1 | **18,000** | **50,890** | 18,000 | 46,885 |
| - LSE Financial Services Limited | 9.4.1 | **8,440** | **20,534** | 8,440 | 19,606 |
| - News-v/s Credit Information Services (Pvt) Limited | | **100** | **30** | 100 | 30 |
| - Companies delisted from stock exchange | 9.4.2 | **1,003** | **-** | 1,003 | - |
| | | **27,543** | **71,454** | 27,543 | 66,521 |

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

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 |
| | | | 1,003 |

| | 2021 | 2020 |
|---|---|---|
| **Mutual Funds** | Cost | |
| | (Rupees '000) | |
| - HBL investment fund - Class A | 654 | 654 |
| - HBL investment fund - Class B | 1,216 | 1,216 |
| | 1,870 | 1,870 |

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

| | 2021 | 2020 |
|---|---|---|
| **Non Government Debt Securities** | Cost | |
| **Unlisted** | (Rupees '000) | |
| **- A/A1** | 35,000 | 35,000 |
| **- Unrated** | 762 | 762 |
| | 35,762 | 35,762 |

## 10. ADVANCES

| | Note | Performing | | Non Performing | | Total | |
|---|---|---|---|---|---|---|---|
| | | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| | | (Rupees in '000) | | | | | |
| Loans, cash credits, running finances, etc- In Pakistan | | | | | | | |
| Extended by: | | | | | | | |
| Defunct RDFC & SBFC | 10.3 | - | - | **4,880,773** | 4,881,305 | **4,880,773** | 4,881,305 |
| SME Bank Ltd | | **1,441,446** | 1,331,056 | **438,245** | 484,794 | **1,879,691** | 1,815,850 |
| Due from employees | | **49,040** | 67,066 | **7,927** | 6,188 | **56,967** | 73,254 |
| | | **1,490,486** | 1,398,122 | **5,326,945** | 5,372,287 | **6,817,431** | 6,770,409 |
| Net investment in finance lease | 10.1 & 10.3 | **280** | 280 | **973** | 973 | **1,253** | 1,253 |
| Advances - gross | | **1,490,766** | 1,398,402 | **5,327,918** | 5,373,260 | **6,818,684** | 6,771,662 |
| Provision for non-performing advances | | | | | | | |
| Specific provision | | - | - | **(5,221,619)** | (5,232,725) | **(5,221,619)** | (5,232,725) |
| General provision | | **(884)** | (8,593) | - | - | **(884)** | (8,593) |
| | 11 | **(884)** | (8,593) | **(5,221,619)** | (5,232,725) | **(5,222,503)** | (5,241,318) |
| Advances - net of provision | | **1,489,882** | 1,389,809 | **106,299** | 140,535 | **1,596,181** | 1,530,344 |

**10.1 Includes net investment in finance lease as disclosed below:**

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | Over five years | Total |
| | (Rupees in '000) | | | | | | | |
| Lease rentals receivable | **973** | - | - | **973** | 973 | - | - | 973 |
| Residual value | **280** | - | - | **280** | 280 | - | - | 280 |
| Minimum lease payments | **1,253** | - | - | **1,253** | 1,253 | - | - | 1,253 |
| Financial charges for future periods | - | - | - | - | - | - | - | - |
| Present value of minimum lease payments | **1,253** | - - | - | **1,253** | 1,253 | - | - | 1,253 |

**10.2 Particulars of advances (Gross)**

| | **2021** | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| In local currency | **6,818,684** | 6,771,662 |
| In foreign currencies | - | - |
| | **6,818,684** | 6,771,662 |

### 10.3 Assignment of 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).

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 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 favour of the FCF.

The management of the Bank continues to show these loan portfolios in its book of accounts pending confirmation of recording by NBP in its books of accounts to ensure that the above loans are duly accounted by NBP in compliance to the terms of the agreement dated Feb 23, 2018. The Bank has requested with various intervals to share the details of the road map prepared by NBP for smooth transfer of accounting record related to the legacy loan portfolio from books of the Bank to books of NBP.

**10.4 Advances include Rs. 5,327.918 million (2020: Rs. 5,373.260 million) which have been placed under non-performing status as detailed below:**

| Category of Classification | Note | 2021 Non Performing Loans | 2021 Provision | 2020 Non Performing Loans | 2020 Provision |
|---|---|---|---|---|---|
| | | (Rupees in '000) | | | |
| **Domestic** | | | | | |
| Other Assets Especially Mentioned | | **5,674** | **-** | 1,397 | 41 |
| Substandard | | **7,593** | **-** | 21,498 | 91 |
| Doubtful | | **13,097** | **14** | 15,333 | 1,258 |
| Loss | | **5,301,554** | **5,221,605** | 5,335,032 | 5,231,335 |
| | 10.4.1 | **5,327,918** | **5,221,619** | 5,373,260 | 5,232,725 |

10.4.1 This include non performing loans and provision of Rs: 438.245 million and Rs: 331.959 million respectively (2020: Rs. 484.794 million & Rs. 344.317 million) relating to SME portfolio.

**10.5 Particulars of provision against advances**

| | 2021 Specific | 2021 General | 2021 Total | 2020 Specific | 2020 General | 2020 Total |
|---|---|---|---|---|---|---|
| | | | (Rupees in '000) | | | |
| Opening balance | **5,232,725** | **8,593** | **5,241,318** | 5,257,050 | 8 | 5,257,058 |
| **Charge/(Reversal)** | | | | | | |
| Charge for the period/year | **23,582** | **22** | **23,604** | 22,631 | 8,587 | 31,218 |
| Reversal for the period/year | **(34,201)** | **(7,731)** | **(41,932)** | (45,984) | (2) | (45,986) |
| | **(10,619)** | **(7,709)** | **(18,328)** | (23,353) | 8,585 | (14,768) |
| Amounts written off | - | - | - | - | - | - |
| Reversal of provision of transferred portfolio | **(487)** | - | **(487)** | (972) | - | (972) |
| Closing balance | **5,221,619** | **884** | **5,222,503** | 5,232,725 | 8,593 | 5,241,318 |

10.5.1 General provision has been recorded at the rate of 1% (2020: 1%) of unsecured performing small enterprises portfolio plus a buffer which approximates to 4.5% of covid affected borrowers who availed SBP enabled deferment as at Dec 31, 2020. However, subsequently the general provision have still been kept only for those borrowers whose payments of loan is delyed by more then 60 days and all the remaining provision has reversed.

10.5.2 The FSV benefit availed in last years has been decreased by Rs. 26.540 million, which has resulted increase in charge for specific provision for the period 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 decreased by Rs. 26.540 million (2020: increased by Rs. 13.327 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 88.950 million (2020: Rs. 115.490 million).

**10.5.3 Particulars of provisions against advances**

| | 2021 Specific | 2021 General | 2021 Total | 2020 Specific | 2020 General | 2020 Total |
|---|---|---|---|---|---|---|
| | | | (Rupees in '000) | | | |
| In local currency | **5,221,619** | **884** | **5,222,503** | 5,232,725 | 8,593 | 5,241,318 |
| In foreign currencies | **-** | **-** | **-** | - | - | - |
| | **5,221,619** | **884** | **5,222,503** | 5,232,725 | 8,593 | 5,241,318 |

| 10.6 Particulars of Write Off: | 2021 | 2020 |
|---|---|---|
| | (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, 2021 is given at Annexure-1.

## 11. FIXED ASSETS

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Property and equipment | 11.1 | **11,556** | 16,940 |
| Right of use assets | 11.2 | **412,684** | 455,244 |
| | | **424,240** | 472,184 |

### 11.1 Property and Equipment

| | 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Freehold Land | Leasehold Land | Building on Freehold Land | Lease hold improvement | Furniture and fixture | Electrical office and computer equipment | Vehicles | Total |
| **At January 01, 2021** | | | | (Rupees '000) | | | | |
| Cost | - | 450 | 15,600 | 38,866 | 9,346 | 180,253 | 38,568 | 283,083 |
| Accumulated depreciation | - | - | 11,765 | 38,730 | 9,250 | 168,280 | 38,118 | 266,143 |
| Net book value | - | 450 | 3,835 | 136 | 96 | 11,973 | 450 | 16,940 |
| **Year ended December 2021** | | | | | | | | |
| Opening net book value | - | 450 | 3,835 | 136 | 96 | 11,973 | 450 | 16,940 |
| Additions | - | - | - | 125 | 31 | 3,626 | - | 3,782 |
| Disposals | - | - | - | - | - | - | (27) | (27) |
| Depreciation charge | - | - | (780) | (123) | (56) | (7,757) | (423) | (9,139) |
| Closing net book value | - | 450 | 3,055 | 138 | 71 | 7,842 | - | 11,556 |
| **At December 31, 2021** | | | | | | | | |
| Cost | - | 450 | 15,600 | 38,991 | 9,377 | 183,879 | 26,710 | 275,007 |
| Accumulated depreciation/impairme | - | - | 12,545 | 38,853 | 9,306 | 176,037 | 26,710 | 263,451 |
| Net book value | - | 450 | 3,055 | 138 | 71 | 7,842 | - | 11,556 |
| Rate of depreciation (percentage) | - | - | 5 | 33.33 | 20 | 15 & 33.33 | 20 | - |

| | 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Freehold Land | Leasehold Land | Building on Freehold Land | Lease hold improvement | Furniture and fixture | Electrical office and computer equipment | Vehicles | Total |
| **At January 01, 2020** | | | | (Rupees '000) | | | | |
| Cost | - | 450 | 15,600 | 38,810 | 9,346 | 179,015 | 42,860 | 286,081 |
| Accumulated depreciation | - | - | 10,985 | 36,653 | 8,971 | 155,927 | 39,026 | 251,562 |
| Net book value | - | 450 | 4,615 | 2,157 | 375 | 23,088 | 3,834 | 34,519 |
| **Year ended December 2020** | | | | | | | | |
| Opening net book value | - | 450 | 4,615 | 2,157 | 375 | 23,088 | 3,834 | 34,519 |
| Additions | - | - | - | 56 | - | 1,238 | - | 1,294 |
| Disposals | - | - | - | - | - | - | (302) | (302) |
| Depreciation charge | - | - | (780) | (2,077) | (279) | (12,353) | (3,082) | (18,571) |
| Closing net book value | - | 450 | 3,835 | 136 | 96 | 11,973 | 450 | 16,940 |
| **At December 31, 2020** | | | | | | | | |
| Cost | - | 450 | 15,600 | 38,866 | 9,346 | 180,253 | 38,568 | 283,083 |
| Accumulated depreciation/impairme | - | - | 11,765 | 38,730 | 9,250 | 168,280 | 38,118 | 266,143 |
| Net book value | - | 450 | 3,835 | 136 | 96 | 11,973 | 450 | 16,940 |
| Rate of depreciation (percentage) | - | - | 5 | 33.33 | 20 | 15 & 33.33 | 20 | - |

| 11.2 Right of use assets | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| Opening net book value | **455,244** | 497,593 |
| Additions | **12,805** | 11,525 |
| Depreciation | **(55,365)** | (53,874) |
| Closing net book value | **412,684** | 455,244 |

