



SME Bank Ltd
small business - Big opportunities

ANNUAL REPORT

2021



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Corporate Information

Board of Directors

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

President /Chief Executive Officer

Mr. Dilshad Ali Ahmad

CFO & Company Secretary

Mr. Bilal Mohy Ud Din

Legal Advisors

Bhatti Law Associates

Registered Office

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

Auditors

BDO Ebrahim & Co. Chartered Accountant
3rd Floor, Saeed Plaza,
22 - East Blue Area, Islamabad
Tel: +92 51 2604461-5
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Vision Statement

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

Mission Statement

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

President's Message

It is my pleasure to present the 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.



Dilshad Ali Ahmad

President

Financial Highlights

(Rs. in million)

for the Year

PROFIT & (LOSS)

Income

Total Income	629.3	753.9	789.5	753.6	674.0	662.3
Interest Income	609.6	738.9	776.3	741.4	649.3	615.1

Expenses

Total Expenses	1,680.7	1,901.0	2,076.9	1,629.8	1,395.0	1,119.2
Interest Expenses	717.6	1,008.7	1,149.6	520.4	520.4	441.2
Spread (Net interest income / Gross interest income)	(0.2)	(0.4)	(0.5)	0.3	0.2	0.3
Loss before tax	(1,051.4)	(1,147.1)	(1,287.4)	(876.3)	(721.0)	(456.8)
Loss after tax	(942.4)	(977.2)	(1,072.3)	(825.9)	(294.0)	(199.2)

FINANCIAL POSITION

Shareholder's Funds	2,392.5	2,392.5	2,392.5	2,392.5	2,392.5	2,392.5
Net Equity	(4,261.0)	(3,160.1)	(2,512.4)	(1,693.9)	(434.3)	20.6

Liabilities

Total Liabilities	12,869.3	13,101.2	12,664.4	11,332.4	11,429.4	9,357.6
Borrowing from financial institutions	3,206.3	4,127.6	3,654.8	4,739.9	5,308.3	3,460.3
Deposits	8,248.3	7,602.3	7,500.7	5,721.0	5,343.7	5,228.7

Assets

Total Assets	8,608.3	9,941.1	10,152.0	9,638.5	10,995.1	9,378.2
Advances (net of provisions)	1,596.2	1,530.3	1,908.0	2,230.8	2,505.5	2,771.7
Investment	4,237.7	5,828.4	5,740.0	5,765.2	6,911.3	4,869.5

RATIOS

Return on Assets	-10.16%	-9.73%	-10.84%	-8.01%	-2.89%	-2.21%
Capital Adequacy Ratio (Required 10%)	-143.39%	-107.95%	-71.83%	-52.19%	-13.65%	-2.75%
Earning/(Loss) per share	(3.94)	(4.08)	(4.48)	(3.45)	(1.23)	(0.83)

BUSINESS ACHIEVEMENTS

Recoveries of New portfolio	598.2	514.1	632.9	623.2	694.6	659.8
Advances disbursed during the Year	1,146.8	1,120.9	1,377.7	1,622.5	1,956.5	1,956.2
Number of SMEs Finances	187	198	219	366	397	481

OTHER INFORMATION

Number of Employees (including outsourced)	448	468	480	486	497	490
Number of Banking branches	13	13	13	13	13	13
Total Branches/Recovery Offices	18	18	18	18	18	18

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 performing 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 vironmental 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.

Board of Directors (BoD) held six meetings during the year 2021. Attendance of which is given below:

Directors	Meetings Attended
Mr. Dilshad Ali Ahmad	6
Mr. Waqar Uddin 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 Uddin 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

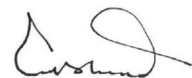
The basic and diluted after tax loss per share for the year 2021 is Rs.(3.94). (2020: Rs.(4.08))

Auditors

The present auditors, M/s BDO Ebrahim & Co, Chartered Accountants, have completed their assignment for the year ended December 31, 2021 and shall retire at the conclusion of 19th Annual General Meeting. Being eligible, they have offered themselves for reappointment. As advised by Board Audit Committee, Board recommends appointment of M/s BDO Ebrahim Co as auditors for the year 2022.

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.



Dilshad Ali Ahmad
Chairman
(Of the Meeting)



- اسٹاف فنڈز کے لیے رکھی گئی سرمایہ کاری کی قدر اکاؤنٹس کے نوٹوں کے نوٹ 34 میں ظاہر ہوتی ہے۔
- بینک نے پبلک سیکٹر کمپنیز (کارپوریٹ گورننس) رولز، 2013 کی دفعات کی تعمیل کی ہے اور کارپوریٹ گورننس کے بہترین طریقوں سے کوئی مادی خارج نہیں ہوا ہے۔
- پچھلے چھ سالوں کا کلیدی آپریٹنگ اور مالیاتی ڈیٹا سالانہ رپورٹس میں دستیاب ہے۔

شیئر ہولڈنگ پیٹرن

کوڈ آف کارپوریٹ گورننس کے تحت ضرورت کے مطابق 31 دسمبر 2021 کو شیئر ہولڈنگ کے پیٹرن کو ظاہر کرنے والا بیان منسلک ہے۔

فی شیئر نقصان

2021 کو ختم ہونے والے سال میں بینک کا بعد از ٹیکس خسارہ 3.94 روپے فی شیئر رہا۔ (سال 2020 میں خسارہ فی شیئر 4.08)

آڈیٹرز

موجودہ آڈیٹرز میسرز بی۔ ڈی۔ اویبراہیم اینڈ کو چارٹرڈ اکاؤنٹنٹس کا دورانیہ 31 دسمبر 2021 کو مکمل ہو چکا ہے اور وہ انیسویں سالانہ جنرل میٹنگ کے بعد ریٹائر ہو جائیں گے۔ انہوں نے اگلے سال کے لیے اپنی دوبارہ تقرری کی پیشکش کی ہے بورڈ آڈٹ کمیٹی کے کہنے پر بورڈ نے سفارش کی ہے کہ اگلے سال کے لیے بھی ان کا تقرر کیا جائے۔

تعریف

جہاں بورڈ انتظامیہ اور عملے کی کوششوں کو سراہتا ہے جو بینک کو موجودہ صورتحال سے نکالنے کی کوشش کر رہے ہیں، وہیں یہ ریکوری مہم کو بہتر بنانے اور ادائیگیوں کو بڑھانے کے لیے مزید کوششوں کی ضرورت پر بھی روشنی ڈالتا ہے۔ بورڈ اسٹیٹ بینک آف پاکستان اور دیگر ریگولیٹری اتھارٹیز کا بھی شکریہ ادا کرنا چاہیے تاکہ ان کی مسلسل حمایت اور رہنمائی کا اور شراکت داروں کا جو ہم پر بھروسہ اور اعتماد کرتے ہیں۔

دلشاد علی احمد
چیرمین برائے میٹنگ



اجلاسوں میں شرکت کی

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ڈائریکٹرز

جناب ہاشم رضا
جناب محمد وقاص
جناب رؤف احمد

بورڈ کی نامزدگی کمیٹی

یہ کمیٹی ایک ایگزیکٹو ڈائریکٹر، ایک نان ایگزیکٹو ڈائریکٹر اور ایک آزاد ڈائریکٹر پر مشتمل ہے۔ یہ ضرورت کی بنیاد پر ملتا ہے۔ سال 2021 کے دوران (BNC) بورڈ کی نامزدگی کمیٹی کی کوئی میٹنگ نہیں ہوئی۔

کارپوریٹ گورننس اور مالیاتی رپورٹنگ فریم ورک

ایس ایم ای بینک اچھی کارپوریٹ گورننس کا مشاہدہ کرنے کے لیے پر عزم ہے اور اس نے پبلک سیکٹر کمپنیوں کے لیے حال ہی میں جاری کردہ گورننس فریم ورک کو اپنایا ہے۔ ڈائریکٹرز نے اس بات کو یقینی بنایا ہے کہ مالیاتی ریکارڈنگ اور رپورٹنگ کے پیرامیٹرز کو پورا کرنے کے لیے مناسب انتظامات کیے گئے ہیں اور یہ بتاتے ہوئے خوشی ہو رہی ہے کہ:

- کمپنیز آرڈیننس کے مطابق اکاؤنٹس کی مناسب کتابیں برقرار رکھی گئی ہیں۔
- سالانہ کھاتوں کی تیاری میں قابل اطلاق بین الاقوامی مالیاتی رپورٹنگ کے معیارات پر عمل کیا گیا ہے۔
- اکاؤنٹس کو تشویش کی بنیاد پر تیار کیا گیا ہے اور بینک نے محتاط اکاؤنٹنگ پالیسیاں اپنائی ہیں اور درست اکاؤنٹنگ تخمینے استعمال کیے ہیں۔
- مالیاتی بیانات اور اکاؤنٹنگ تخمینوں کی تیاری میں مناسب اکاؤنٹنگ پالیسیوں کا مسلسل اطلاق کیا گیا ہے۔ کسی بھی روانگی کا مناسب طور پر انکشاف اور وضاحت کی گئی ہے۔
- بینک کی انتظامیہ کے ذریعہ تیار کردہ مالیاتی بیانات منصفانہ طور پر پیش کرتے ہیں، 31 دسمبر 2021 کو بینک کی صورت حال، اس کے بعد ختم ہونے والی مدت کے لیے اس کے آپریشنز کے نتائج، کیش فلو اور ایکویٹی میں تبدیلی؛
- بورڈ کے چیئرمین اور دیگر اراکین کی تقرری اور ان کی تقرری کی شرائط کے ساتھ فیس/ معاوضہ اپنایا جانا بینک کے بہترین مفاد میں ہے اور ساتھ ہی بہترین طریقوں کے مطابق ہے۔
- اہم خطرات سے نمٹنے کے لیے اندرونی کنٹرول کے مناسب نظام قائم کیے گئے ہیں، اس کے مؤثر نفاذ، مسلسل جائزہ اور نگرانی کے لیے مناسب انتظامات کے ساتھ؛
- بورڈ آف ڈائریکٹرز بینک کی جاری تشویش کے طور پر جاری رکھنے کی صلاحیت سے مطمئن ہے؛ نوٹ 6.2 میں بیان کردہ بنیاد پر۔
- 31 دسمبر 2021 تک ٹیکس، ڈیوٹی اور لیویز کی مد میں کوئی بقایا قانونی ادائیگیاں نہیں ہیں، سوائے اس کے کہ مالی بیانات میں ظاہر کیا گیا ہو۔



اجلاسوں میں شرکت کی

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ڈائریکٹرز:

جناب عمر فاروق

جناب انعام اللہ خان

جناب وقار الدین صدیقی

جناب رؤف احمد

بورڈ رسک مینجمنٹ کمیٹی

یہ کمیٹی تین نان ایگزیکٹو ڈائریکٹرز پر مشتمل ہے اور یہ بورڈ کی مختلف خطرات کی پیمائش اور تخفیف میں مدد کرتی ہے۔ سال 2021 کے دوران (BRMC) بورڈ رسک مینجمنٹ کمیٹی کے چار اجلاس منعقد ہوئے۔ ان اجلاسوں میں حاضری حسب ذیل تھی۔

اجلاسوں میں شرکت کی

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ڈائریکٹرز

جناب ہاشم رضا

جناب محمد وقاص عظیم

جناب عمر فاروق

بورڈ ہیومن ریسورس اینڈ ریمونریشن کمیٹی

بورڈ ہیومن ریسورس اینڈ ریمونریشن کمیٹی ایک ایگزیکٹو ڈائریکٹر، ایک نان ایگزیکٹو ڈائریکٹر اور ایک خود مختار ڈائریکٹر پر مشتمل ہے جو بورڈ کی تمام عملے سے متعلق معاملات، پالیسیوں اور مراعات بشمول معاوضے میں مدد کرے گی۔ سال 2021 کے دوران (RC & BHR) بورڈ ہیومن ریسورس کمیٹی کی چار میٹنگس ہوئیں۔ ان اجلاسوں میں حاضری حسب ذیل تھی۔

اجلاسوں میں شرکت کی

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ڈائریکٹرز

جناب دلشاد علی احمد

جناب رؤف احمد

جناب انعام اللہ خان

بورڈ پروکیورمنٹ کمیٹی

تین ڈائریکٹرز (نان ایگزیکٹو) پر مشتمل بورڈ پروکیورمنٹ کمیٹی تشکیل دی گئی ہے جو بورڈ کو پروکیورمنٹ سے متعلق پالیسیاں تیار کرنے، ان کا جائزہ لینے اور سفارش کرنے کے لیے بنائی گئی ہے تاکہ پروکیورمنٹ لین دین میں شفافیت کو یقینی بنایا جاسکے اور سپلائرز کے ساتھ معاملہ کیا جاسکے۔ سال 2021 کے دوران (BPC) بورڈ پروکیورمنٹ کمیٹی کی ایک میٹنگ ہوئی۔ ان اجلاسوں میں حاضری حسب ذیل تھی۔



بورڈ آف پرائیویٹائزیشن کمیشن نے 25 نومبر 2021 کو ہونے والے اپنے اجلاس میں SME بینک لمیٹڈ کو نجکاری کی فہرست سے خارج کرنے کی سفارش کی ہے۔ جیسا کہ پرائیویٹائزیشن کمیشن کے مالیاتی مشیر (FA) نے زور دے کر کہا ہے کہ تمام کوششوں اور پری کوالیفائیڈ بولی دہندگان کے ساتھ بار بار بات چیت کے باوجود پیشگی کوالیفائیڈ بولی دہندگان کی جانب سے مثبت فیڈبیک آنے والا نہیں ہے اور ایف اے کی بگڑتی ہوئی مالی حالت کی وجہ سے سفارش کی گئی ہے۔ ٹرانزیکشن شیف۔ نجکاری بورڈ کی سفارشات 31 دسمبر 2021 کو ہونے والے اجلاس میں کابینہ کمیٹی برائے نجکاری (CCoP) کو پیش کی گئیں۔ اجلاس میں تفصیلی بحث کے بعد وزیر خزانہ کی سربراہی میں ایک کمیٹی تشکیل دی گئی جس میں اسٹیٹ بینک، ایس ای سی پی، فنانس ڈویژن اور پرائیویٹائزیشن ڈویژن کے نمائندوں نے آگے بڑھنے کے لیے متبادل آپشنز کا جائزہ لیا۔

بورڈ آف ڈائریکٹرز

بورڈ آف ڈائریکٹرز وفاقی حکومت کی طرف سے نامزد کردہ سات ممبران/ڈائریکٹرز پر مشتمل ہوتا ہے۔ ایک ایگزیکٹو ڈائریکٹر (CEO & P)، چار نان ایگزیکٹو ڈائریکٹرز، اور دو آزاد ڈائریکٹرز۔ بورڈ اکثر ملاقات کرتا ہے اور کم از کم ہر سہ ماہی میں ملاقات یقینی بناتا ہے۔ (BoD) بورڈ آف ڈائریکٹرز نے سال 2021 کے دوران چھ میٹنگیں کیں۔ جن کی حاضری ذیل میں دی گئی ہے۔

ڈائریکٹرز: اجلاسوں میں شرکت کی

6	جناب دلشاد علی احمد
3	جناب وقار الدین صدیقی
6	جناب محمد وقاص عظیم
6	جناب رؤف احمد
6	جناب ہاشم رضا
6	جناب عمر فاروق
6	جناب انعام اللہ خان

بورڈ نے پانچ ذیلی کمیٹیاں تشکیل دی ہیں یعنی (BAC) بورڈ آڈٹ کمیٹی، (BRMC) بورڈ رسک مینجمنٹ کمیٹی، (RC & BHR) بورڈ ہیومن ریسورس اینڈ ریمونڈیشن کمیٹی، (BNC) بورڈ کی نامزدگی کمیٹی اور (BPC) بورڈ پروکیورمنٹ کمیٹی۔

بورڈ آڈٹ کمیٹی

یہ کمیٹی دو آزاد ڈائریکٹرز اور ایک نان ایگزیکٹو ڈائریکٹر پر مشتمل ہے اور اسے بورڈ کی قانونی اور فیدیوی ذمہ داریوں کو پورا کرنے میں مدد کے لیے بنایا گیا ہے۔ یہ کمیٹی فطرت میں مشاورتی ہے اور کوئی انتظامی کام انجام نہیں دیتی ہے۔ یہ بورڈ کو اپنی ذمہ داریاں نبھانے اور گڈ گورننس کی تعمیل میں مدد کرتا ہے۔ سال 2021 کے دوران (BAC) بورڈ آڈٹ کمیٹی کے چار اجلاس منعقد ہوئے۔ ان اجلاسوں میں حاضری حسب ذیل تھی۔



- ◀ ہر سہ ماہی میں اسٹیٹ بینک آف پاکستان کو گرین بینکنگ گائیڈ لائنز کی رپورٹنگ/مانیٹرنگ اور عمل درآمد کی صورت حال
- ◀ ماحولیاتی شعور کے حصے کے طور پر گرین بینکنگ پر برانچوں اور ہیڈ آفس میں عملے کی باقاعدہ حساسیت۔
- ◀ گرین بینکنگ کی سہولت، ماحول دوست طرز عمل اور کاربن فوٹ پرنٹ میں کمی کو فروغ دینے کے مقصد کے ساتھ قرض دینے والی تمام مصنوعات کا جائزہ/حسب ضرورت بنانا۔
- ◀ پیپر لیس ماحول کے فروغ کے لیے صارفین کو ای۔بیانات اور نوٹس/خطوط بھیجنے کی منظوری۔
- ◀ عام لوگوں/عملے کی آگاہی کے لیے گرین بینکنگ لوگو والے دفتری اسٹیشنری کا استعمال۔
- ◀ بینک کی طرف سے ماحولیاتی خطرے کے انتظام کے لیے ضروری طریقہ کار اور ماحولیاتی واجبات کے لیے چیک لسٹ کو اپنایا گیا ہے۔
- ◀ برانچوں اور ہیڈ آفس کی سطح پر وسائل کی کھپت اور اثر میں کمی کے اہداف تفویض کیے گئے ہیں۔

بینک کی نجکاری

حکومت پاکستان (GOP) نے 19 نومبر 2018 کو ہونے والے اپنے اجلاس میں نجکاری کمیشن (PC) کے ذریعے بینک کی نجکاری کے لین دین کو دوبارہ شروع کرنے کا فیصلہ کیا۔ کابینہ کمیٹی آن پرائیویٹائزیشن (CCOP) نے 06 مارچ 2019 کو بینک کے نئے نجکاری پروگرام کی منظوری دے دی تاکہ بینک میں GOPs کے انکویٹی حصص کے ساتھ انتظامی کنٹرول ایک اسٹریٹجک سرمایہ کار کو دیا جائے۔ اس کے مطابق، PC نے بینک کی نجکاری کے لیے لین دین کے ڈھانچے کی سفارش CCOP کو کی جس نے 15 نومبر 2019 کو حوالہ شدہ لین دین کے ڈھانچے کی منظوری دی۔ اس کے بعد ایک مناسب عمل کے ذریعے بینک کے 93.88% حصص کے حصول کے لیے دلچسپی کے اظہار کی دعوت اخبارات میں دی گئی۔ 13 دسمبر 2019 کو EOs اور سٹیٹمنٹ آف کوآلیفیکیشن (SOQs) جمع کرانے کی آخری تاریخ 28 فروری 2020 تھی۔ پانچ ممکنہ سرمایہ کاروں نے اشتہار کے خلاف اپنے SOQs جمع کرائے ہیں، ان میں سے چار کو SBP نے کلیئر کر دیا ہے۔ 24 اگست 2020 کو خریداروں کی جانب سے مستعدی کا عمل مکمل ہو گیا ہے اور حصص کی خریداری کے معاہدے (SPA) کا حتمی مسودہ تین پری کوآلیفائیڈ بولی دہندگان کے ساتھ شیئر کر دیا گیا ہے۔

بولی دہندگان (ITB) اور SPA کو دی گئی ہدایات پر پری کوآلیفائیڈ بولی دہندگان کے تبصروں پر ٹرانزیکشن کمیٹی نے غور کیا ہے اور اس سلسلے میں وضاحتیں پری کوآلیفائیڈ بولی دہندگان کو دی گئی ہیں۔ 29 دسمبر 2020 اور 30 دسمبر 2020 کو ٹرانزیکشن کمیٹی، اسٹیٹ بینک اور پری کوآلیفائیڈ بولی دہندگان کا ایک مشترکہ اجلاس "پری بڈ کانفرنس" اور "ویلیویشن ماڈل" کے حوالے سے منعقد ہوا جس میں پری کوآلیفائیڈ ممکنہ بولی دہندگان کے سوالات کیے گئے تھے۔ واضح کیا گیا ہے اور ان میں سے کچھ لائنس، انضمام اور MCR سے متعلق اس کی وضاحت کے لیے اسٹیٹ بینک کو بھیجے گئے ہیں۔ بولی کے دستاویزات کے مسودے یعنی بولی دہندگان کو دی گئی ہدایات (ITB) اور شیئر پر چیز ایگریمنٹس (SPA) کو حتمی شکل نہیں دی جا سکی۔



بینک اپنی رسک حکمت عملی کو نافذ کرتا ہے اور اپنے رسک مینجمنٹ فریم ورک کے اندر کنٹرول شدہ رسک لینے والی سرگرمیاں انجام دیتا ہے۔ ایس ایم ای بینک لمیٹڈ کا بورڈ آف ڈائریکٹرز فعال طور پر رسک مینجمنٹ فریم ورک تیار کرتا ہے جس میں یہ بینک کی مالی حیثیت کو متاثر کرنے والے عوامل سے نمٹنے کے لیے ایک فعال طریقہ فراہم کرتا ہے۔ BOD کی قیمتی رہنمائی کے ساتھ، بینک کے پاس آمدنی پیدا کرنے اور شیئر ہولڈر کی قدر کو بہتر بنانے کے لیے ایک فعال طریقہ ہے۔

لیکویڈیٹی پوزیشن اور کریڈٹ پورٹ فولیو کی اچھی کوالٹی، بینک کے وژن کو پورا کرنے کے لیے ایک سنگ بنیاد بنے ہوئے ہیں اور بینک کے اندر فرنٹ لائن رسک لینے والوں (یعنی کاروباری تقسیم) سے خطرے کی پیمائش، تجزیہ، کنٹرول اور نگرانی کو یقینی بنایا جاتا ہے۔ RMC (رسک مینجمنٹ کمیٹی) اور BRMC (بورڈ رسک مینجمنٹ کمیٹی) کے مطابق جو بورڈ آف ڈائریکٹرز کی ذیلی کمیٹی ہے، بینک ایک موثر رسک حکمت عملی پر عمل کرتا ہے اور رسک مینجمنٹ فریم ورک کے اندر کنٹرول شدہ رسک لینے کی سرگرمیاں جاری رکھتا ہے، بنیادی پالیسیوں، طریقہ کار اور عمل کے ڈیزائن کو فعال کے ساتھ ملانا پورٹ فولیو مینجمنٹ RMC اور BRMC کی باقاعدہ میٹنگس (کم از کم سہ ماہی) بینک کی طرف سے شروع کیے گئے مختلف اقدامات کے نتیجے میں ہونے والے خطرات اور ان کے رجحانات کی نگرانی کے لیے بلائی جاتی ہیں۔ کمیٹیاں بھیکرز کے پورٹ فولیو کے مختلف پہلوؤں کا جائزہ لیں جن میں، دوسروں کے علاوہ، اثاثوں کی ترقی، کریڈٹ کا معیار، کریڈٹ کنسرپشن، قرض دینے کے کاروبار کا رجحان، ٹریڈری پورٹ فولیو، لیکویڈیٹی پوزیشن اور منافع کا تجزیہ وغیرہ شامل ہیں۔ رسک لینے والوں اور رسک کنٹرولرز کے پاس آزادانہ رپورٹنگ لائنیں ہیں، پھر بھی مل کر کام کرتے ہیں۔ بینک وسائل کے موثر استعمال کے ذریعے بینک کی قدر میں اضافہ کریں۔

سال 2021 کے دوران، بینک نے کم خطرہ والے صارفین کو اپنے قرض کی تقسیم میں انتخابی رہنے کی پالیسی کے ساتھ جاری رکھا اور کافی متنوع قرض کے پورٹ فولیو کو برقرار رکھا۔ ناموافق حالات کے لحاظ سے منفی نتائج کو منظم کرنے کے لیے، بینک کے قرض دینے کے ڈھانچے میں متعدد کنٹرول عوامل اضافی آرام اور مدد فراہم کرتے ہیں۔ اس طرح کے کنٹرولز قابل ضمانت کے معیار سے لے کر ادائیگی سے پہلے کے حفاظتی اقدامات سے لے کر بعد از تقسیم کی نگرانی تک ہوتے ہیں۔

گرین بینکنگ

بینکوں اور DFIs کے کاروبار اور آپریشنز سے پیدا ہونے والے ماحولیاتی خطرات سے تحفظ اور تحفظ کے لیے، اسٹیٹ بینک آف پاکستان نے 09 اکتوبر 2017 کو گرین بینکنگ کے رہنما خطوط جاری کیے ہیں۔ ایس بی پی ملکی معیشت کو کم کاربن اور موسمیاتی چکدار معیشت کی طرف تبدیل کرنے کے لیے بینک نے SBP کے گرین بینکنگ گائیڈ لائنز کے مطابق مناسب طریقہ کار اور افعال وضع کیے ہیں، مندرجہ ذیل اقدامات/اقدامات ماحولیات کے تحفظ کے لیے حکومتی اور SBP کی کوششوں میں اضافے کے لیے کیے گئے ہیں۔

- ◀ SBP کی گرین بینکنگ گائیڈ لائنز اور بینک پالیسی کے مطابق مکمل گرین بینکنگ ڈویژن کا قیام۔
- ◀ ماحولیاتی رسک مینجمنٹ فریم ورک کے ساتھ گرین بینکنگ پالیسی کو بورڈ آف ڈائریکٹرز نے باضابطہ طور پر منظور کیا اور تمام متعلقہ دفاتر/برانچوں کی رہنمائی/عمل درآمد کے لیے سرکولیشن کیا گیا۔



ٹیکس سال 2011 کے نوٹس کے تحت 161/205 کا مناسب جواب دیا گیا ہے جس پر محکمہ ٹیکس کی جانب سے مزید کوئی کارروائی نہیں کی گئی۔ ٹیکس سال 2012 کے لیے آئی ٹی او، 2001 کے 113/221 کے تحت آرڈر پاس کیا گیا تھا جس کی ادائیگی احتجاج کے تحت کی گئی تھی، اسی دوران بینک کی جانب سے اے ٹی آئی آر میں اپیل بھی دائر کی گئی ہے۔ ایک اور مثال میں کمشنر (اپیل) کے پاس آئی ٹی او، 2001 کے آرڈر کے تحت 161/205 کے خلاف دائر کی گئی اپیل کو اسی سال کے لیے ریمانڈ پر واپس کر دیا گیا ہے۔

ٹیکس سال 2013 کے لیے بینک کی طرف سے کمشنر (اپیلز) کے پاس دائر کی گئی اپیل کو واپس ریمانڈ کیا جاتا ہے۔ ٹیکس سال 2016 کے لیے نوٹس ITO، 2001 کے 122(9) کے تحت ایڈیشنل کمشنر نے جاری کیا ہے جس کا مقابلہ کیا جا رہا ہے۔ ٹیکس ڈیپارٹمنٹ نے اسی سال کے لیے بینک کے خلاف 161/205 کے تحت ایک آرڈر بھی پاس کیا ہے جو ATIR کے سامنے زیر التوا ہے۔ ٹیکس سال 2017 کے آرڈر کے تحت 161/205 بھی پاس کیا گیا ہے جس کے خلاف کمشنر (اپیل) کے پاس اپیل کی گئی ہے۔

ٹیکس سال 2019 کے لیے ITO، 2001 کے 122(A5) کے تحت ایک نوٹس کا جواب دیا گیا ہے۔ محکمہ ٹیکس کی جانب سے ابھی تک کوئی مزید کارروائی نہیں کی گئی۔ ٹیکس ڈیپارٹمنٹ نے ٹیکس سال 2005، 2006، 2008، 2009، 2010، 2011 اور 2013 کے لیے ٹیکس ڈیمانڈ U/S 161/205 بنایا جس کا مقابلہ ATIR میں کیا جا رہا ہے۔

سیلز ٹیکس

ٹیکس ڈیپارٹمنٹ نے جنوری 2008 - دسمبر 2008، جنوری 2009 - دسمبر 2009، جنوری 2010 - دسمبر 2010، جولائی 2011 - جون 2012 سے متعلق FED / سیلز ٹیکس کے بارے میں نوٹس بھی بھیجے۔

ٹیکس کی مدت جنوری 2008 - دسمبر 2008 اور جنوری 2010 - دسمبر 2010 بینک نے اے ٹی آئی آر کے پاس دائر اپیلیں کیسیز پر نئے سرے سے غور کرنے کے لیے واپس بھیج دی ہیں۔ ٹیکس کی مدت جنوری 2009 تا دسمبر 2009 اور جولائی 2011 تا جون 2012 بینک نے اے ٹی آئی آر کے پاس اپیلیں دائر کی ہیں۔

پنجاب ریونیو اتھارٹی (PRA) نے جنوری 2016 تا دسمبر 2016 کی مدت کے لیے سیلز ٹیکس کی مختصر وصولی اور ادائیگی کا حکم بھی پاس کیا ہے۔

رسک مینجمنٹ فریم ورک

رسک مینجمنٹ ڈویژن (RMD) مختلف خطرات سے متعلق خطرے کے افعال کو پہلے سے ترتیب دے رہا ہے۔ خاص طور پر کریڈٹ رسک، لیکویڈیٹی رسک، سود کی شرح کا خطرہ اور آپریشنل رسک، تعمیل کا خطرہ، ریگولیٹری رسک، ایس ایم لیز کی فنانسنگ کے لیے پروجیکٹس کا ماحولیاتی خطرہ اور ساکھ کا خطرہ۔ رسک مینجمنٹ کے حوالے سے وقتاً فوقتاً جاری کردہ اسٹیٹ بینک کے رہنما خطوط کو رسک مینجمنٹ کی پالیسیوں اور طریقہ کار میں شامل کیا جا رہا ہے اور بینک کے لیے باسل II کے نفاذ کو اسٹیٹ بینک نے اس کی نگرانی تک استثنیٰ دیا ہے۔



یقینی بنایا جائے۔ صارفین کے لیے ڈیجیٹل حل کی فراہمی کے لیے مختلف ٹیکنالوجی کے اقدامات پائپ لائن میں ہیں جو مستقبل میں شروع کیے جائیں گے۔

سائبر سیکیورٹی ایکشن پلان اس بات کو یقینی بنانے کے لیے ڈیزائن کیا گیا ہے کہ رازداری، سالمیت اور دستیابی کو یقینی بنانے کے لیے صنعتی سیکیورٹی کے طریقوں کو اپنانے کے ساتھ وسائل اور مہارتوں میں موجود خلا کو پُر کیا جائے۔ بورڈ کی رہنمائی میں آئی ٹی اسٹریٹجک کمیٹی اور آئی ٹی سیکیورٹی ٹیم بینک کے مختلف تکنیکی پہلوؤں کا انتظام کر رہی ہے۔

بیسل II اور III

2012 میں، اسٹیٹ بینک آف پاکستان نے تمام بینکوں کو مشورہ دیا کہ وہ کوانٹیلیٹو اسپیکٹ اسٹڈی (QIS) - باسل III کے لیے اپنی معلومات جمع کرائیں۔ ایس ایم ای بینک نے باسل II سے پہلے ہی دی گئی چھوٹ کی بنیاد پر اس کو جمع کرانے سے استثنیٰ کے لیے درخواست دی ہے۔ اب اسٹیٹ بینک نے سافٹ ویئر، انسانی وسائل، تربیت وغیرہ میں درکار بڑی سرمایہ کاری کی وجہ سے بینک کو باسل II اور III کے نفاذ سے اس کی تنظیم نو/نجداری تک چھوٹ دے دی ہے۔

