



**SME BANK LIMITED**

**UNCONSOLIDATED FINANCIAL  
STATEMENTS**

**FOR THE YEAR ENDED  
DECEMBER 31, 2022**

## **PRESIDENT'S MESSAGE**

It is my pleasure to present the 21st Annual Report of SME Bank for the year ended December 31, 2022.

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 31,2022 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, 2022 as compared to Rs.485 million last year.

It is the Management's vision to build an image of SME Bank as the bank which is a friend of the Small & Medium Enterprises; a bank totally trusted with their deposits, ability and resources to cater to their business needs. Customers' will see SME Bank as the bedrock integral to their business growth and sustainability and as a national institution ably playing its crucial role in the country's economic growth & development.

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



**President**



## **DIRECTORS' REPORT TO THE SHAREHOLDERS**

We are pleased to present the 21<sup>st</sup> annual report of SME Bank Limited with the audited accounts and auditors' report thereon for the year ended December 31, 2022.

### **Economic Outlook**

Inflationary pressure is expected to calm down gradually due to flood-led damages which have disrupted the supply of essential items. Rising prices of onions and wheat both are the key factors responsible for affecting the general price level. International commodity prices are showing a downward trend on a YoY basis and its impact will ultimately be transmitted into domestic prices with some lags after adjusting the currency devaluation. While the government kept the administered prices at their current level to stabilize the overall prices but post floods persistent shortfall of essential crops is preventing inflation to settle down.

SBP is also enacting a contractionary monetary policy to contain inflationary pressure. However, a larger portion of volatility in the current price level is explained by supply-side factors. Further, the recent political and economic uncertainties both are causing inflationary expectations upward. The CPI inflation on YoY basis for January 2023, is forecasted in the range of 24-26 percent.

### **Inflation**

For the month of Dec'22, headline inflation clocked-in at 24.5% compared to 12.3% in Dec'21 and 23.8% in Nov'22, respectively. With this, average inflation for 1HFY23 clocks-in at 25.02% compared to 9.81% in 1HFY22. The YoY uptick in CPI during Dec'22 was led by Food (35.5% YoY), Transport (41.2% YoY), Housing (6.9% YoY), Restaurants (27.4% YoY), Alcoholic Beverages & Tobacco (36.2% YoY), House Hold Equipment (29.2% YoY), Miscellaneous (25.8% YoY), Recreation & Culture (38.5% YoY) and Clothing & Footwear (17.1% YoY).

### **Monetary Policy Outlook**

It is expected, headline inflation to remain elevated in 2HFY23 before slowing down with the onset of new fiscal year. It is expected that pressure mainly emanating from any further energy tariff hikes, weaker currency against the greenback and surge in food prices. Showing concern for the same, the State Bank of Pakistan (SBP) in its monetary policy meeting held on Nov 25th, 2022 hiked the benchmark policy rate by 100bps to 16%. To recall, the last hike of 125bps was done in Jul'22. The current stance was aimed at containing the impact of elevated domestic inflationary pressure, so as to embark on a path of sustainable recovery. Moreover, SBP also revised its inflation expectations for FY23 to 21-23% from 18-20% previously.

### **Foreign Investment**

FDI reached \$ 460.9 million during Jul- Dec FY2023 (\$ 1114.7 million last year) decreasing by 58.7 percent. FDI received from China \$ 131.8 million (28.6 percent), Switzerland \$ 89.8 million (19.5 percent), U.A.E \$ 80.8 million (17.5 percent of total FDI), and Japan \$ 74.3 million (16.1 percent). The power sector attracted the highest FDI of \$ 237.1 million (51.4 percent of total FDI), Financial Business \$ 176.0 million (38.2 percent), and Oil & Gas Explorations \$ 89.2 million (19.3 percent).



Foreign Private Portfolio Investment has registered a net outflow of \$ 12.9 million during Jul-Dec FY2023. Foreign Public Portfolio Investment recorded a net outflow of \$ 1019.7 million, on account of Sukuk repayment in December 2022. The total foreign portfolio investment recorded an outflow of \$ 1032.6 million during Jul-Dec FY2023 as against an outflow of 405.5 million last. Total foreign investment during Jul-Dec FY2023 recorded an outflow of \$571.7 million as against an inflow of \$ 709.3 million last year.

### **Worker's Remittances**

In Jul-Dec FY2023, workers' remittances recorded at \$ 14.1 billion (\$ 15.8 billion last year), decreased by 11.1 percent. MoM basis, remittances decreased by 3.2 percent in December 2022 (\$ 2.0 billion) as compared to November (\$ 2.1 billion). Share of remittances (Jul-Dec FY2023) from Saudi Arabia remained 24.7 percent (\$ 3470.4 million), U.A.E 18.5 percent (\$ 2601.9 million), U.K 14.1 percent (\$ 1977.2 million), USA 10.8 percent (\$ 1526.2 million), other GCC countries 11.6 percent (\$1632.2 million), EU 11.0 percent (\$ 1544.3 million), Malaysia 0.4 percent (\$ 62.3 million), and Other Countries 8.9 percent.

### **Foreign Exchange Reserves**

Pakistan's total liquid foreign exchange reserves increased to \$ 9.45 billion on January 24, 2022, with the SBP's reserves now standing at \$ 3.678 billion. Commercial banks' reserves remained at \$ 5.77 billion.

### **Commercial Banking**

Paving the way through changing dynamics: The past year turned out to be a bull case in terms of profitability for the banking sector in Pakistan. However, this performance has not been a smooth ride with rising inflation, demand disruptions, high international commodity prices, geopolitical conditions and other macroeconomic indicators hampering the growth of not only banks but the economy in general.

### **Final Remarks**

Pakistan is currently confronted with the challenges like high inflation, low growth, and low levels of official foreign exchange reserves. Further MoM increases in consumer prices may be countered by a further mean reverting international commodity prices and some exchange rate stability due to decreased pace of depreciation. The overall money supply growth remains compatible with a return to low and stable inflation. But the outlook of M2 is broadly dependent on fiscal accounts which are under immense pressure on account of heavy interest payments and rehabilitation spending.

Nonetheless, the first five months of CFY have ended with some developments; containing fiscal deficit and surplus in primary balance due to effective fiscal management. Fiscal consolidation is key to saving official reserves and exchange rate stability. This may temporarily be costly in terms of growth prospects in the short term, but long-run prosperity and growth can only be achieved by augmenting the country's long-term equilibrium growth path by expanding production capacities and productivity. This is a shared responsibility of both the private and public sectors.



## **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 2022 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 2022 was 9.75 percent. At the end of the year 2022 policy rate reached at 16.00 percent with increase of 6.25 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, however 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. Despite enormous pressure of liquidity crunch, SME loans and advances portfolio stood at Rs 1,398 million. During the year under review income from SME lending operations decreased by an amount of Rs 482 million. The cost of funds increased by an amount of Rs 511 million due to increase in average rate of borrowings from 7.21% to 12.96% and average rate of deposits from 5.93% to 9.98% in 2022.

The deposits of the bank has been increased by Rs. 224 million and stood at Rs 8,472.49 million as on December 31, 2022 as compared to last year Rs. 8,248.27 million as on December 31, 2021.

During the year 2022, the bank reversed net provision of Rs 41.38 million against non-performing loans as against net provision reversal of Rs 18.33 million in 2021. Loans and advances on account of the bank's lending operation were Rs 1,398 million in 2022 compared to Rs 1,880 million in 2021.