11.3 Details of disposal of fixed assets :

| Particulars of assets | Cost | Accumulated depreciation | Book value | Sale proceeds | Gain/(loss) on sale of fixed | Mode of disposal | Particulars of buyers (Employees) |
|---|---|---|---|---|---|---|---|
| | (Rupees '000) | | | | | | |
| **Vehicles** | | | | | | | |
| Suzuki Cultus | 1,046 | 1,046 | - | 105 | 105 | As per Bank policy | Sheikh Nisar Ahmad |
| Toyota Corolla | 1,043 | 1,043 | - | 104 | 104 | As per Bank policy | Barkat Ali Lashari |
| Honda Civic | 1,901 | 1,901 | - | 190 | 190 | As per Bank policy | Abdul Razzaq |
| Honda Civic | 1,900 | 1,873 | 27 | 190 | 163 | As per Bank policy | Muhammad Ayub Khan |
| Honda City | 1,056 | 1,056 | - | 106 | 106 | As per Bank policy | Ms Fakhra Jabeen |
| Toyota Corolla | 1,104 | 1,104 | - | 111 | 111 | As per Bank policy | Syed Oshaid Akhtar |
| Toyota Corolla | 1,885 | 1,885 | - | 188 | 188 | As per Bank policy | Junaid Mohmand |
| Toyota Corolla | 1,923 | 1,923 | - | 192 | 192 | As per Bank policy | Manzoor Ahmed Jan |
| **2021** | **11,858** | **11,831** | **27** | **1,186** | **491** | | |
| 2020 | 4,292 | 3,990 | 302 | 891 | 589 | | |

11.4 Gross carrying amount of fully depreciated assets that are still in use was Rs. 239.472 million (2020: Rs. 197.521 million).

| 12 INTANGIBLE ASSETS | 2021 Computer software | 2020 Computer software |
|---|---|---|
| | (Rupees in '000) | |
| **At January 1** | | |
| Cost | **32,558** | 30,787 |
| Accumulated amortization and impairment | **30,802** | 29,456 |
| Net book value | **1,756** | 1,331 |
| **Year ended December 31** | | |
| Opening net book value | **1,756** | 1,331 |
| Additions: | | |
| - developed internally | - | - |
| - directly purchased | 777 | 1,771 |
| | 777 | 1,771 |
| Disposals | - | - |
| Amortization charge | **1,078** | 1,346 |
| Closing net book value | **1,455** | 1,756 |
| **As December 31** | | |
| Cost | **33,335** | 32,558 |
| Accumulated amortization and impairment | **31,880** | 30,802 |
| Net book value | **1,455** | 1,756 |
| Rate of amortization (percentage) | **33.33** | 33.33 |
| Useful life | **3 years** | 3 years |

12.1 Gross carrying amount of fully amortized intangible assets that are still in use was Rs. 30.561 million (2020: Rs. 28.103 million).

## 13. DEFERRED TAX ASSET - NET

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **Deferred tax asset arising in respect of:** | | | |
| Unabsorbed depreciation and amortization | | **85,998** | 82,155 |
| Unused tax losses | | **923,201** | 808,488 |
| | 13.1 | **1,009,199** | 890,643 |
| **Deferred tax (liability) / asset arising in respect of:** | | | |
| Surplus on revaluation of investment | | **(993)** | (1,392) |
| Remeasurement of defined benefit plan | | **-** | (14,336) |
| | 13.2 | **1,008,206** | 874,915 |

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

### 13.2 Reconciliation of deferred tax

| | 2020 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance at January 1, | Recognized in profit and loss account | Recognized in OCI | Balance at December 31, | **Balance at January 1,** | **Recognized in profit and loss account** | **Recognized in OCI** | **Balance at December 31,** |
| | (Rupees in '000) | | | | | | | |
| **Deferred tax asset arising in respect of:** | | | | | | | | |
| Accelerated tax depreciation & amortization | 77,530 | 4,625 | - | 82,155 | **82,155** | **3,843** | - | **85,998** |
| Unused tax losses | 675,433 | 133,055 | - | 808,488 | **808,488** | **114,713** | - | **923,201** |
| | 752,963 | 137,680 | - | 890,643 | **890,643** | **118,556** | - | **1,009,199** |
| **Deferred tax liability arising in respect of:** | | | | | | | | |
| Surplus on revaluation of investment | (669) | - | (723) | (1,392) | **(1,392)** | - | **399** | (993) |
| Remeasurement of defined benefit plan | - | - | (14,336) | (14,336) | **(14,336)** | - | **14,336** | - |
| **Deferred tax (liability)/asset - net** | 752,294 | 137,680 | (15,059) | 874,915 | **874,915** | **118,556** | **14,735** | **1,008,206** |

| 14. OTHER ASSETS | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Income/mark-up accrued in local currency - net of provision | 14.1 | **84,185** | 130,491 |
| Advances, deposits, advance rent and other prepayments | | **20,295** | 21,891 |
| Advance taxation - net | 14.2 | **236,293** | 243,077 |
| Non banking asset acquired in satisfaction of claims | 14.3 | **147,066** | 147,066 |
| Due from benevolent fund- unsecured | 35.2 | **8,685** | 5,552 |
| Receivable from NBP | | **3,971** | 2,966 |
| Receivable from subsidiary company | | **4,252** | 4,157 |
| Receivable from Equity Participation Fund | | **3,017** | 1,760 |
| 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 | | **76,656** | 76,731 |
| | | **630,768** | 680,039 |
| Less: Provision held against other assets | 14.4 | **117,919** | 117,354 |
| Other assets (net of provision) | | **512,849** | 562,685 |

14.1 The balance has been arrived at after adjusting interest in suspense of Rs. 4,041.059 million (2020: Rs. 4,053.680 million) which includes Rs: 247.449 million (2020: Rs. 261.192 million) relating to SME portfolio.

14.2 This includes the effect of refunds aggregating to Rs. 232.599 million (2020: 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 was fixed on January 11, 2021 and next hearing is 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 (2020: 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 (COF). Meanwhile, the Legal heirs also approached High Court and submitted a Civil Miscellaneous

application (CMA) for restoration of RFA 635/13 which has been already decided ex-party in favor of the Bank, arguments on CMA are in process in High Court. Our Counsel has argued that decision of DB High Court is now time barred. However on last hearing of October 16, 2021 in Banking Court V the judge asked for fresh statement of COF which will be provided to court on next date of hearing i.e. October 26, 2021. The same was provided to court. However, there was no further proceeding on hearing on 04.12.2021, 11.12.2021, 18.12.2021, 23.12.2021, 04.01.2022, 08.01.2022,15.01.2022, 22.01.2022 and 29.01.2022 as the the original case file was retained with Lahore High Court for decision of CM in RFA-635-2013. Next date of hearing is 09.02.2022. Whereas, the RFA-635-13 was fixed for hearing on 24-01-2022 in High Court with Division Bench ( DB) of Justice Ayesha A. Malik. The DB was cancelled due to her elevation as Justice from Honorable High Court to Justice of Honorable Supreme Court of Pakistan. Still waiting for relisting the referred RFA .

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

| | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| Advances, deposits, advance rent & other prepayments | **4,477** | **4,510** |
| Receivable from Speedway Fondmetall Pakistan Limited | **19,640** | **19,640** |
| Receivable against factorized portfolio | **5,148** | **5,148** |
| Other receivables - SME Portfolio | **44,326** | **43,709** |
| Legal charges recoverable from borrowers - SBFC & RDFC | **22,659** | **22,659** |
| Trading right entitlement certificate - TREC | **21,560** | **21,560** |
| Others | **109** | **128** |
| | **117,919** | 117,354 |

### 14.4.1 Movement in provision held against other assets

| | | |
|---|---|---|
| Opening balance | **117,354** | 117,109 |
| Charge for the year | **3,891** | 2,929 |
| Reversals for the year | **(3,326)** | (2,682) |
| | **565** | 247 |
| Transferred to NBP | **-** | (2) |
| Closing balance | **117,919** | 117,354 |

| | | Note | 2021 | 2020 |
|---|---|---|---|---|
| | | | (Rupees in '000) | |
| 15. | **BILLS PAYABLE** | | | |
| | In Pakistan | | **19,071** | 99,986 |
| | Outside Pakistan | | **-** | - |
| | | | **19,071** | 99,986 |
| 16. | **BORROWINGS** | | | |
| | **Secured** | | | |
| | Borrowing from State Bank of Pakistan | | | |
| | Under Financing facility for storage of agricultural produce | 16.2 | **67,981** | 86,317 |
| | Under Modernization of small and medium enterprises | 16.2 | **39,310** | 25,549 |
| | | | **107,291** | 111,866 |
| | Repurchase agreement borrowings | | | |
| | State Bank of Pakistan | 16.3 | **3,098,998** | 3,941,151 |
| | Financial Institutions | 16.3 | **-** | 74,596 |
| | | | **3,098,998** | 4,015,747 |
| | | | **3,206,289** | 4,127,613 |

**16.1 Particulars of borrowings with respect to Currencies**

| | | |
|---|---|---|
| In local currency | **3,206,289** | 4,127,613 |
| In foreign currencies | **-** | - |
| | **3,206,289** | 4,127,613 |

16.2 These are secured against demand promissory note and carry mark up rate of 2.0% per annum payable on quarterly basis and having maturity period upto 7 years.

16.3 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 rate 10.00% to 10.15% (2020: 7.18% to 7.40%) per annum for period upto three months (2020: for period upto seven days). REPO transactions are secured against investment of the Bank in Government securities.