کیپٹل ایڈیکسی ریٹرن (سرمایہ کی کافیت کی واپسی)

بینک کو CAR کا تناسب 10% پر برقرار رکھنے کی ضرورت ہے۔ تاہم SME بینک نے سٹیٹ بینک کو بیچ مارک سے نیچے CAR برقرار رکھنے سے استثنیٰ کے لیے درخواست دی ہے۔

انکم ٹیکس

ٹیکس ڈپارٹمنٹ نے ٹیکس سال 2001-2002، 2003، 2004، 2005، 2006، 2008، 2009، 2010، 2011، 2012، 2013، 2016 اور 2016 سے متعلق انکم ٹیکس سے متعلق نوٹس بھیجے۔

محکمہ ٹیکس نے اسلام آباد ہائی کورٹ (IHC) میں ٹیکس سال 2001-02، 2003 اور 2004 کے لیے ریفرنس دائر کیے جن کا مقابلہ کیا جا رہا ہے۔ ٹیکس سال 2005 کے لیے محکمہ ٹیکس نے اس فیصلے کے خلاف ایپل ٹریبونل ان لینڈ ریونیو (ATIR) میں اپیل دائر کی ہے۔

بینک نے ATIR کے پاس ٹیکس سال 2008 اور 2010 کے لیے اپیلیں دائر کی ہیں جن میں سے ٹیکس سال 2008 کو شواہد کی تصدیق کے لیے اسسٹنگ آفیسر کے پاس واپس بھیج دیا گیا ہے، اسی دوران تصحیح کی درخواست کے بدلے ٹیکس سال 2008 کا مطالبہ کم کر دیا گیا ہے جس کے لیے درخواست کی گئی ہے۔ ٹیکس سال 2009 کے لیے رقم کی واپسی کے خلاف ایڈجسٹمنٹ۔



انفارمیشن ٹیکنالوجی

انفارمیشن ٹیکنالوجی کے فنکشن نے خطرات اور وسائل کی اصلاح کے ذریعے زیادہ سے زیادہ فوائد حاصل کر کے آئی ٹی آپریشنز کو کامیابی سے برقرار رکھا ہے۔ IT نے ایک فعال کے طور پر اپنے مختلف عمل کو بہتر بنایا ہے تاکہ قابل اطلاق رکاوٹوں کے اندر مسلسل خدمات کی فراہمی کو یقینی بنایا جاسکے۔ صارفین کے لیے ڈیجیٹل حل کی فراہمی کے لیے مختلف ٹیکنالوجی کے اقدامات پائپ لائن میں ہیں جو مستقبل میں شروع کیے جائیں گے۔

سائبر سیکیورٹی ایکشن پلان اس بات کو یقینی بنانے کے لیے ڈیزائن کیا گیا ہے کہ رازداری، سالمیت اور دستیابی کو یقینی بنانے کے لیے صنعتی سیکیورٹی کے طریقوں کو اپنانے کے ساتھ وسائل اور مہارتوں میں موجود خلا کو پُر کیا جائے۔ بورڈ کی رہنمائی میں آئی ٹی اسٹریٹجک کمیٹی اور آئی ٹی سیکیورٹی ٹیم بینک کے مختلف تکنیکی پہلوؤں کا انتظام کر رہی ہے۔

بیسل II اور III

2012 میں، اسٹیٹ بینک آف پاکستان نے تمام بینکوں کو مشورہ دیا کہ وہ کو انٹینسٹیو اسیکٹ اسٹڈی (QIS) - باسل III کے لیے اپنی معلومات جمع کرائیں۔ ایس ایم ای بینک نے باسل II سے پہلے ہی دی گئی چھوٹ کی بنیاد پر اس کو جمع کرانے سے استثنیٰ کے لیے درخواست دی ہے۔ اب اسٹیٹ بینک نے سافٹ ویئر، انسانی وسائل، تربیت وغیرہ میں درکار بڑی سرمایہ کاری کی وجہ سے بینک کو باسل II اور III کے نفاذ سے اس کی تنظیم نو/نجداری تک چھوٹ دے دی ہے۔

کیپٹل ایڈیکسی ریٹرن (سرمایہ کی کافیت کی واپسی)

بینک کو CAR کا تناسب 10% پر برقرار رکھنے کی ضرورت ہے۔ تاہم SME بینک نے اسٹیٹ بینک کو بیچ مارک سے نیچے CAR برقرار رکھنے سے استثنیٰ کے لیے درخواست دی ہے۔

انکم ٹیکس

ٹیکس ڈیپارٹمنٹ نے ٹیکس سال 2001-2002، 2003، 2004، 2005، 2006، 2008، 2009، 2010، 2011، 2012، 2013، 2016 اور 2016 سے متعلق انکم ٹیکس سے متعلق نوٹس بھیجے۔

محکمہ ٹیکس نے اسلام آباد ہائی کورٹ (IHC) میں ٹیکس سال 2001-02، 2003 اور 2004 کے لیے ریفرنس دائر کیے جن کا مقابلہ کیا جا رہا ہے۔ ٹیکس سال 2005 کے لیے محکمہ ٹیکس نے اس فیصلے کے خلاف ایپلٹ ٹریبونل ان لینڈ ریونیو (ATIR) میں اپیل دائر کی ہے۔

بینک نے ATIR کے پاس ٹیکس سال 2008 اور 2010 کے لیے اپیلیں دائر کی ہیں جن میں سے ٹیکس سال 2008 کو شواہد کی تصدیق کے لیے اسسٹنگ آفیسر کے پاس واپس بھیج دیا گیا ہے، اسی دوران تصحیح کی درخواست کے بدلے ٹیکس سال 2008 کا مطالبہ کم کر دیا گیا ہے جس کے لیے درخواست کی گئی ہے۔ ٹیکس سال 2009 کے لیے رقم کی واپسی کے خلاف ایڈجسٹمنٹ۔



قرضہ فراہمی

لیکویڈیٹی کی رکاوٹوں کے باوجود، بینک گزشتہ سال کے 262 ملین روپے کے مقابلے سال کے دوران 476 ملین روپے کی تازہ تقسیم حاصل کرنے میں کامیاب رہا جبکہ گزشتہ سال کے 103 کے مقابلے سال کے دوران خدمات فراہم کرنے والے کلائنٹس کی تعداد 129 تھی۔ اور سال کے آخر میں بقایا قرض لینے والوں کی کل تعداد 1075 تھی۔

لیزنگ بزنس

ایس ایم ای لیزنگ لمیٹڈ، جو کہ 2002 میں قائم کردہ بینک کا ایک ذیلی ادارہ ہے، نے گزشتہ سال کے 57.35 ملین روپے کے نقصان کے مقابلے میں 13.13 ملین روپے کا ٹیکس سے پہلے کا نقصان کیا ہے۔ این پی ایل کی وصولیوں کے نتیجے میں نقصان میں کمی؛ دفعات کی تبدیلی کمپنی کی خالص ایکویٹی روپے 6.54 ملین ہے (2020: روپے 19.56 ملین)۔ PACRA نے (2020: B) کی طویل مدتی درجہ بندی اور (2020: B) A4 کی مختصر مدت کی درجہ بندی تفویض کی ہے۔

ایس ایم ای لیزنگ نے 2021 (2020: 6) میں 6 کلائنٹس کو 17.704 ملین روپے (2020: 27 ملین روپے) تقسیم کئے۔ بقایا پورٹ فولیو (لیز اور ورکنگ کیسٹل) 221 کلائنٹس کے ساتھ 328.689 ملین روپے ہے۔

صارفین شکایات کا انتظام

"انتظامیہ تمام پہلوؤں سے بہتر سروس ڈیلیوری کے ذریعے کسٹمر کے اطمینان پر یقین رکھتی ہے اور اس طرح ایک ایسے کلچر کو فروغ دینے کی کوشش کرتی ہے جو گاہک کے تعلقات اور تجربے کو اہمیت دیتی ہے۔ صارفین کا اعتماد بڑھانے کے لیے شکایات کے بروقت حل کو یقینی بنانے کے لیے ایک وقف ویبجیلنس ڈیپارٹمنٹ کام کر رہا ہے۔ یہ ایس او پیز اور ایس ایم ای بینک میں صارفین کو سہولت فراہم کرنے کے طریقہ کار میں بہتری کے لیے دیگر فعال ڈویژنوں کے ساتھ بھی تعاون کرتا ہے۔

شکایت کے حل کا ایک جامع طریقہ کار تیار کیا گیا ہے اور وہ اپنی جگہ پر ہے۔ شکایات کے موثر انتظام اور نمٹانے کے لیے، بینک میں ایک کمپلینٹ مینجمنٹ سسٹم (CMS) ڈیزائن اور نافذ کیا گیا ہے۔ یہ صارفین کو بینک میں اپنی شکایات درج کرانے کے لیے ایک سے زیادہ چینل فراہم کرتا ہے۔ یہ شکایت کنندگان کو وصولی، ریکارڈنگ، تحقیقات، حل اور جواب دینے کے لیے تفصیلی رہنما خطوط بیان کرتا ہے۔ زیادہ تر شکایات کا مناسب جواب دیا گیا ہے اور بالآخر بروقت حل کیا گیا ہے۔ سال 2021 کے دوران سترہ (17) شکایات موصول ہوئیں جنہیں حل کر دیا گیا ہے اور 31-12-2021 تک کوئی شکایت زیر التوا نہیں تھی۔ مزید برآں، کنڈکٹ اسمنٹ فریم ورک کی تعمیل میں بینک میں ہر سال ایک اسمنٹ سروے کیا جاتا ہے جو بینکوں کے صارفین کے حوصلہ افزاء رد عمل کی عکاسی کرتا ہے۔

تربیت اور ایچ آر ڈویلپمنٹ

خصوصی کاموں کے لیے دستیاب انسانی سرمائے کی مہارت/علمی بنیاد کو بڑھانے کے لیے، تربیتی ضرورت کی تشخیص کی بنیاد پر عملے کے لیے ضروری تربیت اور مہارت کی ترقی کی سرگرمیاں انجام دی گئیں۔



ایس ایم ای لیزنگ لمیٹڈ کو دی گئی ایکسیوٹر کے حوالے سے، ایس ایم ای بینک نے اسٹیٹ بینک کو سنگل متعلقہ پارٹی ایکسیوٹر کی حد سے استثنیٰ کے لیے درخواست دی۔ ایس بی پی نے SME بینک لمیٹڈ کو 31 دسمبر 2019 تک کی مدت کے لیے SME لیزنگ لمیٹڈ کو 150 ملین روپے کی فنانسنگ یا تنظیم نو/جنگاری کی تکمیل، جو بھی ہو، پروڈنشل ریگولیشن R-1 کے تحت سنگل متعلقہ پارٹی کی نمائش کی حد میں استثنیٰ دی ہے۔

اداشدہ سرمایہ

بینک 2007 سے اب تک 2.39 بلین روپے کے اداشدہ سرمائے کے ساتھ کام کر رہا ہے۔ SBP کے رہنما خطوط کے مطابق بینکوں کو اداشدہ سرمائے کو 10 بلین روپے کی کم از کم سرمائے کی ضروریات تک بڑھانے کی ضرورت ہے۔ تاہم، ایس ایم ای بینک نے اسٹیٹ بینک کو 10 ارب روپے کے کم از کم اداشدہ سرمائے کی ضرورت کو پورا کرنے کے لیے استثنیٰ دینے کے لیے درخواست دی ہے۔

مالیاتی گوشوارے

مالیاتی گوشواروں کو پاکستان میں لاگو ہونے والے بین الاقوامی اکاؤنٹنگ معیارات، SBP پر ڈینشل ریگولیشنز اینڈ کمپنیز ایکٹ 2017 کے مطابق تیار کیا گیا ہے۔ مالیاتی گوشواروں کے نوٹوں میں انکشافات ریگولیٹری اتھارٹیز کے جاری کردہ قانون اور رہنما خطوط کے تقاضوں کے مطابق ہیں۔

مالیاتی رپورٹنگ پر اندرونی کنٹرول

بورڈ بینک میں اندرونی کنٹرول کے ایک موثر نظام کے وجود کو یقینی بنانے کے لیے پوری طرح پر عزم ہے اور ان نظاموں کی مناسبت اور سالمیت کا مسلسل جائزہ لیتا ہے۔ تاہم، بورڈ اس بات کو تسلیم کرتا ہے کہ اس طرح کے سسٹمز قابل قبول سطحوں تک پہنچانے جانے والے خطرات کو ختم کرنے کے بجائے انتظام کرنے کے لیے بنائے گئے ہیں۔ لہذا، نافذ کردہ نظام کسی بھی مادی غلط بیانی اور نقصان کے خلاف صرف معقول لیکن قطعی یقین دہانی فراہم نہیں کر سکتے۔ جب کہ بورڈ کے پاس بینک کے اندرونی کنٹرول کے نظام کی مجموعی ذمہ داری ہے، اس نے خطرے کی نشاندہی کرنے اور خطرے کو کم کرنے کے لیے کارروائی کرنے کے لیے ان داخلی کنٹرول کے نظام کے نفاذ کو انتظامیہ کو سونپ دیا ہے۔ یہ اندرونی کنٹرول سسٹمز بورڈ کے باقاعدہ جائزے کے ساتھ مشروط ہیں تاکہ بینک میں ان سسٹمز کی تاثیر کا اندازہ لگایا جاسکے۔

ڈپازٹس

تمام تر رکاوٹوں کے باوجود، بینک کے ڈپازٹس میں 646 ملین روپے کا اضافہ ہوا ہے اور 31 دسمبر 2021 تک یہ 8,248.27 ملین روپے ہے۔



آپریشنل نتائج

ایکویٹی کی تنگ بنیاد اور فنڈز کی کمی کے پس منظر میں، انتظامیہ روزانہ کی لیکویڈیٹی کی ضروریات کو پورا کرنے اور اسٹیٹ بینک آف پاکستان کی جانب سے مقرر کردہ قانونی لیکویڈیٹی ضروریات (SLR) کو برقرار رکھنے میں کامیاب رہی ہے۔ لیکویڈیٹی بحران کے زبردست دباؤ کے باوجود، ایس ایم ای لونز اور ایڈوالس پورٹ فولیو 1,880 ملین روپے رہا۔ زیر جائزہ سال کے دوران ایس ایم ای قرض دینے کے آپریشنز سے ہونے والی آمدنی میں 25.72 ملین روپے کی کمی واقع ہوئی۔ فنڈز کی لاگت میں 291.03 ملین روپے کی کمی واقع ہوئی ہے جس کی وجہ سے قرض لینے کی اوسط لاگت 2020 میں 9.28 فیصد کے مقابلے میں 7.21 فیصد رہ گئی ہے۔ بینک کے ڈپازٹس میں 646 ملین روپے کا اضافہ ہوا ہے اور یہ 31 دسمبر 2021 تک 8,248 ملین روپے ہے جبکہ گزشتہ سال 31 دسمبر 2020 کو 7,602 ملین روپے ہے۔ سال 2021 کے دوران، بینک نے نان پرفارمنگ قرضوں کے خلاف 18.33 ملین روپے کی خالص فراہمی کو رپورس کیا جب کہ 2020 میں 14.77 ملین روپے کے خالص پروویژن رپورسل تھے۔ 2021 میں بینک کے قرض دینے کے آپریشن کے حساب سے قرضے اور ایڈوانسز 1,880 ملین روپے تھے۔ 2020 میں 1,816 ملین روپے کے مقابلے۔

مہنگائی اور شرح سود میں اضافے جیسے میکرو اکنامک عوامل نے ملک میں کاروباری سرگرمیوں کو بری طرح متاثر کیا اور شرح نمو کو کافی حد تک کم کر دیا، جس کے نتیجے میں بینک کے قرض لینے والوں کی ادائیگی کی صلاحیت اور طرز عمل متاثر ہوا لیکن ان رکاوٹوں کے باوجود انتظامیہ بینک نے بینک کے غیر فعال قرضوں کو کم کرنے کے لیے مسلسل کوششیں کیں۔ 31 دسمبر 2021 کو بینک کے غیر فعال قرضے 438 ملین روپے تھے جبکہ 31 دسمبر 2020 کو یہ 485 ملین روپے تھے۔

بینک کی ایس ایم ای لیننگ لمیٹڈ (ایس ایم ای ایل) میں 215.46 ملین روپے کی سرمایہ کاری ہے جو کہ ان مالیاتی بیانات میں 80.75 ملین روپے کی کمی ہے اور 31 دسمبر 2021 تک 134.69 ملین روپے کی واجب الادا رینگ فنانس ہے۔ کمپنی اس دوران سال نے بنیادی طور پر اپنے پورٹ فولیو سے ریکوری کے ذریعے اندرونی کیش جزییشن پر توجہ مرکوز کی ہے اور ان کو نئے معیار کے کاروبار کی تعمیر میں سرمایہ کاری کی ہے۔

کمپنی 17.704 ملین روپے کی نئی خالص "لین اور رکنگ کیسیٹل" لکھنے میں کامیاب ہو گئی ہے۔ مجموعی وصولی 83.256 ملین روپے (بشمول نان پرفارمنگ پورٹ فولیو سے 51.468 ملین روپے)۔ پچھلے 3 سالوں میں لکھے گئے نئے کاروبار میں ڈیفالٹ کا فیصد نہ ہونے کے برابر ہے۔ پچھلے 52 ہفتوں میں اس کے شیئر کی مارکیٹ ویلیو 2.3 روپے سے 5.00 روپے فی شیئر کے درمیان تھی۔ بینک وقتاً فوقتاً کسی بھی خرابی کے ثبوت کے لیے SMEL میں اپنی سرمایہ کاری کا جائزہ لیتا ہے۔ SMEL میں سرمایہ کاری کی قابل وصول رقم کا تعین اس کی استعمال میں قیمت کے حوالے سے کیا جاتا ہے۔ بینک SMEL کی موجودہ قدر کی تکنیکوں اور مالی تخمینوں کا استعمال کرتا ہے تاکہ اس کی استعمال میں قیمت کا حساب لگایا جاسکے۔

بینک نے سال 2021 کے دوران 1,051.45 ملین روپے کا ٹیکس قبل خسارہ بٹ کیا ہے جبکہ 2020 میں 1,147.12 ملین روپے کا خسارہ قبل از ٹیکس، اور 2020 میں 977.16 ملین روپے کے خالص نقصان کے مقابلے میں 942.42 ملین روپے کا خالص نقصان ہوا ہے۔ نقصانات اٹھانے کی وجہ زیر التواء نجکاری، تنظیم نو، محدود رسائی، ایکویٹی کی ناکافی سطح اور معاشی حالت تھی۔ مستقبل میں، ہم آمدنی میں اضافہ اور اپنے غیر فعال قرضوں کے حجم کو کم کر کے نقصانات کو کم کرنے کی توقع رکھتے ہیں۔



آگے بڑھنے کا راستہ

موجودہ مالی سال کے پہلے چار مہینوں میں، پاکستان بدستور بلند ترقی کی راہ پر گامزن ہے، جو مالی سال 2021 میں دیکھی گئی شرح نمو سے تیز ہے۔ تاہم عالمی منڈی میں اشیاء کی گرتی ہوئی قیمتوں کی وجہ سے آنے والے مہینوں میں مہنگائی کم ہو سکتی ہے۔ اس کے علاوہ، مناسب مالیاتی اور مالیاتی پالیسیوں پر عمل کرتے ہوئے مقامی منڈیوں میں خوراک کی قیمتوں کو نرم کرنے کے لیے حکومت کی مسلسل کوششوں سے بھی راحت مل سکتی ہے۔

اگرچہ یہ پیشرفت اور پالیسیاں ماہانہ قیمت کی حرکیات کو برقرار رکھ سکتی ہیں، تجارتی توازن پر موجودہ دباؤ کے نرم ہونے، شرح مبادلہ کے دباؤ کو کم کرنے اور بعد ازاں MoM افراط زر کو مستحکم کرنے کی توقع ہے۔

آپریٹنگ جھلکیاں

بینک 2007 سے اب تک 2.39 بلین روپے کے ادا شدہ سرمائے کے ساتھ کام کر رہا ہے۔ حصص یافتگان نے 17 اکتوبر 2009 کو اپنی میننگ میں بینک کے ادا شدہ سرمائے میں اضافہ کر کے اسے دوبارہ سرمایہ کاری کرنے کا مشورہ دیا اور انتظامیہ نے اس کے لیے وزارت خزانہ سے رجوع کیا۔ بورڈ نے نوٹ کیا کہ بینک کی آنے والی نجکاری، کاروبار کی توسیع میں اسٹیٹ بینک کی رکاوٹوں اور 2 ارب روپے سے کم ایکویٹی بیس کے پیش نظر، بینک کو خود پائیدار بنیادوں پر چلانا ایک چیلنج ہے۔

اسٹیٹ بینک آف پاکستان کی جانب سے عائد پابندیوں کے پیش نظر سال 2021 کے دوران برانچ نیٹ ورک میں کوئی تبدیلی نہیں آئی اور بینک نے 13 کمرشل میننگ برانچز اور پانچ ریکوری آفسز کے ساتھ کام جاری رکھا۔

شرح سود کا منظر نامہ

سال 2021 کے آغاز میں اسٹیٹ بینک کی پالیسی ریٹ 7.00 فیصد تھی۔ سال 2021 کے اختتام پر ڈسکاؤنٹ ریٹ 2.75 فیصد اضافے کے ساتھ 9.75 فیصد پر پہنچ گیا۔

کریڈٹ ریٹنگ

بینک کو 22 نومبر 2018 کو PACRA کریڈٹ ریٹنگ ایجنسی کی طرف سے CCC کی طویل مدتی کریڈٹ ریٹنگ اور B (سنگل B) کی مختصر مدت کی درجہ بندی تفویض کی گئی تھی۔ GoP کی طرف سے کیپیٹل انجیکشن۔ اس طرح آگے بڑھنے والے بینک کے آپریشنز کا تسلسل دو عوامل میں سے کسی ایک پر منحصر ہے: GoP (i) کی طرف سے تازہ سرمایہ لگانا یا (ii) نجکاری کے محاذ پر ترقی، کیونکہ ان دو عوامل کی وجہ سے بینک کی کارروائیوں میں ترقی محدود ہے، حالانکہ انتظامیہ کاروباری افعال کو بہتر بنانے کے لیے اقدامات کر رہی ہے، آپریٹنگ پائیداری بنیادی کفیل کی طرف سے ایکویٹی انجیکشن پر منحصر ہے۔



غیر ملکی سرمایہ کاری

جولائی-نومبر میں FDI 12.3 فیصد بڑھ کر 797.7 ملین ڈالر (گزشتہ سال 710.3 ملین ڈالر) تک پہنچ گئی۔ نیدرلینڈز سے 153.0 ملین ڈالر (کل ایف ڈی آئی کا 19.2 فیصد)، چین سے 149.0 ملین ڈالر (18.7 فیصد)، امریکہ سے 129.9 ملین ڈالر (کل ایف ڈی آئی کا 16.3 فیصد) اور UAE سے 66.8 ملین ڈالر (8.4 فیصد) موصول ہوئے۔ پاور سیکٹر نے سب سے زیادہ ایف ڈی آئی \$ 229.2 ملین (کل FDI کا 28.7 فیصد)، مالیاتی کاروبار \$ 155.7 ملین (19.5 فیصد) تیل اور گیس کی تلاش \$ 110.7 ملین (13.9 فیصد) اور مواصلات نے \$ 100.8 ملین (12.6 فیصد) کو حاصل کیا۔

غیر ملکی نجی پورٹ فولیو انویسٹمنٹ نے جولائی تا نومبر مالی سال 2022 کے دوران 263.2 ملین ڈالر کا خالص اخراج درج کیا ہے۔ فارن پبلک پورٹ فولیو انویسٹمنٹ نے \$ 79.0 ملین کا خالص اخراج ریکارڈ کیا۔ اکتوبر 2021 میں سکوک بانڈ کی ادائیگی کی وجہ سے 1040 ملین ڈالر کا اخراج ریکارڈ کیا گیا۔ جولائی تا نومبر مالی سال 2022 کے دوران کل غیر ملکی پورٹ فولیو سرمایہ کاری میں 342.2 ملین ڈالر کا اخراج ریکارڈ کیا گیا جبکہ گزشتہ سال یہ 447.0 ملین ڈالر تھا۔ زیر جائزہ مدت کے دوران کل غیر ملکی سرمایہ کاری میں 455.5 ملین ڈالر کی آمد ریکارڈ کی گئی۔

ورکرز کی ترسیلات

جولائی تا نومبر مالی سال 2022 میں کارکنوں کی ترسیلات زر 9.7 فیصد بڑھ کر 12.9 بلین ڈالر (گزشتہ سال 11.8 بلین ڈالر) تک پہنچ گئیں۔ ورکرز کی ترسیلات زر نے نومبر 2021 میں لگاتار 18 ویں مہینے \$ 2.0 بلین سے اوپر کا اپنا بے مثال سلسلہ جاری رکھا۔ سعودی عرب سے ترسیلات زر کا حصہ (جولائی-نومبر FY2022) 25.4 فیصد (\$ 3271.4 ملین)، UAE 19.0% (\$ 2453.3)، U.K 13.7% (\$ 1768.4 ملین)، USA 10.1 فیصد (\$ 1305.7 ملین)، GCC ممالک 11.3 فیصد (\$ 1452.7 ملین)، EU 11.2 فیصد (\$ 1442.7 ملین)، ملائیشیا 0.4 فیصد (\$ 57.0 ملین)، دیگر ممالک 8.9 فیصد۔

زر مبادلہ کے ذخائر

پاکستان کے کل مائع زر مبادلہ کے ذخائر 17 دسمبر 2021 کو بڑھ کر 24.6 بلین ڈالر ہو گئے، SBP کے ذخائر اب 18.1 بلین ڈالر ہو گئے کیونکہ SBP کو سعودی عرب سے 3.0 بلین ڈالر موصول ہوئے ہیں۔ کمرشل بینکوں کے ذخائر 6.5 بلین ڈالر رہے۔

کاروباری بینکاری

بینکنگ سیکٹر نے 2021 میں مثبت نمو کے لیے لیکویڈیٹی، منافع اور سالوینسی کے درمیان توازن برقرار رکھا اور سال 2022 میں بھی اس رفتار کو جاری رکھا۔ معیشت 5 فیصد GDP نمو کی طرف گامزن ہے اور HCY22 میں شرح سود میں اضافہ جاری ہے، توقع ہے کہ مارکیٹ اب مجموعی طور پر بینکنگ سیکٹر کے لیے مزید لذیذ نقطہ نظر کو سراہنا شروع کر دے گی۔



ڈائریکٹر رپورٹ برائے شراکت داران (حصص یافتگان):

ہم 31 دسمبر 2021 کو ختم ہونے والے سال کے لیے ایس ایم ای بینک لمیٹڈ کی 20 ویں سالانہ رپورٹ آڈٹ شدہ اکاؤنٹس اور اس پر آڈیٹرز کی رپورٹ پیش کرتے ہوئے مسرت محسوس کر رہے ہیں۔

اقتصادی جائزہ 2021

پاکستان کی معیشت کو ویڈ 19 وبائی امراض سے نمٹنے میں بہتر کارکردگی کے بعد سنبھل گئی ہے۔ Omicron ویرینٹ کے پھیلاؤ کے باوجود، CLI کے مشاہدہ کے مطابق اہم تجارتی شراکت داروں میں گردش پوزیشن مستحکم رہی جو کہ پاکستان کی برآمدات کے لیے حوصلہ افزا ہے۔ پاکستان مالی سال 2021 میں دیکھی گئی نمو کے مقابلے میں ترقی کی بلند رفتار پر ہے۔ تاہم، کم بنیاد اثرات اور عالمی اجناس کی قیمتوں میں اضافے کی وجہ سے افراط زر کا دباؤ ہے۔ خوراک اور تیل دونوں کی بین الاقوامی قیمتیں فی الحال موجودہ بین الاقوامی اجناس کی قیمتوں کی بلند ترین سطح پر یا اس کے قریب ہیں اور آنے والے مہینوں میں کمی متوقع ہے۔ مسلسل حکومتی کوششوں سے گھریلو صارفین کو بڑھتی قیمتوں کے شدید اثرات سے ممکنہ حد تک بچانے کے لیے ریلیف دیا جا رہا ہے۔

افراط زر/ مہنگائی

جولائی تا نومبر مالی سال 2022 کے دوران سی پی آئی 9.32 فیصد ریکارڈ کی گئی جو گزشتہ سال کی اسی مدت کے دوران 8.76 فیصد تھی۔ عالمی سطح پر اشیائے خورد و نوش کی قیمتوں میں اضافہ ہوا ہے جس کی وجہ عالمی سطح پر اشیاء کی سپلائی میں کمی اور وبائی امراض کے بعد کی زیادہ مانگ ہے۔ پاکستان بھی اس سے متاثر ہوا ہے، کیونکہ ملک غذائی اشیاء خاص طور پر گندم، چینی، دالیں اور خوردنی تیل کا بڑا درآمد کنندہ ہے۔ حکومت دباؤ میں کمی اور ریلیف فراہم کرنے کے لیے پرعزم ہے اسی لیے مہنگائی کا مکمل دباؤ صارفین پر نہیں ڈالا گیا۔

مالیاتی حکمت عملی

ایس بی پی نے 14 دسمبر 2021 کو پالیسی ریٹ کو 100 بنیادی پوائنٹس بڑھا کر 9.75 فیصد کر دیا جس کا مقصد افراط زر کے دباؤ کا مقابلہ کرنا ہے۔ یکم جولائی سے 03 دسمبر کے دوران، مالی سال 2022 کی منی سپلائی (M2) میں گزشتہ سال کی 1.73 فیصد (361.3 بلین روپے) کی نمو کے مقابلے میں 0.2 فیصد (41.8 بلین روپے) کی منفی نمو دکھائی دیتی ہے۔ M2 کے اندر، خالص غیر ملکی اثاثہ جات (NFA) میں گزشتہ سال 515.9 بلین روپے کے اضافے کے مقابلے میں 147.0 بلین روپے کی کمی واقع ہوئی۔ دوسری طرف، بینکنگ سیکٹر کے این ڈی اے میں پچھلے سال 154.6 بلین روپے کی کمی کے مقابلے میں 105.2 بلین روپے کا اضافہ ہوا۔ پرائیویٹ سیکٹر نے گزشتہ سال 15.6 بلین روپے کے ریٹائرمنٹ کے مقابلے میں 454.3 بلین روپے کا قرضہ لیا ہے۔ مینوفیکچرنگ (جس میں سے ٹیکسٹائل، بجلی، گیس، بھاپ اور ایئر کنڈیشننگ کی سپلائی اور انفارمیشن اینڈ ٹیکنالوجی نے گزشتہ سال کے مقابلے میں زیادہ کریڈٹ حاصل کیا۔ تعمیراتی شعبے، جولائی تا نومبر، مالی سال 2022 کے دوران 18.7 بلین روپے کے قرضے جاری کیے گئے جبکہ گزشتہ سال کی اسی مدت کے دوران 13.9 بلین روپے جاری کیے گئے تھے۔

Shareholding Pattern

The pattern of shareholding as at December 31, 2021 is given below;

Sr. #	Categories of Shareholders	No. of Share holder	Shares held	Percentage
1	President of Pakistan (on behalf of Federal Government)	1	224615978	93.88
2	National Bank of Pakistan	1	6,121,095	2.56
3	United Bank Limited	1	3,975,003	1.66
4	Habib Bank Limited	1	1,987,501	0.83
5	MCB Bank Limited	1	1,490,619	0.62
6	Allied Bank Limited	1	774,351	0.32
7	Industrial Development Bank Limited	1	286,146	0.12
	Directors			
8	Mr. Dilshad Ali Ahmad	1	1	-
9	Mr. Enamullah Khan	1	1	-
10	Mr. Hashim Raza	1	1	-
11	Mr. Muhammad Waqas Azeem	1	1	-
12	Mr. Omar Farooq	1	1	-
13	Mr. Ruaf Ahmad	1	1	-
14	Mr. Waqar Uddin Siddiqui	1	1	-
	Total	14	239,250,700	100

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

Statement of Compliance

with 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:

Sr. No	Provision of the Rules	Rule No.	Y	N	Remarks																					
			Tick the relevant box																							
1.	The independent directors meet the criteria of independence, as defined under the Rules.	2(d)	✓																							
2.	<div>The Board has the requisite percentage of independent directors. At present the board includes:</div> <table><tr><th>Category</th><th>Names</th><th>Date of Appointment</th></tr><tr><td rowspan="2">Independent Directors</td><td>Mr. Omar Farooq</td><td>08-07-2020</td></tr><tr><td>Mr. Enamullah Khan</td><td>08-07-2020</td></tr><tr><td>Executive Directors</td><td>Mr. Dilshad Ali Ahmad</td><td>16-10-2018</td></tr><tr><td rowspan="3">Non-Executive Directors</td><td>Mr. Hashim Raza</td><td>08-07-2020</td></tr><tr><td>Mr. Waqar Uddin Siddiqui</td><td>05-05-2021</td></tr><tr><td>Mr. Waqas Azeem</td><td>08-07-2020</td></tr><tr><td></td><td>Mr. Rauf Ahmad</td><td>08-07-2020</td></tr></table>	Category	Names	Date of Appointment	Independent Directors	Mr. Omar Farooq	08-07-2020	Mr. Enamullah Khan	08-07-2020	Executive Directors	Mr. Dilshad Ali Ahmad	16-10-2018	Non-Executive Directors	Mr. Hashim Raza	08-07-2020	Mr. Waqar Uddin Siddiqui	05-05-2021	Mr. Waqas Azeem	08-07-2020		Mr. Rauf Ahmad	08-07-2020	3(2)	✓		
Category	Names	Date of Appointment																								
Independent Directors	Mr. Omar Farooq	08-07-2020																								
	Mr. Enamullah Khan	08-07-2020																								
Executive Directors	Mr. Dilshad Ali Ahmad	16-10-2018																								
Non-Executive Directors	Mr. Hashim Raza	08-07-2020																								
	Mr. Waqar Uddin Siddiqui	05-05-2021																								
	Mr. Waqas Azeem	08-07-2020																								
	Mr. Rauf Ahmad	08-07-2020																								
3.	The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.	3(5)	✓																							
4.	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Act.	3(7)	✓		All the Directors are nominee of GoP. SBP has cleared their fit and propriety criteria.																					
5.	The chairman of the board is working separately from the chief executive of the Bank.	4(1)		✓	As per MoF Ltr # F.No.8(1)IF-II/2019-554 dated July 16,2020 directed President/ CEO to preside the meetings of the Board under Section 11(3)(8) of Bank (Nationalization) Act,1974.																					