The macro economic factors such as increase in inflation and interest rate seriously dampened the business activities in the country and slow 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, 2022 were Rs 180 million whereas on December 31, 2021 it was Rs 438 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. 139.18 million as at December 31, 2022. The company during the year has mainly focused on internal cash generation through recoveries from its portfolio and reinvesting these to build-in new quality business. The company has managed to write fresh net "leases and working capital" worth Rs. 14.98 million. Total recoveries aggregated to Rs. 80.622 million (including Rs. 52.72 million from non-performing portfolio). The percentage of default in new business written over last 3 years has been negligible. Market value of its share ranged between Rs 1.6 to Rs 3.52 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 1,398.23 million during the year 2022 as compared to loss before tax of Rs 1,051.45 million in 2021, and Net loss of Rs 1,249.88 million as compared to Net loss of Rs 942.42 million in 2021. The reason for incurring losses were due to pending privatization, restructuring, limited outreach, inadequate level of equity and economic conditions. 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 purpose for appraising the effectiveness of these systems in the bank.

### **Deposits**

Despite all the impediments, the deposits of the bank has been increased by Rs. 224 million and stood at Rs 8,472.49 million as on December 31, 2022.

### **Disbursements**

Liquidity constraints notwithstanding, the bank was able to achieve fresh disbursement of Rs 272 million during the year as compared to Rs 476 million in the previous year while the number of clients served during the year was 50 as compared to 129 in the previous year and total number of outstanding borrowers were 585 at the year end.

### **Auditor's Adverse Opinion in Audit Report:**

Our contentions about the reasons of adverse opinion reported by the auditors are as under:

1. The statement of the Auditor (SMEL continues to operate on a net loss basis) is contrary to facts as SMEL closed its books for the year 2022 with profit after tax of Rs. 1.230 millions.
2. Deferred tax asset of Rs. 1,165.061 million reported in balance sheet of year 2022, which recognized an asset over the period of last six years, cannot take as a reason to state that the financial statements of the Bank do not present fairly the state of the Bank's affairs as at December 31, 2022. Whereas, bases of deferred tax determined amounts are verifiable through its supporting record. However, If the auditors are of the view that basis of the deferred tax no more exist due to decision taken by The Federal Cabinet on March 17, 2023 the auditors may suggest us future treatment of deferred tax in financial statement for the year 2023, the suggestion will be adopted with consultation of our tax advisors.
3. As per decision of transfer of the portfolio from SME Bank to National Bank of Pakistan the portfolio was supposed to be shifted from Financial Statements / Books of SME Bank to Financial Statements / Books of National Bank of Pakistan; but the portfolio could not reflected in the financial statements / books of National Bank of Pakistan, who refused to report the portfolio in its financial statements. Resultantly, in best national interest, the portfolio, which is fully provisioned, continues to appear in the books of the SME Bank. While the position of the portfolio was highlighted in past by the Auditors in their reports, the reporting of the portfolio in the financial statements of the bank had never been declared as not presenting the state of the bank's affairs fairly as is being done in Audit report for the year 2022 without given any justification thereof.



4. The auditors narrated the same observation / evidences with up-dated figures under the Head of "Material Uncertainties relating to Going Concern", which they had been stated in their report for the year 2021 under the head; but in report for the year 2022, conclusion was changed *"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"* to *"conditions indicate that going concern assumption of the Bank is no more appropriate. Our opinion is modified in respect of this matter"* without stating any reasons thereof. Their contention, in the absence of assessment of realizable value of assets and settlement amount of liabilities, we are unable to assess the impact of required adjustments on these financial statements, which is considered unjustified particularly in scenario where more than 93% shares of the bank are owned by Government of Pakistan and management has made disclosure of a Material Uncertainty in the Financial Statements.

We are of the view that in light of above foregoing the reasons stated by the auditors do not carry enough grounds to develop adverse opinion that the financial statements of the Bank do not present fairly the state of the Bank's affairs as at December 31, 2022 and of the loss and the comprehensive loss, the changes in equity and its cash flows for the year then ended in accordance with the accounting and reporting standards.

### **Leasing Business**

SME Leasing Limited, a subsidiary of the Bank incorporated in 2002, has posted a profit after tax of Rs. 1.230 million as compared to loss of Rs. 13.399 million from last year. Recoveries of NPLs and reversal of provision contributed a lot to convert the company from loss to profit for the year 2022. Net equity of the company is Rs 7.924 million (2021: Rs 6.54 million). PACRA has assigned the long-term rating of B- (2021: B-) and a short term rating of A4 (2021: A4).

SME Leasing disbursed Rs 14.983 million (2021: Rs. 17.704 million) to 4 clients in 2022 (2021: 6). Outstanding portfolio (lease and working capital) stands at Rs 322.543 million with 220 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 functions of the bank for improvement in SOPs and mechanism for facilitating the customers at SME bank.

A comprehensive Complaint Resolution Mechanism and Complaint Resolution Policy have been designed and are in place. For effective management and handling of complaints, a complaint management system (CMS) has been developed and implemented in the bank. The Complaint Resolution Mechanism designed in light of SBP Consumer Grievances Handling Mechanism (CGHM) provides more than one channels to the customers 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.



Sixteen (16) complaints were received during the year 2022 which have been resolved and no complaint was pending as on 31-12-2022. Moreover, a customer satisfaction 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 and Security**

Critical IT infrastructure has been upgraded/and is in the process of up gradation to maintain highest level of quality of service and digital trust for all stakeholders while ensuring optimal use of resources. Multiple pilot projects have been initiated, as per service delivery requirements of the Bank, to facilitate introduction of new digital products & services. Technology driving/driven processes and services have been upgraded/refined to improve efficiency and to ensure compliance with the applicable laws & regulations.

Bank has assigned high priority to Cyber Security and is continuously improving the available skills, processes and technology to maintain the highest level of security posture; including introducing the culture of security consciousness and development of Cyber Security Action Plans. IT Steering Committee and IT Security Team under guidance of the Board are managing the different technological/Cyber Security needs 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, 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.

The Tax Department has filed a petition for Leave to Appeal in the Supreme Court of Pakistan in another case for the Tax Years 2003 & 2004.

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 taken by the Tax Department.

For the tax year 2012 Order was passed u/s 221/113 of the ITO, 2001 which was paid, 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) who has remanded the case back for de novo consideration.

For the Tax Year 2016 Order in Appeal u/s 129(1) has been passed in favor of the Bank. 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. The cases have been remanded back for fresh consideration.

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 creating Sales Tax demand for the period Jan'2016-Dec'2016, which has been paid.

### **Risk Management Framework**

Risk can be defined as a combination of probability / happening of an event and its consequences / harms .The types and degree of a bank risk may be exposed to depend upon mainly its policies , management, size, business activities, volume etc.



Unless risks are assessed and measured it will not be possible to control risks. Further, a precise identification and assessment of risk give a true position of the Bank standing and helps in deciding future strategy as well as action plans accordingly. Management of risk by banks in Pakistan is governed by rules and regulations set by the State Bank of Pakistan in its capacity as a Regulator of the banks. SBP has involved Board of Directors of the bank to contribute its prudence and professionalism in bank affairs for their growth and development.

The Board of Directors have put in place an effective risk management system to identify, evaluate and mitigate risks undertaken in the achievement of long-term strategic objectives of the Bank. Risk Management and Governance Framework of the Bank is calibrated on the strong parameters. The Board of Directors approves risk policies and monitors the implementation of risk strategy. SME Bank Risk Management works following risk Policies approved by the Board of Directors and Procedural Manual made in line with internal policy, State Bank of Pakistan's Prudential Regulations and industry best practices. Moreover, Board Risk Management committee oversees the risk management function, bank risks, that can cause losses to the Bank, to ensure appropriate supervision and governance of the risk management function.