## 17. DEPOSITS AND OTHER ACCOUNTS

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | In Local Currency | In Foreign Currency | Total | In Local Currency | In Foreign Currency | Total |
| | (Rupees in '000) | | | | | |
| **Customers** | | | | | | |
| Current deposits | 1,394,107 | - | 1,394,107 | 1,195,828 | - | 1,195,828 |
| Savings deposits | 3,911,666 | - | 3,911,666 | 3,357,871 | - | 3,357,871 |
| Term deposits | 2,163,357 | - | 2,163,357 | 2,405,940 | - | 2,405,940 |
| Others | 141,070 | - | 141,070 | 80,594 | - | 80,594 |
| | 7,610,200 | - | 7,610,200 | 7,040,233 | - | 7,040,233 |
| **Financial Institutions** | | | | | | |
| Current deposits | 441 | - | 441 | 24 | - | 24 |
| Savings deposits | 570,330 | - | 570,330 | 502,005 | - | 502,005 |
| Term deposits | 67,300 | - | 67,300 | 60,000 | - | 60,000 |
| Others | - | - | - | - | - | - |
| | 638,071 | - | 638,071 | 562,029 | - | 562,029 |
| | 8,248,271 | - | 8,248,271 | 7,602,262 | - | 7,602,262 |

### 17.1 Composition of deposits

| | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| Individuals | 1,794,810 | 1,560,869 |
| Government (Federal and Provincial) | 784,859 | 956,673 |
| Public Sector Entities | 58,119 | 53,509 |
| Banking Companies | - | - |
| Non-Banking Financial Institutions | 638,071 | 562,029 |
| Private Sector | 4,972,412 | 4,469,182 |
| | 8,248,271 | 7,602,262 |

17.2 Total deposits include eligible deposits of Rs. 3,290.526 million (2020: Rs. 2,489.865 million) as required by the Deposit Protection Corporation's (a subsidiary of SBP) Circular No. 4 of 2018 dated June 22, 2018.

| | Note | 2021 | 2020 |
|---|---|---|---|
| **18. OTHER LIABILITIES** | | (Rupees in '000) | |
| Mark-up/ return/ interest payable in local currency | | **98,484** | 108,779 |
| Unearned commission on guarantees | | **3,840** | 2,799 |
| Accrued expenses | | **14,513** | 10,077 |
| Sundry creditors | 18.1 | **132,585** | 161,757 |
| Branch adjustment account | | **1,548** | 1,386 |
| Payable against employees' benefit plans | | | |
| Defined benefit pension | 34.4 | **500,705** | 337,993 |
| Defined benefit funded gratuity scheme | 34.4 | **7,362** | 4,833 |
| Unfunded compensated absences | 34.4 | **67,410** | 68,328 |
| Security deposits against lease | | **280** | 280 |
| Leased liability against right of use assets | 18.2 | **537,165** | 541,078 |
| Employees' VSS payments withheld | | **12,076** | 12,603 |
| Income tax withheld payable | | **18,049** | 19,603 |
| Others | | **1,655** | 1,793 |
| | | **1,395,672** | 1,271,309 |

18.1 This include Rs. 90.615 million (2020: 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. 31.027 million (2020: Rs. 59.287 million).

18.2 This represents lease liability under IFRS 16 :

| | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| Opening net book value | **541,078** | 538,756 |
| - Additions/adjustment | **12,805** | 11,525 |
| - Interest | **69,183** | 69,451 |
| - Payment | **(85,901)** | (78,654) |
| Closing net book value | **537,165** | 541,078 |

## 19. SHARE CAPITAL

### 19.1 Authorized Capital

| 2021 | 2020 | | 2021 | 2020 |
|---|---|---|---|---|
| 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

| 2021 | 2020 | Ordinary shares | 2021 | 2020 |
|---|---|---|---|---|
| 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 | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Surplus/(deficit) on revaluation of | | | |
| Available-for-sale securities | | | |
| - Federal Government securities | 9.1 | (15,522) | 750 |
| - Listed companies/mutual funds | | 2,836 | 3,228 |
| | | (12,686) | 3,978 |
| Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities | | | |
| - Federal Government securities | | - | (263) |
| - Listed companies/mutual funds | | (993) | (1,129) |
| | | (13,679) | 2,586 |

| 21. CONTINGENCIES AND COMMITMENTS | Note | 2021 (Rupees in '000) | 2020 (Rupees in '000) |
|---|---|---|---|
| - Guarantees | 21.1 | **338,308** | 229,498 |
| - Commitments | 21.2 | **3,316,589** | 4,278,596 |
| - Other contingent liabilities | 21.3 | **1,170,700** | 1,192,987 |
| | | **4,825,597** | 5,701,081 |

### 21.1 Guarantees

| | | | |
|---|---|---|---|
| Financial guarantees | | - | - |
| Performance guarantees | 21.1.1 | **338,308** | 229,498 |
| Other guarantees | | - | - |
| | | **338,308** | 229,498 |

**21.1.1** This include expired letter of guarantees/performance aggregating to Rs. 92.941 million (2020: Rs. 69.690 million) for which formalities for return of original documents are in process.

### 21.2 Commitments

| | | | |
|---|---|---|---|
| Commitments in respect of: | | | |
| - forward government securities transactions | 21.2.1 | **3,099,258** | 4,017,519 |
| - forward lending | 21.2.2 | **215,662** | 259,813 |
| Commitments for acquisition of: | | | |
| - operating fixed assets | | **1,669** | 1,264 |
| - intangible assets | | - | - |
| Other commitments | 21.2.3 | - | - |
| | | **3,316,589** | 4,278,596 |

### 21.2.1 Commitments in respect of forward government securities transactions

| | | |
|---|---|---|
| Sale and repurchase agreements | **3,099,258** | 4,017,519 |

### 21.2.2 Commitments in respect of forward lending

| | | |
|---|---|---|
| Undrawn facilities | **142,562** | 202,613 |
| Commitments to extend credit | **73,100** | 57,200 |
| | **215,662** | 259,813 |

### 21.2.3 Other commitments

**Bills for collection**

| | | |
|---|---|---|
| Payable in Pakistan | - | - |

| | | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 21.3 | **Other contingent liabilities** | **1,170,700** | 1,192,987 |
| | a) Claims not acknowledged as debt from various borrowers of defunct RDFC. | **31,860** | 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 |
| | 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 |

| | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| 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 |

| | | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 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 |
| 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) | 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. | **20,807** | 20,998 |
| k) | Back benefits and claims of staff / employees under litigation. | **67,280** | 67,550 |

| | | 2021 | 2020 |
|---|---|---|---|
| **22.** | **MARK-UP/ RETURN/ INTEREST EARNED** | **(Rupees in '000)** | |
| | On loans and advances to Customers | | |
| | Extended by: | | |
| | Defunct RDFC & SBFC | - | - |
| | SME Bank Limited | **227,933** | 249,305 |
| | | **227,933** | 249,305 |
| | Employees | **1,883** | 3,548 |
| | Financial Institution - SME Leasing Limited - a subsidiary company | **16,869** | 19,555 |
| | | **246,685** | 272,408 |
| | On investments in | | |
| | Available for sale securities | **359,318** | 460,667 |
| | Held to maturity securities | **2,280** | 4,293 |
| | | **361,598** | 464,960 |
| | On deposits with financial institutions | **124** | 288 |
| | Lendings to financial institutions | **1,185** | 1,292 |
| | | **609,592** | 738,948 |
| **23.** | **MARK-UP/ RETURN/ INTEREST EXPENSED** | | |
| | On deposits | **453,488** | 632,225 |
| | On securities sold under repurchase agreements | **260,511** | 372,606 |
| | On SBP Refinance Scheme | **2,038** | 2,023 |
| | Brokerage and commission | **1,468** | 1,566 |
| | Bank charges | **132** | 243 |
| | | **717,637** | 1,008,663 |
| **24.** | **FEE & COMMISSION INCOME** | | |
| | Branch banking customer fees | **3,095** | 3,002 |
| | Card related fees | **427** | 435 |
| | Credit related fees | **2,473** | 2,403 |
| | Commission on guarantees | **7,937** | 4,995 |
| | Commission on remittances | **65** | 59 |
| | Others | **12** | 20 |
| | | **14,009** | 10,914 |

| | | Note | 2021 (Rupees in '000) | 2020 |
|---|---|---|---|---|
| **25.** | **GAIN / (LOSS) ON SECURITIES** | | | |
| | Realised | 25.1 | **925** | 815 |
| | Unrealised - held for trading | | **-** | - |
| | | | **925** | 815 |
| 25.1 | Federal Government Securities - net | | **925** | 815 |
| | Shares | | **-** | - |
| | | | **925** | 815 |
| **26.** | **OTHER INCOME** | | | |
| | Gain on sale of operating fixed assets - net | | **1,159** | 289 |
| | Fee on fund managed by the Bank -EPF | | **974** | 974 |
| | Claim against stolen vehicle | | **-** | 300 |
| | Others | | **36** | 13 |
| | | | **2,169** | 1,576 |

| 27. OPERATING EXPENSES | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **Total compensation expense** | 27.1 | **695,478** | 631,765 |
| **Property expense** | | | |
| Rent & taxes | | **4,886** | 4,563 |
| Insurance | | **3,712** | 1,202 |
| Utilities cost | | **23,635** | 19,642 |
| Security (including guards) | | **18,330** | 16,124 |
| Repair & maintenance | | **6,752** | 6,490 |
| Depreciation | | **56,147** | 54,654 |
| Others | | **-** | - |
| | | **113,462** | 102,675 |
| **Information technology expenses** | | | |
| Software maintenance | | **6,517** | 4,616 |
| Hardware maintenance | | **1,970** | 1,668 |
| Depreciation | | **2,818** | 4,923 |
| Amortization | | **1,078** | 1,346 |
| Network charges | | **13,758** | 13,463 |
| Others | | **224** | 277 |
| | | **26,365** | 26,293 |
| **Other operating expenses** | | | |
| Directors' fees, allowances and other expenses | | **4,315** | 2,659 |
| Legal and professional charges | | **6,062** | 4,463 |
| Outsourced services costs | 27.2 & 33.1 | **25,079** | 26,589 |
| Travelling and conveyance | | **2,942** | 1,698 |
| NIFT clearing charges | | **2,424** | 2,049 |
| Depreciation | | **5,540** | 12,868 |
| Training & development | | **959** | 1,191 |
| Postage & courier charges | | **736** | 711 |
| Communications | | **4,477** | 4,492 |
| Stationery and printing | | **5,435** | 4,572 |
| Marketing, advertisement & publicity | | **1,469** | 1,163 |
| Donations | | **-** | - |
| Auditors' remuneration | 27.3 | **1,126** | 1,358 |
| Separations Cost | | **1,389** | - |
| Vehicle running and maintenance | | **4,683** | 3,727 |
| Entertainment | | **2,224** | 2,253 |
| Subscription, books and newspapers | | **3,049** | 3,532 |
| Deposits premium | | **3,784** | 2,713 |
| Others | | **356** | 528 |
| | | **76,049** | 76,566 |
| | | **911,354** | 837,299 |

## 27.1 Total compensation expense

| | Note | 2021 (Rupees in '000) | 2020 |
|---|---|---|---|
| Managerial Remuneration | | | |
| - Fixed | | **296,399** | 291,206 |
| - Variable | | | |
| Cash award | | **305** | 298 |
| Charge for defined benefit plans | | | |
| - pension fund and gratuity | 34.7 | **100,098** | 100,775 |
| - funded gratuity scheme | 34.7 | **11,220** | 11,389 |
| - unfunded compensated absences | 34.7 | **28,496** | (25,528) |
| Contribution to defined contribution plan - benevolent fund | | **(2,722)** | 256 |
| Rent & house maintenance | | **96,840** | 95,804 |
| Utilities | | **30,023** | 29,874 |
| Medical | | **43,825** | 40,966 |
| Conveyance | | **15,257** | 14,909 |
| Telephone | | **3,865** | 4,115 |
| Uniform allowance | | **1,269** | 1,133 |
| Child education allowance | | **6,611** | 7,254 |
| Group insurance | | **1,622** | 1,202 |
| Overtime | | **1,564** | 1,302 |
| Adhoc relief | | **1,421** | 2,163 |
| Leave absence | | **7,232** | 6,798 |
| Leave fare assistance | | **13,508** | 13,615 |
| Rental in lieu of vehicle | | **6,591** | 6,272 |
| Reimbursement of vehicle running & maintenance | | **28,472** | 25,961 |
| Staff welfare benefits | | **3,582** | 2,001 |
| | | **695,478** | 631,765 |