6.	The chairman has been elected by the Board of directors except where Chairman of the Board has been appointed by the Government.	4(4)	✓		As per MoF Ltr # F.No.8(1)IF-I/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. (b) The Board has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures, including posting the same on the Bank's website. (www.smebank.org) (c) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.	5(4)	✓ ✓ ✓		
9.	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules	5(5)	✓		
10.	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	5(5)(b) (ii)	✓		
11.	The Board has developed and implemented a policy on anti-corruption to minimize actual or perceived corruption in the Bank.	5(5)(b) (vi)	✓		
12.	The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.	5(5)(c) (ii)	✓		
13.	The Board has ensured compliance with the law as well as the Bank's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services.	5(5)(c) (iii)	✓		

14.	The Board has developed a vision or mission statement and corporate strategy of the Bank.	5(6)	✓		
15.	The Board has developed significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended, has been maintained.	5(7)	✓		
16.	The board has quantified the outlay of any action in respect of any service delivered or goods sold by the Bank as a public service obligation, and have submitted its request for appropriate compensation to the Government for consideration.	5(8)	N/A		
17.	The Board has ensured compliance with policy directions requirements received from the Government	5(11)	✓		
18.	a) The board has met at least four times during the year. b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. c) The minutes of the meetings were appropriately recorded and circulated.	6(1) 6(2) 6(3)	✓ ✓ ✓		
19.	The Board has monitored and assessed the performance of senior management on annual/half-yearly/quarterly basis* and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose. *Strike out whichever is not applicable	8 (2)	✓		
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. (b) In case of listed PSCs, the Board has prepared half yearly accounts and undertaken limited scope review by the auditors. (c) The Board has placed the annual financial statements on the Bank's website.	10	✓ N/A ✓		
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.	<p>a) The board has formed the requisite committees, as specified in the Rules.</p> <p>b) The committees were provided with written term of reference defining their duties, authority and composition.</p> <p>c) The minutes of the meetings of the committees were circulated to all the board members.</p> <p>d) The committees were chaired by the following non-executive directors:</p> <table><tr><th>Committee</th><th>Number of members</th><th>Name of Chair</th></tr><tr><td>Audit Committee</td><td>3</td><td>Mr. Omar Frooq</td></tr><tr><td>Human Resource Committee</td><td>3</td><td>Mr. Enamullah Khan</td></tr><tr><td>Procurement Committee</td><td>3</td><td>Mr. Waqas Azeem</td></tr><tr><td>Risk Management Committee</td><td>3</td><td>Mr. Hashim Raza</td></tr><tr><td>Nomination Committee</td><td>3</td><td>No meeting was held during the year</td></tr></table>	Committee	Number of members	Name of Chair	Audit Committee	3	Mr. Omar Frooq	Human Resource Committee	3	Mr. Enamullah Khan	Procurement Committee	3	Mr. Waqas Azeem	Risk Management Committee	3	Mr. Hashim Raza	Nomination Committee	3	No meeting was held during the year	12	✓ ✓ ✓ ✓		
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																					
24.	The Board has approved appointment of Chief Financial Officer, Bank Secretary and Chief Internal Auditor, by whatever name called, with their remuneration and terms and conditions of employment.	13	✓																				
25.	The Chief Financial Officer and the Bank Secretary have requisite qualification prescribed in the Rules	14	✓																				
26.	The Bank has adopted International Financial Reporting Standards notified by the Commission in terms of sub-section (1) of section 225 of the Act	16	✓																				
27.	The directors' report for this year has been prepared in compliance with the requirements of the Act and the Rules and fully describes the salient matters required to be disclosed.	17	✓																				
28.	The directors, CEO and executives, or their relatives, are not, directly or indirectly, concerned or interested in any contract or arrangement entered into by or on behalf of the Bank except those disclosed to the Bank.	18	✓																				
29.	<p>(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.</p> <p>(b) The annual report of the Bank contains criteria and details of remuneration of each director.</p>	19	✓ ✓																				
30.	The financial statements of the Bank were duly endorsed by the chief executive and chief financial officer before consideration and approval of the audit committee and the Board.	20	✓																				



31.	<p>The board has formed an audit committee, with defined and written terms of reference, and having the following members:</p> <table><tr><th>Name of member</th><th>Category</th><th>Professional background</th></tr><tr><td>Mr.Omar Farooq</td><td>Independent</td><td>Businessman</td></tr><tr><td>Mr.Enamullah Khan</td><td>Independent</td><td>Businessman</td></tr><tr><td>Mr.Waqar Uddin Siddiqui</td><td>Non-Executive Director</td><td>JS(MED) Ministry of Industries & Production</td></tr></table> <p>The chief executive and chairman of the Board are not members of the audit committee.</p>	Name of member	Category	Professional background	Mr.Omar Farooq	Independent	Businessman	Mr.Enamullah Khan	Independent	Businessman	Mr.Waqar Uddin Siddiqui	Non-Executive Director	JS(MED) Ministry of Industries & Production	21 (1) and 21(2)	✓		
Name of member	Category	Professional background															
Mr.Omar Farooq	Independent	Businessman															
Mr.Enamullah Khan	Independent	Businessman															
Mr.Waqar Uddin Siddiqui	Non-Executive Director	JS(MED) Ministry of Industries & Production															
32.	<p>(a) The chief financial officer, the chief internal auditor, and a representative of the external auditors attended all meetings of the audit committee at which issues relating to accounts and audit were discussed.</p> <p>(b) The audit committee met the external auditors, at least once a year, without the presence of the chief financial officer, the chief internal auditor and other executives.</p> <p>(c) The audit committee met the chief internal auditor and other members of the internal audit function, at least once a year, without the presence of chief financial officer and the external auditors.</p>	21(3)	✓ ✓ ✓														
33.	<p>(a) The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee.</p> <p>(b) The chief internal auditor has requisite qualification and experience prescribed in the Rules.</p> <p>(c) The internal audit reports have been provided to the external auditors for their review.</p>	22	✓ ✓ ✓														
34.	The external auditors of the Bank have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	23(4)	✓														
35.	The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services.	23(5)	✓														

Dilshad Ali Ahmad
CEO

Enamullah Khan
Independent Director

Statement of Internal Control

For the year ended December 31, 2021

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

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

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

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

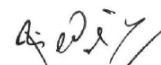
The board is fully committed to ensure the existence of an effective system of internal control and risk management and continuously reviews and evaluates the adequacy and integrity of those systems.

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

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

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

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



Bilal Mohy Ud Din
Chief Financial Officer

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

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors 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: March 05, 2022

UDIN: CR202110095vc6gFCtRK


CHARTERED ACCOUNTANTS
Engagement Partner: Abdul Qadeer

BDO Ebrahim & Co. Chartered Accountants

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UNCONSOLIDATED
Financial Statements of
SME BANK LIMITED
For the year ended December 31, 2021

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 management, there is certainty regarding reliability 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

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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 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.

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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.

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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.

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.

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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: March 05, 2022
UDIN: AR202110095BZqPa35oz


BDO EBRAHIM & CO
CHARTERED ACCOUNTANTS

BDO Ebrahim & Co. Chartered Accountants

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UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2021

	Note	2021 (Rupees in '000)	2020
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.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



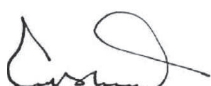
Rauf Ahmad
Director

UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2021

	Note	2021 (Rupees in '000)	2020
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)

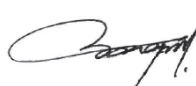
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Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



Rauf Ahmad
Director

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/(loss) 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.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



Rauf Ahmad
Director

UNCONSOLIDATED STATEMENT OF CHANGES 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.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



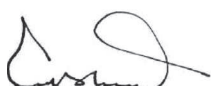
Rauf Ahmad
Director

UNCONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2021

	2021	2020
Note	(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	827,681	670,850

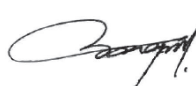
The annexed notes from 1 to 42 form an integral part of these unconsolidated financial statements.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



Rauf Ahmad
Director

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

1. GENERAL INFORMATION

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

In terms of Bank’s License No. BL-05 dated September 13, 2004 issued under section 27 of the Banking Companies Ordinance 1962, the Bank is required to hold minimum paid-up-capital (net of losses) of Rs. 1.0 billion at the time of issuance of said license, and at all times thereafter during which the above capital is required to be raised to Rs. 1.5 billion by December 31, 2004 and to Rs. 2.0 billion by December 31, 2005 or any other amount prescribed by State Bank of Pakistan (SBP) from time to time. SBP granted exemption vide its letter No. BPRD/BA&CPD/646/332/2020 dated January 06, 2020 from meeting the minimum capital requirement (MCR) till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier. Although further relaxation of MCR has not been granted but SBP has not objected the non-compliance of MCR as it is fully aware about the progress of the privatization of the Bank.

1.2 Amalgamation of defunct RDFC and SBFC

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

2. BASIS OF PRESENTATION

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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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, AMENDMENTS 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 standards, amendments and interpretations are effective for the year ended December 31, 2021. These standards, amendments and interpretations are either not relevant

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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 concessions June 01, 2020
"Interest Rate Benchmark 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.

Amendments 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 concessions	April 01, 2021
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current	January 01, 2023
Amendments 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
Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before intended use	January 01, 2022
Amendments 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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

Investment in subsidiary

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

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

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

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

5.4 Advances

Advances are stated net off specific and general provisions. Provisions are made in accordance with the requirements of Prudential Regulations issued by the SBP and charged to the profit and loss account. These regulations prescribe an age based criteria for classification of non-performing loans and advances and computing provision/allowance there against. Such regulations also require the Bank to maintain general provision/allowance against its Small Entity (SE) advances portfolio at specified percentage of such portfolio. Advances are written off when there is no realistic prospect of recovery.

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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).

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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 sale

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

9. INVESTMENTS

9.1 Investment by type

Available-for-sale securities

Federal Government Securities
Shares
Mutual Funds

Note

2021			
Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value
(Rupees in '000)			
4,106,322	-	(15,522)	4,090,800
42,542	(15,863)	2,941	29,620
1,870	(218)	(105)	1,547
4,150,734	(16,081)	(12,686)	4,121,967

2020			
Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value
(Rupees in '000)			
5,679,985	-	750	5,680,735
42,542	(15,770)	3,370	30,142
1,870	-	(142)	1,728
5,724,397	(15,770)	3,978	5,712,605

Held-to-maturity securities

Non Government Debt Securities

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

9.1.1

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

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

Subsidiary

9.1.2

215,457	(134,709)	-	80,748
4,401,953	(151,552)	(12,686)	4,237,715

215,457	(134,709)	-	80,748
5,975,616	(151,241)	3,978	5,828,353

Total Investment

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)

Holding Percentage

Country

Total assets

Total liabilities

Total Revenue

Total Expenses

Loss after taxation

Total comprehensive loss

2021	2020
73.14%	73.14%
Pakistan	Pakistan
Rupees in 000	
346,546	405,618
340,011	386,058
21,394	21,955
62,580	65,252
(13,399)	(57,676)
(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:

Federal Government Securities

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

Shares

Listed companies
Unlisted companies

Mutual Funds

Open end
Close end - Listed

Non Government Debt Securities

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

Subsidiary

SME Leasing Limited
Total Investment

2021			
Cost / Amortized Cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
(Rupees in '000)			
3,704,057	-	(6,845)	3,697,212
402,265	-	(8,677)	393,588
4,106,322	-	(15,522)	4,090,800

2020			
Cost / Amortized Cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
(Rupees in '000)			
2,820,478	-	(499)	2,819,979
2,859,507	-	1,249	2,860,756
5,679,985	-	750	5,680,735

3,704,057	-	(6,845)	3,697,212
402,265	-	(8,677)	393,588
4,106,322	-	(15,522)	4,090,800

2,820,478	-	(499)	2,819,979
2,859,507	-	1,249	2,860,756
5,679,985	-	750	5,680,735

14,999	(14,790)	2,941	3,150
27,543	(1,073)	-	26,470
42,542	(15,863)	2,941	29,620

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

1,216	-	(13)	1,203
654	(218)	(92)	344
1,870	(218)	(105)	1,547

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

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

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

215,457	(134,709)	-	80,748
4,401,953	(151,552)	(12,686)	4,237,715

215,457	(134,709)	-	80,748
5,975,616	(151,241)	3,978	5,828,353

9.2.1 Investment given as collateral

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

9.2.2

9.2.2

2021	2020
(Rupees in '000)	
2,705,670	1,560,528
393,588	2,456,991
3,099,258	4,017,519

9.2.2 These represent market value of securities at reporting date.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

		2021	2020
		(Rupees in '000)	
9.3 Provision for diminution in value of investments			
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			
Domestic		2021	2020
		NPI	Provision
(Rupees '000)			
Other assets especially mentioned		-	-
Substandard		-	-
Doubtful		-	-
Loss		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	
		(Rupees '000)	
Listed Companies			
- Chemicals		810	810
- Investment banks/companies		13,236	13,236
- Synthetic and Rayon		336	336
- Technology and communication		587	587
- Textile composite		30	30
		14,999	14,999
Unlisted / delisted Companies		2021	2020
		Cost	Breakup value
		(Rupees '000)	
- ISE Towers REIT Management	Note 9.4.1	18,000	50,890
- LSE Financial Services Limited	9.4.1	8,440	20,534
- News-v/s Credit Information Services (Pvt) Limited		100	30
- Companies delisted from stock exchange	9.4.2	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.

Notes to the Unconsolidated Financial Statements

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

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

Mutual Funds

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

2021	2020
Cost	
(Rupees '000)	
654	654
1,216	1,216
1,870	1,870

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

Non Government Debt Securities

Unlisted

- A/A1
- Unrated

2021	2020
Cost	
(Rupees '000)	
35,000	35,000
762	762
35,762	35,762

Notes to the Unconsolidated Financial Statements

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		Performing		Non Performing		Total	
		2021	2020	2021	2020	2021	2020
10. ADVANCES							
	Note	(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)
	10.5	(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:

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- 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

Notes to the Unconsolidated Financial Statements

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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.

Notes to the Unconsolidated Financial Statements

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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:

status as detailed below:

Category of Classification	Note	2021		2020	
		Non Performing Loans	Provision	Non Performing Loans	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			2020		
	Specific	General	Total	Specific	General	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 delayed 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			2020		
	Specific	General	Total	Specific	General	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)		(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.

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11. FIXED ASSETS		2021	2020
	Note	(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

At January 01, 2021

	Freehold Land	Leasehold Land	Building on Freehold Land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles	Total
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	-	-	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	-

At January 01, 2020

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	-	-	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	-



Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

		2021	2020				
		(Rupees in '000)					
11.2	Right of use assets						
	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 assets	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 Khan
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	2020				
		Computer software	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).						



Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

13.	DEFERRED TAX ASSET - NET																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

		2021	2020
14. OTHER ASSETS	Note	(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-parte 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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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

15. BILLS PAYABLE

Note

	2021	2020
	(Rupees in '000)	
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 repurchase 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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

	Note	2021	2020
		(Rupees in '000)	
18. OTHER LIABILITIES			
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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

19. SHARE CAPITAL

19.1 Authorized Capital

2021	2020		2021	2020
Number of Shares			(Rupees in '000)	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs. 10 each	<u>10,000,000</u>	<u>10,000,000</u>

19.2 Issued, subscribed and paid up capital

2021	2020	Ordinary shares	2021	2020
Number of Shares			(Rupees in '000)	
<u>152,853,153</u>	<u>152,853,153</u>	Fully paid in cash	<u>1,528,532</u>	<u>1,528,532</u>
<u>50,000,000</u>	<u>50,000,000</u>	Issued as bonus shares	<u>500,000</u>	<u>500,000</u>
<u>36,397,547</u>	<u>36,397,547</u>	Issued for consideration other than cash	<u>363,975</u>	<u>363,975</u>
<u>239,250,700</u>	<u>239,250,700</u>		<u>2,392,507</u>	<u>2,392,507</u>

19.3	Break-up of share capital is as follows:	Number of shares	Percentage	2021	2020
	Federal Government	224,615,978	93.89	2,246,160	2,246,160
	National Bank of Pakistan	6,121,095	2.56	61,211	61,211
	United Bank Limited	3,975,003	1.66	39,750	39,750
	Habib Bank Limited	1,987,501	0.83	19,875	19,875
	MCB Bank Limited	1,490,619	0.62	14,906	14,906
	Allied Bank Limited	774,351	0.32	7,744	7,744
	Industrial Development Bank Limited	286,146	0.12	2,861	2,861
	Directors	7	-	-	-
		<u>239,250,700</u>	<u>100</u>	<u>2,392,507</u>	<u>2,392,507</u>

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)
		<u>(13,679)</u>	<u>2,586</u>

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

		2021	2020
	Note	(Rupees in '000)	
21. CONTINGENCIES AND COMMITMENTS			
- 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		-	-

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

	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
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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

	2021	2020
	(Rupees in '000)	
e) The taxation officer created aggregate demand of Rs.53.674 million for withheld amount of Rs.17.598 million from VSS payment of employees for the Tax Years 2003-2004 -2005-2006-2008-2009-2010-2011-2013 which was not deposited upon advice of the legal advisor due to stay order of Supreme Court of Pakistan. The case is pending before Appellate Tribunal Inland Revenue and the provision of default surcharge Rs. 36.076 million was not made ipso facto.	36,076	36,076
f) The Officer Inland Revenue, LTU, Islamabad created demand for Rs. 21.171 million for tax year 2016 under section 161/205 of the Income Tax Ordinance, 2001. After rejection of the first appeal by CIRA the Bank has submitted second appeal before Appellate Tribunal Inland Revenue along with stay application to keep the recovery proceedings in abeyance. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response.	18,663	18,663
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation. Without prejudice, the tax department has been requested to adjust the tax demand with the available income tax refunds.	38,723	38,723
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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

	2021	2020
	(Rupees in '000)	
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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

	Note	2021	2020
		(Rupees in '000)	
22. MARK-UP/ RETURN/ INTEREST EARNED			
On loans and advances to Customers			
Extended by:			
- Defunct RDFC & SBFC		-	-
- SME Bank Limited		227,933	249,305
		<u>227,933</u>	<u>249,305</u>
Employees		1,883	3,548
Financial Institution - SME Leasing Limited - a subsidiary company		16,869	19,555
		<u>246,685</u>	<u>272,408</u>
On investments in			
- Available for sale securities		359,318	460,667
- Held to maturity securities		2,280	4,293
		<u>361,598</u>	<u>464,960</u>
On deposits with financial institutions		124	288
Lendings to financial institutions		1,185	1,292
		<u>609,592</u>	<u>738,948</u>
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
		<u>717,637</u>	<u>1,008,663</u>
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
		<u>14,009</u>	<u>10,914</u>
25. GAIN / (LOSS) ON SECURITIES			
Realised	25.1	925	815
Unrealised - held for trading		-	-
		<u>925</u>	<u>815</u>
25.1 Federal Government Securities - net		925	815
Shares		-	-
		<u>925</u>	<u>815</u>
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
		<u>2,169</u>	<u>1,576</u>

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

		2021	2020
	Note	(Rupees in '000)	
27. OPERATING EXPENSES			
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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

27.1 Total compensation expense		2021	2020
	Note	(Rupees in '000)	
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	2020
		(Rupees in '000)	
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
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)

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

30. TAXATION

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

30.1 Relationship between tax expense and accounting loss

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
	<u>(109,026)</u>	<u>(169,954)</u>

30.2 Provision for current year tax expense is charged on minimum tax rate of 1.50% of the turnover due to tax losses of the Bank for the year ended December 31, 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	<u>(942,421)</u>	<u>(977,164)</u>
	Number of shares	
Weighted average number of ordinary shares	<u>239,250,700</u>	<u>239,250,700</u>
	Rupees	
Basic/ diluted loss per share	<u>(3.94)</u>	<u>(4.08)</u>

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

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

32. CASH AND CASH EQUIVALENTS

		2021	2020
	Note	(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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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

	2021	2020
Obligations at the beginning of the year	1,622,825	111,679
Current service cost	65,454	11,343
Interest cost	161,310	10,812
Benefit paid by the Bank	(98,129)	(12,388)
Past service cost	-	-
Actuarial loss/(gain)	123,121	846
Obligations at the end of the year	1,874,581	122,292



Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

	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)	-

34.9 Components of plan assets

	2021		2020	
	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	-

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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.

Expected charge for the next financial year

Pension fund	Gratuity fund	Compensated Absences
(Rupees '000)		
115,147	11,787	14,253

34.12 Maturity profile

The weighted average duration of the obligation (in years)

2021	2020
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

Deficit position

	2021	2020	2019	2018	2017
	(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

Deficit position

	2021	2020	2019	2018	2017
	(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.

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	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)	
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

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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

		2021					
Sr. No.	Name of Director	Meeting fees and allowances paid					
		For Board Meetings	For Board Committees				
			Board Audit Committee	Risk Management Committee	Human Resource Committee	Board Procurement Committee	Total
(Rupees 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 Uddin Siddiqui	150	50	-	-	-	200
	Total amount paid	1,650	275	300	200	75	2,500

		2020					
Sr. No.	Name of Director	Meeting fees and allowances paid					
		For Board Meetings	For Board Committees				
			Board Audit Committee	Risk Management Committee	Human Resource Committee	Board 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.

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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				
	Note	Level 1	Level 2	Level 3	carrying / notional value	Total
(Rupees in '000)						
37.1 On balance sheet financial instruments						
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				
	Note	Level 1	Level 2	Level 3	carrying / notional value	Total
(Rupees in '000)						
On balance sheet financial instruments						
Financial assets measured at fair value						
- Investments						
Government Securities (T bills and PIBs)		-	5,680,735	-	-	5,680,735
Ordinary shares of listed companies/Mutual funds		5,400	-	-	-	5,400
Ordinary shares of unlisted companies		-	-	-	26,470	26,470
Financial assets not measured at fair value						
- Bank balances with treasury banks	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.

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

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).

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38. SEGMENT INFORMATION

38.1 Segment details with respect to business activities

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

	December 31, 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

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	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.



Notes to the Unconsolidated Financial Statements

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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)													
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	-	-	5,552	-
Receivable from staff retirement fund	-	-	-	-	8,685	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-



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	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)						
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				
				Running finance facility upto Rs. 150 million					6 months Kibor + 4.0%				
				Remunerative deposits					7.25%				
				Remunerative deposits					7.25% to 8.05%				
				Remunerative deposits					7.00%				
				Remunerative deposits					6.50% to 7.25%				

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40. CAPITAL ADEQUACY

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

	2021	2020
	(Rupees in '000)	
Regulatory capital base		
<i>Tier I capital</i>		
Shareholders capital/assigned capital	2,392,507	2,392,507
Reserves	206,526	206,526
Unappropriated/unremitted profits (net of losses)	(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
<i>Total tier I capital</i>	(4,343,179)	(3,245,173)
<i>Tier II capital</i>	884	8,593
<i>Eligible tier III capital</i>	-	-
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.

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41. RISK MANAGEMENT

41.1 Credit risk

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

41.1.1 Advances

Credit risk by industry sector

	Gross Advances		Non-performing advances		Provision held	
	2021	2020	2021	2020	2021	2020
	(Rupees in '000)					
Chemical and pharmaceuticals	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

Notes to the Unconsolidated Financial Statements

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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
	<u>4,825,597</u>	<u>5,701,081</u>

Credit risk by public/private sector

Public / Government	1,071,560	1,071,751
Private	3,754,037	4,629,330
	<u>4,825,597</u>	<u>5,701,081</u>

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	<u>836,541</u>	<u>681,998</u>

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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

41.1.5 Advances - Province/Region-wise Disbursement & Utilization

Province/region	2021						
	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

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

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 government 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 enabled packages amounting to Rs. 7.728 million considering the recovery of economic conditions. However, General provision @ 4.5% have still been kept for those borrowers whose payments of loan is delayed by more than 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.

Notes to the Unconsolidated Financial Statements

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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.

Notes to the Unconsolidated Financial Statements

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41.2.4 Mismatch of interest rate sensitive assets and liabilities

Effective Yield/ Interest rate	2021											Non-interest bearing financial instruments
	Exposed to Yield/Interest risk									Above 10 years		
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years				
(Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	824,944	-	-	-	-	-	-	-	-	-	-	824,944
Balances with other banks	2,737	1,540	-	225	94	106	-	20	-	-	-	500
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	4,237,715	1,095,369	2,652,352	3,885	395,031	2,157	-	-	8,173	-	-	80,748
Advances	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	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	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	-	-	-	-	-	-	-	-	-	-	-
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)	(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)	(5,277,073)	(5,153,396)	(5,134,709)	(7,481,646)	(7,478,477)	-	-
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

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

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.



Notes to the Unconsolidated Financial Statements

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Mismatch of interest rate sensitive assets and liabilities									
Effective Yield/Interest rate	Total	2020							Non-interest bearing financial instruments
		Exposed to Yield/Interest risk							
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Above 10 years
(Rupees in '000)									
On-balance sheet financial instruments									
Assets									
Cash and balances with treasury banks	668,727	-	-	-	-	-	-	-	-
Balances with other banks	2,123	1,082	-	174	-	82	-	196	-
Lending to financial institutions	5,828,353	468,355	2,402,483	2,457,829	1,475	409,105	-	8,358	-
Investments	1,530,344	78,957	94,458	318,944	348,881	37,263	601,613	44,860	872
Advances	142,648	-	-	-	-	-	-	-	-
Other assets	8,172,195	548,394	2,496,941	2,776,947	350,429	446,450	601,613	44,876	872
								13,050	892,623
Liabilities									
Bills payable	99,986	-	-	-	-	-	-	-	-
Borrowings from financial institutions	4,127,613	4,018,652	3,572	6,219	10,163	18,949	16,082	31,543	-
Deposits and other accounts	7,602,262	1,534,348	1,053,927	1,183,830	483,616	32,125	4,000	2,000	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-
Other liabilities	295,009	-	-	-	-	-	-	-	-
	12,124,870	5,553,000	1,057,499	1,190,049	493,779	51,074	20,082	31,743	-
On-balance sheet gap	(3,952,675)	(5,004,606)	1,439,442	1,586,898	(143,350)	395,376	581,531	13,133	872
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)									
Total financial assets	8,172,195	Total financial liabilities							(Rupees '000)
Add non-financial assets:		Add non-financial liabilities:							
Fixed assets	472,184	Other liabilities							
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 is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. Out of total financial assets of Rs. 8,172.20 million (2019: Rs. 8,479.26 million), the financial assets which were subject to interest rate risk amounted to Rs. 7,279.57 million (2019: Rs. 7,571.26 million). Investments and other assets amounting to Rs. 5,728.64 million (2019: Rs. 5,670.15 million) respectively are guaranteed by the Government of Pakistan. An Assets Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.



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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													
(Rupees in '000)													
Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years
Assets													
Cash and balances with treasury banks	824,944	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	2,737	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	4,237,715	35,000	747,331	297,771	1,149,405	1,502,705	393,588	78,953	192,765	113,489	156,398	488,248	111,915
Advances	1,596,181	9,978	-	12,461	10,183	18,281	370,349	13,870	13,853	47,267	40,983	67,516	31,954
Fixed assets	424,240	-	-	4,791	4,785	4,783	13,881	212	212	593	-	-	212,511
Intangible assets	1,455	-	-	78	77	71	212	-	-	1,008,206	-	-	-
Deferred tax assets - net	1,008,206	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	512,849	14,190	17,569	50,224	207	208	236,738	213	156,902	-	23	737	33,329
	8,608,327	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	-	-	-	-	-	-	-	-	-	-	-	-
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	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	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	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)	(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													
Reserves	206,526	-	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) on revaluation of assets	(13,679)	-	-	-	-	-	-	-	-	-	-	-	-
Unappropriated profit	(6,846,330)	-	-	-	-	-	-	-	-	-	-	-	-
	(4,260,976)	(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)

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

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Notes to the Unconsolidated Financial Statements

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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
Assets										
Cash and balances with treasury banks	824,944	731,978	17,243	-	94	-	-	-	75,723	-
Balances with other banks	2,737	2,040	-	-	-	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	-	-	-	157,115	1,008,206	-	217	-	-
Other assets	512,849	84,492	415	236,738	-	-	-	-	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.