The Bank maintains a dedicated Risk Management Division independent from any business and is reporting directly to the President & CEO through Division Head. Risk Identification, assessment and monitoring of principal risks, their probability of occurrence and their potential impact to formulate appropriate risk mitigation strategy are carried out in bank operations. The Bank has in place Risk Policies for all material risks faced by the Bank, which includes: Credit Policy, Market & Liquidity Risk Policy, Operational Risk Management Policy, Information Security Policy, Green Banking Policy, compliance policy and fraud & forgery policy etc.

Bank's Risk Assessment and Management System (RAMS) uses risk rating models, containing qualitative and quantitative factors to assign credit risk ratings to various categories of borrowers and identification of related proper mitigates keeping in view products eligibility criteria, exposure limits to counterparty credit etc. Concentration risk is also monitored with respect business entities, business categories and sector wise etc as well as bank's exposure on a continuous basis for optimized returns. RMD has an Early Warning System to have a keen watch over its credit portfolio for avoidance of infection or non-performing loans.

SBP persistent emphasis on implementation of IFRS-9, Risk Management (RM) is also supporting the concerned bank functions for meeting the requirements as prescribed by SBP in this accounting standards.

### **Green Banking**

The State Bank of Pakistan (SBP) has played a pioneering role in integrating environment risks into overall credit assessment and developed Green Banking Guideline for Pakistan financial sector in 2017.

In November 2022, the State Bank has developed the ESRM Implementation Manual to help banks/ DFIs identify and manage environmental and Social (E&S) risks by having the right policies, procedure and tools in place. The ESRM implementation Manual builds on the work banks have conducted after the GBGs were issued in 2017. The ESRM implementation Manual provides tools and procedure to strengthen implementation of the GBGs.



ESRM implementation Manual, being a procedural guide will be used by banks as a tools for compliance of GBGs (with addition of social risks).

State Bank of Pakistan has given three (03) years to banks to fully implement ESRM since issuance of Manual. SME Bank has initiated steps towards its implementation to have ESRM in place within the given timeframe by SBP.

Prior to launch of ESRM Manual, 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's GB Policy.

Green Banking Policy along with Environmental Risk Management Framework was duly approved by Board of Directors and circulated for the guidance/implementation of all concerned offices/ branches.

Reporting/monitoring and implementation status of Green Banking Guidelines to State Bank of Pakistan on each quarter.

Regular sensitization of staff in branches and Head Office on Green Banking as part of environmental consciousness.

Review/customization of all lending products with a purpose to promote green banking facilitation, environmental friendly practices and reduction in carbon footprint.

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. 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 31, 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 final draft of share purchase agreement (SPA) had been shared with three 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 recommended to delist SME Bank Limited from the list of privatization on recommendation of Financial Adviser (FA) of Privatization Commission, who had asserted that despite all efforts and interactions with the pre-qualified bidders to date, positive feedback from the pre-qualified bidders was not forthcoming and owing to the deteriorating financial position of the Bank, the transaction of privatization of SME Bank was recommended to shelve. The 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 (FM) and representatives from SBP, SECP, Finance Division and Privatization Division to evaluate alternative options for proceeding further. Meetings of the Sub-Committee of CCoP were held on March 08, 2022, on July 04, 2022 and on December 02, 2022 on Restructuring and Way Forward for SME Bank Limited. FM observed in the meeting held on December 02, 2022 that it could not be privatized when its financial condition was not that poor and now with its negative equity and other adverse indicators, there would be no potential buyer. It was decided that meeting of CCoP may also be held next week to delist SME from Privatization Programme list. The Cabinet Committee on Privatization (CCoP meeting was held on December 26, 2022, wherein summary dated December 24, 2022 submitted by the Ministry of Privatization regarding "privatization of SME Bank Limited", and CCoP approved the recommendation of the PC Board, regarding delisting of SME Bank from privatization programme, to enable Finance Division and SBP to proceed further in the matter. CCoP in its meeting held on December 26, 2022 approved delisting of SME Bank from Privatization List and subsequent to year end, Federal Cabinet in its meeting held on March 17, 2023 approved Winding Down Plan for SME Bank as a Way Forward.

### **Board of Directors**

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

(BoD) Board of Directors held six meetings during the year 2022. Attendance of which is given below:

<b>Directors</b>	<b>Meetings Attended</b>
Mr. Dilshad Ali Ahmad	4
Mr. Waqar Uddin Siddique	4
Mr. Muhammad Waqas Azeem	4
Mr. Rauf Ahmad	4
Mr. Hashim Raza	3
Mr. Omar Farooq	2
Mr. Enamullah Khan	4

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 2022, four meetings of (BAC) Board Audit Committee were held. Attendance in these meetings was as follows:

<b>Directors</b>	<b>Meetings Attended</b>
Mr. Omar Farooq	3
Mr. Enamullah Khan	3
Mr. Waqar Uddin Siddique	4

### **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 2022, four meetings of (BRMC) Board Risk Management Committee were held. Attendance in these meetings was as follows:

<b>Directors</b>	<b>Meetings Attended</b>
Mr. Hashim Raza	2
Mr. Muhammad Waqas Azeem	4
Mr. Omar Farooq	2

### **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 2022, four meetings of (BHR&RC) Board Human Resource Committee were held. Attendance in these meetings was as follows:

<b>Directors</b>	<b>Meetings Attended</b>
Mr. Dilshad Ali Ahmad	6
Mr. Rauf Ahmad	6
Mr. Enamullah Khan	6

### **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 2022, one meetings of (BPC) Board Procurement Committee were held. Attendance in these meetings was as follows:



<b>Directors</b>	<b>Meetings Attended</b>
Mr. Hashim Raza	2
Mr. Muhammad Waqas Azeem	2
Mr. Rauf Ahmad	2

#### **Board Nomination Committee**

This Committee consists of one executive director, one non-executive director and one independent director. It meets on need basis. No meeting was held of (BNC) Board Nomination Committee during the year 2022.

#### **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, 2022, as required under Code of Corporate Governance is annexed.

### **Loss per share**

The basic and diluted after tax loss per share for the year 2022 is Rs. (5.22) (2021: Rs. (3.94)

### **Auditors**

The existing auditors, M/s BDO Ebrahim and Co, Chartered Accountants, will retire at conclusion of 19<sup>th</sup> Annual General Meeting. Being eligible, they have offered themselves for reappointment.

### **Appreciation**

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



**Chairman  
(Of the Meeting)**





**SME BANK LIMITED**

**CODE OF CORPORATE GOVERNANCE**

**FOR THE YEAR ENDED  
DECEMBER 31, 2022**

## 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, 2022.

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, 2022.