**27.2** Total cost for the year included in other operating expenses relating to outsourced activities is Rs 25.079 million (2020: Rs 26.589 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

| | 2021 (Rupees in '000) | 2020 |
|---|---|---|
| Audit fee | **928** | 928 |
| Fee for other statutory certifications | **116** | 116 |
| Fee for audit of employees funds | **82** | 24 |
| Special review | **-** | 290 |
| | **1,126** | 1,358 |

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| **28. OTHER CHARGES** | | | |
| Penalties imposed by the State Bank of Pakistan | | - | 108 |
| Right of use assets - unwinding of present value | | 69,183 | 69,451 |
| | | 69,183 | 69,559 |
| **29. PROVISIONS & WRITE OFFS - NET** | | | |
| Provisions/(reversals) for diminution in value of investment | 9.3 | 311 | - |
| Provisions/(reversals) against loans & advances | 10.5 | (18,328) | (14,768) |
| Provisions/(reversals) against other assets | 14.4.1 | 565 | 247 |
| Bad debts written off directly | | - | - |
| | | (17,452) | (14,521) |

## 30. TAXATION

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Current | 30.2 | **9,530** | 11,624 |
| Prior years | 30.3 | **-** | (43,898) |
| Deferred | | **(118,556)** | (137,680) |
| | | **(109,026)** | (169,954) |

### 30.1 Relationship between tax expense and accounting loss

| | 2021 | 2020 |
|---|---|---|
| Loss before tax | **(1,051,447)** | (1,147,118) |
| Applicable tax rate | **35%** | 35% |

| | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| Tax on loss | **(368,006)** | (401,491) |
| Deferred tax asset recognised during the year | **(118,556)** | (137,680) |
| Tax effect of income taxed at lower rate | **53** | 36 |
| Minimum tax | **9,477** | 11,588 |
| Other permanent differences | **368,006** | 357,593 |
| | **(109,026)** | (169,954) |

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, 2021.

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

| | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| Net loss after tax for the year | **(942,421)** | (977,164) |
| | **Number of shares** | |
| Weighted average number of ordinary shares | **239,250,700** | 239,250,700 |
| | **Rupees** | |
| Basic/ diluted loss per share | **(3.94)** | (4.08) |

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

## 32. CASH AND CASH EQUIVALENTS

| | Note | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Cash and balances with treasury banks | 7 | **824,944** | 668,727 |
| Balances with other banks | 8 | **2,737** | 2,123 |
| | | **827,681** | 670,850 |

## 33. STAFF STRENGTH

| | 2021 | 2020 |
|---|---|---|
| | Numbers | |
| Permanent | **151** | 163 |
| On contract | **184** | 196 |
| | **335** | 359 |

**Average number of employees**

| | | |
|---|---|---|
| Permanent | **157** | 167 |
| On contract | **190** | 200 |
| | **347** | 367 |

**33.1** In addition to the above, 113 (2020: 109) employees of outsourcing services companies were assigned to the Bank.

## 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:

| | **2021** | 2020 |
|---|---|---|
| | **( Numbers )** | |
| - Pension fund | **151** | 163 |
| - Gratuity fund | **184** | 196 |
| - Compensated absences | **151** | 163 |

## 34.3 Principal actuarial assumptions

The actuarial valuations were carried out as at December 31, 2021 using the following significant assumptions:

| | 2021 | 2020 |
|---|---|---|
| Valuation discount rate - per annum | **12.25%** | 10.25% |
| Salaries increase rate - per annum | **10.25%** | 8.25% |
| Expected return on plan assets - per annum | **12.25%** | 10.25% |
| Pension indexation rate - per annum | **8.25%** | 6.25% |
| Normal retirement age (NRA) | **60 years** | 60 years |
| Mortality rate | **SLIC 2001-05** | SLIC 2001-05 |
| Withdrawal rate | **Moderate** | Moderate |
| Effective salary increase timing | **January 1st, 2022** | January 1st, 2021 |

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

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Pension fund** | **Gratuity fund** | **Compensated Absences** | Pension fund | Gratuity fund | Compensated Absences |
| | | | **(Rupees '000)** | | | |
| Present value of obligations | **1,874,581** | **122,292** | **67,410** | 1,622,825 | 111,679 | 68,328 |
| Fair value of plan assets | **(1,373,876)** | **(114,930)** | - | (1,284,832) | (106,846) | - |
| (Receivable) / payable | **500,705** | **7,362** | **67,410** | 337,993 | 4,833 | 68,328 |

## 34.5 Movement in defined benefit obligations

| | | | | | | |
|---|---|---|---|---|---|---|
| Obligations at the beginning of the year | **1,622,825** | **111,679** | **68,328** | 1,484,477 | 102,736 | 95,297 |
| Current service cost | **65,454** | **11,343** | **31,130** | 60,562 | 9,622 | 5,885 |
| Interest cost | **161,310** | **10,812** | **5,496** | 171,709 | 11,810 | 11,113 |
| Benefit paid by the Bank | **(98,129)** | **(12,388)** | **(29,414)** | (46,245) | (4,453) | (1,441) |
| Past service cost | - | - | - | - | - | - |
| Actuarial loss/(gain) | **123,121** | **846** | **(8,130)** | (47,678) | (8,036) | (42,526) |
| Obligations at the end of the year | **1,874,581** | **122,292** | **67,410** | 1,622,825 | 111,679 | 68,328 |

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Pension fund** | **Gratuity fund** | **Compensated Absences** | Pension fund | Gratuity fund | Compensated Absences |
| **34.6 Movement in fair value of plan assets** | | | | | | |
| Fair value at the beginning of the year | **1,284,832** | **106,846** | - | 1,114,322 | 88,564 | - |
| Expected return on plan assets | **126,666** | **10,935** | - | 131,496 | 10,043 | - |
| Contribution to the fund | **89,907** | **12,713** | - | 102,069 | 10,636 | - |
| Benefits paid during the year | **(98,129)** | **(12,388)** | - | (46,245) | (4,453) | - |
| Actuarial (loss)/ gain | **(29,400)** | **(3,176)** | - | (16,810) | 2,056 | - |
| Fair value at the end of the year | **1,373,876** | **114,930** | - | 1,284,832 | 106,846 | - |
| **34.7 Movement in net liability under defined benefit schemes** | | | | | | |
| Opening balance | **337,993** | **4,833** | **68,328** | 370,155 | 14,172 | 95,297 |
| Charge / (reversal) for the year | **100,098** | **11,220** | **28,496** | 100,775 | 11,389 | (25,528) |
| Re-measurement loss/(gain) recognised in OCI during the year ( 34.8.2 ) | **152,521** | **4,022** | - | (30,868) | (10,092) | - |
| Contribution/benefit paid by the Bank | **(89,907)** | **(12,713)** | **(29,414)** | (102,069) | (10,636) | (1,441) |
| Closing balance | **500,705** | **7,362** | **67,410** | 337,993 | 4,833 | 68,328 |

**34.8 Charge for defined benefit plans**

**34.8.1 Cost recognised in profit and loss**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Pension fund** | **Gratuity fund** | **Compensated absences** | Pension fund | Gratuity fund | Compensated absences |
| | | | **(Rupees '000)** | | | |
| Current service cost | **65,454** | **11,343** | **31,130** | 60,562 | 9,622 | 5,885 |
| Net interest on defined benefit asset/liability | **34,644** | **(123)** | **5,496** | 40,213 | 1,767 | 11,113 |
| Past service cost | - | - | - | - | - | - |
| Actuarial (gain)/loss recognised - P&L | - | - | **(8,130)** | - | - | (42,526) |
| | **100,098** | **11,220** | **28,496** | 100,775 | 11,389 | (25,528) |

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Pension fund** | **Gratuity fund** | **Compensated absences** | Pension fund | Gratuity fund | Compensated absences |
| | | | **(Rupees '000)** | | | |
| **34.8.2 Re-measurements recognised in OCI** | | | | | | |
| Experience adjustment | | | | | | |
| - Loss / (gain) on obligation | **123,121** | **846** | **8,130** | (47,678) | (8,036) | 42,526 |
| - Loss / (gain) on plan assets | **29,400** | **3,176** | **-** | 16,810 | (2,056) | - |
| - Actuarial (gain)/loss recognised - P&L | **-** | **-** | **(8,130)** | - | - | (42,526) |
| Total re-measurements loss / (gain) recognised in OCI | **152,521** | **4,022** | **-** | (30,868) | (10,092) | - |

| | 2021 | | 2020 | |
|---|---|---|---|---|
| **34.9 Components of plan assets** | **Pension fund** | **Gratuity fund** | Pension fund | Gratuity fund |
| | | **(Rupees '000)** | | |
| Cash and cash equivalents | **17,152** | **2,338** | 18,657 | 283 |
| Term Deposits Receipts (TDRs) | **1,356,724** | **112,592** | 1,266,175 | 106,563 |
| | **1,373,876** | **114,930** | 1,284,832 | 106,846 |

**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:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Pension fund** | **Gratuity fund** | **Compensated Absences** | Pension fund | Gratuity fund | Compensated Absences |
| | | | **(Rupees '000)** | | | |
| Current liability | **1,874,581** | **122,292** | **67,410** | 1,622,825 | 111,679 | 68,328 |
| 1% increase in discount rate | **1,690,746** | **111,517** | **64,589** | 1,453,577 | 101,382 | 64,990 |
| 1% decrease in discount rate | **2,096,660** | **134,634** | **70,433** | 1,828,515 | 123,554 | 71,933 |
| 1% increase in expected rate of salary increase | **1,949,383** | **135,362** | **70,778** | 1,702,910 | 124,241 | 72,296 |
| 1% decrease in expected rate of salary increase | **1,803,941** | **110,736** | **64,222** | 1,547,714 | 100,646 | 64,603 |
| 1 Year Mortality age set back | **1,909,037** | **122,389** | **-** | 1,651,587 | 111,774 | - |
| 1 Year Mortality age set forward | **1,842,793** | **122,193** | **-** | 1,596,307 | 111,583 | - |

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

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

| | Pension fund | Gratuity fund | Compensated Absences |
|---|---|---|---|
| | | (Rupees '000) | |
| Expected charge for the next financial year | **115,147** | **11,787** | **14,253** |