Notes to the Unconsolidated Financial Statements

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

2020									
	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)									
Assets									
Cash and balances with treasury banks	593,907	15,888	1,322	3,510	-	-	-	54,100	-
Loans with other banks	1,582	-	174	73	82	-	16	196	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-
Investments	468,355	2,402,483	2,457,829	1,475	409,105	-	-	89,106	-
Advances	56,558	78,912	354,422	340,925	230,767	327,234	135,526	5,128	872
Fixed assets	5,636	11,126	15,741	28,300	51,022	42,718	74,009	160,019	83,613
Intangible assets	124	196	166	333	603	334	-	-	-
Deferred tax assets	-	-	-	-	874,915	-	-	-	-
Other assets	113,011	5,554	244,544	157,176	-	267	-	42,098	-
Total	668,727	1,239,173	3,074,198	531,792	1,566,494	370,553	209,586	350,647	84,485
	2,123								
Liabilities									
Bills payable	86,609	-	-	-	-	-	-	13,377	-
Borrowings from financial institutions	4,018,652	3,572	6,219	10,163	18,949	16,082	31,543	22,433	-
Deposits and other accounts	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	280,888	3,771	4,964	11,178	12,000	12,191	33,401	659,527	253,389
Total	13,101,170	6,654,183	1,196,846	515,516	63,074	32,273	65,144	3,253,728	253,389
Net assets	(3,160,083)	(5,415,010)	1,877,352	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.



Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

42. DATE OF AUTHORIZATION

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

Dilshad Ali Ahmad
President/CEO

Bilal Mohy Ud Din
Chief Financial Officer

Waqar Uddin Siddiqui
Director

Enamullah Khan
Director

Rauf Ahmad
Director

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2021

Rs. In thousands

Annex-I referred to Note 10.7 to these financial statements
In terms of sub section 3 of section 33-A of the Banking Companies Ordinance 1962 the statement in respect of written off loans or any other financial relief of Rs. 500,000 or above allowed to:

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				
1	Nafees Packages 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	2,434
2	Farhan Traders Aatma Ram Road Younus Steel Market Adda Gondlanwla Gujranwala	Muhammad Aslam Fiyaz (34101-7937475-7)	Asghar Ali	1,400	205	558	2,163	-	-	3,786
3	Saeed Naveed Brothers Shop no. 2, 3, Murree Road, Faizabad, Rawalpindi.	Naveed Mushtaq (34202-0430897-7)	Mushtaq Ahmed	4,065	998	5,367	10,430	-	-	2,689
4	Sikandar Woollen Mills (Pvt) Ltd. Plot No.45 - 50, Special Industrial Zone, Risalpur, Nowshera	Ahmad Nawaz Khan Asmat Jehan Fahim Ahmad Khan (17301-0772563-3) (17301-9058608-0) (17301-1590765-1)	Muhammad Nawaz Khan Ahmad Nawaz Khan Ahmad Nawaz Khan	13,839	22,246	7,178	43,263	-	17,420	24,769
5	Firee Industry Street Talabwala, Bababerry, Zafarwal road, Sialkot	Farooq Butt Dilwar Hussain (34603-8770816-1) (34603-5878938-7)	Sabir Hussain Sabir Hussain	-	1,012	139	1,151	-	393	532
Total										
				19,304	25,709	13,585	58,598	-	18,981	34,210

SMEBL: HO: CFO&CS: 02:2022/1830/

NOTICE OF 19th ANNUAL GENERAL MEETING

To

All Members of the Bank
M/s BDO Ebrahim & Co

Notice is hereby given that 19th Annual General Meeting of SME Bank Limited will be held on **Wednesday, March 30, 2022 at 03:30 pm** at Registered Office, SME Bank Ltd, 56-F, Nazim-ud-din Road, Sector F-6/1, Blue Area, Islamabad to transact the following:

Ordinary Business:

1. To confirm the Minutes of 18th General Meeting of Shareholders of the Company held on March 30, 2021.
2. To receive, consider and adopt the Audited Financial Statements of the Bank and Consolidated Statements for the year ended 31st December 2021, together with notes thereto, along with Directors' and Auditors' Reports to the shareholders, Statement of Compliance with Public Sector Companies (Corporate Governance) Rules and Review Report thereon by the Auditors.
3. Review of Contents of Annual Report 2021.
4. To appoint Auditors and to fix their remuneration for the year ending December 31, 2022.
5. To transact any other business with the permission of the Chair.

By Order of the Board

Islamabad
Dated: March 09, 2022

Bilal Mohy Ud Din
CFO & Company Secretary
bmohyuddin@smebank.org
Cell # 0323-4277559

Notes:

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

CONSOLIDATED
Financial Statements of
SME BANK LIMITED
For the year ended December 31, 2021

Independent Auditors Report

To the Members of SME Bank Limited

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the annexed consolidated financial statements of SME BANK LIMITED (the Bank) and its subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan.

Basis for Qualified Conclusion

1. 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 management, there is certainty regarding realisability of the amount from expected net profits arising on the future privatization of the Bank.
2. 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.
3. As explained in Note 11.3, 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 consolidated financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code)

BDO Ebrahim & Co. Chartered Accountants

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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

1. We draw attention to note 7.2.1 to the consolidated 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 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. 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 7.2.1, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.
2. We draw attention to note 7.2.2 to the consolidated financial statements, which indicates that SME Leasing Limited (the Company) has incurred loss of Rs. 13.399 million (December 31, 2020: Rs. 57.676 million) for the year ended December 31, 2021, resulting in accumulated losses of Rs. 361.931 million (December 31, 2020: Rs. 348.905 million) as at balance sheet date and as of that date the Company's current liabilities exceed its current assets by Rs. 81.882 million (2020: Rs. 67.288 million). As stated in note 7.2.2, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of above matters.

Emphasis of Matter

We draw attention to the following matters:

1. Note 1.1.3.2 to the consolidated financial statements which describes in detail the status of the application filed with the Security and Exchange Commission of Pakistan for renewal of license to operate as a leasing Company.
2. Note 1.1.3.3 to the consolidated financial statements which describes in detail the status of non-compliance with the Regulation 4 of Non-Banking Finance Companies and Notified Entities Regulation, 2008.

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3. Note 7.1 to the consolidated financial statements, which describes in detail the current status of privatization of SME Bank.
4. Note 15.3 to the consolidated financial statements, which describes in detail the status of possession of the Bank's property located in Lahore.

Our opinion is not modified in respect of these matters.

Information Other than the Consolidated Financial Statements and Auditors Report Thereon

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting and reporting standards as applicable in Pakistan, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors

BDO Ebrahim & Co. Chartered Accountants

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors report to the related disclosures in the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statement. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our Audit Opinion.

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

BDO Ebrahim & Co. Chartered Accountants

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Other Matter

The consolidated 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.

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

ISLAMABAD

DATED: March 05, 2022

UDIN: AR202110095NBOc6horY

BDO EBRAHIM & CO.

CHARTERED ACCOUNTANTS

BDO Ebrahim & Co. Chartered Accountants

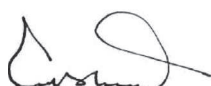
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2021

		2021	2020
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	8	825,010	668,793
Balances with other banks	9	5,407	3,683
Lendings to financial institutions		-	-
Investments	10	4,156,967	5,747,605
Advances	11	1,790,526	1,770,540
Fixed assets	12	434,277	483,858
Intangible assets	13	1,455	1,756
Deferred tax assets - net	14	1,008,206	874,915
Other assets	15	512,579	557,699
		8,734,427	10,108,849
LIABILITIES			
Bills payable	16	19,071	99,986
Borrowings	17	3,206,662	4,127,986
Deposits and other accounts	18	8,247,849	7,602,262
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	19	1,596,034	1,499,886
		13,069,616	13,330,120
NET LIABILITIES		(4,335,189)	(3,221,271)
REPRESENTED BY			
Share capital	20	2,392,507	2,392,507
Reserves		234,660	234,660
Surplus/(deficit) on revaluation of assets - net of tax	21	(13,679)	2,586
Unappropriated loss		(6,956,343)	(5,862,189)
		(4,342,855)	(3,232,436)
Non-controlling interest	22	7,666	11,165
		(4,335,189)	(3,221,271)
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



Rauf Ahmad
Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

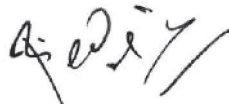
For the year ended December 31, 2021

		2021	2020
	Note	(Rupees in '000)	
Mark-up/ return/ interest earned	24	614,073	741,043
Mark-up/ return/ interest expensed	25	717,609	1,008,842
Net mark-up/ interest loss		(103,536)	(267,799)
NON MARK-UP/ INTEREST INCOME			
Fee and commission income	26	14,009	10,914
Dividend income		2,580	1,629
Foreign exchange income		-	-
Income / (loss) from derivatives		-	-
Gain/(loss) on securities	27	925	815
Other income	28	2,212	1,881
Total non-markup/ interest income		19,726	15,239
Total Income/(loss)		(83,810)	(252,560)
NON MARK-UP/ INTEREST EXPENSES			
Operating expenses	29	955,444	880,981
Workers Welfare Fund		-	-
Other charges	30	70,831	71,395
Total non-markup/ interest expenses		1,026,275	952,376
Loss before provisions		(1,110,085)	(1,204,936)
Provisions and write offs - net	31	(37,527)	(465)
LOSS BEFORE TAXATION		(1,072,558)	(1,204,471)
Taxation	32	(116,738)	(169,630)
LOSS AFTER TAXATION		(955,820)	(1,034,841)
Attributable to:			
Equity holders of the Bank		(952,221)	(1,019,350)
Non-controlling interest		(3,599)	(15,491)
Loss available for appropriation		(955,820)	(1,034,841)
Basic/diluted (loss) per share (rupees)	33	(3.98)	(4.26)

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



Rauf Ahmad
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2021

	2021	2020
	(Rupees in '000)	
Net loss after taxation	(955,820)	(1,034,841)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods		
Movement in deficit on revaluation of investment	(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	(141,833)	26,753
Total comprehensive loss	(1,113,918)	(705,186)
Attributable to :		
Equity holders of the Bank	(1,110,419)	(689,730)
Non-controlling interest	(3,499)	(15,456)
	(1,113,918)	(705,186)

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



Rauf Ahmad
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021

	Attributable to shareholders of the Group					Non-controlling interest	Total
	Share capital	Statutory reserve	Reserve against future losses	Surplus/(deficit) on revaluation of investments	Unappropriated loss		
					(Rupees in '000)		
Balance as at January 01, 2020	2,392,507	227,019	7,641	(300,316)	(4,869,557)	26,621	(2,516,085)
Total comprehensive income for the year ended December 31, 2020							
Net loss after taxation	-	-	-	-	(1,019,350)	(15,491)	(1,034,841)
Other comprehensive income - net of tax	-	-	-	302,902	26,718	35	329,655
Balance as at December 31, 2020	2,392,507	227,019	7,641	2,586	(5,862,189)	11,165	(3,221,271)
Total comprehensive income for the year ended December 31, 2021							
Net loss after taxation	-	-	-	-	(952,221)	(3,599)	(955,820)
Other comprehensive income - net of tax	-	-	-	(16,265)	(141,933)	100	(158,098)
Balance as at December 31, 2021	2,392,507	227,019	7,641	(13,679)	(6,956,343)	7,666	(4,335,189)

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



Rauf Ahmad
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2021

	2021	2020
Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(1,072,558)	(1,204,471)
Less: Dividend income	(2,580)	(1,629)
	(1,075,138)	(1,206,100)
Adjustments:		
Depreciation	68,101	76,025
Amortization	1,078	1,346
Provision and write-offs	(37,527)	(465)
Loss/(gain) on sale of fixed assets	(1,197)	(899)
Mark-up expense on leased liability against ROU assets	70,831	71,287
	101,286	147,294
	(973,852)	(1,058,806)
(Increase)/ decrease in operating assets		
Lendings to financial institutions	-	-
Held-for-trading securities	-	-
Advances	18,417	454,896
Other assets (excluding advance taxation)	45,640	35,103
	64,057	489,999
Increase/ (decrease) in operating liabilities		
Bills payable	(80,915)	48,443
Borrowings from financial institutions	(921,324)	472,842
Deposits	645,587	101,554
Other liabilities (excluding current taxation)	(53,696)	(167,643)
	(410,348)	455,196
	(1,320,143)	(113,611)
Income tax paid	(2,903)	(2,803)
Net cash flow generated (used in)/ from operating activities	(1,323,046)	(116,414)
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	(4,723)	(3,211)
Proceeds from sale of fixed assets	1,224	1,201
Net cash flow generated from investing activities	1,572,744	214,866
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligation	(91,757)	(81,866)
Net cash flow (used in) from financing activities	(91,757)	(81,866)
Decrease in cash and cash equivalents	157,941	16,586
Cash and cash equivalents at beginning of the year	672,476	655,890
Cash and cash equivalents at end of the year	830,417	672,476

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.



Dilshad Ali Ahmad
President/CEO



Bilal Mohy Ud Din
Chief Financial Officer



Waqar Uddin Siddiqui
Director



Enamullah Khan
Director



Rauf Ahmad
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

1. GENERAL INFORMATION

1.1 The Group

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

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

In terms of Bank's License No. BL-05 dated September 13, 2004 issued under section 27 of the Banking Companies Ordinance 1962, the Bank is required to hold minimum paid-up-capital (net of losses) of Rs. 1.0 billion at the time of issuance of said license, and at all times thereafter during which the above capital is required to be raised to Rs. 1.5 billion by December 31, 2004 and to Rs. 2.0 billion by December 31, 2005 or any other amount prescribed by State Bank of Pakistan (SBP) from time to time. SBP granted exemption vide its letter No. BPRD/BA&CPD/646/332/2020 dated January 06, 2020 from meeting the minimum capital requirement (MCR) till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier. Although further relaxation of MCR has not been granted but SBP has not objected the non-compliance of MCR as it is fully aware about the progress of the privatization of the Bank.

Amalgamation of defunct RDFC and SBFC

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

1.1.3 SME Leasing Limited

1.1.3.1 SME Leasing Limited (the Company) was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The Company is a subsidiary of SME Bank Limited (the Holding Company), who holds 73.14% (2020: 73.14%) of the Company's shares. At the time of incorporation, the Company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the Company on January 28, 2003. The Company is listed on Pakistan Stock Exchange and its registered office is situated at 56-F, Nazim-ul-Din Road F-6/1, Blue Area, Islamabad. The core objective of the Company is to extend lease and working capital financing facilities to small and medium enterprises of the country. The PACRA Credit Rating Agency has assigned a long term rating of B (2019: B) and a short-term rating of B (2019: B) to the Company in the month of April 2020.

1.1.3.2 The license of the company to operate as a leasing company expired on May 20, 2019. Thereafter, the Company applied via application reference # SMEL/MO/2019 dated April 16, 2019 for its renewal in the manner so required by the NBFC rules, 2003. However, renewal of license was in progress till the year end.

1.1.3.3 The Company obtained license of non deposit taking NBFC and as per section 4 (Schedule I) of NBFC Regulations 2008, a non deposit taking NBFC shall have minimum equity of Rs 50 million. The Company being non deposit taking NBFC has not complied with said requirement of NBFC Regulations 2008 of maintaining minimum capital requirement.

2 BASIS OF CONSOLIDATION

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

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

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

Intra-group balances and transactions have been eliminated.

3 BASIS OF PRESENTATION

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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

4 STATEMENT OF COMPLIANCE

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

Whenever the requirements of the Banking Companies Ordinance, 1962, Companies Act, 2017 or the directives issued by SBP and SECP differ with the requirements of IFRS, requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives shall prevail.

The SBP, vide BPRD circular no. 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 consolidated financial statements. Accordingly, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

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

4.2 APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO PUBLISHED APPROVED ACCOUNTING AND REPORTING STANDARDS

4.2.1 NEW ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS THAT ARE EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2021

The following standards, 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	Effective date (Annual periods beginning on or after)
Amendments to IFRS 16 'Leases' - Covid - 19 related rent concessions	June 01, 2020
Interest Rate Benchmark 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.

4.2.2 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.

	Effective Date (Annual periods beginning on or after)
1Amendments 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 concessions	January 01, 2021
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current	January 01, 2023
Amendments 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
Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before intended use	January 01, 2022
Amendments 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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.

5 BASIS OF MEASUREMENT

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

5.2 Use of critical accounting estimates and judgments

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

- i) Classification of investments (note 10.2)
- ii) Provision/impairment against investments (note 10.2), advances (note 11.4) and other assets (note 15.4)
- iii) Valuation and impairment of available for sale securities (note 6.2)
- iv) Useful life and residual value of property and equipment and intangible assets (note 6.5)
- v) Taxation (note 6.8)
- vi) Staff retirement benefits (note 6.9)
- vii) Leases (note 6.5)
- viii) Classification and provision of net investment in finance lease (note 6.10, 6.10.1 and 6.15)

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year. Significant accounting policies are enumerated as follows:

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

6.1 Cash and cash equivalents

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

6.2 Investments

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

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

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

Held for trading

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

Held to maturity

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

Available for sale

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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.

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

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

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

6.4 Advances

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

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

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

Capital work-in-progress

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

Operating fixed assets-owned

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

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

Depreciation

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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

Intangible assets

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

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

Right-of-use (RoU) assets

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

Lease liability

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

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

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

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

Incremental borrowing rate (IBR)

The IBR is the rate of markup that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

the right-of-use asset in a similar economic environment. The Bank estimates the IBR using observable inputs such as market interest rates.

6.6 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment, whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the consolidated profit and loss account. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying value that would have been determined net of depreciation/amortization, if no impairment loss had been recognized.

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

6.7 Deposits

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

6.8 Taxation

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

Current

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

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit at the rates that are expected to apply to the period when the differences reverse based on the tax rates that have been enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax asset is reduced to the extent it is no longer probable that the related tax benefits will be realized.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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

6.9 Staff retirement and other benefits

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

Defined benefit plan - pension and gratuity scheme

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

Defined benefit funded gratuity scheme

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

Benevolent fund

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

Compensated absences

The Bank

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

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

SMEL

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

Defined contribution plan

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

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

6.10 Net investment in lease finance

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

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

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognized in the statement of profit or loss account on a basis account that reflects a constant periodic rate of return on the net investment in the finance lease.

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

6.10.1 Provision for potential lease losses and doubtful loans and receivables

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

6.11 Revenue recognition

6.11.1 Advances

Advances disbursed by SME Bank Limited:

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

6.11.2 Return on investments

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

6.11.3 Dividend income

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

6.11.4 Interest, fee, brokerage and commission

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

6.11.5 Leasing income

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

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

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

6.12 Off setting

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

6.13 Borrowing costs

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

6.14 Provisions

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

6.15 Financial assets and liabilities

All financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. A financial asset is derecognised where

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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

6.16 Segment reporting

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

6.16.1 Business segments

Trading and sales

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

Commercial banking

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

Other leasing operations

This segment includes the Group's leasing activities.

6.16.1 Geographical segments

The Bank operates only in Pakistan.

6.17 Appropriation to reserves

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

6.18 IFRS 13 - 'Fair Value Measurement'

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

7. FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION

7.1 Current status of privatization of SME Bank

Government of Pakistan (GoP) decided in their meeting held on November 19, 2018 to relaunch the privatization transaction of the Bank through Privatization Commission (PC). Cabinet Committee on Privatization (CCoP) approved the new privatization program of the Bank on March 06, 2019 to divest the 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 financials 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.

7.2 Going concern assumption and minimum capital requirement

7.2.1 The Bank

During the current year the Bank incurred a net loss of Rs. 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

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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 7.1 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 consolidated financial statements is appropriate and, therefore, have prepared the same on a going concern basis.

7.2.2 SME Leasing limited (SMEL) - Subsidiary Company

SMEL has been incurring losses since year ended December 31, 2009 which has resulted in erosion of equity. During the year ended December 31, 2021, the Company has incurred loss of Rs. 13.399 million (2020: Rs. 57.676 million) for the year ended December 31, 2021, resulting in accumulated loss of Rs. 361.931 (2020: Rs. 348.905 million) as at balance sheet date and as of that date the Company's current liabilities exceed its current assets by Rs. 81.882 million (2020: Rs. 67.288 million).

Further SMEL is dependent on the running finance facility granted by the holding company. The revised prudential regulation of State Bank of Pakistan (SBP) applicable from June 2015 has restricted the exposure by bank to a related party to the extent of 7.5% of its equity. However, the relaxation provided by State Bank of Pakistan, to SME Bank has been expired on January 2020 and the holding company has applied for relaxation of the aforesaid requirement in respect of its financing to the Company to the State Bank of Pakistan.

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

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- The Holding Company (the Bank) has granted a short term running finance facility to SMEL amounting to Rs. 150 million out of which Rs. 137.184 million has been utilized as at December 31, 2021 (2020: Rs. 144.791 million). The said facility can be extended to the extent of Rs. 300 million as per the stand-by agreement for finance facility. The Bank has obtained relaxation from the State Bank of Pakistan from the requirements of related party exposure limits in order to continue its support towards SMEL. Further, the Bank has been in the list of privatization by Government of Pakistan. Upon successful completion of privatization of the Bank, the majority shareholding in SMEL will be taken over by the acquirer of the Bank.
- The management of SMEL has prepared cash flow projections which reflect that based on financial support by the parent company SMEL will be able to continue its business on going concern basis in the foreseeable future.
- Concerted efforts are being made for the recovery of non-performing leases and loans and finances and in this respect during the year Rs. 36.475 million (2020: Rs. 20.714 million) has been recovered.
- Efforts are also being made by the management to reduce the overall cost of the Company.

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		2021	2020
		(Rupees in '000)	
8. CASH AND BALANCES WITH TREASURY BANKS	Note		
In hand			
Local currency		146,132	175,637
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in:			
Local currency current accounts	8.1	584,093	419,782
With National Bank of Pakistan in:			
Local currency current accounts		94,767	73,334
Prize bonds		18	40
		825,010	668,793

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

		2021	2020
		(Rupees in '000)	
9. BALANCES WITH OTHER BANKS	Note		
In Pakistan:			
On current accounts		3,170	1,966
On deposit accounts		12,237	11,717
Provision for doubtful balance with a bank	9.1	(10,000)	(10,000)
		5,407	3,683

9.1 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.

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10. INVESTMENTS

10.1 Investment by type

	Note	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)			
Available-for-sale securities									
Federal Government Securities	10.2.1	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)	10.1.1	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
Total Investment		4,186,496	(16,843)	(12,686)	4,156,967	5,760,159	(16,532)	3,978	5,747,605

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

10.2 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
Total Investment	4,186,496	(16,843)	(12,686)	4,156,967	5,760,159	(16,532)	3,978	5,747,605

10.2.1 Investment given as collateral

	2021	2020
	(Rupees in '000)	
Market Treasury Bills (MTBs)	10.2.2 2,705,670	1,560,528
Pakistan Investment Bonds (PIBs)	10.2.2 393,588	2,456,991
	3,099,258	4,017,519

10.2.2 These represent market value of securities at reporting date.

10.3 Provision for diminution in value of investments

	2021	2020
	(Rupees in '000)	
Opening balance	16,552	16,552
Charge / reversals		
Charge for the year	311	-
Reversal for the year	-	-
Reversal on disposals	-	-
Transfers - net	311	-
Amount written off	-	-
Closing balance	16,863	16,552

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10.3.1 Particulars of provision against debt securities category of classification

	2021		2020	
	NPI	Provision	NPI	Provision
Domestic				
Other assets especially mentioned				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	762	762	762	762
	762	762	762	762

10.4 Quality of Available-for-sale Securities

	2021	2020
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

Listed Companies

	2021	2020
Cost		
(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

Unlisted / delisted Companies

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

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

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

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

Mutual Funds

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

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

Non Government Debt Securities

Unlisted

	2021	2020
Cost		
(Rupees '000)		
- A/A1	35,000	35,000
- Unrated	762	762
	35,762	35,762

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11. ADVANCES

ADVANCES		Performing		Non Performing		Total	
		2021	2020	2021	2020	2021	2020
(Rupees in '000)							
Loans, cash credits, running finances, etc- In Pakistan	Note						
Extended by:							
Defunct RDFC & SBFC	11.3	-	-	4,880,773	4,881,305	4,880,773	4,881,305
SME Bank Ltd		1,319,246	1,206,660	486,315	536,612	1,805,561	1,743,272
Due from employees		49,613	67,560	7,927	6,188	57,540	73,748
		1,368,859	1,274,220	5,375,015	5,424,105	6,743,874	6,698,325
Net investment in finance lease	11.1 & 11.3	217,345	260,646	191,637	212,789	408,982	473,435
Advances - gross		1,586,204	1,534,866	5,566,652	5,636,894	7,152,856	7,171,760
Provision for non-performing advances							
Specific provision		-	-	(5,361,446)	(5,392,627)	(5,361,446)	(5,392,627)
General provision		(884)	(8,593)	-	-	(884)	(8,593)
	11.5	(884)	(8,593)	(5,361,446)	(5,392,627)	(5,362,330)	(5,401,220)
Advances - net of provision		1,585,320	1,526,273	205,206	244,267	1,790,526	1,770,540

11.1 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	59,496	227,716	-	287,212	80,831	252,616	-	333,447
Residual value	44,825	130,203	-	175,028	57,288	144,177	-	201,465
Minimum lease payments	104,321	357,919	-	462,240	138,119	396,793	-	534,912
Financial charges for future periods	(5,049)	(48,209)	-	(53,258)	(650)	(60,827)	-	(61,477)
Present value of minimum lease payments	104,321	309,710	-	408,982	137,469	335,966	-	473,435

11.2 Particulars of advances (Gross)

	2021	2020
	(Rupees in '000)	
In local currency	7,152,856	7,171,760
In foreign currencies	-	-
	7,152,856	7,171,760

11.3 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.

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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 favor of the FCF.

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

11.4 Advances include Rs. 5,566.652 million (2020: Rs. 5,636.894 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	2021		2020	
		Non Performing Loans	Provision	Non Performing Loans	Provision
(Rupees in '000)					
Domestic					
Other Assets Especially Mentioned		5,674	-	1,572	41
Substandard		8,013	105	23,836	676
Doubtful		15,949	727	15,333	1,258
Loss		5,537,016	5,360,614	5,596,153	5,390,652
	11.4.1	5,566,652	5,361,446	5,636,894	5,392,627

11.4.1 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.

11.5 Particulars of provision against advances

	2021			2020		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	5,392,627	8,593	5,401,220	5,402,896	8	5,402,904
Charge/(Reversal)						
Charge for the period/year	25,621	22	25,643	57,402	8,587	65,989
Reversal for the period/year	(56,315)	(7,731)	(64,046)	(66,699)	(2)	(66,701)
	(30,694)	(7,709)	(38,403)	(9,297)	8,585	(712)
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(487)	-	(487)	(972)	-	(972)
Closing balance	5,361,446	884	5,362,330	5,392,627	8,593	5,401,220

11.5.1 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 delayed by more than 60 days and all the remaining provision has reversed.

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11.5.2 The FSV benefit availed in last years has been decreased by Rs. 26.540 million (2020: increased by Rs. 13.327 million) and reduced by 4.650 million (2020: reduced by Rs. 18.244 million) for the Bank and SMEL respectively (net of FSV benefit availed during the year), which has resulted in net increased charge for specific provision for the year ended by the same amount. The FSV benefit is not available for cash or stock dividend/bonus to employees. Had the FSV benefit not recognized, Group's loss before and after tax for the year ended would have been lower by Rs. 31.190 million (2020: lower by Rs. 4.917 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 187.857 million (2020: Rs. 219.047 million).

11.5.3 Particulars of provisions against advances	2021			2020		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	5,361,446	884	5,362,330	5,392,627	8,593	5,401,220
In foreign currencies	-	-	-	-	-	-
	5,361,446	884	5,362,330	5,392,627	8,593	5,401,220

11.6 Particulars of Write Off:

11.6.1 Against provisions Directly charged to Profit & Loss account	2021	2020
	(Rupees in '000)	
	-	-
	-	-
	-	-
11.6.2 Write Offs of Rs. 500,000 and above	-	-
Write Offs of below Rs. 500,000	-	-
	-	-

11.7 Details of Loan Write Off of Rs. 500,000 and above

In terms of sub-section(3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of rupees five hundred thousand or above allowed to a person(s) during the year ended December 31, 2021 is given at Annexure-1.

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12. FIXED ASSETS	Note	2021 (Rupees in '000)	2020
Property and equipment	12.1	14,896	20,844
Right of use assets	12.2	419,381	463,014
		434,277	483,858

12.1 Property and Equipment

At January 01, 2021

	Freehold Land	Leasehold Land	Building on Freehold Land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles	Total
Cost	-	450	25,114	39,617	10,949	183,323	43,115	302,568
Accumulated depreciation	-	-	17,930	39,481	10,737	170,912	42,664	281,724
Net book value	-	450	7,184	136	212	12,411	451	20,844

Year ended December 2021

Opening net book value	-	450	7,184	136	212	12,411	451	20,844
Additions	-	-	-	125	56	3,674	91	3,946
Disposals	-	-	-	-	-	-	(27)	(27)
Depreciation charge	-	-	(1,256)	(123)	(160)	(7,899)	(429)	(9,867)
Closing net book value	-	450	5,928	138	108	8,186	86	14,896

At December 31, 2021

Cost	-	450	25,114	39,742	11,005	186,997	31,188	294,496
Accumulated depreciation/impairment	-	-	19,186	39,604	10,897	178,811	31,102	279,600
Net book value	-	450	5,928	138	108	8,186	86	14,896
Rate of depreciation (percentage)	-	-	5	33.33	20	15 & 33.33	20	-

At January 01, 2020

	Freehold Land	Leasehold Land	Building on Freehold Land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles	Total
Cost	-	450	25,114	39,561	10,942	181,964	47,407	305,438
Accumulated depreciation	-	-	16,674	37,404	10,328	158,431	43,572	266,409
Net book value	-	450	8,440	2,157	614	23,533	3,835	39,029

Year ended December 2020

Opening net book value	-	450	8,440	2,157	614	23,533	3,835	39,029
Additions	-	-	-	56	7	1,377	-	1,440
Disposals	-	-	-	-	-	-	(302)	(302)
Depreciation charge	-	-	(1,256)	(2,077)	(409)	(12,499)	(3,082)	(19,323)
Closing net book value	-	450	7,184	136	212	12,411	451	20,844

At December 31, 2020

Cost	-	450	25,114	39,617	10,949	183,323	43,115	302,568
Accumulated depreciation/impairment	-	-	17,930	39,481	10,737	170,912	42,664	281,724
Net book value	-	450	7,184	136	212	12,411	451	20,844
Rate of depreciation (percentage)	-	-	5	33.33	20	15 & 33.33	20	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

12.2 Right of use assets

	2021	2020
	(Rupees in '000)	
Opening net book value	463,014	509,647
Additions	14,600	11,525
Deletion	-	(1,456)
Depreciation	(58,233)	(56,702)
Closing net book value	419,381	463,014

12.3 Details of disposal of fixed assets :

Particulars of assets	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain/(loss) on sale of fixed assets	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 Khan

Other assets having book value of less than Rs. 250,000 or cost less than of Rs.1,000,000 which ever is less

	160	160	-	38	38	As per SMEL policy	Third party
2021	12,018	11,991	27	1,224	529		
2020	4,292	3,990	302	891	589		

12.4 Gross carrying amount of fully depreciated assets that are still in use was Rs. 248.621 million (2020: Rs. 207.577 million).

13 INTANGIBLE ASSETS

	2021 Computer software	2020 Computer software
	(Rupees in '000)	
At January 1		
Cost	34,065	32,294
Accumulated amortization and impairment	32,309	30,963
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
Disposals	-	-
Amortization charge	1,078	1,346
Closing net book value	1,455	1,756
As December 31		
Cost	34,842	34,065
Accumulated amortization and impairment	33,387	32,309
Net book value	1,455	1,756
Rate of amortization (percentage)	33.33	33.33
Useful life	3 years	3 years

13.1 Gross carrying amount of fully amortized intangible assets that are still in use was Rs. 32.068 million (2020: Rs. 29.610 million).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	2021 (Rupees in '000)	2020 (Rupees in '000)
14. DEFERRED TAX ASSET - NET		
Deferred tax asset arising in respect of:		
Unabsorbed depreciation and amortization	85,998	82,155
Unused tax losses	923,201	808,488
	1,009,199	890,643
14.1		
Deferred tax (liability) / asset arising in respect of:		
Surplus on revaluation of investment	(993)	(1,392)
Remeasurement of defined benefit plan	-	(14,336)
	1,008,206	874,915
14.2		

14.1 The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition of deferred tax asset is the expected privatization of the Bank which would result in fresh equity injection from the new strategic shareholder of the Bank and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future.