ISLAMABAD

DATED: 18 AUG 2023

UDIN: CR202210095zoU95SwR1

  
CHARTERED ACCOUNTANTS  
Engagement Partner: Abdul Qadeer  




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

**SCHEDULE I**  
[See paragraph 2(1)]

SME Bank Limited  
Ministry of Finance  
Year ended December 31, 2022

- 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"), with any amendments in them thereon, 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 Limited (the Bank) has complied with the provisions of the Rules in the following manner:

Sr. No.	Provision of the Rules	Rule No.	Y	N																						
1.	The independent directors meet the criteria of independence, as defined under the Rules.	2(d)	✓																							
2.	The Board has the requisite percentage of independent directors. At present the board includes: <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 rowspan="2">Executive Directors</td><td>Mr. Dilshad Ali Ahmad</td><td>16-10-2018</td></tr><tr><td></td><td>08-07-2020</td></tr><tr><td rowspan="4">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. M. Waqas Azeem</td><td>08-07-2020</td></tr><tr><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		08-07-2020	Non-Executive Directors	Mr. Hashim Raza	08-07-2020	Mr. Waqar Uddin Siddiqui	05-05-2021	Mr. M. 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																								
		08-07-2020																								
Non-Executive Directors	Mr. Hashim Raza	08-07-2020																								
	Mr. Waqar Uddin Siddiqui	05-05-2021																								
	Mr. M. 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)	✓																							
5.	The chairman of the board is working separately from the chief executive of the Bank.	4(1)		✓																						
6.	The chairman has been elected by the Board of directors except where Chairman of the Board has been appointed by the Government.	4(4)		✓																						
7.	The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission. (Not applicable where the chief executive has been nominated by the Government)	5(2)	N/A																							

*Ar*

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 basis and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose.	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	✓	

*Handwritten signature*



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.	a) The board has formed the requisite committees, as specified in the Rules. b) The committees were provided with written term of reference defining their duties, authority and composition. c) The minutes of the meetings of the committees were circulated to all the board members. d) The committees were chaired by the following non-executive directors: <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 &amp; Remuneration Committee</td><td>3</td><td>Mr. Enamullah Khan</td></tr><tr><td>Procurement Committee</td><td>3</td><td>Mr. M. 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 & Remuneration Committee	3	Mr. Enamullah Khan	Procurement Committee	3	Mr. M. 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 & Remuneration Committee	3	Mr. Enamullah Khan																				
Procurement Committee	3	Mr. M. 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.	a) A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place and no director is involved in deciding his own remuneration. b) The annual report of the Bank contains criteria and details of remuneration of each director.	19	✓ ✓																			
30.	The financial statements of the Bank were duly endorsed by the chief executive and chief financial officer before consideration and approval of the audit committee and the Board.	20	✓																			
31.	The board has formed an audit committee, with defined and written terms of reference, and having the following members: <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 &amp; Production</td></tr></table>	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																				

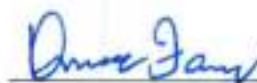
*Ar*

	The Chief Executive and Chairman of the Board are not members of the Audit Committee.			
32	(a) The chief financial officer, the chief internal auditor, and a representative of the external auditors attended all meetings of the audit committee at which issues relating to accounts and audit were discussed. (b) The audit committee met the external auditors, at least once a year, without the presence of the chief financial officer, the chief internal auditor and other executives. (c) The audit committee met the chief internal auditor and other members of the internal audit function, at least once a year, without the presence of chief financial officer and the external auditors.	21(3)	✓  ✓ ✓	
33	(a) The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee. (b) The chief internal auditor has requisite qualification and experience prescribed in the Rules. (c) The internal audit reports have been provided to the external auditors for their review.	22	✓ ✓ ✓	
34	The external auditors of the Bank have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	23(4)	✓	
35	The auditors have confirmed that they have observed applicable guidelines issued by IFAC with regard to provision of non-audit services.	23(5)	✓	

*h*



**President**



**Independent Director**



**Explanation for Non-Compliance**  
**With the Public Sector Companies (Corporate Governance) Rules, 2013**  
For the year ended December 31, 2022

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

Sr. No.	Rule/ sub-rule no.	Reasons for non- compliance	Future course of action
1.	4(1)	The chairman of the board is working separately from the chief executive of the Bank.	As per MoF letter # F.No.8(1)II- 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.
2	4(4)	The chairman has been elected by the Board of directors except where Chairman of the Board has been appointed by the Government.	As per MoF letter # F.No.8(1)II- 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.

*Sh*



President



Independent Director

**INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF SME BANK LIMITED****REPORT ON THE AUDIT OF THE UNCONSOLIDATED FINANCIAL STATEMENTS****Adverse 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, 2022, 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 six 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, because of the significance of the matters described in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly the state of the Bank's affairs as at December 31, 2022 and of the loss and the comprehensive loss, the changes in equity and its cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan, the Banking Companies Ordinance, 1962, and the Companies Act, 2017.

**Basis for Adverse Opinion**

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. 139.158 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 unable to verify Deferred tax asset of Rs. 1,165.061 million due to brought forward losses. It 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 in the future.
3. 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.





4. As explained in the Material Uncertainties relating to Going Concern Assumption section of our report, the going concern assumption of the Bank is no more appropriate. Therefore, as per requirements of International Financial Reporting Standards, all the assets are required to be adjusted to their realizable value and liabilities are required to be disclosed on settlement amount as the Bank may not be able to realize its assets and discharge its liabilities in the normal course of business. However, the Bank has presented these financial statements on going concern basis. In the absence of assessment of realizable value of assets and settlement amount of liabilities, we are unable to assess the impact of required adjustments on these financial statements. Moreover, subsequent to the year end the Cabinet Committee on Privatization approved the Winding Down Plan for the Bank on March 17, 2023. The Bank has started its winding down process accordingly. As part of this plan, the Bank has closed its Rawalpindi branch. In addition, the Bank plans to close nine more branches by the end of the subsequent year, as outlined in the approved plan. The President requested urgent assistance from the Government of Pakistan through letter No. SMEB: HO: P&CEO: 23/13 dated March 15, 2023 to help the Bank pay its customer depositors. The Government of Pakistan agreed to provide Rs. 5.557 billion to the Bank. On March 27, 2023, the SBP informed the Bank through letter No. BPRD (R & PD)/ SME/ 2023/ 2443 that the funds approved by the Government of Pakistan had been transferred to the Bank's account maintained with SBP. The Bank has paid 92% of its customer depositors with these funds till May 20, 2023.

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. 1,249.876 million (2021: Rs. 942.421 million) resulting into accumulated losses of Rs. 7,963.685 million (2021: Rs. 6,846.330 million). As of December 31, 2022 the reporting date, total liabilities of the bank have exceeded its total assets by Rs. 5,364.831 million (2021: 4,260.976 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. 5,364.831 million (2021 Rs. 4,260.976) 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 constituted a committee to evaluate alternative options for further processing. As stated in note 6.1 to the financial statements, CCoP meetings were held on March 08, 2022, July 04, 2022, December 02, 2022 and finally in its meeting held on December 28, 2022, CCoP approved the delisting of the Bank from the privatization list. These conditions indicate that going concern assumption of the Bank is no more appropriate. Our opinion is modified in respect of this matter.

#### **Emphasis of Matter**

We draw attention to the following matters:

1. Note 14.3 to the financial statements, which describes in detail the status of possession of the Bank's property located in Lahore.
2. Note 6.1 to the financial statements, which describes in detail the current status of privatization of the 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.

#### **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.

#### Report on Other Legal and Regulatory Requirements

Based on our audit, except for the possible effects of the matter described in the Basis for Adverse Opinion section of our report, 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.