### 34.12 Maturity profile

| | 2021 | 2020 |
|---|---|---|
| The weighted average duration of the obligation (in years) | **10.42** | 11.08 |

### 34.13 Funding policy

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

### 34.14 Risks associated with defined benefit plans

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

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

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

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

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

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

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Deficit position** | | | (Rupees in '000) | | |
| Present value of obligation | **1,874,581** | 1,622,825 | 1,484,477 | 1,403,012 | 1,244,580 |
| Fair value of plan assets | **(1,373,876)** | (1,284,832) | (1,114,322) | (1,014,038) | (911,160) |
| Net defined benefit liability | **500,705** | 337,993 | 370,155 | 388,974 | 333,420 |
| **Experience adjustments** | | | | | |
| Remeasurement (gain)/loss on obligation | **123,121** | (47,678) | (145,069) | 7,146 | 72,564 |
| Remeasurement (gain)/loss on plan asset | **29,400** | 16,810 | 31,642 | 18,231 | 21,354 |
| Other comprehensive income | **152,521** | (30,868) | (113,427) | 25,377 | 93,918 |

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

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Deficit position** | | | (Rupees in '000) | | |
| Present value of obligation | **122,292** | 111,679 | 102,736 | 90,898 | 77,987 |
| Fair value of plan assets | **(114,930)** | (106,846) | (88,564) | (80,168) | (71,035) |
| Net defined benefit liability | **7,362** | 4,833 | 14,172 | 10,730 | 6,952 |
| **Experience adjustments** | | | | | |
| Remeasurement (gain)/loss on obligation | **846** | (8,036) | (7,437) | (1,675) | 4,282 |
| Remeasurement (gain)/loss on plan asset | **3,176** | (2,056) | 2,627 | 2,052 | - |
| Other Comprehensive Income | **4,022** | (10,092) | (4,810) | 377 | 4,282 |

## 35. Benevolent Fund (defined benefit plan)

### 35.1 General description

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

| | | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|---|
| | | **Officers Benevolent Fund** | **Staff Benevolent Fund** | **Total** | Officers Benevolent Fund | Staff Benevolent Fund | Total |
| | | **(Rupees '000)** | | | (Rupees '000) | | |
| 35.2 | Actuarial liability for active employees | **14,354** | **1,919** | **16,273** | 14,982 | 3,310 | 18,292 |
| | Actuarial liability for beneficiaries | **2,732** | **318** | **3,050** | 1,935 | 194 | 2,129 |
| | **Total actuarial liability** | **17,086** | **2,237** | **19,323** | 16,917 | 3,504 | 20,421 |
| | Fair value of plan assets | **(22,226)** | **(5,782)** | **(28,008)** | (20,570) | (5,403) | (25,973) |
| | **Funding surplus** | **(5,140)** | **(3,545)** | **(8,685)** | (3,653) | (1,899) | (5,552) |
| | **Asset recognized in balance sheet** | **(5,140)** | **(3,545)** | **(8,685)** | (3,653) | (1,899) | (5,552) |
| | The amount recognized in the profit and loss account is as follows: | | | | | | |
| | Expense for the year | **(1,169)** | **(1,553)** | **(2,722)** | 212 | 44 | 256 |
| | | **(1,169)** | **(1,553)** | **(2,722)** | 212 | 44 | 256 |

**35.3 Break-up of category of assets**

| | **2021** | 2020 |
|---|---|---|
| | **(Rupees '000)** | |
| Cash and cash equivalents | **715** | 50 |
| Term Deposits Receipts (TDRs) | **27,293** | 25,923 |
| | **28,008** | 25,973 |

**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:

| | 2021 | 2020 |
|---|---|---|
| | (Rupees '000) | (Rupees '000) |
| Current liability | **19,323** | 20,421 |
| 1% increase in discount rate | **18,594** | 19,537 |
| 1% decrease in discount rate | **20,103** | 21,371 |
| 1% increase in expected rate of salary increase | **19,323** | 20,421 |
| 1% decrease in expected rate of salary increase | **19,323** | 20,421 |

## 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

| | 2021 | 2020 |
|---|---|---|
| The weighted average duration of the obligation (in years) | **10.42** | 11.08 |

## 36. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

### 36.1 Total Compensation Expense

| Items | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Non-Executives Directors | President / CEO | Executives | Non-Executives Directors | President / CEO | Executives |
| | (Rupees '000) | | | | | |
| Fees and allowances etc. | 2,500 | - | - | 1,480 | - | - |
| Managerial remuneration | | | | | | |
| i) Fixed | - | 4,500 | 124,884 | - | 5,465 | 115,659 |
| ii) Total variable | - | - | - | - | - | - |
| Charge for defined benefit plan | - | 1,388 | 41,021 | - | 1,456 | 43,545 |
| Rent & house maintenance | - | 2,475 | 35,449 | - | 4,049 | 33,843 |
| Utilities | - | 804 | 12,473 | - | 1,247 | 11,539 |
| Medical | - | 675 | 12,284 | - | 726 | 11,432 |
| Conveyance | - | - | 1,575 | - | - | 789 |
| Motor car running & maintenance | - | - | 27,363 | - | - | 26,717 |
| Leave fare assistance | - | 756 | - | - | 358 | - |
| Club membership | - | 937 | - | - | - | - |
| Others | 1,815 | 1,325 | 22,975 | 1,179 | 835 | 24,883 |
| Total | 4,315 | 12,860 | 278,024 | 2,659 | 14,136 | 268,407 |
| Number of Persons | 6 | 1 | 71 | 6 | 1 | 70 |

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 | 2021 | | | | | |
|---|---|---|---|---|---|---|---|
| | | 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. Muhammad Waqas Azeem | 300 | - | 100 | - | 25 | 425 |
| 2 | Mr. Rauf Ahmad | 300 | 50 | - | 100 | 25 | 475 |
| 3 | Mr. Enamullah Khan | 300 | 75 | - | 100 | - | 475 |
| 4 | Mr. Hashim Raza | 300 | - | 100 | - | 25 | 425 |
| 5 | Mr. Omar Farooq | 300 | 100 | 100 | - | - | 500 |
| 6 | Mr. Waqar-ud-Din Siddiqui | 150 | 50 | - | - | - | 200 |
| | Total amount paid | 1,650 | 275 | 300 | 200 | 75 | 2,500 |

| Sr. No. | Name of Director | 2020 | | | | | |
|---|---|---|---|---|---|---|---|
| | | 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. 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 |

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.

## 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, 2021 | | | | |
|---|---|---|---|---|---|---|
| | | FAIR VALUE | | | | |
| | | Level 1 | Level 2 | Level 3 | carrying / notional value | Total |
| **37.1 On balance sheet financial instruments** | **Note** | **(Rupees in '000)** | | | | |
| Financial assets measured at fair value | | | | | | |
| - Investments | | | | | | |
| Government securities (T bills and PIBs) | | - | 4,090,800 | - | - | 4,090,800 |
| Ordinary shares of listed companies/Mutual funds | | 4,697 | - | - | - | 4,697 |
| Ordinary shares of unlisted companies | | - | - | - | 26,470 | 26,470 |
| Financial assets not measured at fair value | | | | | | |
| - Bank balances with treasury banks | 37.2 | - | - | - | 678,860 | 678,860 |
| - Balances with other banks | 37.2 | - | - | - | 2,737 | 2,737 |
| - Lending to financial institutions | 37.2 | - | - | - | - | - |
| - Advances | 37.2 | - | - | - | 1,596,181 | 1,596,181 |
| - Other assets | 37.2 | - | - | - | 98,077 | 98,077 |
| -Other Investment (COI/TDR) | 37.2 | | | | 35,000 | 35,000 |
| - Subsidiary | | | | | | |
| SME Leasing Limited | | - | - | - | 80,748 | 80,748 |

| | | December 31, 2020 | | | | |
|---|---|---|---|---|---|---|
| | | FAIR VALUE | | | | |
| | | Level 1 | Level 2 | Level 3 | carrying / notional value | Total |
| On balance sheet financial instruments | Note | (Rupees in '000) | | | | |
| 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 | 37.2 | - | - | - | 493,156 | 493,156 |
| - Balances with other banks | 37.2 | - | - | - | 2,123 | 2,123 |
| - Lending to financial institutions | 37.2 | - | - | - | - | - |
| - Advances | 37.2 | - | - | - | 1,530,344 | 1,530,344 |
| - Other assets | 37.2 | - | - | - | 142,648 | 142,648 |
| -Other Investment (COI/TDR) | 37.2 | - | - | - | 35,000 | 35,000 |
| Subsidiary- SME Leasing Limited | | - | - | - | 80,748 | 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). |

## 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, 2021 | | |
|---|---|---|---|
| | Trading & Sales | Commercial Banking | Total |
| | (Rupees in '000) | | |
| **Profit & Loss** | | | |
| Net mark-up/return/profit | 362,784 | 246,808 | 609,592 |
| Inter segment revenue - net | - | 146,147 | 146,147 |
| Non mark-up/return/interest income | 3,505 | 16,178 | 19,683 |
| Total income | 366,289 | 409,133 | 775,422 |
| Segment direct expenses | 282,640 | 1,415,534 | 1,698,174 |
| Inter segment expenses allocation | 146,147 | - | 146,147 |
| Total expenses | 428,787 | 1,415,534 | 1,844,321 |
| Provisions | 311 | (17,763) | (17,452) |
| Loss before tax | (62,809) | (988,638) | (1,051,447) |

| | Trading & Sales | Commercial Banking | Total |
|---|---|---|---|
| | (Rupees in '000) | | |
| **Balance Sheet** | | | |
| Cash & bank balances | 584,101 | 243,580 | 827,681 |
| Investments | 4,237,715 | - | 4,237,715 |
| Net inter segment lending | | 2,088,831 | 2,088,831 |
| Lending to financial institutions | - | - | - |
| Advances - Performing | - | 1,489,882 | 1,489,882 |
| - Non-performing | - | 106,299 | 106,299 |
| Others | 754,044 | 1,192,706 | 1,946,750 |
| **Total Assets** | 5,575,860 | 5,121,298 | 10,697,158 |
| Borrowings | 3,098,998 | 107,291 | 3,206,289 |
| Deposits & other accounts | - | 8,248,271 | 8,248,271 |
| Net inter segment borrowing | 2,088,831 | - | 2,088,831 |
| Others | 425,361 | 989,382 | 1,414,743 |
| **Total Liabilities** | 5,613,190 | 9,344,944 | 14,958,134 |
| Equity | (37,330) | (4,223,646) | (4,260,976) |
| **Total Equity & liabilities** | 5,575,860 | 5,121,298 | 10,697,158 |
| Contingencies & Commitments | 3,099,258 | 1,726,339 | 4,825,597 |

| | 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 |

Assumptions used:

- Unallocatable assets representing 9.02% (December 31, 2020: 7.41%) of the gross assets have been allocated to segments based on their respective incomes.

- Unallocatable liabilities representing 5.64% (December 31, 2020: 4.48%) 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.