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	Note	2021	2020
15. OTHER ASSETS		(Rupees in '000)	
Income/mark-up accrued in local currency - net of provision	15.1	84,247	131,142
Advances, deposits, advance rent and other prepayments		24,550	28,615
Advance taxation - net	15.2	235,958	234,873
Non banking asset acquired in satisfaction of claims	15.3	147,066	147,066
Due from benevolent fund- unsecured	37.2	8,685	5,552
Receivable from NBP		3,971	2,966
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
		630,498	675,053
Less: Provision held against other assets	15.4	117,919	117,354
Other assets (net of provision)		512,579	557,699

15.1 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.

15.2 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 are pending adjudication to date. The management of the Bank is of the firm view that the Bank will be successful in the said references.

15.3 This include Rs. 138.6 million (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 Limited. The Bank applied for 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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.

15.4 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

15.4.1 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

16. BILLS PAYABLE

	2021	2020
	(Rupees in '000)	
In Pakistan	19,071	99,986
Outside Pakistan	-	-
	19,071	99,986

Notes to the Consolidated Financial Statements

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17. BORROWINGS

BORROWINGS		2021	2020
		(Rupees in '000)	
Secured			
Borrowing from State Bank of Pakistan			
Under Financing facility for storage of agricultural produce	17.2	67,981	86,317
Under Modernisation of small and medium enterprises	17.2	39,310	25,549
		107,291	111,866
Repurchase agreement borrowings			
State Bank of Pakistan	17.3	3,098,998	3,941,151
Financial Institutions	17.3	-	74,596
Long term financial - SMEL	17.4	373	373
		3,099,371	4,016,120
		3,206,662	4,127,986

17.1 Particulars of borrowings with respect to Currencies

In local currency	3,206,662	4,127,986
In foreign currencies	-	-
	3,206,662	4,127,986

- 17.2 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.
- 17.3 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.
- 17.4 This represents balance due against financing facilities amounting to Rs. 0.373 million (2020: Rs. 0.373 million) from National Energy Conservation Centre (Enercon) by SMEL. The facilities from Enercon have been obtained under an agreement whereby they have agreed to provide funds to SME Leasing for granting lease / finance facility to its customers for procuring and using energy efficient equipments. The facility requires sharing of profit @ 5% of the financing amount on quarterly basis. However, this facility is no more active.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

18. 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	19	-	19	24	-	24
Savings deposits	570,330	-	570,330	502,005	-	502,005
Term deposits	67,300	-	67,300	60,000	-	60,000
Others	-	-	-	-	-	-
	637,649	-	637,649	562,029	-	562,029
	8,247,849	-	8,247,849	7,602,262	-	7,602,262

18.1 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	637,649	562,029
Private Sector	4,972,412	4,469,182
	8,247,849	7,602,262

- 18.2 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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	Note	2021	2020
		(Rupees in '000)	
19. OTHER LIABILITIES			
Mark-up/ return/ interest payable in local currency		98,441	108,833
Unearned commission on guarantees		3,840	2,799
Accrued expenses		14,939	10,875
Sundry creditors	19.1	132,639	161,781
Branch adjustment account		1,548	1,386
Payable against employees' benefit plans			
Defined benefit pension			
The Bank	36.4	500,705	337,993
Defined benefit funded gratuity scheme			
The Bank - funded	36.4	7,362	4,833
SMEL - unfunded	37.7.1	9,765	9,165
Unfunded compensated absences			
The Bank	36.4	67,410	68,328
SMEL		3,045	2,960
Payable on termination/maturity of lease		326	2,132
Security deposits against lease		175,028	201,466
Leased liability against right of use assets	19.2	544,780	551,206
Employees' VSS payments withheld		12,076	12,603
Income tax withheld payable		18,049	19,603
Others		6,081	3,923
		1,596,034	1,499,886

19.1 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).

19.2 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
Liabilities against assets subject to finance lease - SMEL	19.3	7,615	10,128
Closing net book value		544,780	551,206

19.3 Liabilities against Assets Subject to Finance Lease - SMEL

	2021			2020		
	Minimum lease payments	Finance charges not due yet	Present value of minimum lease payments	Minimum lease payments	Finance charges not due yet	Present value of minimum lease payments
	(Rupees in '000)					
Payable not later than one year	4,535	941	3,594	4,201	1,287	2,914
Payable not later than one year but not later than five years	4,377	356	4,021	8,392	1,178	7,214
	8,912	1,297	7,615	12,593	2,465	10,128

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

20. SHARE CAPITAL

20.1 Authorized Capital

2021	2020		2021	2020
Number of Shares			(Rupees in '000)	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs. 10 each	<u>10,000,000</u>	<u>10,000,000</u>

20.2 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
<u>239,250,700</u>	<u>239,250,700</u>		<u>2,392,507</u>	<u>2,392,507</u>

20.3 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	-	-	-
	<u>239,250,700</u>	<u>100</u>	<u>2,392,507</u>	<u>2,392,507</u>

21. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

	Note	2021	2020
		(Rupees in '000)	
Surplus/(deficit) on revaluation of			
Available-for-sale securities			
- Federal Government securities	10.1	(15,522)	750
- Listed companies/mutual funds		2,836	3,228
		<u>(12,686)</u>	<u>3,978</u>
Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities			
- Federal Government securities		-	(263)
- Listed companies/mutual funds		(993)	(1,129)
		<u>(13,679)</u>	<u>2,586</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

22. NON-CONTROLLING INTEREST- (NCI)

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

SME Leasing Limited

	2021	2020
NCI percentage	26.859%	26.859%
	2021	2020
	(Rupees in '000)	
ASSETS		
Current assets		
Cash and bank balances	3,158	1,626
Advances	2,780	5,007
Prepayments and other receivables	688	846
Accrued interest on loans	62	651
Investments	-	-
Asset held for sale	-	-
Current maturity of non-current assets	107,452	150,082
	114,140	158,212
Non-current assets		
Long term finances and loans	44,259	47,709
Net investment in finance leases	177,323	187,152
Long term deposits and prepayments	787	871
Fixed assets	3,340	3,904
Right of use assets	6,697	7,770
	232,406	247,406
Total assets	346,546	405,618
LIABILITIES		
Current liabilities		
Trade and other payables	2,736	5,040
Mark-up accrued on borrowings	4,209	4,211
Short term borrowings	137,184	144,790
Current maturity of non-current liabilities	44,919	57,382
Provision for compensated absences	3,045	2,960
Current maturities of liabilities against assets subject to finance lease	3,594	2,914
Provision for taxation - net	335	8,204
	196,022	225,501
Non-current liabilities		
Liabilities against assets subject to finance lease	4,021	7,214
Long term deposits	130,203	144,178
Defined benefit obligations	9,765	9,165
	143,989	160,557
Total liabilities	340,011	386,058
NET ASSETS	6,535	19,560
Carrying amount of NCI	7,666	11,165

Notes to the Consolidated Financial Statements

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	2021	2020
	(Rupees in '000)	
Revenue	<u>21,394</u>	<u>21,955</u>
Loss for the year	<u>(13,399)</u>	<u>(57,677)</u>
Other comprehensive income	<u>374</u>	<u>129</u>
Total comprehensive income	<u>(13,025)</u>	<u>(57,548)</u>
Loss attributable to NCI	<u>(3,599)</u>	<u>(15,491)</u>
Other comprehensive income allocated to NCI	<u>100</u>	<u>35</u>
Cash flows from operating activities	<u>15,220</u>	<u>297</u>
Cash flows from investment activities	<u>(125)</u>	<u>1,620</u>
Cash flows from financing activities, before dividends to NCI	<u>(5,956)</u>	<u>(3,713)</u>
Cash flows from financing activities-cash dividends to NCI	<u>-</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents	<u>9,139</u>	<u>(1,796)</u>

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

		2021	2020
		(Rupees in '000)	
23. CONTINGENCIES AND COMMITMENTS	Note		
- Guarantees	23.1	338,308	229,498
- Commitments	23.2	3,316,589	4,278,596
- Other contingent liabilities	23.3	1,170,700	1,192,987
		4,825,597	5,701,081
23.1 Guarantees			
Financial guarantees		-	-
Performance guarantees	23.1.1	338,308	229,498
Other guarantees		-	-
		338,308	229,498
23.1.1	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.		
	Note	2021	2020
		(Rupees in '000)	
23.2 Commitments			
Commitments in respect of:			
- forward government securities transactions	23.2.1	3,099,258	4,017,519
- forward lending	23.2.2	215,662	259,813
Commitments for acquisition of:			
- operating fixed assets		1,669	1,264
- intangible assets		-	-
Other commitments	23.2.3	-	-
		3,316,589	4,278,596
23.2.1 Commitments in respect of forward government securities transactions			
Sale and repurchase agreements		3,099,258	4,017,519
23.2.2 Commitments in respect of forward lending			
Undrawn facilities		142,562	202,613
Commitments to extend credit		73,100	57,200
		215,662	259,813
23.2.3 Other commitments			
Bills for collection			
Payable in Pakistan		-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	2021	2020
	(Rupees in '000)	
23.3 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
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.		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	2021	2020
	(Rupees in '000)	
The tax department has also filed an appeal with the ATIR through Commissioner (Legal) vide their letter # 249 dated 7-Mar-2014. Based on the facts revealed by the consultants vide letter # IT / 1156 / 2015 dated March 03, 2015, the management strongly believes for favorable outcome in the case and therefore no provision in this respect has been recorded in these unconsolidated financial statements.	198,529	198,529
e) The taxation officer created aggregate demand of Rs.53.674 million for withheld amount of Rs.17.598 million from VSS payment of employees for the Tax Years 2003-2004 -2005-2006-2008-2009-2010-2011-2013 which was not deposited upon advice of the legal advisor due to stay order of Supreme Court of Pakistan. The case is pending before Appellate Tribunal Inland Revenue and the provision of default surcharge Rs. 36.076 million was not made ipso facto.	36,076	36,076
f) The Officer Inland Revenue, LTU, Islamabad created demand for Rs. 21.171 million for tax year 2016 under section 161/205 of the Income Tax Ordinance, 2001. After rejection of the first appeal by CIRA the Bank has submitted second appeal before Appellate Tribunal Inland Revenue along with stay application to keep the recovery proceedings in abeyance. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response.	18,663	18,663
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation. Without prejudice, the tax department has been requested to adjust the tax demand with the available income tax refunds.	38,723	38,723

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	2021	2020
	(Rupees in '000)	
i) The Officer Inland Revenue, LTU, Islamabad made an assessment for the year 2001-2002 vide order dated June 20, 2005 of Rs. 590.667 million and a tax demand of Rs. 118.721 million which was contested in ATIR which ordered the appeal in Bank's favor vide Order no. ITA No.857/IB/2006 dated April 05, 2007. Tax department has filed income tax reference with the Islamabad High Court having no. I.T.R. 48 of 2007.	118,721	118,721
j) 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	2021	2020
Note	(Rupees in '000)	
24. MARK-UP/ RETURN/ INTEREST EARNED		
On loans and advances to Customers	237,929	253,111
On investment in finance lease to customers	11,307	17,777
	<u>249,236</u>	<u>270,888</u>
Employees	1,930	3,608
	<u>251,166</u>	<u>274,496</u>
On investments in		
Available for sale securities	359,318	460,667
Held to maturity securities	2,280	4,293
	<u>361,598</u>	<u>464,960</u>
On deposits with financial institutions	124	295
Lendings to financial institutions	1,185	1,292
	<u>614,073</u>	<u>741,043</u>
25. 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	104	422
	<u>717,609</u>	<u>1,008,842</u>
26. 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
	<u>14,009</u>	<u>10,914</u>
27. GAIN / (LOSS) ON SECURITIES		
Realised	27.1 925	815
Unrealised - held for trading	-	-
	<u>925</u>	<u>815</u>
27.1 Federal Government Securities - net	925	815
Shares	-	-
	<u>925</u>	<u>815</u>
28. OTHER INCOME		
Gain on sale of operating fixed assets - net	1,197	289
Fee on fund managed by the Bank -EPF	974	974
Claim against stolen vehicle	-	610
Others	41	8
	<u>2,212</u>	<u>1,881</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

		2021	2020
29. OPERATING EXPENSES	Note	(Rupees in '000)	
Total compensation expense	29.1	724,527	661,840
Property expense			
Rent & taxes		5,332	4,820
Insurance		4,707	2,384
Utilities cost		25,335	21,198
Security (including guards)		18,330	16,124
Repair & maintenance		7,286	6,898
Depreciation		59,213	57,958
Others		-	-
		120,203	109,382
Information technology expenses			
Software maintenance		6,716	4,797
Hardware maintenance		1,970	1,668
Depreciation		2,840	4,946
Amortization		1,078	1,346
Network charges		13,758	13,463
Others		248	309
		26,610	26,529
Other operating expenses			
Directors' fees, allowances and other expenses		4,860	3,174
Legal and professional charges		9,690	7,441
Outsourced services costs	27.2 & 33.1	25,079	26,589
Travelling and conveyance		3,790	2,388
NIFT clearing charges		2,424	2,049
Depreciation		6,048	13,121
Training & development		969	1,194
Postage & courier charges		866	801
Communications		4,477	4,492
Stationery and printing		6,051	5,043
Marketing, advertisement & publicity		1,881	1,260
Donations		-	-
Auditors' remuneration	29.3	1,556	1,980
Separations Cost		1,389	-
Vehicle running and maintenance		4,967	3,945
Entertainment		2,345	2,522
Subscription, books and newspapers		3,089	3,568
Deposits premium		3,784	2,713
Others		839	950
		84,104	83,230
		955,444	880,981

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

29.1 Total compensation expense

	Note	2021 (Rupees in '000)	2020
Managerial Remuneration			
- Fixed		308,475	305,439
- Variable			
Cash award		305	298
Charge for defined benefit plans			
- pension fund and gratuity	36.7	100,098	100,775
- funded gratuity scheme	36.7	11,220	11,389
- unfunded gratuity scheme - SMEL	37.7.4	1,761	1,722
- funded staff provident fund - SMEL		765	776
- unfunded compensated absences	36.7	28,496	(25,528)
Contribution to defined contribution plan - benevolent fund	37.2	(2,722)	256
Rent & house maintenance		103,402	101,517
Utilities		31,231	31,297
Medical		45,032	42,389
Conveyance		15,257	14,909
Telephone		3,999	4,232
Uniform allowance		1,269	1,133
Child education allowance		6,680	7,326
Group insurance		1,622	1,202
Overtime		1,564	1,302
Adhoc relief		1,421	2,163
Leave absence		8,616	8,322
Leave fare assistance		13,508	13,615
Rental in lieu of vehicle		8,784	6,272
Reimbursement of vehicle running & maintenance		28,472	27,714
Staff welfare benefits		5,272	3,320
		<u>724,527</u>	<u>661,840</u>

29.2 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).

29.3 Auditors' remuneration

	2021 (Rupees in '000)	2020
Audit fee	1,183	1,213
Fee for other statutory certifications	211	228
Fee for audit of employees funds	82	24
Special review	-	340
Out-of-pocket expenses	80	175
	<u>1,556</u>	<u>1,980</u>

30. OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	-	108
Right of use assets - unwinding of present value	70,831	71,287
	<u>70,831</u>	<u>71,395</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	Note	2021 (Rupees in '000)	2020
31. PROVISIONS & WRITE OFFS - NET			
Provisions/(reversals) for diminution in value of investment	10.3	311	-
Provisions/(reversals) against loans & advances	11.5	(38,403)	(712)
Provisions/(reversals) against other assets	15.4.1	565	247
Bad debts written off directly		-	-
		<u>(37,527)</u>	<u>(465)</u>

	2021 (Rupees in '000)	2020
32. TAXATION		
Current	9,797	11,948
Prior years	(7,979)	(43,898)
Deferred	(118,556)	(137,680)
	<u>(116,738)</u>	<u>(169,630)</u>

32.1 Relationship between tax expense and accounting loss

Loss before tax	<u>(1,072,558)</u>	<u>(1,204,471)</u>
Applicable tax rate	<u>35%</u>	<u>35%</u>
Tax on loss	(375,395)	(421,565)
Deferred tax asset recognised during the year	(118,556)	(137,680)
Tax effect of income taxed at lower rate	53	36
Minimum tax	9,744	11,912
Other permanent differences	367,416	377,667
	<u>(116,738)</u>	<u>(169,630)</u>

32.2 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.

32.3 SMEL has recorded a reversal of income tax provision amounting to Rs. 7.979 million in 2021 and reversal of Rs. 43.898 in 2020 represents the effect which reconciles the balance of advance tax with the tax position of the Bank as per tax returns and assessment orders pertaining to assessment years/ tax years 2001-2020.

33. BASIC/ DILUTED LOSS PER SHARE

Net loss after tax for the year	<u>(952,221)</u>	<u>(1,019,350)</u>
	Number of shares	
Weighted average number of ordinary shares	<u>239,250,700</u>	<u>239,250,700</u>
	Rupees	
Basic/ diluted loss per share	<u>(3.98)</u>	<u>(4.26)</u>

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

34. CASH AND CASH EQUIVALENTS

	2021	2020
	(Rupees in '000)	
Cash and balances with treasury banks	825,010	668,793
Balances with other banks	5,407	3,683
	830,417	672,476

35. STAFF STRENGTH

	2021	2020
	Numbers	
Permanent	151	163
On contract	212	228
	363	391
Average number of employees		
Permanent	157	167
On contract	220	232
	377	399

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

36. DEFINED BENEFIT PLANS

36.1 General description

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

36.1.1 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.

36.1.2 Gratuity Fund (Defined benefit scheme)

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

36.1.3 Unfunded compensated absences

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

36.2 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

36.3 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

36.4 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

36.5 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	2021			2020		
	Pension fund	Gratuity fund	Compensated Absences	Pension fund	Gratuity fund	Compensated Absences
	(Rupees '000)					
36.6 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	-

36.7 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

36.8 Charge for defined benefit plans

36.8.1 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)

36.8.2 Re-measurements recognised in OCI

	2021			2020		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
	(Rupees '000)					
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)	-

36.9 Components of plan assets

	2021		2020	
	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

36.10 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	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

36.11 Expected charge / (reversal) for the next financial year

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

Expected charge for the next financial year

Pension fund	Gratuity fund	Compensated Absences
(Rupees '000)		
115,147	11,787	14,253

36.12 Maturity profile

The weighted average duration of the obligation (in years)

2021	2020
10.42	11.08

36.13 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.

36.14 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 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.

36.15 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

36.16 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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

37. Benevolent Fund (defined benefit plan)

37.1 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)		
37.2 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

37.3 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

37.4 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)	
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

37.5 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.

37.6 Maturity profile

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

37.7 DEFINED BENEFIT OBLIGATIONS-SMEL

The Company operates an unapproved and unfunded gratuity scheme for all of its permanent employees. Number of employees covered under the scheme are 23 (2020: 27).

Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on December 31, 2021 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

	2021	2020
Valuation discount rate	9.75%	11.25%
Expected long term rate of increase in salary level	11.75%	11.25%

37.7.1 Liability in statement of financial position	Note	2021	2020
		(Rupees in '000)	
Present value of defined benefit obligation	37.7.2	9,765	9,165

37.7.2 Movement in liability during the year

Balance at the beginning of the year		9,165	7,624
Charged to statement of profit or loss account		1,761	1,723
Remeasurements chargeable in other comprehensive income	37.7.5	(374)	(129)
Benefits paid during the year		(787)	(52)
Balance at the end of the year		9,765	9,165

37.7.3 Reconciliation of the present value of defined benefit obligations

Present value of obligations at beginning of the year		9,165	7,624
Current service cost		906	868
Interest cost		855	855
Past service cost		-	-
Benefits paid during the year		(787)	(52)
Remeasurements (gain) / losses chargeable in other comprehensive income		(374)	(129)
Present value of obligations at the end of the year		9,765	9,165

37.7.4 Charged to statement of profit or loss account

Current services cost		906	868
Interest cost		855	855
		1,761	1,723

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	2021	2020
	(Rupees in '000)	
37.7.5 Remeasurements (gain) / losses chargeable in other comprehensive income		
Actuarial (gains) / losses on obligation	25	(20)
Experience adjustment	(399)	(109)
Total re-measurements recognized in other comprehensive income	<u>(374)</u>	<u>(129)</u>

37.7.6 Based on the actuarial advice, the Company intend to charge an amount of approximately Rs. 1.917 million in respect of contribution to gratuity fund in the financial statements for the year ending December 31, 2022.

37.7.7 Sensitivity analysis

Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the employee benefit schemes. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:

Discount rate effect	(Rupees in '000)	Rate effect
Original liability	9,765	9.75%
1% increase	10,741	10.75%
1% decrease	8,788	8.75%

Salary increase rate effect	(Rupees in '000)	Rate effect
Original liability	9,165	11.75%
1% increase	10,741	12.75%
1% decrease	8,788	10.75%

The sensitivity analysis prepared presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	2021	2020
37.7.8 Maturity profile		
The weighted average duration of the obligation (in years)	<u>10</u>	<u>10</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

38. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

38.1 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	127,915	-	5,465	120,217
ii) Total variable	-	-	-	-	-	-
Charge for defined benefit plan	-	1,388	41,108	-	1,456	43,644
Rent & house maintenance	-	2,475	36,661	-	4,049	35,437
Utilities	-	804	12,776	-	1,247	11,937
Medical	-	675	12,587	-	726	12,716
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	25,278	1,179	835	25,075
Total	4,315	12,860	285,263	2,659	14,136	276,532
Number of Persons	6	1	75	6	1	74

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

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

		2021					
Sr. No.	Name of Director	Meeting fees and allowances paid					
		For Board Meetings	For Board Committees				Total
			Board Audit Committee	Risk Management Committee	Human Resource Committee	Board Procurement Committee	
(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 Uddin Siddiqui	150	50	-	-	-	200
	Total amount paid	1,650	275	300	200	75	2,500

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

Sr. No.	Name of Director	2020					
		Meeting fees and allowances paid					
		For Board Committees					
		For Board Meetings	Board Audit Committee	Risk Management Committee	Human Resource Committee	Board 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

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

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 remuneration committee	Total
(Rupees in '000)							
1	Mr. Dilshad Ali Ahmad	75	-	-	10	-	85
2	Mr. Mubeen Mufti	75	30	-	-	-	105
3	Mr. Bilal Mustafa	50	-	-	10	-	60
4	Ms Darakshan S. Vohra	50	20	-	10	-	80
5	Mr. Javed Mehmood	75	20	-	-	-	95
6	Mr. Tahir Saeed Effendi	25	10	-	-	-	35
7	Mr. Bilal Mohy-ud-Din	25	10	-	-	-	35
8	Ms Sameena Gul	50	-	-	-	-	50
	Total amount paid	425	90	-	30	-	545

Sr. no.	Name of director	2020					
		Meeting fees and allowances paid					
		For board committees					
		For board meetings	Board audit committee	Risk management committee	Human resource committee	Board remuneration committee	Total
(Rupees in '000)							
1	Mr. Dilshad Ali Ahmad	75	-	-	10	-	85
2	Mr. Mubeen Mufti	75	30	-	-	-	105
3	Mst Sameena Gul	25	-	-	-	-	25
4	Mr. Bilal Mustafa	75	-	10	10	-	95
5	Mr. Javed Mehmood	75	30	10	-	-	115
6	Ms Darakshan S. Vohra	50	20	10	10	-	90
	Total amount paid	375	80	30	30	-	515

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

Notes to the Consolidated Financial Statements

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39 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				
	Note	Level 1	Level 2	Level 3	carrying / notional value	Total
(Rupees in '000)						
39.1 On balance sheet financial instruments						
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	39.2	-	-	-	678,860	678,860
- Balances with other banks	39.2	-	-	-	5,407	5,407
- Lending to financial institutions	39.2	-	-	-	-	-
- Advances	39.2	-	-	-	1,790,526	1,790,526
- Other assets	39.2	-	-	-	93,887	93,887
- Other Investment (COI/TDR)	39.2	-	-	-	35,000	35,000

		December 31, 2020				
		FAIR VALUE				
	Note	Level 1	Level 2	Level 3	carrying / notional value	Total
(Rupees in '000)						
On balance sheet financial instruments						
Financial assets measured at fair value						
- Investments						
Government Securities (T bills and PIBs)		-	5,680,735	-	-	5,680,735
Ordinary shares of listed companies/Mutual funds		5,400	-	-	-	5,400
Ordinary shares of unlisted companies		-	-	-	26,470	26,470
Financial assets not measured at fair value						
- Bank balances with treasury banks	39.2	-	-	-	493,156	493,156
- Balances with other banks	39.2	-	-	-	3,683	3,683
- Lending to financial institutions	39.2	-	-	-	-	-
- Advances	39.2	-	-	-	1,770,540	1,770,540
- Other assets	39.2	-	-	-	139,142	139,142
- Other Investment (COI/TDR)	39.2	-	-	-	35,000	35,000

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

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

Level 2: Fair value measurement 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).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

- 39.2** 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.
- 39.3** 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.
- 39.4** Valuation techniques and inputs used in determination of fair values within level 1
- | | |
|-------------------------------|--|
| Fully paid-up ordinary shares | Fair values of investments in listed equity securities are valued on the basis of closing quoted market prices available at the Pakistan Stock Exchange. |
|-------------------------------|--|
- Valuation techniques and inputs used in determination of fair values within level 2
- | | |
|---|--|
| Pakistan Investment Bonds / Market Treasury Bills | Fair values of Pakistan Investment Bonds and Treasury Bills are derived using the PKRV rates (Reuters page). |
|---|--|

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

40. SEGMENT INFORMATION

40.1 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	Other leasing operations	Total
Profit & Loss	(Rupees in '000)			
Net mark-up/return/profit	362,784	229,938	21,351	614,073
Inter segment revenue - net	-	146,147	-	146,147
Non mark-up/return/interest income	3,505	16,178	43	19,726
Total income	366,289	392,263	21,394	779,946
Segment direct expenses	282,640	1,415,534	45,710	1,698,174
Inter segment expenses allocation	146,147	-	-	146,147
Total expenses	428,787	1,415,534	45,710	1,890,031
Provisions	311	(17,763)	(20,075)	(37,527)
Loss before tax	(62,809)	(1,005,508)	(4,241)	(1,072,558)
	Trading & Sales	Commercial Banking	Other leasing operations	Total
Balance Sheet	(Rupees in '000)			
Cash & bank balances	584,101	243,580	2,736	830,417
Investments	4,156,967	-	-	4,156,967
Net inter segment lending	-	2,088,831	-	2,088,831
Lending to financial institutions	-	-	-	-
Advances - Performing	-	1,355,193	230,127	1,585,320
- Non-performing	-	106,299	98,907	205,206
Others	751,018	1,205,499	-	1,956,517
Total Assets	5,492,086	4,999,402	331,770	10,823,258
Borrowings	3,098,998	107,291	373	3,206,662
Deposits & other accounts	-	8,247,849	-	8,247,849
Net inter segment borrowing	2,088,831	-	-	2,088,831
Others	425,361	989,382	200,362	1,615,105
Total Liabilities	5,613,190	9,344,522	200,735	15,158,447
Equity	(121,104)	(4,345,120)	131,035	(4,335,189)
Total Equity & liabilities	5,492,086	4,999,402	331,770	10,823,258
Contingencies & Commitments	3,099,258	1,726,339	-	4,825,597

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

	December 31, 2020			
	Trading & Sales	Commercial Banking	Other leasing operations	Total
Profit & Loss	(Rupees in '000)			
Net mark-up/return/profit	466,252	253,141	21,650	741,043
Inter segment revenue - net	-	256,154	-	256,154
Non mark-up/return/interest income	2,444	12,490	305	15,239
Total income	468,696	521,785	21,955	1,012,436
Segment direct expenses	394,016	1,521,505	45,697	1,961,218
Inter segment expenses allocation	256,154	-	-	256,154
Total expenses	650,170	1,521,505	45,697	2,217,372
Provisions	-	(14,521)	14,056	(465)
Loss before tax	(181,474)	(985,199)	(37,798)	(1,204,471)
	Trading & Sales	Commercial Banking	Other leasing operations	Total
Balance Sheet	(Rupees in '000)			
Cash & Bank balances	378,678	292,172	1,626	672,476
Investments	5,747,605	-	-	5,747,605
Net inter segment lending	-	2,307,691	-	2,307,691
Lending to financial institutions	-	-	-	-
Advances - Performing	-	1,245,062	281,211	1,526,273
- Non-performing	-	140,535	103,732	244,267
Others	764,707	1,142,676	10,845	1,918,228
Total Assets	6,890,990	5,128,136	397,414	12,416,540
Borrowings	4,015,747	111,866	373	4,127,986
Deposits & other accounts	-	7,602,262	-	7,602,262
Net inter segment borrowing	2,307,691	-	-	2,307,691
Others	367,719	1,003,576	228,577	1,599,872
Total Liabilities	6,691,157	8,717,704	228,950	15,637,811
Equity	199,833	(3,589,568)	168,464	(3,221,271)
Total Equity & liabilities	6,890,990	5,128,136	397,414	12,416,540
Contingencies & Commitments	4,017,519	1,683,562	-	5,701,081

Assumptions used:

- Unallocatable assets representing 8.88% (December 31, 2020: 7.25%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 6.94% (December 31, 2020: 5.94%) of the gross liabilities have been allocated to segments based on their respective incomes.

40.2 Segment details with respect to geographical locations

Presently the Bank does not deal outside Pakistan.



Notes to the Consolidated Financial Statements

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1. RELATED PARTY TRANSACTIONS

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

	December 31, 2021					December 31, 2020				
	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust
	(Rupees in '000)					(Rupees in '000)				
Investments										
Opening balance	-	-	-	-	-	-	-	-	-	-
Investment made during the year	-	-	-	-	-	-	-	-	-	-
Investment redeemed / disposed off during the year	-	-	-	-	-	-	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-	-	-	-
Provision for diminution in value of investments	-	-	-	-	-	-	-	-	-	-
Advances										
Opening balance	7,869	-	-	-	-	10,301	-	-	-	-
Addition (total debits) during the year	6,075	-	-	-	-	5,862	-	-	-	-
Repaid (total credits) during the year	(7,324)	-	-	-	-	(8,294)	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-
Closing balance	6,620	-	-	-	-	7,869	-	-	-	-
Provision held against advances	-	-	-	-	-	-	-	-	-	-
Other Assets										
Interest / mark-up accrued	6,769	-	-	-	-	6,875	-	-	-	-
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	4,805	454,276	1,155,429	5,000
Received during the year	153,119	32,899	27,998	114,865	53,147	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	(2,770)	-	-	-	-	116	-	-	-	-
Closing balance	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	1,190	2,301	58,593	23
Payable to staff retirement fund	-	-	-	575,477	-	-	-	-	411,154	-
Others liabilities	-	-	-	-	-	-	-	-	-	-
Contingencies and Commitments										
	-	-	-	-	-	-	-	-	-	-



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	December 31, 2021					December 31, 2020				
	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust
	(Rupees in '000)					(Rupees in '000)				
Income										
Mark-up / return / interest earned	294	-	-	-	-	444	-	-	-	-
Fee and commission income	-	-	974	-	-	-	-	974	-	-
Expense										
Mark-up / return / interest expense	684	1,270	28,902	107,207	326	1,027	-	36,193	129,527	366
Fees and other expenses	-	-	-	-	-	-	-	-	-	-
Remuneration and allowances	69,586	-	-	-	-	67,283	-	-	-	-
Charge for the period relating to employees benefit plans	-	-	-	137,092	-	-	-	-	86,892	-
	Description					Interest rate				
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%				

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42. 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		
<i>Tier I capital</i>		
Shareholders capital/assigned capital	2,392,507	2,392,507
Reserves	234,660	234,660
Unappropriated/unremitted profits (net of losses)	(6,956,343)	(5,862,189)
Non-controlling interest	7,666	11,165
	(4,321,510)	(3,223,857)
Less: Adjustments		
Goodwill/intangible Assets	1,455	1,756
Investment in equity of subsidiary	-	-
Deficit on revaluation of available for sale investments	13,679	-
	15,134	1,756
<i>Total tier I capital</i>	(4,336,644)	(3,225,613)
<i>Tier II capital</i>	884	8,593
<i>Eligible tier III capital</i>	-	-
Total regulatory capital (a)	(4,335,760)	(3,217,020)

	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	830,417	1,081	672,476	737
Investments/ lending to financial institutions	4,156,967	66,167	5,747,605	66,870
Loans and advances	1,790,526	1,064,978	1,770,540	1,061,323
Fixed assets	435,732	434,277	483,858	483,858
Deferred tax assets	1,008,206	1,008,206	874,915	874,915
Other assets	512,579	266,278	557,699	274,926
	8,734,427	2,840,987	10,107,093	2,762,629
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)	9,015,857	2,981,702	10,298,866	2,858,516
Market risk		163,072		310,065
Market risk-weighted exposures	-	163,072	-	310,065
Total risk-weighted exposures (c)		3,144,774		3,168,581
Capital adequacy ratio credit risk [(a) / (b) x 100]		-145.41%		-112.54%
Total capital adequacy ratio [(a) / (c) x 100]		-137.87%		-101.53%

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.