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: 18 AUG 2023  
UDIN: AR2022100953s5712erz

  
BDO EBRAHIM & CO.  
CHARTERED ACCOUNTANTS  




**SME BANK LIMITED**  
**Unconsolidated Statement of Financial Position**  
**As at December 31, 2022**

	Note	2022 (Rupees in '000)	2021
<b>ASSETS</b>			
Cash and balances with treasury banks	7	609,236	824,944
Balances with other banks	8	1,307	2,737
Lendings to financial institutions		-	-
Investments	9	4,035,290	4,237,715
Advances	10	1,329,573	1,596,181
Fixed assets	11	380,310	424,240
Intangible assets	12	779	1,455
Deferred tax assets - net	13	1,165,061	1,008,206
Other assets	14	496,712	512,849
		<b>8,018,268</b>	<b>8,608,327</b>
<b>LIABILITIES</b>			
Bills payable	15	34,591	19,071
Borrowings	16	3,499,355	3,206,289
Deposits and other accounts	17	8,472,488	8,248,271
Liability against assets subject to finance lease		-	-
Subordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,376,665	1,395,672
		<b>13,383,099</b>	<b>12,869,303</b>
<b>NET LIABILITIES</b>		<b>(5,364,831)</b>	<b>(4,260,976)</b>
<b>REPRESENTED BY</b>			
Share capital	19	2,392,507	2,392,507
Reserves		206,526	206,526
Surplus/(deficit) on revaluation of assets - net of tax	20	(179)	(13,679)
Unappropriated loss		<b>(7,963,685)</b>	<b>(6,846,330)</b>
		<b>(5,364,831)</b>	<b>(4,260,976)</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	21		

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



President/CEO



Chief Financial Officer



Director



Director



Director

**SME BANK LIMITED****Unconsolidated Profit and Loss Account****For the year ended December 31, 2022**

		2022	2021
	Note	(Rupees in '000)	
Mark-up/ return/ interest earned	22	784,430	609,592
Mark-up/ return/ interest expensed	23	1,228,624	717,637
Net mark-up/ interest loss		(444,194)	(108,045)
<b>NON MARK-UP/ INTEREST INCOME</b>			
Fee and commission income	24	13,282	14,009
Dividend income		3,043	2,580
Foreign exchange income		-	-
Income / (loss) from derivatives		-	-
Gain/(loss) on securities	25	(2,839)	925
Other income	26	10,302	2,169
Total non-markup/ interest income		23,788	19,683
Total Income/(loss)		(420,406)	(88,362)
<b>NON MARK-UP/ INTEREST EXPENSES</b>			
Operating expenses	27	956,654	911,354
Workers welfare fund		-	-
Other charges	28	67,856	69,183
Total non-markup/ interest expenses		1,024,510	980,537
Loss before provisions		(1,444,916)	(1,068,899)
Provisions and write offs - net	29	(46,687)	(17,452)
<b>LOSS BEFORE TAXATION</b>		(1,398,229)	(1,051,447)
Taxation	30	(148,353)	(109,026)
<b>LOSS AFTER TAXATION</b>		(1,249,876)	(942,421)
<b>Basic/diluted loss per share (rupees)</b>	31	(5.22)	(3.94)

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

President/CEO

Chief Financial Officer

Director

Director

Director



**SME BANK LIMITED****Unconsolidated Statement of Comprehensive Income****For the year ended December 31, 2022**

	<u>2022</u>	<u>2021</u>
	<b>(Rupees in '000)</b>	
<b>Loss after taxation for the year</b>	<b>(1,249,876)</b>	<b>(942,421)</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified to profit and loss account in subsequent periods</b>		
Movement in deficit on revaluation of investment - net	13,500	(16,265)
<b>Items that will not be reclassified to profit and loss account in subsequent periods</b>		
Remeasurement gain/(loss) on defined benefit obligations - net	132,521	(142,207)
<b>Total comprehensive loss</b>	<b><u>(1,103,855)</u></b>	<b><u>(1,100,893)</u></b>

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

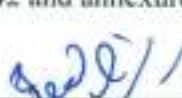
  
\_\_\_\_\_  
President/CEO  
\_\_\_\_\_  
Chief Financial Officer  
\_\_\_\_\_  
Director  
\_\_\_\_\_  
Director  
\_\_\_\_\_  
Director

**SME BANK LIMITED**  
**Unconsolidated Cash Flow Statement**  
**For the year ended December 31, 2022**


	Note	2022 (Rupees in '000)	2021
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(1,398,229)	(1,051,447)
Less: Dividend income		(3,043)	(2,580)
		(1,401,272)	(1,054,027)
<b>Adjustments:</b>			
Depreciation		58,289	64,505
Amortization		906	1,078
Provision and write-offs		(46,687)	(17,452)
Gain on sale of fixed assets		(9,328)	(1,159)
Mark-up expense on leased liability against ROU assets		67,851	69,183
		71,031	116,155
		(1,330,241)	(937,872)
<b>Decrease / (increase) in operating assets</b>			
Lendings to financial institutions		-	-
Held-for-trading securities		-	-
Advances		307,990	(47,509)
Other assets (excluding advance taxation)		16,360	42,487
		324,350	(5,022)
<b>Increase / (decrease) in operating liabilities</b>			
Bills payable		15,520	(80,915)
Borrowings from financial institutions		293,066	(921,324)
Deposits and other accounts		224,217	646,009
Other liabilities (excluding current taxation)		123,823	(28,268)
		656,626	(384,498)
		(349,265)	(1,327,392)
		(3,343)	(2,746)
		(352,608)	(1,330,138)
Income tax paid			
<b>Net cash flow used in operating activities</b>			
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net disinvestment in available-for-sale securities		183,448	1,573,663
Net investment in held-to-maturity securities		32,400	-
Dividend received		3,043	2,580
Investment in operating fixed assets		(7,487)	(4,559)
Proceeds from sale of fixed assets		9,328	1,186
<b>Net cash flow generated from investing activities</b>		220,732	1,572,870
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payment of lease liability against ROU assets		(85,262)	(85,901)
<b>Net cash flow used in from financing activities</b>		(85,262)	(85,901)
<b>Decrease in cash and cash equivalents</b>		(217,138)	156,831
Cash and cash equivalents at beginning of the year		827,681	670,850
<b>Cash and cash equivalents at end of the year</b>	32	610,543	827,681


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

  
President/CEO

  
Chief Financial Officer

  
Director

  
Director

  
Director



**SME BANK LIMITED**

**Unconsolidated Statement of Changes in Equity**

**For the year ended December 31, 2022**

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
			(Rupees in '000)		
Balance as at January 01, 2021	2,392,507	206,526	2,586	(5,761,702)	(3,160,083)
Total comprehensive income for the year ended December 31, 2021					
Loss after taxation for the year	-	-	-	(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)
Total comprehensive income for the year ended December 31, 2022					
Loss after taxation for the year	-	-	-	(1,249,876)	(1,249,876)
Other comprehensive income - net of tax	-	-	13,500	132,521	146,021
Balance as at December 31, 2022	2,392,507	206,526	(179)	(7,963,685)	(5,364,831)

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



President/CEO



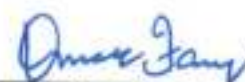
Chief Financial Officer



Director



Director



Director

## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

#### **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 to 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.





## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

## **2 BASIS OF PRESENTATION**

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

## **3 STATEMENT OF COMPLIANCE**

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

The SBP has deferred the applicability of International Accounting Standard 40, "Investment Property" (IAS 40), for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, according to the notification of SECP dated April 28, 2008, the International Financial Reporting Standard 7, "Financial Instruments: Disclosure" (IFRS 7), has not been made applicable for banks in Pakistan. Accordingly, the requirements of these standards have not been considered in the preparation of these interim unconsolidated financial statements. Accordingly, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars. Further, IFRS 9 'Financial Instrument' has not been adopted as SBP has deferred the applicability of IFRS 9 till January 01, 2024 vide SBP BPRD Circular Letter no. 03 dated July 05, 2022.

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.