## 39. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its majority shareholder (Government of Pakistan) subsidiary, directors, key management personnel, EPF and staff retirement benefit plans.

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/CEO 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, 2021 | | | | | | December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Subsidiary SMEL | Key Management Personnel | Directors /CEO | Equity Participation Fund | Employees benefit plans | Employees Provident Trust | Subsidiary SMEL | Key Management Personnel | Other Employees | Directors / CEO | Equity Participation Fund | Employees benefit plans | Employees Provident 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 | 144,747 | 7,869 | - | - | - | - | 142,156 | 10,301 | 125,293 | - | - | - | - |
| Addition (total debits) during the year | 37,582 | 6,075 | - | - | - | - | 50,510 | 5,862 | | - | - | - | - |
| Repaid (total credits) during the year | (47,640) | (7,324) | - | - | - | - | (47,919) | (8,294) | | - | - | - | - |
| Transfer in / (out) - net | - | - | - | - | - | - | - | - | | - | - | - | - |
| Closing balance | 134,689 | 6,620 | - | - | - | - | 144,747 | 7,869 | | - | - | - | - |
| Provision held against advances | - | - | - | - | - | - | - | - | | - | - | - | - |
| **Other Assets** | | | | | | | | | | | | | |
| Interest / mark-up accrued | 4,252 | 6,769 | - | - | - | - | 4,157 | 6,875 | 51,451 | - | - | - | - |
| Receivable from staff retirement fund | - | - | - | - | 8,685 | - | - | - | | - | - | 5,552 | - |
| Other receivable | - | - | - | 3,017 | - | - | - | - | | - | 1,760 | - | |
| **Deposits and other accounts** | | | | | | | | | | | | | |
| Opening balance | - | 9,107 | 21,770 | 492,509 | 1,360,263 | 5,356 | - | 11,181 | 95,670 | 4,805 | 454,276 | 1,155,429 | 5,000 |
| Received during the year | 15,963 | 153,119 | 32,899 | 27,998 | 114,865 | 53,147 | 15,770 | 111,282 | | 35,534 | 38,233 | 205,546 | 36,073 |
| Withdrawn during the year | - | (144,259) | (38,296) | - | (13,470) | (51,276) | - | (113,472) | | (18,569) | - | (712) | (35,717) |
| Transfer in / (out) - net | (15,541) | (2,770) | - | - | - | - | (15,770) | 116 | | - | - | - | - |
| Closing balance | 422 | 15,197 | 16,373 | 520,507 | 1,461,658 | 7,227 | - | 9,107 | | 21,770 | 492,509 | 1,360,263 | 5,356 |
| **Other Liabilities** | | | | | | | | | | | | | |
| Interest / mark-up payable | - | 103 | 572 | 3,205 | 56,322 | 46 | - | 32 | 405 | 1,190 | 2,301 | 58,593 | 23 |
| Payable to staff retirement fund | - | - | - | - | 575,477 | - | - | - | | - | - | 411,154 | - |
| Others liabilities | - | - | - | - | - | - | - | - | | - | - | - | - |
| **Contingencies and Commitments** | - | - | - | - | - | - | - | - | | - | - | - | - |

| | December 31, 2021 | | | | | | December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rupees in '000 | | | | | | Rupees in '000 | | | | | | |
| **Income** | | | | | | | | | | | | | |
| Mark-up / return / interest earned | 16,869 | 294 | - | - | - | - | 19,555 | 444 | 3,104 | - | - | - | - |
| Fee and commission income | - | - | - | 974 | - | - | - | - | | - | 974 | - | - |
| **Expense** | | | | | | | | | | | | | |
| Mark-up / return / interest expense | - | 684 | 1,270 | 28,902 | 107,207 | 326 | - | 1,027 | 1,750 | - | 36,193 | 129,527 | 366 |
| Fees and other expenses | - | | - | - | - | - | - | | | - | - | - | - |
| Remuneration and allowances | - | 69,586 | - | - | - | - | - | 67,283 | 287,871 | - | - | - | - |
| Charge for the period relating to employees benefit plans | - | - | - | - | 137,092 | - | - | - | - | - | - | 86,892 | - |

| | Description | Interest rate |
|---|---|---|
| Principal terms of loan facility to SMEL | Running finance facility upto Rs. 150 million | 6 months Kibor + 4.0% |
| Principal terms of deposit to Equity Participation Fund | Remunerative deposits | 7.25% |
| Principal terms of deposit to Employee Benefit Plans | Remunerative deposits | 7.25% to 8.05% |
| Principal terms of deposit to Employee Provident Trust | Remunerative deposits | 7.00% |
| Principal terms of deposit to Directors/CEO | Remunerative deposits | 6.50% to 7.25% |

## 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:

| | | 2021 | 2020 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Regulatory capital base | | | |
| *Tier I capital* | | | |
| Shareholders capital/assigned capital | | **2,392,507** | 2,392,507 |
| Reserves | | **206,526** | 206,526 |
| Unappropriated/unremitted profits (net of losses) | | **(6,846,330)** | (5,761,702) |
| | | **(4,247,297)** | (3,162,669) |
| Less: Adjustments | | | |
| Goodwill/intangible Assets | | **1,455** | 1,756 |
| Investment in equity of subsidiary | | **80,748** | 80,748 |
| Deficit on revaluation of available for sale investments | | **13,679** | - |
| | | **95,882** | 82,504 |
| *Total tier I capital* | | **(4,343,179)** | (3,245,173) |
| *Tier II capital* | | **884** | 8,593 |
| *Eligible tier III capital* | | **-** | - |
| Total regulatory capital | (a) | **(4,342,295)** | (3,236,580) |

| | | 2021 | | 2020 | |
|---|---|---|---|---|---|
| | | Book value | Risk adjusted value | Book value | Risk adjusted value |
| | | (Rupees in '000) | | (Rupees in '000) | |
| Risk-weighted exposures | | | | | |
| Balance sheet items: | | | | | |
| Cash and other liquid assets | | **827,681** | **547** | 670,850 | 425 |
| Investments/ lending to financial institutions | | **4,237,715** | **66,167** | 5,828,353 | 66,870 |
| Loans and advances | | **1,596,181** | **959,171** | 1,530,344 | 906,226 |
| Fixed assets | | **425,695** | **424,240** | 472,184 | 472,184 |
| Deferred tax assets | | **1,008,206** | **1,008,206** | 874,915 | 874,915 |
| Other assets | | **512,849** | **266,213** | 562,685 | 271,708 |
| | | **8,608,327** | **2,724,544** | 9,939,331 | 2,592,328 |
| Off balance sheet items | | | | | |
| Weighted Non-funded exposures | | **281,430** | **140,715** | 191,773 | 95,887 |
| | | **281,430** | **140,715** | 191,773 | 95,887 |
| Credit risk-weighted exposures | (b) | **8,889,757** | **2,865,259** | 10,131,104 | 2,688,215 |
| Market risk | | | **163,072** | | 310,065 |
| Market risk-weighted exposures | | **-** | **163,072** | - | 310,065 |
| Total risk-weighted exposures | (c) | | **3,028,331** | | 2,998,280 |
| *Capital adequacy ratio credit risk* [ (a) / (b) x 100 ] | | | **-151.55%** | | -120.40% |
| *Total capital adequacy ratio* [ (a) / (c) x 100 ] | | | **-143.39%** | | -107.95% |

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. SME Bank has requested SBP to allow further extension which is pending.

## 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 | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| | | | (Rupees in '000) | | | |
| Chemical and pharmaceutic | **119,104** | 111,411 | **101,623** | 97,163 | **99,016** | 95,790 |
| Agriculture, forestry, hunting and fishing | **235,585** | 232,240 | **201,662** | 201,808 | **201,662** | 201,808 |
| Mining & quarrying | **9,053** | 9,053 | **9,053** | 9,053 | **9,053** | 9,053 |
| Textile | **406,539** | 384,761 | **326,819** | 336,914 | **324,487** | 336,103 |
| Cement | **-** | - | **-** | - | **-** | - |
| Footwear and leather | **62,010** | 66,622 | **59,375** | 61,449 | **59,246** | 58,111 |
| Automobile and transportation equipment | **70,881** | 40,059 | **27,453** | 23,060 | **22,827** | 20,798 |
| Financial | **200,553** | 184,343 | **-** | - | **-** | - |
| Insurance | **-** | - | | | | |
| Electronics and electrical appliances | **39,962** | 51,819 | **11,477** | 13,693 | **10,512** | 10,484 |
| Construction | **277,774** | 214,008 | **77,951** | 72,297 | **67,227** | 67,271 |
| Power (electricity), gas, water and sanitary | **42,070** | 61,804 | **28,302** | 6,775 | **15,580** | 3,606 |
| Wholesale and trade | **1,723,175** | 1,709,199 | **1,436,485** | 1,516,354 | **1,404,381** | 1,488,007 |
| Transport, storage, and communication | **96,140** | 100,225 | **19,943** | 20,597 | **11,222** | 7,515 |
| Individuals | **1,077,356** | 1,117,892 | **1,028,316** | 1,050,826 | **1,028,316** | 1,050,826 |
| Services | **372,501** | 271,260 | **284,444** | 140,416 | **266,542** | 101,519 |
| Government | **-** | - | | | | |
| Others | **2,085,981** | 2,216,966 | **1,715,015** | 1,822,855 | **1,701,548** | 1,781,834 |
| | **6,818,684** | 6,771,662 | **5,327,918** | 5,373,260 | **5,221,619** | 5,232,725 |

### 41.1.2 Segment by sector

| | | | | | | |
|---|---|---|---|---|---|---|
| Public/ Government | - | - | - | - | - | - |
| Private | **6,818,684** | 6,771,662 | **5,327,918** | 5,373,260 | **5,221,619** | 5,232,725 |
| | **6,818,684** | 6,771,662 | **5,327,918** | 5,373,260 | **5,221,619** | 5,232,725 |

### 41.1.3 Contingencies and Commitments

| **Credit risk by industry sector** | **2021** | 2020 |
|---|---|---|
| | **(Rupees in '000)** | |
| Chemical and pharmaceuticals | **1,126** | 137 |
| Agriculture, forestry, hunting and fishing | **77** | 73 |
| Mining & quarrying | **-** | - |
| Textile | **12,682** | 4,968 |
| Cement | **-** | - |
| Sugar | **-** | - |
| Footwear and leather garments | **10,000** | - |
| Automobile and transportation equipment | **24,338** | 20,767 |
| Financial | **3,114,605** | 4,041,976 |
| Insurance | **-** | - |
| Electronics and electrical appliances | **5,003** | 7,386 |
| Construction | **331,229** | 232,467 |
| Power (electricity), gas, water and sanitary | **21,400** | 24,200 |
| Wholesale and trade | **16,018** | 60,943 |
| Exports/ Imports | **-** | - |
| Transport, storage and communication | **-** | - |
| Individuals | **68,080** | 67,550 |
| Services | **48,048** | 71,955 |
| Government | **1,071,560** | 1,071,751 |
| Others | **101,431** | 96,908 |
| | **4,825,597** | 5,701,081 |

| **Credit risk by public/private sector** | | |
|---|---|---|
| Public / Government | **1,071,560** | 1,071,751 |
| Private | **3,754,037** | 4,629,330 |
| | **4,825,597** | 5,701,081 |