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43. RISK MANAGEMENT

43.1 Credit risk

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

43.1.1 Advances

Credit risk by industry sector

	Gross Advances		Non-performing advances		Provision held	
	2021	2020	2021	2020	2021	2020
	(Rupees in '000)					
Chemical and pharmaceuticals	133,037	148,669	110,052	107,471	107,444	103,717
Agriculture, forestry, hunting and fishing	236,660	233,526	202,737	202,883	202,737	202,883
Mining & quarrying	9,053	9,053	9,053	9,053	9,053	9,053
Textile	441,720	419,179	340,516	355,498	330,650	350,715
Cement	-	-	-	-	-	-
Footwear and leather garments	64,778	83,065	62,143	74,239	60,240	62,113
Automobile and transportation equipment	156,453	140,009	79,733	85,817	69,353	69,252
Financial Insurance	65,864	39,596	-	-	-	-
Electronics and electrical appliances	39,962	51,819	11,477	13,693	10,512	10,484
Construction	282,533	217,100	80,610	74,956	68,686	69,930
Power (electricity), gas, water and sanitary	74,981	61,804	52,032	6,775	15,580	3,606
Wholesale and trade	1,723,175	1,718,561	1,436,485	1,523,227	1,404,381	1,489,957
Transport, storage, and communication	102,393	107,028	24,265	24,920	12,322	8,761
Individuals	1,077,356	1,117,892	1,028,316	1,050,826	1,028,316	1,050,826
Services	465,837	453,266	310,334	236,291	278,820	156,508
Government	-	-	-	-	-	-
Others	2,279,054	2,371,193	1,818,899	1,871,245	1,763,352	1,804,822
	7,152,856	7,171,760	5,566,652	5,636,894	5,361,446	5,392,627

43.1.2 Segment by sector

Public/ Government	-	-	-	-	-	-
Private	7,152,856	7,171,760	5,566,652	5,636,894	5,361,446	5,392,627
	7,152,856	7,171,760	5,566,652	5,636,894	5,361,446	5,392,627

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For the year ended December 31, 2021

43.1.3 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

43.1.4 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposure's) aggregated to Rs. 836.541 (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	-	-	-	-

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For the year ended December 31, 2021

43.1.5 Advances - Province/Region-wise Disbursement & Utilization

Province/region	2021						
	Disbursements	Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
		(Rupees in '000)					
Punjab	427,550	427,550	-	-	-	-	-
Sindh	294,454	-	283,450	5,000	-	6,004	-
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	1,164,504	558,950	283,450	107,200	183,400	31,504	-

Advances - Province/Region-wise Disbursement & Utilization

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

43.1.6 IMPACT OF COVID- 19

The Bank

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 government 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 enabled packages amounting to Rs. 7.728 million considering the recovery of economic conditions. However, General provision @ 4.5% have still been kept for those borrowers whose payments of loan is delayed by more than 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.

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SME Leasing

The COVID-19 pandemic and associated impacts on economic activity had certain effect on the operational and financial position of the Company for the year ended December 31, 2021 due to overall slowdown in economic activity and continuity of business operations. However, to reduce the impact on the performance of the Company has introduced a host of measures on both the financial and operational fronts by issuing certain circulars and notifications from time to time.

The management of the Company is closely monitoring the situation, and in response to the developments, taking all possible precaution and measures to safeguard health and safety of employees and other stakeholders, and also implemented a number of measures to minimise the impact to the extent possible.

43.2 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.

43.2.1 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	825,010	-	825,010	668,793	-	668,793
Balances with other banks	5,407	-	5,407	3,683	-	3,683
Lendings to financial institutions	-	-	-	-	-	-
Investments	66,167	4,090,800	4,156,967	66,870	5,680,735	5,747,605
Advances	1,790,526	-	1,790,526	1,770,540	-	1,770,540
Fixed assets	434,277	-	434,277	483,858	-	483,858
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	512,579	-	512,579	557,699	-	557,699
	4,643,627	4,090,800	8,734,427	4,428,114	5,680,735	10,108,849

43.2.2 Foreign exchange risk

Presently the Bank does not deal in foreign exchange.

43.2.3 Equity position risk

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



Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

43.2.4 Mismatch of interest rate sensitive assets and liabilities

Effective Yield/ Interest rate	2021											Non-interest bearing financial instruments
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Exposed to Yield/Interest risk					Over 5 to 10 years	Above 10 years	
					Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years				
(Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	825,010	-	-	-	-	-	-	-	-	-	-	825,010
Balances with other banks	5,407	1,540	-	225	94	106	-	20	252	-	-	3,170
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	4,156,967	1,095,369	2,652,352	3,885	395,031	2,157	-	-	8,173	-	-	-
Advances	1,790,526	146,483	266,785	651,709	395,881	118,338	154,787	47,171	6,203	3,169	-	-
Other assets	93,887	-	-	-	-	-	-	-	-	-	-	93,887
	6,871,797	1,243,392	2,919,137	655,819	791,006	120,601	154,787	47,191	14,628	3,169	3,169	922,067
Liabilities												
Bills payable	19,071	-	-	-	-	-	-	-	-	-	-	19,071
Borrowings from financial institutions	3,206,662	1,241,408	1,867,777	8,129	12,055	26,379	22,410	28,504	-	-	-	-
Deposits and other accounts	8,247,849	1,876,956	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	264,176	-	-	-	-	-	-	-	-	-	-	264,176
	11,737,758	3,118,364	2,713,270	1,097,938	522,871	45,271	31,110	28,504	2,361,565	-	-	1,818,865
On-balance sheet gap	(4,865,961)	(1,874,972)	205,867	(442,119)	268,135	75,330	123,677	18,687	(2,346,937)	3,169	3,169	(896,798)
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		(3,327,830)	(1,656,195)	(442,119)	268,135	75,330	123,677	18,687	(2,346,937)	3,169	3,169	-
Cumulative Yield/ Interest Risk Sensitivity Gap		(3,327,830)	(4,984,025)	(5,426,144)	(5,158,009)	(5,082,679)	(4,959,002)	(4,940,315)	(7,287,252)	(7,284,083)	(7,284,083)	-

43.2.4.1 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 43.2.4	6,871,797	
Add non-financial assets:		
Fixed assets	434,277	
Intangible assets	1,455	
Deferred tax assets	1,008,206	
Other assets	418,692	
Balance as per Balance Sheet	8,734,427	
Total financial liabilities as per note 43.2.4		
Add non-financial liabilities:		
Other liabilities	1,331,858	
Balance as per Balance Sheet	13,069,616	

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

43.2.4.3 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. 6,871.80 million (2020: Rs. 8,329.76 million), the financial assets which were subject to interest rate risk amounted to Rs. 5,949.73 million (2020: Rs. 7,519.86 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.



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Mismatch of interest rate sensitive assets and liabilities

Effective Yield/ Interest rate	2020										Non-interest bearing financial instruments
	Exposed to Yield/Interest risk										
	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		-	-	-	-	-	-	-	-	-	668,793
Balances with other banks	2.00%	1,176	-	174	73	82	-	16	196	-	1,966
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-
Investments	8.18%	468,355	2,402,483	2,457,829	1,475	409,105	-	-	8,358	-	-
Advances	11.56%	344,770	101,763	191,519	405,625	64,529	612,106	44,860	4,496	872	-
Other assets		139,142	-	-	-	-	-	-	-	-	139,142
		814,301	2,504,246	2,649,522	407,173	473,716	612,106	44,876	13,050	872	809,901
Liabilities											
Bills payable		-	-	-	-	-	-	-	-	-	99,986
Borrowings from financial institutions	9.28%	4,019,025	3,572	6,219	10,163	18,949	16,082	31,543	22,433	-	-
Deposits and other accounts	8.58%	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		-	-	-	-	-	-	-	-	-	298,015
		5,553,373	1,057,499	1,190,049	493,779	51,074	20,082	31,743	2,056,203	-	1,674,447
On-balance sheet gap		(4,739,072)	1,446,747	1,459,473	(86,606)	422,642	592,024	13,133	(2,043,153)	872	(864,546)
Off-balance sheet financial instruments											
Commitments to extend credit		259,813	-	-	-	-	-	-	-	-	-
Commitments against repo borrowing		4,017,519	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		4,277,332	-	-	-	-	-	-	-	-	-
Total Yield/ Interest Risk Sensitivity Gap		(9,016,404)	1,446,747	1,459,473	(86,606)	422,642	592,024	13,133	(2,043,153)	872	-
Cumulative Yield/ Interest Risk Sensitivity Gap		(9,016,404)	(7,569,657)	(6,110,184)	(6,196,790)	(5,774,148)	(5,182,124)	(5,168,991)	(7,212,144)	(7,211,272)	-

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

	(Rupees '000)
Total financial assets	8,329,763
Add non-financial assets:	
Fixed assets	483,858
Intangible assets	1,756
Deferred Tax Assets	874,915
Other assets	418,557
Balance as per Balance Sheet	10,108,849
Total financial liabilities	12,128,249
Add non-financial liabilities:	
Other liabilities	1,201,871
Balance as per Balance Sheet	13,330,120

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. 8,329.76 million (2019: Rs. 8,713.86 million), the financial assets which were subject to interest rate risk amounted to Rs. 7,519.86 million (2019: Rs. 7,888.07 million). Investments and other assets amounting to Rs. 5,728.64 million (2019: Rs. 5,670.15 million) respectively are guaranteed by the Government of Pakistan. An Assets Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.



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43.3 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.

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

		2021									
		(Rupees in '000)									
Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 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
Assets											
Cash and balances with treasury banks	825,010	-	-	-	-	-	-	-	-	-	-
Balances with other banks	5,407	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	747,331	-	-	-	-	-	-	-	-
Investments	4,156,967	35,000	-	297,771	1,502,705	393,588	158,256	192,765	113,489	156,398	31,167
Advances	1,790,526	9,978	-	60,069	73,929	334,527	152,488	13,853	48,720	41,643	31,954
Fixed assets	434,277	-	-	5,092	5,686	15,519	16,987	13,853	593	-	212,511
Intangible assets	1,455	-	-	78	71	212	212	212	-	-	-
Deferred tax assets - net	1,008,206	-	-	-	-	-	-	-	1,008,206	-	-
Other assets	512,579	10,094	17,668	50,380	1,309	237,187	997	157,803	-	23	737
	8,734,427	55,072	764,999	413,390	1,213,969	587,445	570,040	364,633	1,171,008	198,064	308,961
Liabilities											
Bills payable	19,071	-	2,218	-	982,830	7,863	8,455	13,516	25,608	19,506	-
Borrowings from financial institutions	3,206,662	1,237,149	80,337	1,690	885,564	1,104,367	83,139	436,934	1,166	8,700	-
Deposits and other accounts	8,247,849	5,876,544	-	316,966	195,295	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,596,034	8,299	56,137	149,759	3,612	6,986	7,811	175,268	16,226	17,890	39,491
	13,069,616	1,302,691	138,692	468,415	1,181,737	1,119,216	99,405	625,718	43,000	46,096	61,754
Net assets	(4,335,189)	(1,247,619)	626,307	(55,025)	32,232	(531,771)	470,635	(261,085)	1,128,008	151,968	496,110
Share capital											
Share capital	2,392,507	-	-	-	-	-	-	-	-	-	-
Reserves	234,660	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) on revaluation of assets	(13,679)	-	-	-	-	-	-	-	-	-	-
Unappropriated profit	(6,956,343)	-	-	-	-	-	-	-	-	-	-
Non-controlling interest	7,666	-	-	-	-	-	-	-	-	-	-
	(4,335,189)	(1,247,619)	626,307	(55,025)	32,232	(531,771)	470,635	(261,085)	1,128,008	151,968	496,110

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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
Assets										
Cash and balances with treasury banks	668,793	668,793	-	-	-	-	-	-	-	-
Balances with other banks	3,683	3,683	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	5,747,605	15,610	35,248	3,973	419,220	1,517,815	886,626	2,453,856	8,358	5,698
Advances	1,770,540	185,672	33,914	30,732	341,876	120,876	138,535	142,768	99,147	135,511
Fixed assets	483,858	-	-	-	5,637	5,869	6,101	16,584	16,740	75,571
Intangible assets	1,756	-	-	-	124	124	72	166	166	243,630
Deferred tax assets - net	874,915	-	-	-	-	-	-	-	-	-
Other assets	557,699	3,290	15,594	23,040	68,068	3,264	3,264	237,804	1,507	42,098
	10,108,849	877,048	84,756	57,745	834,925	1,647,948	1,034,598	2,851,178	173,108	291,426
Liabilities										
Bills payable	99,986	99,986	-	-	-	-	-	-	-	-
Borrowings from financial institutions	4,127,986	-	4,015,747	2,218	1,060	379	3,193	6,219	5,045	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	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,499,886	9,269	53,995	62,931	327,952	6,673	12,449	24,643	14,498	921,848
	13,330,120	5,164,983	4,098,232	78,455	521,870	310,150	308,690	1,216,097	85,306	944,281
Net assets	(3,221,271)	(4,287,935)	(4,013,476)	(20,710)	313,055	1,337,798	725,908	1,635,081	87,802	(652,855)
Share capital										
Share capital	2,392,507	-	-	-	-	-	-	-	-	-
Reserves	234,660	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) on revaluation of assets	2,586	-	-	-	-	-	-	-	-	-
Unappropriated profit	(5,862,189)	-	-	-	-	-	-	-	-	-
Non-controlling interest	11,165	-	-	-	-	-	-	-	-	-
	(3,221,271)	(4,287,935)	(4,013,476)	(20,710)	313,055	1,337,798	725,908	1,635,081	87,802	(652,855)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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

		2021						
		(Rupees in '000)						
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years
								Above 10 Years
Assets								
Cash and balances with treasury banks	732,044	17,243	-	-	-	-	75,723	-
Balances with other banks	4,710	-	-	-	106	-	252	-
Lending to financial institutions	1,095,369	2,652,352	3,885	395,031	2,157	-	8,173	-
Investments	1,790,526	134,698	362,574	461,797	309,052	280,410	6,471	3,169
Advances	434,277	10,013	14,784	30,695	50,709	42,046	156,122	55,291
Fixed assets	77	148	212	425	593	-	-	-
Intangible assets	-	-	-	-	1,008,206	-	-	-
Deferred tax assets - net	83,769	415	236,404	157,115	787	23	33,849	-
Other assets	2,022,185	2,814,869	618,084	1,045,157	1,371,610	322,479	280,590	58,460
8,734,427								
Liabilities								
Bills payable	16,519	-	1,493	-	-	-	1,059	-
Borrowings from financial institutions	1,241,408	1,867,777	8,129	12,055	26,379	22,410	28,504	-
Deposits and other accounts	2,776,917	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	265,221	5,808	6,986	11,599	19,078	188,198	39,491	180,653
13,069,616								
Net assets	4,300,065	2,719,318	1,120,974	543,527	64,349	219,308	3,853,427	180,653
Share capital	(2,277,880)	95,551	(502,890)	501,630	1,307,261	103,171	132,998	(122,193)
Reserves	2,392,507							
Unappropriated profit	234,660							
Surplus/(Deficit) on revaluation of assets	(6,956,343)							
Non-controlling interest	7,666							
(4,335,189)								

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.

43.4 Operational Risk

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

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

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



Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

44. DATE OF AUTHORIZATION

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

Dilshad Ali Ahmad
President/CEO

Bilal Mohy Ud Din
Chief Financial Officer

Waqar Uddin Siddiqui
Director

Enamullah Khan
Director

Rauf Ahmad
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2021

Rs. In thousands

Annex-1 referred to Note 11.7 to these financial statements

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

Sr. No	Name and Address of Borrower	Name of Individual/ Partner/Directors (with NIC No.)	Father's/Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief/ waiver provided	TOTAL
				Principal	Interest/ Mark-up	Others	Total				
1	Nafees Packages 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 Aatma Ram Road Younus Steel Market Adda Gondlanwla Gujranwala	Muhammad Aslam Fiyaz (34101-7937475-7)	Asghar Ali	1,400	205	558	2,163	-	-	3,786	3,786
3	Saeed Naveed Brothers 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. Plot No.45 - 50, Special Industrial Zone, Risalpur, Nowshera	Ahmad Nawaz Khan Asmat Jehan Fahim Ahmad Khan (17301-0772563-3) (17301-9058608-0) (17301-1590765-1)	Muhammad Nawaz Khan Ahmad Nawaz Khan Ahmad Nawaz Khan	13,839	22,246	7,178	43,263	-	17,420	7,349	24,769
5	Firee Industry Street Talabwali, Bababerry, Zafarwal road, Sialkot	Farooq Butt Dilwar Hussain (34603-8770816-1) (34603-5878938-7)	Sabir Hussain 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

Financial Statements of
SME LEASING LIMITED
For the year ended December 31, 2021

Review Report To The Members On The Statements Of Compliance With The Listed Companies (Code Of Corporate Governance) Regulations, 2019 And Public Sector Companies (Corporate Governance) Rules, 2013.

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Listed Companies (Code of Corporate Governance) Regulations, 2019 and Public Sector Companies (Corporate Governance) Rules, 2013 (both herein referred to as 'Codes') prepared by the Board of Directors of SME Leasing Limited for the year ended December 31, 2021 to comply with the requirements of regulation 36 of the Listed Companies (Code of Corporate Governance) Regulations, 2019 and rule 24 of the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) respectively.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Codes, and report if it does not, and to highlight any non-compliance with the requirements of the Codes. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Codes.

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

The Codes require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions 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 that causes us to believe that the 'Statement of Compliance' does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Codes as applicable to the Company for the year ended December 31, 2021.

Further, we Highlight below instances of non-compliance with the requirement of the Codes as reflected in the paragraph reference where these are stated in the statement of Compliance:

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Statement of Compliance as per Public Sector Companies (Corporate Governance) Rules, 2013	
Reference of Rule	Description
2A(1)	The company does not comply with the requirement of minimum number of directors.
6(1)	The Board did not hold meeting in the 3rd quarter of 2021.

Statement of Compliance as per Listed Companies (Code of Corporate Governance) Regulations, 2019	
Reference of Regulation	Description
7	The Company does not have a female director during the reporting period. A female director Ms. Darakshan Sheikh Vohra was elected on July 26, 2021 whose application for the approval of SECP is in process at the reporting date.
19 & 19(1)	The criteria of acquiring of any director training program at least by 75% of directors as on June 30, 2021 has not been achieved. Only 67% of directors on the board have acquired the prescribed certification in respect of said director training.
23	The position of internal auditor is vacant since April 2021.
24	The Chief Financial Officer also holds the position of Company Secretary.

KARACHI

DATED: MARCH 4, 2022

UDIN#: CR202110067dtW4F5RTe



CHARTERED ACCOUNTANTS
Engagement Partner: Zulfikar Ali Causer

BDO Ebrahim & Co. Chartered Accountants

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AUDITORS' REPORT TO THE MEMBERS OF SME LEASING LIMITED

Qualified Opinion

We have audited the annexed financial statements of SME LEASING LIMITED (the Company), which comprise the statement of financial position as at December 31, 2021, and the statement of profit or loss, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2021 and of the loss, its other comprehensive income, its cash flows and the changes in equity for the year then ended.

Basis for Qualified Opinion

Management has recorded a reversal of income tax provision amounting to Rs. 7.979 million during the year. The legitimate basis of such reversal in terms of supporting documents has not been provided to us by the management. Recognition criteria for this reversal as income has not been met and we could not verify the occurrence of such income.

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

Material Uncertainty relating to Going Concern

We draw attention to note 1.5 to the financial statements which indicates that the Company incurred net loss after tax for the year ended December 31, 2021 amounting to Rs. 13.399 million (2020: Rs. 57.676 million) and its accumulated loss as at December 31, 2021 amounted to Rs. 361.931 million (2020: Rs. 348.906 million). The Company's current liabilities aggregating to Rs. 196.022 million (2020: 225.501 million) exceeded the current assets by Rs. 81.882 million (2020: 67.154 million). There is material uncertainty about the Company's ability to continue as a going concern in the foreseeable future. The Company's financial statements for the year ended December 31, 2021 are being prepared on a going concern basis. Our opinion is not modified in respect of this matter.

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Emphasis of Matter

Without modifying our opinion,

- a) We draw attention to Note 1.2 to the financial statements which fully explain the status of the application filed with the Securities and Exchange Commission of Pakistan for renewal of license to operate as a leasing company.
- b) We draw attention to Note 1.3 to the financial statements which fully explains the status of non-compliance with the Regulation 4 of Non - Banking Finance Companies and Notified Entities Regulation, 2008.

Key Audit Matter

Key Audit matter is the matter that in our professional judgement, was of most significance in our audit of the financial statements of the current year. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide any separate opinion on this matter. In addition to the matters described in the 'Basis for Qualified Opinion' and the 'Material Uncertainty Related to Going Concern' section, we have determined the matter described below to be key audit matter to be communicated in our report.

Key audit matter is as follows:

S. No.	Key audit matter	How the matter was addressed in our audit
1	<p>Impairment allowance for potential lease and loan losses</p> <p>Refer to notes 8, 9 and 14 to the financial statements and the accounting policy in notes 5.8 and 5.9 to the financial statements</p> <p>The Company's portfolio of net investment in finance leases and long term finances and loans amounts to Rs. 275.342 million and Rs. 53.118 million respectively having provision of Rs. 132.387 million and Rs. 7.440 million respectively.</p> <p>We identified the impairment allowance for potential lease and loan losses as a key audit matter due to the inherent uncertainty and judgement used by the management and compliance of the applicable regulations issued by Securities and Exchange Commission of Pakistan (SECP).</p>	<p>Our audit work included:</p> <ul style="list-style-type: none"> • Obtaining an understanding and evaluating the design of the key controls; • Performing detailed assessment of the credit approval procedures of the leases sanctioned in accordance with the Non-Banking Finance Companies and Notified Entities Regulations, 2008 and the credit manual of the Company. • Detailed testing and assessment of provision/ reversal of net investment in finance leases and long-term finances and loans to ensure that these amounts are in line with applicable regulations. • Testing a sample of lease portfolio to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner including, where relevant, how recoveries have been made and where impairment has been identified.

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Information Other than the financial statements and Auditor's 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 financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with 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 Board of Directors for financial statements

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

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

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

- a) Except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) Except for the possible effect of the matter described in the Basis for Qualified Opinion section of our report, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity together

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with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

- c) Investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Other Matter

The financial statements of the Company for the year ended December 31, 2020 were audited by another firm of chartered accountants, who through their report dated March 04, 2021, expressed a modified opinion thereon.

The engagement partner on the audit resulting in this independent auditor's review report is Zulfikar Ali Causer.

KARACHI

DATED: March 04, 2022

UDIN #: AR202110067VgyuBCrR9



CHARTERED ACCOUNTANTS

Engagement Partner: Zulfikar Ali Causer

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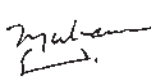
**STATEMENT OF FINANCIAL POSITION**

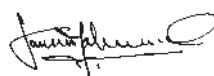
As at December 31, 2021

	Note	2021	2020
		Rupees	
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	6	3,340,157	3,903,811
Right-of-use asset	7	6,697,288	7,770,109
Net investment in finance leases	8	177,323,371	187,152,253
Long term finances and loans - secured	9	43,914,041	47,385,562
Long-term loans to employees - secured	10	343,921	323,196
Long-term deposits and prepayments	11	787,222	870,558
TOTAL NON-CURRENT ASSETS		232,406,000	247,405,489
CURRENT ASSETS			
Advances	12	2,779,957	5,007,025
Prepayments and other receivables	13	749,393	1,496,938
Current maturity of non current assets	14	107,452,416	150,082,218
Cash and bank balances	15	3,157,864	1,626,307
TOTAL CURRENT ASSETS		114,139,630	158,212,488
TOTAL ASSETS		346,545,630	405,617,977
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
AUTHORIZED SHARE CAPITAL			
100,000,000 (2020: 100,000,000) ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid-up share capital	16	320,000,000	320,000,000
Capital reserves		38,019,277	38,019,277
		358,019,277	358,019,277
REVENUE RESERVES			
Reserve against future losses		10,447,052	10,447,052
Accumulated losses		(361,930,933)	(348,905,989)
		(351,483,881)	(338,458,937)
TOTAL SHAREHOLDERS' EQUITY		6,535,396	19,560,340
NON-CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	17	4,020,884	7,214,310
Long-term deposits	8.1	130,202,795	144,177,595
Defined benefit obligations	18	9,764,513	9,164,855
TOTAL NON-CURRENT LIABILITIES		143,988,192	160,556,760
CURRENT LIABILITIES			
Trade and other payables	19	2,736,096	5,040,042
Mark-up accrued on borrowings	20	4,209,212	4,211,211
Short term borrowings - secured	21	137,183,616	144,790,638
Current maturity of non-current liabilities	22	44,918,469	57,381,913
Current maturity of liabilities against finance lease assets	17	3,594,336	2,913,768
Provision for compensated absences	23	3,045,411	2,959,558
Taxation - net		334,902	8,203,747
TOTAL CURRENT LIABILITIES		196,022,042	225,500,877
TOTAL EQUITY AND LIABILITIES		346,545,630	405,617,977
CONTINGENCIES AND COMMITMENTS			
	24		

The annexed notes from 1 to 41 form an integral part of these financial statements.


Asghar Maqsood
 Chief Executive Officer


M. Shahzad
 Chief Financial Officer


Javed Mehmeed
 Director

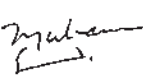
**STATEMENT OF PROFIT AND LOSS ACCOUNT**

For the year ended December 31, 2021

		2021	2020
	Note	Rupees	
REVENUE			
Income from operations	25	21,303,331	21,583,297
Other income	26	90,277	371,609
		21,393,608	21,954,906
EXPENSES			
Administrative and general	27	(44,090,102)	(43,681,689)
Finance cost	28	(18,489,464)	(21,569,869)
		(62,579,566)	(65,251,558)
Operating loss before reversals / (provisions)		(41,185,958)	(43,296,652)
Write back of / (provision for) potential lease losses	8.6	16,426,638	(12,461,567)
Reversal of income tax provision		7,979,392	-
Reversal of / (provision for) on loans and receivables	9.2	3,648,177	(1,594,618)
		28,054,207	(14,056,185)
LOSS BEFORE TAXATION		(13,131,751)	(57,352,837)
TAXATION	29	(267,420)	(323,749)
LOSS FOR THE YEAR		(13,399,171)	(57,676,586)
Loss per share - basic and diluted	30	(0.42)	(1.80)

The annexed notes from 1 to 41 from an integral part of these financial statements.


Asghar Maqsood
 Chief Executive Officer


M. Shahzad
 Chief Financial Officer


Javed Mehmeed
 Director

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended December 31, 2021

	Note	2021	2020
		Rupees	
Loss for the year		(13,399,171)	(57,676,586)
Other comprehensive income		-	-
Items that will be reclassified to profit and loss account in subsequent years			
Actuarial gain on defined benefit obligation	18	374,227	128,862
Total comprehensive loss for the year		(13,024,944)	(57,547,724)

The annexed notes from 1 to 41 form an integral part of these financial statements.

Asghar Maqsood
Chief Executive Officer**M. Shahzad**
Chief Financial Officer**Javed Mehmeed**
Director

**STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2021

	Issued, subscribed and paid-up share capital	Capital reserves		Revenue reserves		Total shareholders' equity
		Share premium	Statutory reserves	Reserve against future losses	Accumulated losses	
Rupees						
Balance as at January 01, 2020	320,000,000	10,000,000	28,019,277	10,447,052	(291,358,265)	77,108,064
Total Comprehensive loss for the year ended December 31, 2020						
Loss for the year	-	-	-	-	(57,676,586)	(57,676,586)
Other comprehensive income						
Actuarial gain on defined benefit obligation	-	-	-	-	128,862	128,862
Balance as at December 31, 2020	320,000,000	10,000,000	28,019,277	10,447,052	(348,905,989)	19,560,340
Balance as at January 01, 2021	320,000,000	10,000,000	28,019,277	10,447,052	(348,905,989)	19,560,340
Total Comprehensive loss for the year ended December 31, 2021						
Loss for the year	-	-	-	-	(13,399,171)	(13,399,171)
Other comprehensive income						
Actuarial gain on defined benefit obligation	-	-	-	-	374,227	374,227
Balance as at December 31, 2021	320,000,000	10,000,000	28,019,277	10,447,052	(361,930,933)	6,535,396

The annexed notes from 1 to 41 form an integral part of these financial statements.

Asghar Maqsood
Chief Executive Officer**M. Shahzad**
Chief Financial Officer**Javed Mehmeed**
Director



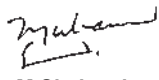
STATEMENT OF CASH FLOWS

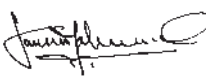
For the year ended December 31, 2021

	Note	2021	2020
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(13,131,751)	(57,352,837)
Adjustment for:			
Depreciation and amortization	27	3,594,888	3,579,845
Gratuity expense	18.2	1,761,032	1,722,387
Provision for compensated absences	23	1,384,461	1,524,411
Finance cost	28	18,437,187	21,569,869
Gain on disposal of property and equipment	26	(38,000)	(310,128)
Potential lease losses written back	8.6	(16,426,638)	12,461,567
Reversal of income tax provision		(7,979,392)	-
Credit losses on loans and receivables reversal	9.2	(3,648,177)	1,594,618
		(2,914,639)	42,142,569
Operating loss before working capital changes		(16,046,390)	(15,210,268)
Movement in working capital			
(Increase) / decrease in operating assets			
Net investment in lease		64,452,510	48,409,860
Finances and loans		11,610,385	11,893,462
Long-term loans to employees - secured		(78,600)	599,710
Prepayments and other receivables		747,545	(545,784)
Long-term deposits and prepayments		83,336	291,852
Long term deposits paid		(26,438,244)	(22,576,525)
Advances		2,227,068	(1,637,067)
		52,604,000	36,435,508
(Decrease) / increase in operating liabilities			
Trade and other payables		(2,303,946)	169,804
Unclaimed dividend		-	(19,694)
		(2,303,946)	150,110
Cash generated from operations		34,253,664	21,375,350
Financial charges paid		(16,843,325)	(19,734,352)
Interest income received		52,277	61,481
Gratuity paid	18.3	(787,147)	(51,900)
Benefits paid	23	(1,298,608)	(1,065,418)
Taxes paid		(156,872)	(287,924)
		(19,033,675)	(21,078,114)
Net cash flows from operating activities		15,219,989	297,236
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure	6	(163,413)	(145,600)
Proceeds from disposal of fixed assets	26	38,000	1,766,000
Net cash (used in)/flows from investing activities		(125,413)	1,620,400
CASH FLOW FROM FINANCING ACTIVITIES			
Lease rentals paid		(5,955,997)	(3,713,326)
Net cash used in financing activities		(5,955,997)	(3,713,326)
Net increase/(decrease) in cash and cash equivalents		9,138,579	(1,795,690)
Cash and cash equivalents at beginning of the year		(143,164,331)	(141,368,641)
Cash and cash equivalents at end of the year	33	(134,025,752)	(143,164,331)

The annexed notes from 1 to 41 form an integral part of these financial statements.