**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

---

**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, 2022**

The following standards, amendments and interpretations are effective for the year ended December 31, 2022. 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 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 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

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.

	Effective date (annual periods beginning on or after)
Amendments to IFRS 16 'Leases' - Lease liability in a sale and leaseback	January 01, 2024
Amendments to IAS 1 'Presentation of Financial Statements' - Non-current liabilities with covenants	January 01, 2024





**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

---

	Effective date (annual periods beginning on or after)
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current	January 01, 2024
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
<p>• 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):</p>	

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

Effective date of IFRS 9 'Financial Instruments' has extended by SBP to annual periods beginning on or after January 01, 2024 vide SBP BPRD Circular Letter no. 03 dated July 05, 2022 for banks having asset size less than 500 billion. IFRS 9 replaces the existing guidance in IAS 39, 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 impact on the Bank's financial statements is being assessed as per implementation guidelines.

#### **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.



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

---

**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 lendings.

**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.



**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

---

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

**Held for trading**

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

**Held to maturity**

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

**Available for sale**

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

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

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

**Investment in subsidiary**

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



**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

---

**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 of 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 thereagainst. 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.

### **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.

## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

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

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

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

#### **Incremental borrowing rate (IBR)**

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

### **5.7 Impairment**

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

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

### **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.





## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

#### **5.9 Taxation**

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

##### **Current**

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

##### **Deferred**

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

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

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

#### **5.10 Staff retirement and other benefits**

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

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

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

*A*

## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

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

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

#### **Benevolent fund**

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

#### **Compensated absences**

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

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

### **5.11 Revenue recognition**

#### **5.11.1 Advances**

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

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

#### **5.11.2 Return on investments**

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





## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

#### **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 of expected recoveries.

#### **5.15 Financial assets and liabilities**

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

## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

#### **5.16 Segment reporting**

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

##### **5.16.1 Business segments**

###### **Trading and sales**

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

###### **Commercial banking**

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

##### **5.16.2 Geographical segments**

The Bank operates only in Pakistan.

#### **5.17 Appropriation to reserves**

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

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

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

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

### **6.1 Current status of privatization of SME Bank**

Government of Pakistan (GoP) decided in their meeting held on November 19, 2018 to relaunch the privatization transaction of the Bank through Privatization Commission (PC). Cabinet Committee on Privatization (CCoP) approved the new privatization program of the Bank on March 06, 2019 to divest the GoPs equity stake in the Bank along with management control to a strategic investor. 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 31, 2019.



## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

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 final draft of share purchase agreement (SPA) had been shared with three 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 recommended to delist SME Bank Limited from the list of privatization on recommendation of Financial Adviser (FA) of Privatization Commission, who had asserted that despite all efforts and iterative interactions with the pre-qualified bidders to date, positive feedback from the pre-qualified bidders was not forthcoming and owing to the deteriorating financial position of the Bank, the transaction of privatization of SME Bank was recommended to shelve. The 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 (FM) and representatives from SBP, SECP, Finance Division and Privatization Division to evaluate alternative options for proceeding further. Meetings of the Sub-Committee of CCoP were held on March 08, 2022, on July 04, 2022 and on December 02, 2022 on Restructuring and Way Forward for SME Bank Limited. FM observed in the meeting held on December 02, 2022 that it could not be privatized when its financial condition was not that poor and now with its negative equity and other adverse indicators, there would be no potential buyer. It was decided that meeting of CCoP may also be held next week to delist SME from Privatization Programme list. The Cabinet Committee on Privatization (CCoP) meeting was held on December 26, 2022, wherein summary dated December 24, 2022 submitted by the Ministry of Privatization regarding "privatization of SME Bank Limited", and CCoP approved the recommendation of the PC Board, regarding delisting of SME Bank from privatization programme, to enable Finance Division and SBP to proceed further in the matter. CCoP in its meeting held on December 26, 2022 approved delisting of SME Bank from Privatization List and subsequent to year end, Cabinet in its meeting held on March 17, 2023 approved Winding Down Plan for SME Bank as a Way Forward.

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

During the current period, the Bank had incurred a net loss of Rs. 1,249.876 million (2021: Rs. 942.421 million), resulting in the accumulated losses of Rs. 7,963.685 million (2021: Rs. 6,846.330 million). As of December 31, 2022, the reporting date, the total liabilities of the Bank had exceeded its total assets by Rs. 5,364.831 million (2021: Rs. 4,260.976 million), indicating the complete erosion of the Bank's equity. This indicated the Bank's inadequate capacity to ensure




## **SME BANK LIMITED**

### **Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

timely repayments. Due to cash inadequacy, the Bank was unable to meet the statutory solvency requirements of a minimum capital (MCR) of Rs. 10,000 million and a Capital Adequacy Ratio (CAR) of 10%. As a result of continued stressed financial conditions, the Bank's credit rating had fallen from B negative (single B-) to CCC. Based on the operational results, the State Bank of Pakistan (SBP) had granted exemption from meeting the MCR and CAR up to December 31, 2019, or restructuring/privatization, whichever came earlier. This exemption was subject to the submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds into the Bank if privatization did not materialize by March 31, 2020. These conditions indicated the existence of material uncertainty that cast significant doubt on the Bank's ability to continue as a going concern. Therefore, it might not have been able to realize its assets and discharge its liabilities in the ordinary course of business. To address this situation, the Government of Pakistan (GoP), being the majority shareholder with 93.88% shareholding in the Bank, initiated the process of privatization. The MoF, through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020, informed SBP that the privatization process was likely to be completed within three to four months and requested an extension of the relaxation of regulatory requirements until June 30, 2020. Subsequently, the Bank, in its latest letter No. SMEBL: HO: CFO & CS: 09:2022/1940/5762 dated September 30, 2022, requested SBP to allow exemption from MCR until June 30, 2023, or until the privatization of the Bank, whichever came earlier. The MoF and the management of the Bank were hopeful of a favorable response as SBP had not objected to the non-compliance of MCR. Furthermore, the process of privatization of the Bank had been described in Note 6.1 above. However, based on the support from the MoF, the management of the Bank believed that the use of the going concern assumption in the preparation of these unconsolidated financial statements was appropriate. Therefore, they prepared the financial statements on a going concern basis. Subsequent to year end, in response to SOS call of the President / CEO, which given vide letter No. SMEB: HO: P&CEO: 23/13 dated March 15, 2023 Government of Pakistan extended supports of 5.557 billion for making payments of deposits. On March 27, 2023 the SBP vide letter No. BPRD (R & PD)/SME/ 2023/ 2443 informed that the funds amounting of Rs. 5.557 billion approved by Government of Pakistan had been credited into bank account of SME Bank Limited maintained with SBP. The CCoP in its meeting held on December 26, 2022 approved delisting of SME Bank from Privatization List and subsequent to year end, Cabinet in its meeting held on March 17, 2023 approved Winding Down Plan for SME Bank as a Way Forward. Under the Plan monthly losses of the bank has dropped down to Rs. 75.651 in April, 2023 from average monthly losses of Rs. 153.957 million that was in first quarter of 2023. Based upon being public sector bank, which more than 93% shares are owned by Government of Pakistan and support of 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 the same have been prepared on a going concern basis.