### 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. 836.541 million (2020: Rs. 681.998 million) are as following;

| | 2021 | 2020 |
|---|---|---|
| | (Rupees in '000) | |
| Funded | **550,809** | 526,337 |
| Non funded | **285,732** | 155,661 |
| Total exposure | **836,541** | 681,998 |

The sanctioned limits against these top 10 exposure's aggregated to Rs 908.632 million (2020: Rs. 833.938 million)

| **Total funded classified therein** | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Amount** | **Provision held** | Amount | Provision held |
| | (Rupees in '000) | | | |
| OAEM | - | - | - | - |
| Substandard | - | - | - | - |
| Doubtful | - | - | - | - |
| Loss | - | - | - | - |
| Total | - | - | - | - |

### 41.1.5 Advances - Province/Region-wise Disbursement & Utilization

**2021**

| Province/region | Disbursements | Utilization | | | | | |
|---|---|---|---|---|---|---|---|
| | | Punjab | Sindh | KPK including FATA | Balochistan | Islamabad | AJK including Gilgit-Baltistan |
| | (Rupees in '000) | | | | | | |
| Punjab | 427,550 | 427,550 | - | - | - | - | - |
| Sindh | 276,750 | - | 276,750 | - | - | - | - |
| KPK including FATA | 52,000 | - | - | 52,000 | - | - | - |
| Balochistan | 183,400 | - | - | - | 183,400 | - | - |
| Islamabad | 207,100 | 131,400 | - | 50,200 | - | 25,500 | - |
| AJK including Gilgit-Baltistan | - | | | | | | |
| Total | 1,146,800 | 558,950 | 276,750 | 102,200 | 183,400 | 25,500 | - |

**Advances - Province/Region-wise Disbursement & Utilization**

2020

| Province/Region | 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 | - |

### 41.1.6 IMPACT OF COVID- 19

The outbreak of corona virus 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 decrease in demand, supply chain disruptions, raw material shortage, and transportation disruptions, among others. Regulators and governmnet 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 crises by cutting the policy rate as well as by introducing regulatory measures to maintain banking system soundness and to sustain economic activity. 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. During the current year Bank has reversed the general provision in respect of borrowers who have availed the SBP enabeled packages amounting to Rs. 7.728 million considering the recovery of economic conditions. However, General provison @ 4.5% have still been kept for those borrowers whose payments of loan is delayed by more then 60 days. Decreased policy rates (KIBOR) by State Bank of Pakistan in comparison to prior period have resulted in decreased interest income, however, the effect have been neutralized by comparatively less interest expense. 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.

## 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.

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

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Banking book** | **Trading book** | **Total** | Banking book | Trading book | Total |
| | **(Rupees in '000)** | | | | | |
| Cash and balances with treasury banks | **824,944** | **-** | **824,944** | 668,727 | - | 668,727 |
| Balances with other banks | **2,737** | **-** | **2,737** | 2,123 | - | 2,123 |
| Lendings to financial institutions | **-** | **-** | **-** | - | - | - |
| Investments | **146,915** | **4,090,800** | **4,237,715** | 147,618 | 5,680,735 | 5,828,353 |
| Advances | **1,596,181** | **-** | **1,596,181** | 1,530,344 | - | 1,530,344 |
| Fixed assets | **424,240** | **-** | **424,240** | 472,184 | - | 472,184 |
| Intangible assets | **1,455** | **-** | **1,455** | 1,756 | - | 1,756 |
| Deferred tax assets | **1,008,206** | **-** | **1,008,206** | 874,915 | - | 874,915 |
| Other assets | **512,849** | **-** | **512,849** | 562,685 | - | 562,685 |
| | **4,517,527** | **4,090,800** | **8,608,327** | 4,260,352 | 5,680,735 | 9,941,087 |

### 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.

41.2.4 **Mismatch of interest rate sensitive assets and liabilities**

| | 2021 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Exposed to Yield/Interest risk | | | | | | | | | Non-interest bearing financial instruments |
| | Effective Yield/ Interest rate | 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** | | (Rupees in '000) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | | 824,944 | - | - | - | - | - | - | - | - | - | 824,944 |
| Balances with other banks | 4.21% | 2,737 | 1,540 | - | 225 | 94 | 106 | - | 20 | 252 | - | 500 |
| Lending to financial institutions | | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 7.47% | 4,237,715 | 1,095,369 | 2,652,352 | 3,885 | 395,031 | 2,157 | - | - | 8,173 | - | 80,748 |
| Advances | 13.10% | 1,596,181 | 98,875 | 219,177 | 730,751 | 297,014 | 39,034 | 154,787 | 47,171 | 6,203 | 3,169 | - |
| Other assets | | 98,077 | - | - | - | - | - | - | - | - | - | 98,077 |
| | | 6,759,654 | 1,195,784 | 2,871,529 | 734,861 | 692,139 | 41,297 | 154,787 | 47,191 | 14,628 | 3,169 | 1,004,269 |
| **Liabilities** | | | | | | | | | | | | |
| Bills payable | | 19,071 | - | - | - | - | - | - | - | - | - | 19,071 |
| Borrowings from financial institutions | 7.21% | 3,206,289 | 1,241,035 | 1,867,777 | 8,129 | 12,055 | 26,379 | 22,410 | 28,504 | - | - | - |
| Deposits and other accounts | 5.93% | 8,248,271 | 1,877,378 | 845,493 | 1,089,809 | 510,816 | 18,892 | 8,700 | - | 2,361,565 | - | 1,535,618 |
| Sub-ordinated loans | | - | - | - | - | - | - | - | - | - | - | - |
| Loan from the State Bank of Pakistan | | - | - | - | - | - | - | - | - | - | - | - |
| Liabilities against assets subject to finance lease | | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | | 259,313 | - | - | - | - | - | - | - | - | - | 259,313 |
| | | 11,732,944 | 3,118,413 | 2,713,270 | 1,097,938 | 522,871 | 45,271 | 31,110 | 28,504 | 2,361,565 | - | 1,814,002 |
| On-balance sheet gap | | (4,973,290) | (1,922,629) | 158,259 | (363,077) | 169,268 | (3,974) | 123,677 | 18,687 | (2,346,937) | 3,169 | (809,733) |
| **Off-balance sheet financial instruments** | | | | | | | | | | | | |
| Commitments to extend credit | | 215,662 | 215,662 | - | - | - | - | - | - | - | - | - |
| Commitments against repo borrowing | | 3,099,258 | 1,237,196 | 1,862,062 | - | - | - | - | - | - | - | - |
| Off-balance sheet gap | | 3,314,920 | 1,452,858 | 1,862,062 | - | - | - | - | - | - | - | - |
| Total Yield/ Interest Risk Sensitivity Gap | | | (3,375,487) | (1,703,803) | (363,077) | 169,268 | (3,974) | 123,677 | 18,687 | (2,346,937) | 3,169 | - |
| Cumulative Yield/ Interest Risk Sensitivity Gap | | | (3,375,487) | (5,079,290) | (5,442,367) | (5,273,099) | (5,277,073) | (5,153,396) | (5,134,709) | (7,481,646) | (7,478,477) | - |

41.2.4.1 Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities

| | (Rupees '000) | | (Rupees '000) |
|---|---|---|---|
| Total financial assets as per note 41.2.4 | 6,759,654 | Total financial liabilities as per note 41.2.4 | 11,732,944 |
| Add non-financial assets: | | Add non-financial liabilities: | |
| Fixed assets | 424,240 | Other liabilities | 1,136,359 |
| Intangible assets | 1,455 | | |
| Deferred tax assets | 1,008,206 | | |
| Other assets | 414,772 | | |
| Balance as per Balance Sheet | 8,608,327 | Balance as per Balance Sheet | 12,869,303 |

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. 6,759.65 million (2020: Rs. 8,172.20 million), the financial assets which were subject to interest rate risk amounted to Rs. 5,755.39 million (2020: Rs. 7,279.57 million). Investments and other assets amounting to Rs. 4,101.14 million (2020: Rs. 5,728.64 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.

**Mismatch of interest rate sensitive assets and liabilities**

| | 2020 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Effective Yield/ Interest rate | Total | 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 | |
| **On-balance sheet financial instruments** | | (Rupees in '000) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | |
| Cash and balances with treasury banks | | 668,727 | - | - | - | - | - | - | - | - | - | 668,727 |
| Balances with other banks | 2.00% | 2,123 | 1,082 | - | 174 | 73 | 82 | - | 16 | 196 | - | 500 |
| Lending to financial institutions | | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 8.18% | 5,828,353 | 468,355 | 2,402,483 | 2,457,829 | 1,475 | 409,105 | - | - | 8,358 | - | 80,748 |
| Advances | 13.99% | 1,530,344 | 78,957 | 94,458 | 318,944 | 348,881 | 37,263 | 601,613 | 44,860 | 4,496 | 872 | - |
| 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 | | | (9,281,938) | 1,439,442 | 1,586,898 | (143,350) | 395,376 | 581,531 | 13,133 | (2,043,153) | 872 | - |
| Cumulative Yield/ Interest Risk Sensitivity Gap | | | (9,281,938) | (7,842,496) | (6,255,598) | (6,398,948) | (6,003,572) | (5,422,041) | (5,408,908) | (7,452,061) | (7,451,189) | |

Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities

| | (Rupees '000) | | (Rupees '000) |
|---|---|---|---|
| Total financial assets | 8,172,195 | Total financial liabilities | 12,124,870 |
| Add non-financial assets: | | Add non-financial liabilities: | |
| Fixed assets | 472,184 | Other liabilities | 976,300 |
| Intangible assets | 1,756 | | |
| Deferred Tax Assets | 874,915 | | |
| Other assets | 420,037 | | |
| Balance as per Balance Sheet | 9,941,087 | Balance as per Balance Sheet | 13,101,170 |

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. 8,172.20 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.