Asghar Maqsood
 Chief Executive Officer


M. Shahzad
 Chief Financial Officer


Javed Mehmeed
 Director



Notes to the Financial Statements

For the year ended December 31, 2021

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** SME Leasing Limited (the Company) was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The Company is a subsidiary of SME Bank Limited (the Parent Company), who holds 73.14% (2020: 73.14%) of the Company's shares. At the time of incorporation, the Company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the Company on January 28, 2003. The Company is listed on Pakistan Stock Exchange and its registered office is situated at 56-F, Nazim-ul-Din Road F-6/1, Blue Area, Islamabad. The core objective of the Company is to extend lease and working capital financing facilities to small and medium enterprises of the country. The PACRA Credit Rating Agency has assigned a long term rating of B- (2020: B) and a short-term rating of A4 (2020: B) to the Company in the month of April 2021.
- 1.2** The license of the company to operate as a leasing company expired on May 20, 2019. Thereafter, the Company applied via application reference # SMEL/MO/2019 dated April 16, 2019 for its renewal in the manner so required by the NBFC rules, 2003. However, renewal of license was in progress till the year end.
- 1.3** The Company obtained license of non deposit taking NBFC and as per section 4 (Schedule I) of NBFC Regulations 2008, a non deposit taking NBFC shall have minimum equity of Rs 50 million. The Company being non deposit taking, the Company has not complied with said requirement of NBFC Regulations 2008 of maintaining minimum capital requirement.
- 1.4** The Company is dependent on the running finance facility granted by the Parent company. The revised prudential regulation of State Bank of Pakistan (SBP) applicable from June 2015 has restricted the exposure by a bank to a related party to the extent of 7.5% of its equity. However, SBP on letter BPRD/BA&CPD/646/332/20 dated January 06, 2020 had granted relaxation to the Parent Company of the aforesaid requirement, which had expired on December 31, 2019. In prior year, the Parent Company has requested SBP to allow exemption form related party exposure limit till December 31, 2021 and correspondence regarding this is in progress till the current period end. However, no intimation has so far been received from SBP in this regard.
- 1.5** During the year ended December 31, 2021, the Company has incurred loss for the year of Rs. 13.399 million (December 31, 2020: Rs. 57.676 million), resulting in accumulated losses of Rs. 361.931 million (December 31, 2020: Rs. 348.906 million) at the end of the year. Further, the net assets of the Company amounts to Rs. 6.535 million as at December 31, 2021 (December 31, 2020: Rs. 19.560 million). The Company has negative cash and cash equivalent of Rs. 134.026 million (December 31, 2020: Rs. 143.164 million) which comprise of running finance facility from SME Bank Limited and at the end of the year the Company's current liabilities exceed its current assets by Rs. 81.882 million (2020: Rs. 67.288 million).

These factors along with other factors may cast significant doubt on the Company's ability to continue as a going concern and the Company may not be able to realize its assets and discharge its liabilities in the normal course of business.



Notes to the Financial Statements

For the year ended December 31, 2021

However, these financial statements are prepared by management using going concern assumption considering the factors mentioned below:

- The Parent Company has granted a short term running finance facility to the Company amounting to Rs. 150 million out of which Rs. 137.184 million has been utilized as at December 31, 2021 (2020: Rs. 144.791 million). The said facility can be extended to the extent of Rs. 300 million as per the standby agreement for finance facility. The Parent company will not call off the said amount till June 30, 2022 and the Parent company will facilitate, assist and support the Company in arrangement of finance from external sources as and when required by the Company.
- The management of the Company has prepared cash flow projections which reflect that based on financial support by the Parent company the Company will be able to continue its business on going concern basis in the foreseeable future.
- Concerted efforts are being made for the recovery of non-performing leases and loans and finances and in this respect during the year Rs. 51.468 million (2020: Rs. 20.714 million) has been recovered.
- Efforts are also being made by the management to reduce the overall operational cost of the Company.

Based on the above mentioned financial measures and the concerted operational measures being taken by the Company, the management is confident that the Company would be able to survive in the foreseeable future and therefore, has prepared the financial statements on going concern basis.

- 1.6** With respect to privatization of the Parent Company, SME Bank Limited (Bank) and its Subsidiary, the Cabinet Committee on Privatization (CCOP) approved the new privatization program of the Bank on March 06, 2019 to divest the Government of Pakistan (GOP) equity stake in the Bank along with management control to a strategic investor as per the decision dated November 19, 2018 of the GOP, whereas the due process was started and various stakeholders participated including the prospective investors. However, due to lack of interest of prospective investors, Board of Privatization Commission in its meeting held on November 25, 2021 has recommended delisting of SME Bank Limited from list of privatizations. The Financial Adviser (FA) of Privatization Commission 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 Bank, the FA recommended to shelve the Transaction. Recommendation of the Board of Privatization was presented to the CCOP in its meeting held on December 31, 2021, where the CCOP decided to ascertain the way forward of the bank prior to delisting from list of privatization; and in this regard constituted a committee consisting of Deputy Governor SBP, Secretary Finance, Secretary Privatization Commission, Chairman SECP and Minister of Finance. The Committee has not yet met for any deliberation in this regard.



Notes to the Financial Statements

For the year ended December 31, 2021

2. SUMMARY OF SIGNIFICANT TRANSACTIONS AND BALANCES

		2021	2020
	Note	Rupees	Rupees
Gross lease and loans and finances disbursements	2.1	17,704,000	27,000,000
Recoveries	2.2	83,255,855	79,532,814

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

2.2 This represents recoveries from non-performing loans amounting to Rs. 51.468 million (2020: Rs. 20.714 million) and regular parties amounting to Rs. 31.787 million (2020: Rs. 58.818 million).

3. BASIS OF PREPARATION

3.1 Statement of compliance

These financial statements have been prepared in accordance with accounting and reporting standards as applicable in Pakistan. Accounting and reporting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017, the provisions of and directives issued under the Companies Act, 2017, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations). In case where requirements differ, the provision or directives issued under the Companies Act, 2017, NBFC Rules, 2003 and NBFC Regulations, 2008 shall prevail.

3.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that defined benefit liability, compensated absences and liabilities against asset subject to finance lease, which is carried at present value. These financial statements are prepared on accrual basis of accounting.

3.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency. The figures are rounded off to the nearest rupee.

3.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with accounting and reporting standards as applicable in Pakistan requires management to make judgments, estimates and associated assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The judgments, estimates and associated assumptions are based on historical experiences, current trends and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period



Notes to the Financial Statements

For the year ended December 31, 2021

in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

The significant judgments made by the management in applying the accounting policies and the key sources of estimating uncertainty were the same as those applied to financial statements for the year ended December 31, 2020.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

- Classification and provision of net investment in finance lease and loans and finances (notes 5.8, 5.9, 8 and 9);
- Impairment of non-financial assets (note 5.13);
- Determination and measurement of useful life and residual value of property and equipment, right of use asset and intangibles (note 5.2, 5.3, 5.6, 6 and 7);
- Provision for current and deferred taxation and recognition and measurement of deferred tax assets and liabilities (notes 5.16 and 29); and
- Staff retirement benefits (note 5.8 and 18) and Staff compensated absences (note 5.7 and 23).

4. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO PUBLISHED APPROVED ACCOUNTING AND REPORTING STANDARDS

4.1 New Accounting Standards, Amendments and IFRS Interpretations that are Effective for the Year Ended December 31, 2021

The following standards, 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 concessions	June 01, 2020
Interest Rate Bench march 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.	

4.2 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



Notes to the Financial Statements

For the year ended December 31, 2021

not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

	Effective Date Standard or Interpretation (Annual periods beginning on or after)
Amendments 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 concessions	April 01, 2021
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current	January 01, 2023
Amendments 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
Amendments 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; and
IFRS 17 Insurance Contracts.

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

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

	Effective Date Standard or Interpretation (Annual periods beginning on or after)
Financial Instruments - IFRS 9	June 30, 2022

The SECP has issued S.R.O. 800(I)/2021 and has extended the effective date for applicability of International Financial Reporting Standard - Financial Instruments (IFRS-9) in place of International Accounting Standard (IAS-39) (Financial Instruments: Recognition and Measurement) for Non-Banking Finance Companies from reporting period/year ending on or after June 30, 2022.



Notes to the Financial Statements

For the year ended December 31, 2021

An extensive assessment is required to be made, because the actual impact of adopting IFRS 9 on or after June 30, 2022 may result in changes as:

- IFRS 9 requires the Company to revise its accounting processes and internal controls and these changes are not yet complete including consequential changes to its governance framework;
- The company is refining and finalizing its models for ECL calculations mainly for finance lease receivables and finance loans; and

IFRS 9 requires the Company to revise its accounting processes and internal controls and these changes are not yet complete;

- The company is refining and finalizing its models for ECL calculations mainly for finance lease receivables and finance loans; and
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Company finalizes its financial statements for the year ending December 31, 2022.

IFRS 9 contains requirements in the following areas:

- **Classification and Measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments.
- **Impairment:** IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

The Board of Directors anticipate that classification and measurement of debt instruments will be driven by the entity's business model for managing the financial asset and contractual cash flows of financial assets.

A debt instrument is measured at amortized cost if the objective of the business model to hold the financial assets for the collection of contractual cash flows and the contractual cash flows under the instrument solely represent the payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold financial statements both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognized at fair value through profit or loss. The Board of Directors anticipate that majority of financial assets and liabilities would be classified at amortized cost.

The application of the expected credit loss model of IFRS 9 may result in recognition of credit losses for the respective financial assets and finance lease receivables and may increase the amount of loss allowance for these items. The Board of Directors anticipate transition impact analysis as financial assets and finance lease receivables under IFRS 9 indicate that the expected credit loss as per IFRS 9 might be more than the cumulative loss allowance as per the current regulatory requirements for impairment as at December 31, 2021. However, the transition impact will be reported in the subsequent reporting period.



Notes to the Financial Statements

For the year ended December 31, 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied in preparation of these financial statements, unless otherwise stated.

5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and balances in current and savings bank accounts. Short term running finance that are repayable on demand and form an integral part of the Company's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

5.2 Property and equipment

These are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to statement of profit or loss by using the straight line method at the rates specified in note 6 after taking into account residual value, if any. Depreciation on additions is charged from the month the assets are put to use while no depreciation is charged in the month in which the assets are disposed off. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of the each reporting period.

Subsequent costs are included in the assets' carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other subsequent costs including repairs and maintenance are charged to the statement of profit or loss as and when incurred.

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

5.3 Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

5.4 Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives



Notes to the Financial Statements

For the year ended December 31, 2021

receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

5.5 Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

5.6 Intangible

These are stated at cost less accumulated amortization and impairment losses, if any. Amortization is charged using the straight line method over its estimated useful life at the rate specified in note 8 after taking into account residual value, if any. The residual values, useful lives and amortization methods are reviewed and adjusted, if appropriate at each reporting date. Subsequent costs are included in the assets' carrying amounts only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Amortization on additions is charged from the month the assets are put to use while no amortization is charged in the month in which the assets are disposed off.

Gain and losses on disposal of such assets, if any, are included in the statement of profit or loss.

5.7 Staff retirement benefits

Defined contribution plan

The Company operates an approved defined contributory provident fund for all its permanent employees. Monthly contributions are made to the fund equally by the Company and the employees at the rate of 8 % of basic salary. The contributions are recognized as employee benefit expense when they become due.

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



Notes to the Financial Statements

For the year ended December 31, 2021

Employees' compensated absences

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

Defined benefit plan

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

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

The Company determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual year to the net defined benefit liability, taking into account and change in the net defined benefit liability during the year as a result of contribution and benefit payments. Net interest expense and other expense related to defined benefit plans are recognized in statement of profit or loss.

5.8 Net investment in finance lease

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

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

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognized in the statement of profit or loss on a basis account that reflects a constant periodic rate of return on the net investment in the finance lease.

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

5.9 Provision for potential lease losses and doubtful loans and receivables

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



Notes to the Financial Statements

For the year ended December 31, 2021

5.10 Financial assets and liabilities

All the financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and derecognized when the Company loses control of contractual rights that comprises the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to statement of profit or loss directly.

Financial assets carried at the reporting date includes cash and bank balances, long term finances and loans, net investment in finance leases, deposits and other receivables.

Financial liabilities carried at the reporting date includes short term borrowing, long term finances, liabilities against assets subject to finance lease, accrued, and trade and other payables.

5.11 Investments

All investments are initially recognized at cost, being the fair value of the consideration given and include transaction costs except for held for trading investments in which case transaction costs are charged to the statement of profit or loss. All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investments. These are recognized and classified as follows:

Investment at fair value through profit or loss (held for trading)

At the time of acquisition, quoted investments which are acquired principally for the purpose of generating profit from short term fluctuations in price or are part of portfolio for which there is a recent actual pattern of short term profit taking are classified as held for trading.

Subsequent to initial recognition these are premeasured at fair value by reference to quoted market prices with the resulting gain or loss being included in net profit or loss for the period in which it arises.

Available-for-sale

These are stated at fair value, with any resultant gain or loss being recognized directly in equity. Gains or losses on revaluation of available-for-sale investments are recognized directly in equity until the investments are sold or other wise disposed off, or until the investments are determined to be impaired, at which time cumulative gain or loss previously reported in the equity is included in current year's statement of profit or loss.

All investments classified as available-for-sale are initially recognized at cost inclusive of transaction costs and subsequently quoted investments are marked to market using the last quoted rate at the close of the financial year.

Held to maturity

At the time of acquisition, investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held to maturity.



Notes to the Financial Statements

For the year ended December 31, 2021

Subsequently, these are measured at amortized cost less provision for impairment in value, if any amortised cost is calculated by taking into account any discount or premium on acquisition by using the effective yield method.

The difference between the redemption value and the purchase price of the held to maturity investments is amortized and taken to the statement of profit or loss over the term of the investment.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the statement of profit or loss.

5.12 Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognized at fair value plus any related transaction costs directly attributable to the acquisition. Subsequent to initial recognition, they are carried at amortized cost.

5.13 Impairment of non-financial assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss.

5.14 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently premeasured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value is recognized in the statement of profit or loss.

5.15 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amount and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

5.16 Taxation

Taxation charge in the statement of profit or loss comprises of current and deferred tax.

Current

Provisions for current taxation is based on taxability of certain income streams of the Company under presumptive / final tax regime and minimum tax under section 113 of the Income Tax Ordinance, 2001, wherever applicable, at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after taking into account tax credits and tax rebates available, if any.



Notes to the Financial Statements

For the year ended December 31, 2021

Deferred

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

5.17 Contingent liabilities

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

5.18 Provisions

A provision is recognized in the statement of financial position when the Company has legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provision are reviewed at each reporting date and are adjusted to reflect the current best estimate.

5.19 Long term finances

Long term finances are initially recognized at cost being the fair value of the consideration received together with the associated transaction cost.

Subsequently, these are carried at amortized cost using effective interest method. Transaction cost relating to the long term finance is being amortized over the period of agreement using the effective interest rate method.

5.20 Revenue recognition

- The Company follows the finance lease method in accounting for the recognition of lease income. Under this method, the unearned lease income i.e. the excess of gross lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease contract, so as to produce a systematic return on the net investment in finance lease. Unrealized lease income is held in suspense account, where necessary, in accordance with the requirements of the NBFC Regulations.
- Front-end fees and documentation charges are taken to income when realized.
- Income on investments is accounted for on accrual basis.
- Dividend income is recognized when the right to receive the dividend is established.
- Income on loans and finances is accounted for on accrual basis using effective interest method.



Notes to the Financial Statements

For the year ended December 31, 2021

- Unrealized lease income and unrealized income on loans and finances is held in suspense account, where necessary, in accordance with requirements of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations).
- Profit on bank deposit and short term placements is accrued on a time proportion basis.
- Gain or loss arising on sale of investments are taken to income in the period in which they arise.
- Other income is recognized on receipt basis.

5.21 Earnings / (loss) per share

The Company presents basic and diluted earnings / (loss) per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary share holders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares, if any.

5.22 Dividend distribution and transfer between reserves

Dividend distribution (including stock dividend) to the Company's shareholders and transfer between reserves, except appropriations which are required under law, are recognized in the financial statements in the period in which such dividends are declared or such transfers between reserves are made.

5.23 Capital and revenue reserves

Share premium

The share premium was recorded in the year 2006 on issue of shares in accordance with requirements of the Companies Ordinance, 1984 the repealed Ordinance. This premium is available for restrictive use as per section 81 of the Companies Act 2017.

Statutory reserves

In accordance with the requirements of the NBFC Regulations, an amount of not less than 20% of after tax profits shall be transferred to statutory reserve till such time when the reserve equals the amount of paid-up capital, and thereafter a sum of not less than 5 percent shall be transferred. Consequently, during the current year the Company has transferred an amount of Rs. nil due to loss (2020: Rs. nil) to its statutory reserve.

Reserve against future losses

This reserve represents amounts set aside in view of the risks associated with the economic cyclical nature of the business and is recognized as an appropriation of retained earnings. Any credits resulting from reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit or loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 % of the outstanding balance of the regular portfolio of leases and loans and receivables at each reporting date. This was applicable when the Company was deposit taking NBFC till year 2008, however, subsequently when the status of the Company changed from deposit taking NBFC to non-deposit taking



Notes to the Financial Statements

For the year ended December 31, 2021

NBFC, this policy is no more applicable. Therefore, no such reserve has been created by the Company for the year ended December 31, 2021.

5.24 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting structure. Management monitors operating results of its business units separately for the purpose of making decisions regarding resources allocation and performance assessment. Segment results, assets and liabilities include item directly attributable to segment as well as those that can be allocated on a reasonable basis.

5.25 Deposits and prepayments

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

5.26 Accrued and other payables

Accrued expenses and other payables are carried at cost which equals to the fair value of the consideration to be paid in future for goods or services received.

5.27 Expenses

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

5.28 Other receivables

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

5.29 Finance cost

Finance cost on short term borrowings and lease liabilities is recognised in statement of profit or loss as and when accrued. It also includes transaction charges incurred on bank accounts.

Notes to the Financial Statements

For the year ended December 31, 2021

6 PROPERTY AND EQUIPMENT

	C O S T		ACCUMULATED DEPRECIATION				BOOK VALUE	Depreciation Rate per annum %		
	As at 1 January 2021	Additions/ transfer	As at Dec 31, 2021	Disposal	As at January 1, 2021	For the year	On disposal		As at Dec 31, 2021	
(Rupees)										
Furniture and fixtures	1,603,678	25,000	-	1,628,678	1,487,120	104,198	-	1,591,318	37,359	20
Office equipment	1,545,213	47,513	-	1,592,726	1,151,121	120,345	-	1,271,466	321,261	15
Building improvements	750,933	-	-	750,933	750,933	-	-	750,933	-	33.33
Office premises	9,514,190	-	-	9,514,190	6,165,536	475,709	-	6,641,245	2,872,946	5
Computers	1,525,527	-	-	1,525,527	1,481,021	22,270	-	1,503,291	22,236	33.33
Motor vehicles	4,547,150	90,900	(160,495)	4,477,555	4,547,150	4,545	(160,495)	4,391,200	86,355	20
	19,486,691	163,413	(160,495)	19,489,609	15,582,881	727,067	(160,495)	16,149,453	3,340,157	

2020
Owned

	C O S T		ACCUMULATED DEPRECIATION				BOOK VALUE			
	As at 1 January 2020	Additions/ transfer	Disposal	As at January 1, 2020	For the year	On disposal		As at Dec 31, 2020		
2020	----- (R u p e e s) -----									
Owned										
Furniture and fixtures	1,596,878	6,800	-	1,603,678	1,356,646	130,474	-	1,487,120	116,557	20
Office equipment	1,451,913	110,800	(17,500)	1,545,213	1,045,250	123,371	(17,500)	1,151,121	394,093	15
Building improvements	750,933	-	-	750,933	750,933	-	-	750,933	-	33.33
Office premises	9,514,190	-	-	9,514,190	5,689,826	475,710	-	6,165,536	3,348,655	5
Computers	1,497,527	28,000	-	1,525,527	1,458,462	22,559	-	1,481,021	44,506	33.33
Motor vehicles	4,547,150	-	-	4,547,150	4,547,150	-	-	4,547,150	-	20
	19,358,591	145,600	(17,500)	19,486,691	14,848,267	752,114	(17,500)	15,582,881	3,903,811	



Notes to the Financial Statements

For the year ended December 31, 2021

7 RIGHT-OF-USE ASSET

	C O S T		ACCUMULATED DEPRECIATION			BOOK VALUE				
	As at January 1, 2021	Adjustment on transition to IFRS 16	Additions/ transfer	Disposal	As at Dec 31, 2021	For the year	On disposal	As at Dec 31, 2021	As at Dec 31, 2021	
(Rupees)										
2021										
Office premises	12,950,191	-	-	-	12,950,191	5,180,082	2,590,044	-	7,770,126	5,180,065
Motor vehicles	-	-	1,795,000	-	1,795,000	-	277,777	-	277,777	1,517,223
	12,950,191	-	1,795,000	-	14,745,191	5,180,082	2,867,821	-	8,047,903	6,697,288
2020										
Office premises	12,950,191	-	-	-	12,950,191	2,590,044	2,590,038	-	5,180,082	7,770,109
Motor Vehicles	1,782,700	-	-	1,782,700	-	89,135	237,693	(326,828)	-	-
	14,732,891	-	-	1,782,700	12,950,191	2,679,179	2,827,731	(326,828)	5,180,082	7,770,109

7.1 Particulars of Disposal of Right of used assets

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



Notes to the Financial Statements

For the year ended December 31, 2021

	Note	2021 Rupees	2020 Rupees
8 NET INVESTMENT IN FINANCE LEASES			
Net investment in finance leases	8.1	275,342,507	323,368,379
Less: Current maturity	14	(98,019,136)	(136,216,126)
		<u>177,323,371</u>	<u>187,152,253</u>

8.1 Net investment in finance leases

		December 31, 2021			December 31, 2020		
		Total	Later than one year and less than five years	Not later than one year	Total	Later than one year and less than five years	Not later than one year
Note		(Rupees)					
Minimum lease payments	8.3	286,239,684	227,716,296	58,523,388	332,473,338	252,615,664	79,857,674
Add: Residual Value of leased assets	8.4	174,748,031	130,202,795	44,545,236	201,186,275	144,177,595	57,008,680
Gross Investment in leases		460,987,715	357,919,091	103,068,624	533,659,613	396,793,259	136,866,354
Less: Unearned lease Income		(8,728,447)	(3,678,959)	(5,049,488)	(12,813,448)	(12,163,220)	(650,228)
Less: Markup held in Suspense Account		(44,530,019)	(44,530,019)	-	(48,664,406)	(48,664,406)	-
		(53,258,466)	(48,208,978)	(5,049,488)	(61,477,854)	(60,827,626)	(650,228)
		407,729,249	309,710,113	98,019,136	472,181,759	335,965,633	136,216,126
Less: Provision for potential lease losses	8.6	(132,386,742)	(132,386,742)	-	(148,813,380)	(148,813,380)	-
Net Investment in Finance leases		275,342,507	177,323,371	98,019,136	323,368,379	187,152,253	136,216,126

- 8.2 The internal rate of return (IRR) on lease contract receivable ranges from 9.5% to 25% per annum (2020: 9.5% to 25% per annum).
- 8.3 This include amount receivable in respect of non performing leases of Rs. 190.664 million (2020: Rs. 199.204 million) which have not been fully provided due to forced sales value benefit amounting to Rs. 85.188 million (2020: Rs. 87.345 million).
- 8.4 These represent interest free security deposits received against lease contracts and are refundable / adjustable at the expiry / termination of the respective leases. The amount is net of security deposit held against non-performing leases amounting to Rs. 143.907 million (2020: Rs. 144.988 million).
- 8.5 Lease rentals received during the year aggregate to Rs. 51.866 million (2020: Rs. 79.533 million). Lease disbursed during the year amounts to Rs. 11.004 million (2020: Rs. 27 million).

	2021 Rupees	2020
8.6 Provision for potential lease losses		
Balance at the beginning of the year	148,813,380	136,351,813
Provision for the year	2,038,658	29,052,904
Recovered during the year	(18,465,296)	(16,591,337)
Net provision	(16,426,638)	12,461,567
Balance at the end of the year	<u>132,386,742</u>	<u>148,813,380</u>



Notes to the Financial Statements

For the year ended December 31, 2021

	Note	2021	2020
		Rupees	
9 LONG TERM FINANCES AND LOANS - SECURED			
Customers			
Considered good	9.1	12,489,003	20,351,243
Considered doubtful		48,069,911	51,818,056
	9.3	60,558,914	72,169,299
Less: Provision for doubtful finances and loans - net	9.2	(7,440,473)	(11,088,650)
		53,118,441	61,080,649
Less: Current maturity			
Customers	14	(9,204,400)	(13,695,087)
		43,914,041	47,385,562
9.1	These loans to customers for a period of three to five years on mark-up basis and are secured by way of hypothecation of stock and immovable property. The rate of mark-up ranges from 15% to 24.50% (2020: 11.35% to 17.33%) per annum.		
9.2	Provision for doubtful finances and loans - net		
		11,088,648	9,494,030
Balance at the beginning of the year		-	5,718,015
Provision for the year		(3,648,177)	(4,123,397)
Recovered during the year		(3,648,177)	1,594,618
Net provision		7,440,471	11,088,648
Balance at the end of the year			
9.3	This includes non performing loans of Rs. 48.70 million (2020: Rs. 59.140 million) which have not been fully provided due to FSV benefits amount to Rs. 63.184 million (2020: 63.832 million).		
10 LONG-TERM LOANS TO EMPLOYEES - SECURED			
Considered good			
Car loans	10.1&10.2	572,801	494,201
Less: Current maturity	14	(228,880)	(171,005)
		343,921	323,196
10.1 Movement in loan to employees			
Balance at the beginning of the year		494,201	1,093,911
Disbursements		447,252	49,500
Repayments		(368,652)	(649,210)
Balance at the end of the year		572,801	494,201
10.2	These represent car loans given to employees. These loans are recovered through deduction from salaries over varying periods up to a maximum period of 20 years. These loans are granted to the employees in accordance with their terms of employment. Car loans are secured by the title of car in the Company's name. These loans carry mark-up at 5% to 7% (2020: 5% to 7 %) per annum.		



Notes to the Financial Statements

For the year ended December 31, 2021

	Note	2021	2020
		Rupees	
11 LONG-TERM DEPOSITS AND PREPAYMENTS			
Other deposits	11.1	787,222	787,222
Prepayments		-	864,004
Less: Current maturity	13	-	(780,668)
Non-current prepayments		-	83,336
		<u>787,222</u>	<u>870,558</u>
11.1 Other deposits			
Rent		711,000	711,000
Central Depository Company		50,000	50,000
Miscellaneous		14,422	14,422
BRR Security Vault		11,800	11,800
		<u>787,222</u>	<u>787,222</u>
12 ADVANCES			
Considered good - unsecured			
Employees	12.1	466,858	1,678,710
Legal advisors	12.2	2,175,980	2,289,853
Others		122,119	137,426
Advance against lease vehicle		-	886,036
SBP deposit		15,000	15,000
		<u>2,779,957</u>	<u>5,007,025</u>
12.1 These represents interest free advances given to employees against salaries. These are recovered through monthly deductions from salaries over a period of one year from the date of disbursement.			
12.2 These represents advance payments made to the legal advisors of the Company for handling the cases on behalf of the Company.			
13 PREPAYMENTS AND OTHER RECEIVABLES			
Prepayments		622,659	780,668
Other receivable		65,000	65,000
Accrued interest on long term finances and loans		61,734	651,270
		<u>749,393</u>	<u>1,496,938</u>
14 CURRENT MATURITY OF NON CURRENT ASSETS			
Current maturity of :			
Net investment in finance leases	8	98,019,136	136,216,126
Long term finances and loans	9	9,204,400	13,695,087
Long term loans to employees	10	228,880	171,005
		<u>107,452,416</u>	<u>150,082,218</u>



Notes to the Financial Statements

For the year ended December 31, 2021

		2021	2020
	Note	Rupees	
15 CASH AND BANK BALANCES			
Balances with banks in:			
- Current accounts		3,091,452	1,466,000
- Saving accounts	15.1	-	93,895
Cash in hand		66,412	66,412
		3,157,864	1,626,307

15.1 These carry profit rate of nil (2020: 5.5% to 11.25% per annum).

16 ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2021	2020		2021	2020
(Number of shares)			Rupees	
10,100,000	10,100,000	Ordinary shares of Rs. 10 each issued as fully paid in cash	101,000,000	101,000,000
19,900,000	19,900,000	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than	199,000,000	199,000,000
2,000,000	2,000,000	Ordinary shares of Rs 10 each issued as fully paid bonus shares	20,000,000	20,000,000
32,000,000	32,000,000		320,000,000	320,000,000

16.1 SME Bank Limited (the Bank) is a public limited company incorporated in Pakistan on October 30, 2001 under the Companies Ordinance, 1984 having its registered office at 56-F, Nazim-ud-Din Road, F-6/1, Blue Area Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is a Scheduled Commercial Bank engaged in the business of banking with primary objective to support and develop Small and Medium Enterprise (SME) sector in Pakistan by providing necessary financial assistance and business support services on sustainable basis. At December 31, 2021, the Parent company and its nominees hold 73.14% (2020: 73.14%) ordinary shares of the Company.

17 LIABILITIES AGAINST FINANCE LEASE ASSETS

	2021			2020		
	Minimum Lease Payments	Finance charges not due yet	Present value of minimum lease payments	Minimum Lease Payments	Finance charges not due yet	Present value of minimum lease payments
	Rupees			Rupees		
Payable not later than one year	4,535,365	941,029	3,594,336	4,200,835	1,287,067	2,913,768
Payable later than one year but not later than five years	4,376,388	355,504	4,020,884	8,392,048	1,177,738	7,214,310
Total	8,911,753	1,296,533	7,615,220	12,592,883	2,464,805	10,128,078



Notes to the Financial Statements

For the year ended December 31, 2021

18 DEFINED BENEFIT OBLIGATIONS

The Company operates an unapproved and unfunded gratuity scheme for all of its permanent employees. Number of employees covered under the scheme are 23 (2020: 27).