**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

7. CASH AND BALANCES WITH TREASURY BANKS	Note	2022	2021
		(Rupees in '000)	
In hand			
Local currency		157,277	146,066
With State Bank of Pakistan in:			
Local currency current accounts	7.1	429,842	584,093
With National Bank of Pakistan in:			
Local currency current accounts		21,839	94,767
Prize bonds		278	18
		<u>609,236</u>	<u>824,944</u>

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

8. BALANCES WITH OTHER BANKS	Note	2022	2021
		(Rupees in '000)	
In Pakistan:			
On current accounts		500	500
On deposit accounts		10,807	12,237
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>1,307</u>	<u>2,737</u>

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

Opening balance	(10,000)	(10,000)
Charge for the year	-	-
Reversals	-	-
	-	-
Closing balance	<u>(10,000)</u>	<u>(10,000)</u>

Provision for doubtful balance is in respect of deposit of Rs. 10 million (December 31, 2021: Rs. 10 million) with Indus Bank Limited which is under liquidation.

9. INVESTMENTS

9.1 Investment by type	Note	2022				2021			
		Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value
		(Rupees in '000)				(Rupees in '000)			
<b>Available-for-sale securities</b>									
Federal Government Securities	9.2.1	3,922,874	-	(1,881)	3,920,993	4,106,322	-	(15,522)	4,090,800
Shares		42,542	(15,863)	3,219	29,898	42,542	(15,863)	2,941	29,620
Mutual Funds		1,870	(218)	(601)	1,051	1,870	(218)	(105)	1,547
		3,967,286	(16,081)	737	3,951,942	4,150,734	(16,081)	(12,686)	4,121,967
<b>Held-to-maturity securities</b>									
Non Government Debt Securities									
- Term Deposit Receipts (TDRs)	9.1.1	2,600	-	-	2,600	35,000	-	-	35,000
- Certificates of Investments (COIs)		762	(762)	-	-	762	(762)	-	-
		3,362	(762)	-	2,600	35,762	(762)	-	35,000
<b>Subsidiary</b>	9.1.2	215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
<b>Total Investment</b>		<b>4,186,105</b>	<b>(151,552)</b>	<b>737</b>	<b>4,035,290</b>	<b>4,401,953</b>	<b>(151,552)</b>	<b>(12,686)</b>	<b>4,237,715</b>

9.1.1 TDR of Rs. 2.6 million (2021: Rs. 35 million) was under lien at period end.

9.1.2 SME Leasing Limited (SMEL)

	2022	2021
Holding Percentage	73.14%	73.14%
Country	Pakistan	Pakistan
	Rupees in 000	
Total assets	334,840	346,546
Total liabilities	326,917	340,011
Total Revenue	20,998	21,394
Total Expenses	72,456	62,580
Profit/(loss) after taxation	1,301	(13,399)
Total comprehensive profit/(loss)	1,388	(13,025)



**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**

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 1, 2006. SMEL continue to operate on a net loss basis and the Bank maintains provision of Rs. 134.709 million (2021: Rs. 134.709 million) against the aforesaid investment of Rs. 215.457 million.

**9.2 Investment by segment:**

	2022				2021			
	Cost / Amortized Cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortized Cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
	(Rupees in '000)				(Rupees in '000)			
<b>Federal Government Securities</b>								
Market Treasury Bills (MTBs)	3,922,874	-	(1,881)	3,920,993	3,704,057	-	(6,845)	3,697,212
Pakistan Investment Bonds (PIBs)	-	-	-	-	402,265	-	(8,677)	393,588
	3,922,874	-	(1,881)	3,920,993	4,106,322	-	(15,522)	4,090,800
<b>Shares</b>								
Listed companies	14,999	(14,790)	3,219	3,428	14,999	(14,790)	2,941	3,150
Unlisted companies	27,543	(1,073)	-	26,470	27,543	(1,073)	-	26,470
	42,542	(15,863)	3,219	29,898	42,542	(15,863)	2,941	29,620
<b>Mutual Funds</b>								
Open end	1,216	-	(393)	823	1,216	-	(13)	1,203
Close end - Listed	654	(218)	(208)	228	654	(218)	(92)	344
	1,870	(218)	(601)	1,051	1,870	(218)	(105)	1,547
<b>Non Government Debt Securities</b>								
- Term Deposit Receipts (TDRs)	2,600	-	-	2,600	35,000	-	-	35,000
- Certificates of Investments (COIs)	762	(762)	-	-	762	(762)	-	-
	3,362	(762)	-	2,600	35,762	(762)	-	35,000
<b>Subsidiary</b>								
SME Leasing Limited	215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
<b>Total Investment</b>	<b>4,186,105</b>	<b>(151,552)</b>	<b>737</b>	<b>4,035,290</b>	<b>4,401,953</b>	<b>(151,552)</b>	<b>(12,686)</b>	<b>4,237,715</b>

**9.2.1 Investment given as collateral**

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

Note	2022	2021
	(Rupees in '000)	
9.2.1.1	3,382,447	2,705,670
9.2.1.1	-	393,588
	<b>3,382,447</b>	<b>3,099,258</b>

9.2.1.1 These represent market value of securities at reporting date.

**SME BANK LIMITED**

**Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

	2022	2021
	(Rupees in '000)	
<b>9.3 Provision for diminution in value of investments</b>	<b>151,552</b>	<b>151,241</b>
Opening balance		
Charge / reversals		
Charge for the year	-	311
Reversal for the year	-	-
Reversal on disposals	-	-
	-	311
Transfers - net	-	-
Amount written off	-	-
Closing balance	<b>151,552</b>	<b>151,552</b>

**9.3.1 Particulars of provision against debt securities**

**Category of classification**

**Domestic**

Other assets especially mentioned  
Substandard  
Doubtful  
Loss

2022		2021	
NPI	Provision	NPI	Provision
(Rupees '000)			
-	-	-	-
-	-	-	-
-	-	-	-
<b>762</b>	<b>762</b>	<b>762</b>	<b>762</b>
<b>762</b>	<b>762</b>	<b>762</b>	<b>762</b>

**9.4 Quality of Available-for-sale Securities**

Details regarding quality of Available for Sale securities are as follows:

**Federal Government Securities - Government guaranteed**

Market Treasury Bill  
Pakistan Investment Bonds

2022	2021
Cost/Amortised cost	
(Rupees '000)	
<b>3,922,874</b>	<b>3,704,057</b>
-	402,265
<b>3,922,874</b>	<b>4,106,322</b>



**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**
**Shares**

	2022	2021
	<b>Cost</b>	
	<b>(Rupees '000)</b>	
- Chemicals	810	810
- Investment banks/companies	13,236	13,236
- Synthetic and Rayon	336	336
- Technology and communication	587	587
- Textile composite	30	30
	<b>14,999</b>	<b>14,999</b>

**Listed Companies**

- Chemicals
- Investment banks/companies
- Synthetic and Rayon
- Technology and communication
- Textile composite

**Unlisted / delisted Companies**

	2022		2021	
	Cost	Breakup value	Cost	Breakup value
	<b>(Rupees '000)</b>			
- ISE Towers REIT Management Company Limited	18,000	52,984	18,000	50,890
- LSE Financial Services Limited	8,440	16,407	8,440	20,534
- News-v/s Credit Information Services (Pvt) Limited.	100	30	100	30
- Companies delisted from stock exchange	1,003	-	1,003	-
	<b>27,543</b>	<b>69,421</b>	<b>27,543</b>	<b>71,454</b>