### 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

| | 2021 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 years |
| | (Rupees in '000) | | | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | | | |
| Cash and balances with treasury banks | 824,944 | 824,944 | - | - | - | - | - | - | - | - | - | - | - | - |
| Balances with other banks | 2,737 | 2,737 | - | - | - | - | - | - | - | - | - | - | - | - |
| Lending to financial institutions | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 4,237,715 | - | 35,000 | 747,331 | 297,771 | 1,149,405 | 1,502,705 | - | 393,588 | - | - | - | - | 111,915 |
| Advances | 1,596,181 | 113,122 | 9,978 | - | 12,461 | 10,183 | 18,281 | 370,349 | 78,953 | 192,765 | 113,489 | 156,398 | 488,248 | 31,954 |
| Fixed assets | 424,240 | - | - | - | 4,791 | 4,785 | 4,783 | 13,881 | 13,870 | 13,853 | 47,267 | 40,983 | 67,516 | 212,511 |
| Intangible assets | 1,455 | - | - | - | 78 | 77 | 71 | 212 | 212 | 212 | 593 | - | - | - |
| Deferred tax assets - net | 1,008,206 | - | - | - | - | - | - | - | - | - | 1,008,206 | - | - | - |
| Other assets | 512,849 | 2,509 | 14,190 | 17,569 | 50,224 | 207 | 208 | 236,738 | 213 | 156,902 | - | 23 | 737 | 33,329 |
| | 8,608,327 | 943,312 | 59,168 | 764,900 | 365,325 | 1,164,657 | 1,526,048 | 621,180 | 486,836 | 363,732 | 1,169,555 | 197,404 | 556,501 | 389,709 |
| **Liabilities** | | | | | | | | | | | | | | |
| Bills payable | 19,071 | 19,071 | - | - | - | | | | | | | | | - |
| Borrowings from financial institutions | 3,206,289 | - | 1,237,149 | 2,218 | 1,317 | 982,830 | 885,564 | 7,863 | 8,455 | 13,516 | 25,608 | 19,506 | 22,263 | - |
| Deposits and other accounts | 8,248,271 | 5,876,544 | 15,395 | 80,337 | 316,966 | 195,295 | 129,428 | 1,104,367 | 83,139 | 436,934 | 1,166 | 8,700 | | - |
| Sub-ordinated loans | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 1,395,672 | 8,299 | 48,117 | 56,137 | 139,048 | 2,281 | 2,282 | 5,306 | 4,959 | 4,960 | 16,226 | 17,890 | 39,491 | 1,050,676 |
| | 12,869,303 | 5,903,914 | 1,300,661 | 138,692 | 457,331 | 1,180,406 | 1,017,274 | 1,117,536 | 96,553 | 455,410 | 43,000 | 46,096 | 61,754 | 1,050,676 |
| **Net assets** | (4,260,976) | (4,960,602) | (1,241,493) | 626,208 | (92,006) | (15,749) | 508,774 | (496,356) | 390,283 | (91,678) | 1,126,555 | 151,308 | 494,747 | (660,967) |

| | |
|---|---|
| Share capital | 2,392,507 |
| Reserves | 206,526 |
| Surplus/(Deficit) on revaluation of assets | (13,679) |
| Unappropriated profit | (6,846,330) |
| | (4,260,976) |

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

| | 2020 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 years |
| | (Rupees in '000) | | | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | | | |
| Cash and balances with treasury banks | 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 | 1,517,815 | 886,626 | 2,453,856 | - | 8,358 | 406,899 | - | - | 80,748 |
| Advances | 1,530,344 | 185,672 | 33,914 | 30,732 | 76,063 | 113,571 | 121,213 | 230,771 | 128,334 | 88,654 | 231,148 | 149,063 | 135,511 | 5,698 |
| Fixed assets | 472,184 | - | - | - | 5,637 | 5,588 | 5,539 | 15,741 | 14,345 | 13,955 | 51,022 | 42,718 | 74,009 | 243,630 |
| Intangible assets | 1,756 | - | - | - | 124 | 124 | 72 | 166 | 166 | 166 | 603 | 335 | - | - |
| Deferred tax assets - net | 874,915 | - | - | - | - | - | - | - | - | - | 874,915 | - | - | - |
| Other assets | 562,685 | 3,275 | 19,656 | 22,932 | 67,148 | 2,777 | 2,777 | 244,544 | 43 | 157,133 | - | 267 | 35 | 42,098 |
| | 9,941,087 | 875,407 | 88,818 | 57,637 | 568,192 | 1,639,875 | 1,016,227 | 2,945,078 | 142,888 | 268,266 | 1,564,587 | 192,383 | 209,555 | 372,174 |
| **Liabilities** | | | | | | | | | | | | | | |
| Bills payable | 99,986 | 99,986 | | | | | | | | | | | | - |
| Borrowings from financial institutions | 4,127,613 | - | 4,015,747 | 2,218 | 687 | 379 | 3,193 | 6,219 | 5,045 | 5,118 | 18,949 | 16,082 | 31,543 | 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 | 1,271,309 | 9,269 | 53,941 | 62,931 | 154,902 | 1,884 | 1,887 | 5,518 | 5,588 | 5,036 | 12,000 | 12,191 | 33,401 | 912,761 |
| | 13,101,170 | 5,164,983 | 4,098,178 | 78,455 | 348,447 | 305,361 | 298,128 | 1,196,972 | 76,396 | 438,765 | 67,074 | 28,273 | 64,944 | 935,194 |
| **Net assets** | (3,160,083) | (4,289,576) | (4,009,360) | (20,818) | 219,745 | 1,334,514 | 718,099 | 1,748,106 | 66,492 | (170,499) | 1,497,513 | 164,110 | 144,611 | (563,020) |
| Share capital | 2,392,507 | | | | | | | | | | | | | |
| Reserves | 206,526 | | | | | | | | | | | | | |
| Surplus/(Deficit) on revaluation of assets | 2,586 | | | | | | | | | | | | | |
| Unappropriated profit | (5,761,702) | | | | | | | | | | | | | |
| | (3,160,083) | | | | | | | | | | | | | |

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

| | 2021 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Upto 1 month | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |
| | (Rupees in '000) | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | **824,944** | 731,978 | 17,243 | - | - | - | - | - | 75,723 | - |
| Balances with other banks | **2,737** | 2,040 | - | 225 | 94 | 106 | - | 20 | 252 | - |
| Lending to financial institutions | **-** | - | - | - | - | - | - | - | - | - |
| Investments | **4,237,715** | 1,095,369 | 2,652,352 | 3,885 | 395,031 | 2,157 | - | - | 88,921 | - |
| Advances | **1,596,181** | 53,359 | 87,090 | 441,615 | 362,930 | 229,749 | 280,410 | 131,388 | 6,471 | 3,169 |
| Fixed assets | **424,240** | 4,948 | 9,411 | 13,881 | 28,890 | 46,296 | 41,378 | 68,023 | 156,122 | 55,291 |
| Intangible assets | **1,455** | 77 | 148 | 212 | 425 | 593 | - | - | - | - |
| Deferred tax assets - net | **1,008,206** | - | - | - | - | 1,008,206 | - | - | - | - |
| Other assets | **512,849** | 84,492 | 415 | 236,738 | 157,115 | - | 23 | 217 | 33,849 | - |
| | **8,608,327** | 1,972,263 | 2,766,659 | 696,556 | 944,485 | 1,287,107 | 321,811 | 199,648 | 361,338 | 58,460 |
| **Liabilities** | | | | | | | | | | |
| Bills payable | **19,071** | 16,519 | - | 1,493 | - | - | - | - | 1,059 | - |
| Borrowings from financial institutions | **3,206,289** | 1,241,035 | 1,867,777 | 8,129 | 12,055 | 26,379 | 22,410 | 28,504 | - | - |
| Deposits and other accounts | **8,248,271** | 2,777,339 | 845,733 | 1,104,366 | 519,873 | 18,892 | 8,700 | - | 2,973,368 | - |
| Sub-ordinated loans | - | - | - | - | - | - | - | - | - | - |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | **1,395,672** | 251,446 | 4,563 | 5,306 | 9,919 | 16,226 | 17,890 | 39,491 | 870,178 | 180,653 |
| | **12,869,303** | 4,286,339 | 2,718,073 | 1,119,294 | 541,847 | 61,497 | 49,000 | 67,995 | 3,844,605 | 180,653 |
| **Net assets** | **(4,260,976)** | (2,314,076) | 48,586 | (422,738) | 402,638 | 1,225,610 | 272,811 | 131,653 | (3,483,267) | (122,193) |
| Share capital | **2,392,507** | | | | | | | | | |
| Reserves | **206,526** | | | | | | | | | |
| Unappropriated profit | **(6,846,330)** | | | | | | | | | |
| Surplus/(Deficit) on revaluation of assets | **(13,679)** | | | | | | | | | |
| | **(4,260,976)** | | | | | | | | | |

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.

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

| | 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Upto 1 month | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years |
| | (Rupees in '000) | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 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 | 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 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.

## 42. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on March 05, 2022.

| President/CEO | Chief Financial Officer | Director | Director | Director |
|---|---|---|---|---|

**Annex-I referred to Note 10.7 to these financial statements**

**Rs. In thousands**

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

| Sr. No | Name and Address of Borrower | Name of Individual/ Partner/Directors (with NIC No.) | | Father's/Husband's Name | Outstanding Liabilities at beginning of year | | | | Principal written-off | Interest/ Mark-up written-off | Other financial relief/ waiver provided | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Principal | Interest/ Mark-up | Others | Total | | | | |
| 1 | Nafees Packages<br>Near of Feroz Wala Bridge 1/4 km Sialkot bypass road Gujranwala | Muhammad Haneef | (34101-6119490-5) | Muhammad Siddique | - | 1,248 | 343 | 1,591 | - | 1,168 | 1,266 | 2,434 |
| 2 | Farhan Traders<br>Aatma Ram Road Younus Steel Market Adda Gondlanwla Gujranwala | Muhhamad Aslam Fiyaz | (34101-7937475-7) | Asghar Ali | 1,400 | 205 | 558 | 2,163 | - | - | 3,786 | 3,786 |
| 3 | Saeed Naveed Brothers<br>Shop no. 2, 3, Murree Road, Faizabad, Rawalpindi. | Naveed Mushtaq | (34202-0430897-7) | Mushtaq Ahmed | 4,065 | 998 | 5,367 | 10,430 | - | - | 2,689 | 2,689 |
| 4 | Sikandar Woollen Mills (Pvt) Ltd.<br>Plot No.45 - 50, Special Industrial Zone, Risalpur, Nowshera | Ahmad Nawaz Khan<br>Asmat Jehan<br>Fahim Ahmad Khan | (17301-0772563-3)<br>(17301-9058608-0)<br>(17301-1590765-1) | Muhammad Nawaz Khan<br>Ahmad Nawaz Khan<br>Ahmad Nawaz Khan | 13,839 | 22,246 | 7,178 | 43,263 | - | 17,420 | 7,349 | 24,769 |
| 5 | Firee Industry<br>Street Talabwali, Bababerry, Zafarwal road, Sialkot | Farooq Butt<br>Dilwar Hussain | (34603-8770816-1)<br>(34603-5878938-7) | Sabir Hussain<br>Sabir Hussain | - | 1,012 | 139 | 1,151 | - | 393 | 139 | 532 |
| | **Total** | | | | **19,304** | **25,709** | **13,585** | **58,598** | **-** | **18,981** | **15,229** | **34,210** |