Principal actuarial assumptions

The latest actuarial valuation of the gratuity scheme was carried out on December 31, 2021 by Nauman Associates using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

	2021	2020
Valuation discount rate	9.75%	11.25%
Expected long term rate of increase in salary level	11.75%	11.25%

	Note	2021	2020
		Rupees	
18.1 Liability in statement of financial position			
Present value of defined benefit obligation	18.2	9,764,513	9,164,855
18.2 Movement in liability during the year			
Balance at the beginning of the year		9,164,855	7,623,230
Charged to statement of profit or loss account	27.1	1,761,032	1,722,387
Remeasurements chargeable in other comprehensive income	18.5	(374,227)	(128,862)
Benefits paid during the year		(787,147)	(51,900)
Balance at the end of the year		9,764,513	9,164,855
18.3 Reconciliation of the present value of defined benefit obligations			
Present value of obligations at beginning of the year		9,164,855	7,623,230
Current service cost		905,832	867,693
Interest cost		855,200	854,694
Benefits paid during the year		(787,147)	(51,900)
Remeasurements gain chargeable in other comprehensive income		(374,227)	(128,862)
Present value of obligations at the end of the year		9,764,513	9,164,855
18.4 Charged to statement of profit or loss account			
Current services cost		905,832	867,693
Interest cost		855,200	854,694
		1,761,032	1,722,387
18.5 Remeasurements gain chargeable in other comprehensive income			
Actuarial losses/(gains) on obligation		24,973	(19,855)
Experience adjustment		(399,200)	(109,007)
Total re-measurements recognized in other comprehensive income		(374,227)	(128,862)



Notes to the Financial Statements

For the year ended December 31, 2021

- 18.6 Based on the actuarial advice, the Company intends to charge an amount of approximately Rs. 1.917 million in respect of contribution to gratuity fund in the financial statements for the year ending December 31, 2022.

18.7 Sensitivity analysis

Sensitivity analysis has been performed by varying one assumption keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the employee benefit schemes. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:

	2021	2020
	Rupees	Rate effect
Discount rate effect		
Original liability	9,764,513	9.75%
1% increase	10,740,964	10.75%
1% decrease	8,788,062	8.75%
Salary increase rate effect		
Original liability	9,764,513	11.75%
1% increase	10,740,964	12.75%
1% decrease	8,788,062	10.75%

The sensitivity analysis prepared presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

18.8 Maturity profile

The weighted average duration of the obligation (in years)

2021	2020
Rupees	
10	10

19 TRADE AND OTHER PAYABLES

Note

	2021	2020
	Rupees	
Payable on termination/maturity of leases	325,788	2,132,445
Insurance payable	1,619,667	1,829,706
Provident fund payable		
Accrued expenses	426,111	798,429
Others	310,467	255,933
Sales tax payable	54,063	23,529
	<u>2,736,096</u>	<u>5,040,042</u>

20 MARK-UP ACCRUED ON BORROWINGS

Interest accrued on:
Short term borrowings

20.1

2021	2020
<u>4,209,212</u>	<u>4,211,211</u>

- 20.1 This amount represents accrued interest payable to the Parent Company.



Notes to the Financial Statements

For the year ended December 31, 2021

		2021	2020
	Note	Rupees	
21	SHORT TERM BORROWINGS - SECURED		
Short term borrowings	21.1	137,183,616	144,790,638
21.1	The Company has a running finance facility available from the Parent Company amounting to Rs.150 million (2020: Rs.150 million) at mark-up rates ranging between 11.35% to 11.65% (2020: 11.35% to 17.33%) per annum. Above arrangements are secured by way of hypothecation of the Company's specific leased assets and related receivables of the Company.		
22	CURRENT MATURITY OF NON-CURRENT LIABILITIES		
Long term deposits	8.1	44,545,236	57,008,680
Long term finance	22.1	373,233	373,233
		44,918,469	57,381,913
22.1	This represents balance due against financing facilities amounting to Rs. 0.373 million (2020: Rs. 0.373 million) from National Energy Conservation Centre (Enercon). The facilities from Enercon were obtained under an agreement whereby they agreed to provide funds to the Company for granting lease / finance facility to its customers at a preferential mark-up rate for procuring and using energy efficient equipments. The facility requires sharing of profit @ 5% of the financing amount on quarterly basis. However, this facility is no more active.		
		2021	2020
	Note	Rupees	
23	PROVISION FOR COMPENSATED ABSENCES		
Changes in present value of defined benefit obligations			
Present value of defined benefit obligations- Opening		2,959,558	2,500,565
Current service cost		1,005,186	1,266,197
Interest cost on defined benefit obligation		225,250	221,384
Benefits paid		(1,298,608)	(1,065,418)
Remeasurement			
- Actuarial losses/(gains) from changes in assumptions		7,213	(5,872)
- Experience adjustments		146,812	42,702
Present value of defined benefit obligations- Closing		3,045,411	2,959,558
Expenses to be charged to statement of profit or loss account			
Current service cost		1,005,186	1,266,197
Experience adjustments		146,812	42,702
Actuarial gains from changes in financial assumptions		7,213	(5,872)
Interest cost on defined benefit obligation		225,250	221,384
Expense chargeable to statement of profit or loss account	27.1	1,384,461	1,524,411
Changes in net liability			
Statement of financial position liability- Opening		2,959,558	2,500,565
Expenses chargeable to statement of profit or loss account		1,384,461	1,524,411
Benefits paid		(1,298,608)	(1,065,418)
Statement of financial position liability- Closing		3,045,411	2,959,558



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24 CONTINGENCIES AND COMMITMENTS

24.1 Contingencies

A suit has been filed against the Company impleaded it for declaration, injunction and damage amounting to Rs. 3.5 million in the Honorable High Court of Sindh. The evidence of the parties has been completed before the commissioner and the case is at the stage of final arguments.

24.2 Commitments

There are no commitments at reporting date. (2020: Nil).

25 INCOME FROM OPERATION:

	2021	2020
	Rupees	
Income from finance leases	10,646,338	17,776,964
Income on finances and loans	10,656,993	3,806,333
	<u>21,303,331</u>	<u>21,583,297</u>

26 OTHER INCOME

Income from financial assets

Mark-up on loan to employees	47,277	59,299
Profit on bank account/return on investment	-	6,998

Income from non-financial assets

Gain on disposal of fixed assets	38,000	310,128
Other income/(loss)	5,000	(4,816)
	<u>90,277</u>	<u>371,609</u>



Notes to the Financial Statements

For the year ended December 31, 2021

		2021	2020
	Note	Rupees	
27 ADMINISTRATIVE AND GENERAL			
Salaries, allowances and other benefits	27.1	29,049,407	30,075,743
Depreciation	6 & 7	3,594,888	3,579,845
Legal and professional		3,628,273	2,977,654
Insurance		995,119	1,182,235
Travelling, conveyance and entertainment		968,518	958,947
Electricity, gas and water		1,042,373	887,010
Telephone and postage		786,820	759,466
Miscellaneous		683,486	599,259
Auditors' remuneration	27.6	430,400	622,000
Directors' fee	27.4	545,000	515,000
Printing and stationery		615,828	471,352
Repairs and maintenance		557,988	441,005
Rent, rates and taxes		445,712	257,372
Vehicle running		284,129	218,273
Advertising		411,776	97,363
Books and periodicals		39,885	36,165
Training and development		10,500	3,000
		44,090,102	43,681,689
27.1 Salaries allowance and other benefits include:			
Staff gratuity fund	18.4	1,761,032	1,722,387
Staff provident fund		750,155	775,716
Compensated absences	23	1,384,461	1,524,411
		3,895,648	4,022,514
27.2 Remuneration of Chief Executive Officer and Executives			

The aggregate amount charged in the financial statements, including all benefits, to the Chief Executive Officer and Executives of the Company are as follows:

	2021		2020	
	Chief Executive Officer	Executive	Chief Executive Officer	Executives
	(Rupees)			
Managerial remuneration	797,000	2,275,580	1,576,625	2,981,253
Housing and utilities	398,500	1,137,790	500,813	1,490,629
Provident fund	63,760	24,000	26,709	72,000
Medical and other perquisites	1,702,815	588,191	463,343	628,017
Leave encashment	52,400	286,417	-	192,500
	3,014,475	4,311,978	2,567,490	5,364,399
Number of person(s)	1	2	1	2



Notes to the Financial Statements

For the year ended December 31, 2021

27.3 The Chief Executive Officer and certain executives were also provided with free use of Company owned and maintained cars in accordance with their terms of employment.

27.4 This represents remuneration paid to the non-executive directors of the Company for attending meetings of the Board and Board's committees.

27.5 Executive means an employee, other than the chief executive and directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year.

	2021	2020
	Rupees	
27.6 Auditors' remuneration		
Annual audit fee	255,000	285,000
Half yearly review fee	50,000	56,000
9 Month review fee	-	56,000
Fee for other certifications	45,000	50,000
Out of pocket expenses	80,400	175,000
	430,400	622,000

28 FINANCE COST

Mark-up on short term borrowings	16,726,118	19,611,282
Interest expense for leasing arrangements	1,648,138	1,835,517
Bank charges	115,208	123,070
	18,489,464	21,569,869

29 TAXATION

29.1 Current tax liability

Provision for the current year income tax has been made under the provisions of minimum tax under Section 113 of the Income Tax Ordinance, 2001.

29.2 Current status of tax assessments

The income tax assessments of the Company for tax year 2012 has been selected for tax audit u/s 214 C of Income tax ordinance 2001.

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

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



Notes to the Financial Statements

For the year ended December 31, 2021

The Company's case, the year 31 December 2015, has been selected for audit under section 214 of the Ordinance. The taxation officer vide notice issued under section 177 of the Ordinance has called for certain information /documents, which is being complied by the Company. The taxation office has not passed any order yet.

29.3 Deferred tax asset of Rs. 38.155 million (2020: Rs. 43.620 million) has not been recognized as the Company does not foresee future taxable profits against which unused tax losses will be utilized.

29.4 The Company computes tax based on the generally accepted interpretations of the tax laws to ensure that the sufficient provision for the purpose of taxation is available which can be analyzed as follows:

	2020	2019	2018
		Rupees	
Tax provision as per accounts	323,749	309,759	349,920
Tax payable/paid as per tax return	287,924	350,627	349,920

2021 2020

Rupees

30 LOSS PER SHARE - BASIC AND DILUTED

Loss after taxation attributable to ordinary shareholders (Rupees)	(13,399,171)	(57,676,586)
--	--------------	--------------

(Number of shares)

Weighted average number of outstanding ordinary shares (No.)	32,000,000	32,000,000
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Loss per share - basic and diluted (Rupees per share)	(0.42)	(1.80)
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30.1 No figure for diluted earnings per share has been presented as the Company has no potential ordinary shares outstanding at the year end.



Notes to the Financial Statements

For the year ended December 31, 2021

31 TRANSACTIONS WITH RELATED PARTIES

The related parties of the company comprise of SME Bank Limited (the Parent Company), key management personnel, non-executive directors and contributory staff retirement benefit plan.

	Note	2021 Rupees	2020
31.1 Balances			
SME Bank Limited (Parent company)			
Short term borrowing	21	137,183,616	144,790,638
31.2 Transactions			
SME Bank Limited (Parent company)			
Mark up on short-term borrowings	28	16,726,118	19,611,282
Short term borrowing facility-net repayment/obtained		(7,607,022)	2,634,279
Rent expense paid for Peshawar branch		550,272	550,272
Directors and key management personnel			
Compensation of directors and key management personnel			
Directors fee paid		545,000	515,000
Key management remuneration		7,326,453	7,931,889
Company's contribution towards provident fund	27.1	750,155	775,716
Total compensation of directors and key management personnel		<u>8,621,608</u>	<u>9,222,605</u>
		Unaudited 2021	Audited 2020
32 PROVIDENT FUND		Rupees	
Size of the fund (net assets)		5,949,846	5,674,170
Cost of Investment made		6,427,364	5,719,414
Percentage of investment made		108.03%	100.80%
Fair value of investments		6,697,291	5,851,465

All the investments of the Provident Fund are kept in mutual funds.

- 32.1 Investments out of provident fund have been made in accordance with the provisions of the section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

33 CASH AND CASH EQUIVALENTS

Cash and bank balances	15	3,157,864	1,626,307
Short term borrowings	21	(137,183,616)	(144,790,638)
		<u>(134,025,752)</u>	<u>(143,164,331)</u>



Notes to the Financial Statements

For the year ended December 31, 2021

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction and overview

The Company has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing it.

Risk management framework

The Company's Board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's audit committee oversees how management monitor compliance with the Company's risk management policies and procedures, and review the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's audit committee is assisted in its oversight by internal audit. Internal audit undertakes both regular and adhoc reviews of risk management controls and procedures, the result of which are reported to the audit committee.

34.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

34.1.1 Management of credit risk

The Company's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the NBFC Rules and Regulations. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continually assessing the credit worthiness of counter parties. To reduce the exposure to credit risk the Company has developed a formal approval process whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery (and also obtains security / advance payments, wherever considered necessary). Cash is held only with reputable banks with high quality credit worthiness.



Notes to the Financial Statements

For the year ended December 31, 2021

34.1.2 Exposure to credit risk

In summary, compared to the maximum amount included in the statement of financial position, the maximum exposure to credit risk at the end of the reporting period is as follows:

	2021		2020	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
	(Rupees)			
Bank balances	3,091,452	3,091,452	1,559,895	1,559,895
Advances	137,119	137,119	152,426	152,426
Net investment in finance lease	275,342,507	275,342,507	323,368,379	323,368,379
Long term finances and loans	53,118,441	53,118,441	61,080,649	61,080,649
Long-term loans to employees	572,801	572,801	494,201	494,201
Deposits and other receivables	852,222	852,222	852,222	852,222
	<u>333,114,542</u>	<u>333,114,542</u>	<u>387,507,771</u>	<u>387,507,771</u>

34.1.3 Credit ratings and collaterals

Details of the credit ratings of balances with the banks (including profit receivable) as at 31 December were as follows:

Ratings	2021	2020
A1+	0.00%	0.00%
A-1+	86.36%	99.13%
Others	13.64%	0.87%
	<u>100%</u>	<u>100%</u>

Settlement risk

Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash or other assets as contractually agreed on sale. This risk is addressed more or less in accordance with the parameters set out in the credit risk management above.

34.1.4 Impairment losses and past due balances

	2021			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognized
	(Rupees)			
Not past due	95,215,206	9,204,400	86,010,806	-
1 - 179 days	12,070,064	61,734	12,008,330	-
180 days - 1 year	-	-	-	-
More than 1 year	<u>500,830,108</u>	<u>51,292,780</u>	<u>309,710,113</u>	<u>139,827,215</u>
	<u>608,115,378</u>	<u>60,558,914</u>	<u>407,729,249</u>	<u>139,827,215</u>
	2020			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognized
	(Rupees)			
Not past due	130,495,171	13,043,817	117,451,354	-
1 - 179 days	19,416,042	651,270	18,764,772	-
180 days - 1 year	-	-	-	-
More than 1 year	<u>234,537,815</u>	<u>58,474,212</u>	<u>335,965,633</u>	<u>(159,902,030)</u>
	<u>384,449,028</u>	<u>72,169,299</u>	<u>472,181,759</u>	<u>(159,902,030)</u>



Notes to the Financial Statements

For the year ended December 31, 2021

34.1.5 Concentration of credit risk - net investment in finance lease

The Company seeks to manage its credit risk through diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or business sectors. It also obtains collaterals when appropriate.

The management of the Company follows two sets of guidelines. Internally, it has its own policies and procedures duly approved by the Board of Directors whereas externally it adheres to the regulations issued by the SECP. The operating policy defines the extent of fund based exposures with reference to a particular sector or group of leases.

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

Category	2021		2020	
	Rupees	Percentage	Rupees	Percentage
Public Transport Services	99,362,614	18.46%	99,353,265	15.86%
Printing & Packaging	40,848,222	7.59%	56,780,997	9.06%
Miscellaneous	43,814,320	8.14%	55,650,938	8.88%
Film Processing	44,799,057	8.32%	47,365,497	7.56%
Oil & Gas	32,668,305	6.07%	42,958,603	6.86%
Food & Beverages	39,176,723	7.28%	40,569,788	6.48%
Health Care	38,209,285	7.10%	40,277,035	6.43%
Garments	26,857,389	4.99%	30,850,275	4.92%
Cargo Carriers	26,715,593	4.96%	29,661,613	4.74%
Entertainment	20,120,072	3.74%	28,862,877	4.61%
Others	25,685,231	4.77%	28,681,331	4.58%
Leather & Tannery	3,772,518	0.70%	17,164,218	2.74%
Engineering	12,710,613	2.36%	16,500,306	2.63%
Textile	13,225,741	2.46%	14,092,568	2.25%
Plastic	14,592,745	2.71%	13,950,099	2.23%
Gems & Jeweler	13,691,662	2.54%	13,781,662	2.20%
Pharma	12,236,745	2.27%	12,236,745	1.95%
Education	6,399,349	1.19%	10,229,377	1.63%
Confectionary	5,215,299	0.97%	9,107,485	1.45%
Communication	6,802,623	1.26%	6,802,623	1.09%
Construction & Building Products	5,192,256	0.96%	5,192,256	0.83%
Chemicals	3,779,865	0.70%	4,086,174	0.65%
Fisheries	1,285,857	0.24%	1,285,857	0.21%
Dates	551,021	0.10%	551,021	0.09%
Furniture	421,872	0.08%	421,872	0.07%
	538,134,977	100%	626,414,482	100%



Notes to the Financial Statements

For the year ended December 31, 2021

34.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or may face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due.

34.2.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Due to nature of the business, the Company maintains flexibility in funding by maintaining committed credit lines available. The Company's liquidity management involves projecting cash flows and considering the level of liquid assets necessary to fulfill its obligation; monitoring liquidity ratios against internal and external requirements and maintaining debt financing plans.

34.2.2 Maturity analysis for financial liabilities

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to maturity date and represents the undiscounted cash flows. The amounts in the table are the gross nominal undiscounted cash flows (including interest payments).

	2021			
	Total	Contractual cash flow	Up to one year	Two to five years
	(Rupees)			
Financial Liabilities				
Trade and other payables	2,736,096	2,736,096	2,736,096	-
Lease liability	7,615,220	7,615,220	3,594,336	4,020,884
Short term borrowings	137,183,616	137,183,616	137,183,616	-
Long term finances	373,233	373,233	373,233	-
Long term deposits	174,748,031	174,748,031	44,545,236	130,202,795
Markup accrued	4,209,212	4,209,212	4,209,212	-
	<u>326,865,408</u>	<u>326,865,408</u>	<u>192,641,729</u>	<u>134,223,679</u>
	2020			
	Total	Contractual cash flow	Up to one year	Two to five years
	(Rupees)			
Financial Liabilities				
Accrued and other liabilities	5,040,042	5,040,042	5,040,042	-
Lease liability	10,128,078	10,128,078	2,913,768	7,214,310
Short term borrowings	144,790,638	144,790,638	144,790,638	-
Long term finances - secured	373,233	373,233	373,233	-
Long term deposits	201,186,275	201,186,275	57,008,680	144,177,595
Markup accrued	4,211,211	4,211,211	4,211,211	-
	<u>365,729,477</u>	<u>365,729,477</u>	<u>214,337,572</u>	<u>151,391,905</u>



Notes to the Financial Statements

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34.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will effect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company is exposed to interest rate and other price risk only.

34.3.1 Management of market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Company manages the market risk by monitoring exposure on marketable securities by following internal risk management policies and regulations laid down by the Securities and Exchange Commission of Pakistan.

34.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in finance lease, finance and loans, investment in government securities, bank balances and borrowing from banks. The Company carries a mix of fixed and floating rate financial instruments.

At the end of the reporting period, details of the interest rate profile of the Company's interest bearing financial instruments were as follows:

	Effective Interest rate%	Carrying amount	
		2021	2020
Fixed rate instruments		Rupees	
Financial assets			
Net investments in finance lease	9.5% to 25%	275,342,507	323,368,379
Long term finance and loans	15% to 24.5%	53,118,441	61,080,649
Long-term loans to employees - secured	5% to 7%	572,801	494,201
		329,033,749	384,943,229
Financial liabilities			
Long term finance	0%	373,233	373,233
Liabilities against assets subject to finance lease	17.33% to 18.26%	7,615,220	10,128,078
Variable rate instruments		7,988,453	10,501,311
Financial assets			
Bank balances		-	93,895
		-	93,895
Financial liabilities			
Short term borrowings	11.35% to 11.65%	137,183,616	144,790,638
		137,183,616	144,790,638



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34.3.3 Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through the statement of profit or loss. Therefore, a change in interest rates at the reporting date would not affect the statement of profit or loss.

34.3.4 Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by Rs. 0.137 million (2020: Rs. 0.144 million). This analysis assumes that all other variables, remain constant. The analysis is performed on the same basis which were used

34.3.5 Interest rate gap position

Yield / interest rate sensitivity position for on balance sheet financial instruments based on the earlier of contractual re-pricing or maturity date is as follows:

2021					
Effective mark-up / interest / profit rate	Total	Exposed to mark-up / interest / profit rate risk			
		Upto three months	More than three months and up to one year	More than one year	
----- (Rupees) -----					
Financial assets					
- Long term finances and loans	15% to 24.5%	53,118,441	9,204,400	-	43,914,041
- Long-term loans to employees - secured	5% to 7%	572,801	-	228,880	343,921
- Net investment in finance lease	9.5% to 25%	275,342,507	-	98,019,136	177,323,371
Total financial assets as on December 31, 2021		329,033,749	9,204,400	98,248,016	221,581,333
Financial liabilities					
- Lease liability	17.33% to 18.26%	7,615,220	598,001	2,996,335	4,020,884
- Short term borrowings	11.35% to 11.65%	137,183,616	-	137,183,616	-
- Long term finances	0%	373,233	373,233	-	-
Total financial liabilities as on December, 2021		145,172,069	971,234	140,179,951	4,020,884
On statement of financial position gap		183,861,680	8,233,166	(41,931,935)	217,560,449
Total interest rate sensitivity gap		183,861,680	8,233,166	(33,698,769)	183,861,680

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



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For the year ended December 31, 2021

34.4 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Company is not exposed to equity securities price risk as the Company does not hold any equity securities as at December 31, 2021 (2020: none).

34.5 Fair value and risk management

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value of underlying financial assets are determined based on requirements of Regulation 66 of Non-Banking Finance Companies and Notified Entities Regulations, 2008 and directives if any, issued by the Securities and Exchange Commission of Pakistan. Fair value of debt instruments other than Government Securities, which are unlisted or listed but not traded regularly on stock exchange be valued at rates notified by Mutual Funds Association of Pakistan. The fair value of financial assets traded in active market i.e. listed securities are based on the quoted market price at determined by stock exchange in accordance with its regulations.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorized into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.

Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

- 34.6 For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the year ended December 31, 2021, there were no transfers between Level 1, Level 2 or Level 3 of fair value measurements.



Notes to the Financial Statements

For the year ended December 31, 2021

As at December 31, 2021, the Company held the following classes of financial instruments measured at fair value:

December 31, 2021		Note	Cash and cash equivalent	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets										
Cash and bank balance	15		3,157,864	-	-	3,157,864	-	-	-	-
Advances	12		-	2,779,957	-	2,779,957	-	-	-	-
Deposits, prepayments and other receivables	13		-	749,393	-	749,393	-	-	-	-
Long term finances and loans and accrued interest thereon	9		-	53,118,441	-	53,118,441	-	-	-	-
Net investment in finance leases	8		-	275,342,507	-	275,342,507	-	-	-	-
			3,157,864	331,990,298	-	335,148,162	-	-	-	-
Financial liabilities										
Accrued and other liabilities	19		-	-	2,736,096	2,736,096	-	-	-	-
Accrued mark-up on borrowings	20		-	-	4,209,212	4,209,212	-	-	-	-
Short term borrowings	21		137,183,616	-	-	137,183,616	-	-	-	-
Provision for compensated absences	23		-	-	3,045,411	3,045,411	-	-	-	-
Long term finances	22		-	-	373,233	373,233	-	-	-	-
Long term deposits	8		-	-	130,202,795	130,202,795	-	-	-	-
Defined benefit obligations	18		-	-	9,764,513	9,764,513	-	-	-	-
Lease liabilities	17		-	-	7,615,220	7,615,220	-	-	-	-
			137,183,616	-	157,946,480	295,130,096	-	-	-	-

The Company has not disclosed the fair values for these financial instruments, because their carrying amounts are reasonable approximation of fair value.

	Note	Carrying amount			Fair value				
		Cash and cash equivalent	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
December 31, 2020									
Financial assets									
Cash and bank balance	15	1,626,307	-	-	1,626,307	-	-	-	-
Advances	12	-	5,007,025	-	5,007,025	-	-	-	-
Deposits, prepayments and other receivables	13	-	1,496,938	-	1,496,938	-	-	-	-
Long term finances and loans and accrued interest thereon	9	-	61,080,649	-	61,080,649	-	-	-	-
Net investment in finance leases	8	-	323,368,379	-	323,368,379	-	-	-	-
		1,626,307	390,952,991	-	392,579,298	-	-	-	-
Financial liabilities									
Accrued and other liabilities	19	-	-	5,040,042	5,040,042	-	-	-	-
Accrued mark-up on borrowings	20	-	-	4,211,211	4,211,211	-	-	-	-
Short term borrowings	21	144,790,638	-	-	144,790,638	-	-	-	-
Provision for compensated absences	23	-	-	2,959,558	2,959,558	-	-	-	-
Long term finances	22	-	-	373,233	373,233	-	-	-	-
Long term deposits	8	-	-	7,214,310	7,214,310	-	-	-	-
Defined benefit obligations	18	-	-	9,164,855	9,164,855	-	-	-	-
Lease liabilities	17	-	-	10,128,078	10,128,078	-	-	-	-
		144,790,638	-	39,091,287	183,881,925	-	-	-	-



Notes to the Financial Statements

For the year ended December 31, 2021

35 CAPITAL MANAGEMENT

- 35.1 The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce its cost of capital.
- 35.2 The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in the economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to its shareholders or issue new shares. Consistent with others in the industry, the Company also monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital employed:

	2021	2020
	Rupees	
Total debt	7,615,220	10,128,078
Total equity	6,535,396	19,560,340
Total capital employed	<u>14,150,616</u>	<u>29,688,418</u>
Gearing ratio	<u>53.82%</u>	<u>34.11%</u>

- 35.3 As required under the NBFC Regulations, every investment financing company involved in non deposit taking shall maintain a minimum capital of Rs 50 million, the Company has not complied with said requirement of NBFC Regulations 2008 of maintaining minimum capital requirement.

35.4 Capital management objectives and policies

The Company finances its operations through equity, borrowings and management of its working capital with a view to maintaining an appropriate mix between various sources of finance to minimize liquidity risk. Taken as a whole, the Company's risk arising from financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

36 SEGMENT INFORMATION

A segment is a distinguishable component of the Company that is engaged in business activities from which the Company earns revenues and incur expenses and its results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Further, discrete financial information is available for each

The Company's reportable segments under IFRS 8 are therefore finance lease, loans and receivables, and investments.

All assets and liabilities are allocated to reportable segments other than assets and liabilities not directly related to the particular segment.

**Notes to the Financial Statements**

For the year ended December 31, 2021

	2021			
	Finance lease	Loans and receivables	Others	Total
	----- (Rupees) -----			
Segment revenue	10,646,338	10,656,993	90,277	21,393,608
Reversal of provision	16,426,638	3,648,177	7,979,392	28,054,207
Segment result	27,072,976	14,305,170	8,069,669	49,447,815
Unallocated cost				
Finance cost	-	-	-	(18,489,464)
Administrative and general expenses	-	-	-	(44,090,102)
				(62,579,566)
Loss before tax	-	-	-	(13,131,751)
Provision for taxation	-	-	-	(267,420)
Loss for the year	-	-	-	(13,399,171)
Other information				
Segment assets	275,342,507	53,118,441	-	328,460,948
Unallocated assets	-	-	18,084,682	18,084,682
Total assets				346,545,630
Segment liabilities	176,793,809	-	-	176,793,809
Unallocated liabilities	-	-	163,216,425	163,216,425
Total liabilities				340,010,234
Net assets	-	-	-	6,535,396
Capital expenditure	-	-	163,413	163,413

36.1 Revenue reported above represents revenue from external customers. There are no inter-segment sales.

36.2 Revenue from finance lease includes income from finance lease operations and gain/loss on termination of lease. Revenue from loans and receivable includes mark-up income on loans to customers and employees.

**Notes to the Financial Statements**

For the year ended December 31, 2021

	2020			
	Finance lease	Loans and receivables	Others	Total
	(Rupees)			
Segment revenue	17,776,964	3,806,333	371,609	21,954,906
Provision -Net	(12,461,567)	(1,594,618)	-	(14,056,185)
Segment result	5,315,397	2,211,715	371,609	7,898,721
Unallocated cost				
Finance cost	-	-	-	(21,569,869)
Administrative and general expenses	-	-	-	(43,681,689)
				(65,251,558)
Loss before tax	-	-	-	(57,352,837)
Provision for taxation	-	-	-	(323,749)
Loss for the year	-	-	-	(57,676,586)
Other information				
Segment assets	323,368,379	61,080,649	-	384,449,028
Unallocated assets	-	-	21,168,949	21,168,949
Total assets				405,617,977
Segment liabilities	203,814,410	-	-	203,814,410
Unallocated liabilities	-	-	182,243,227	182,243,227
Total liabilities				386,057,637
Net assets	-	-	-	19,560,340
Capital expenditure	-	-	145,600	145,600

36.3 Geographical segment analysis

The Company's operations are restricted to Pakistan only.

37 IMPACT OF COVID-19 ON THE FINANCIAL STATEMENTS

In March 2020, the World Health Organization ("WHO") declared the outbreak of the novel coronavirus (known as COVID-19) as a global pandemic. The rapid spread of the virus has caused governments around the world to implement stringent measures to help control its spread, including, without limitation, quarantines, "stay-at-home" or "shelter-in-place" orders, social distancing mandates, travel restrictions, and closures or reduced operations for businesses, governmental agencies, schools and other institutions. The industry, along with global economic conditions generally, has been significantly disrupted by the pandemic.

The COVID-19 pandemic and associated impacts on economic activity had certain effect on the operational and financial position of the Company for the year ended December 31, 2021 due to overall slowdown in economic activity and continuity of business operations. However, to reduce the impact on the performance of the Company has introduced a host of measures on both the financial and operational fronts by issuing certain circulars and notifications from time to time.



Notes to the Financial Statements

For the year ended December 31, 2021

The management of the Company is closely monitoring the situation, and in response to the developments, taking all possible precaution and measures to safeguard health and safety of employees and other stakeholders, and also implemented a number of measures to minimise the impact to the extent possible.

38 NUMBER OF EMPLOYEES

The number of employees as at the year end were 28 (2020: 32) and average number of employees during the year were 25 (2020: 33).

39 SUBSEQUENT EVENTS

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

40 CORRESPONDING FIGURES

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

41 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on March 04 2022 by the Board of Directors of the Company.

Asghar Maqsood
Chief Executive Officer

M. Shahzad
Chief Financial Officer

Javed Mehmeed
Director

Branch Network

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FORM OF PROXY

I/We _____ of _____ being a member of SME BANK LIMITED, hereby appoint _____ or failing him _____ of _____ as my/our proxy, to vote for me/us and on my/our behalf at the 19th Annual General Meeting of the Bank to be held on March 30, 2022 at 3:30 pm and at any adjournment thereof.

As witness my/our hand the _____ day of _____ signed by the said _____ in the presence of _____.

Revenue Stamps:

Signature: _____

Name: _____

Designation: _____

Address: _____

Witness:

Signature: _____

Name: _____

Signature: _____

Address: _____

Notes:

1. A proxy must be a member of the Bank. However, an association (whether body corporate or not) being a member of the Bank may appoint as its proxy one of its officers though not a member of the Bank.
2. Proxy form, in order to be valid, must be duly signed and deposited at registered office of the Bank not less than 48 hours before the time of holding the meeting.



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