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

**SME BANK LIMITED**

**Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

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

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

**Mutual Funds**

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

2022	2021
Cost	
(Rupees '000)	
654	654
1,216	1,216
<u>1,870</u>	<u>1,870</u>

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

**Non Government Debt Securities**

**Unlisted**

- A+/A1
- Unrated

2,600	35,000
762	762
<u>3,362</u>	<u>35,762</u>



**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**
**10. ADVANCES**

ADVANCES	Note	Performing		Non Performing		Total	
		2022	2021	2022	2021	2022	2021
(Rupees in '000)							
Loans, cash credits, running finances, etc.							
Extended by:							
Defunct RDFC & SBFC	10.3	-	-	4,877,191	4,880,773	4,877,191	4,880,773
SME Bank Ltd		1,217,911	1,441,446	179,762	438,245	1,397,673	1,879,691
Due from employees		41,351	49,040	5,966	7,927	47,317	56,967
		1,259,262	1,490,486	5,062,919	5,326,945	6,322,181	6,817,431
Net investment in finance lease	10.3	280	280	973	973	1,253	1,253
Advances - gross		1,259,542	1,490,766	5,063,892	5,327,918	6,323,434	6,818,684
Provision for non-performing advances							
Specific		-	-	(4,993,832)	(5,221,619)	(4,993,832)	(5,221,619)
General		(29)	(884)	-	-	(29)	(884)
	10.5	(29)	(884)	(4,993,832)	(5,221,619)	(4,993,861)	(5,222,503)
Advances - net of provision		1,259,513	1,489,882	70,060	106,299	1,329,573	1,596,181

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

	2022				2021			
	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)**

	2022	2021
(Rupees in '000)		
In local currency	6,323,434	6,818,684
In foreign currencies	-	-
	6,323,434	6,818,684

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

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

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

The agreed transfer price was amount equal to 50% of net recoveries.

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

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

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

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

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

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





**SME BANK LIMITED**

**Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

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.

*AL*

**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

10.4 Advances include Rs. 5,063.892 million (2021: Rs. 5,327.918 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	2022		2021	
		Non Performing Loans	Provision	Non Performing Loans	Provision
		(Rupees in '000)			
Domestic					
Other Assets Especially Mentioned		3,190	-	5,674	-
Substandard		2,477	128	7,593	-
Doubtful		10,944	-	13,097	14
Loss		5,047,281	4,993,704	5,301,554	5,221,605
	10.4.1	5,063,892	4,993,832	5,327,918	5,221,619

10.4.1 This include non performing loans and provision of Rs: 179.762 million and Rs: 123.286 million respectively (2021: Rs. 438.245 million & Rs. 331.959 million) relating to SME portfolio.

**10.5 Particulars of provision against advances**

Note	2022			2021		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	5,221,619	884	5,222,503	5,232,725	8,593	5,241,318
• Charge/(Reversal)						
Charge for the period/year	14,613	25	14,638	23,582	22	23,604
Reversal for the period/year	(55,140)	(880)	(56,020)	(34,201)	(7,731)	(41,932)
	(40,527)	(855)	(41,382)	(10,619)	(7,709)	(18,328)
Amounts written off	-	-	-	-	-	-
Amounts charged off	(183,693)	-	(183,693)	-	-	-
Reversal of provision of transferred portfolio	(3,567)	-	(3,567)	(487)	-	(487)
Closing balance	4,993,832	29	4,993,861	5,221,619	884	5,222,503

10.5.1 General provision has been recorded at the rate of 1% (2021: 1%) of unsecured performing small enterprises portfolio. Provision approximates to 4.5% of covid affected borrowers who availed SBP enabled deferment as at December 31, 2020 has reversed.

10.5.2 This represent charged off SME portfolio in default for the last 10 years & above had 100% provision, BoD approved in its 116th meeting held on March 05, 2022. Charged off these loans does not means cessation of the Bank's right to recover its money from borrowers through litigation or any other way. As at reporting date amount of charged off principal is Rs. 180.489 million after recovery of Rs. 3.204 million.

10.5.3 The FSV benefit availed in last years has been decreased by Rs. 29.089 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 this reduction in FSV benefit not recognized, loss before and after tax for the year would have been decreased by Rs. 29.089 million (2021: decreased by Rs. 26.540 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 59.861 million (2021: Rs. 88.950 million).

10.5.4 Particulars of provisions against advances	2022			2021		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	4,993,832	29	4,993,861	5,221,619	884	5,222,503
In foreign currencies	-	-	-	-	-	-
	4,993,832	29	4,993,861	5,221,619	884	5,222,503



**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022****10.6 Particulars of Write Off:**

	<b>2022</b>	<b>2021</b>
	<b>(Rupees in '000)</b>	
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, 2022 is given at Annexure-1.



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

**11. FIXED ASSETS**

	Note	2022 (Rupees in '000)	2021 (Rupees in '000)
Property and equipment	11.1	14,334	11,556
Right of use assets	11.2	365,976	412,684
		<b>380,310</b>	<b>424,240</b>

**11.1 Property and Equipment**

2022							
Freehold Land	Leasehold Land	Building on Freehold Land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles	Total

(Rupees '000)

**At January 01, 2022**

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

**Year ended December 2022**

Opening net book value	-	450	3,055	138	71	7,842	-	11,556
Additions	-	-	-	200	117	6,940	-	7,257
Disposals	-	-	-	-	-	-	-	-
Depreciation charge	-	-	(780)	(91)	(56)	(3,552)	-	(4,479)
Closing net book value	-	450	2,275	247	132	11,230	-	14,334

**At December 31, 2022**

Cost	-	450	15,600	38,429	8,785	175,773	17,090	256,127
Accumulated depreciation/impairment	-	-	13,325	38,182	8,653	164,543	17,090	241,793
Net book value	-	450	2,275	247	132	11,230	-	14,334

**Rate of depreciation (percentage)**

-	-	5	33.33	20	15 & 33.33	20	-
---	---	---	-------	----	------------	----	---

2021							
Freehold Land	Leasehold Land	Building on Freehold Land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles	Total

(Rupees '000)

**At January 01, 2021**

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/impairment	-	-	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	-
---	---	---	-------	----	------------	----	---

*AK*



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

	2022	2021
	(Rupees in '000)	
<b>11.2 Right of use assets</b>		
Opening net book value	412,684	455,244
Additions	7,102	12,805
Depreciation	(53,810)	(55,365)
Closing net book value	365,976	412,684

11.3 Cost of fully depreciated assets that are still in use was Rs. 214.649 million (2021: Rs. 239.472 million).

	2022	2021
	Computer software	Computer software
	(Rupees in '000)	

**12 INTANGIBLE ASSETS**

• **At January 1,**

Cost	33,335	32,558
Accumulated amortization and impairment	31,880	30,802
Net book value	1,455	1,756

**Year ended December 31,**

Opening net book value	1,455	1,756
Additions:		
- developed internally	-	-
- directly purchased	230	777
	230	777
Disposals	-	-
Amortization charge	906	1,078
Closing net book value	779	1,455

**As December 31,**

Cost	33,488	33,335
Accumulated amortization and impairment	32,709	31,880
Net book value	779	1,455

Rate of amortization (percentage)	33.33	33.33
Useful life	3 years	3 years

12.1 Cost of fully amortized intangible assets that are still in use was Rs. 30.710 million (2021: Rs. 30.561 million).

**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**
**13. DEFERRED TAX ASSET - NET**

	Note	2022 (Rupees in '000)	2021
<b>Deferred tax asset arising in respect of:</b>			
Unabsorbed depreciation and amortization		89,248	85,998
Unused tax losses		1,076,729	923,201
	13.1	1,165,977	1,009,199
<b>Deferred tax (liability) / asset arising in respect of:</b>			
Surplus on revaluation of investment		(916)	(993)
Remeasurement of defined benefit plan		-	-
	13.2	1,165,061	1,008,206

13.1 The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition of deferred tax asset is the expected privatization of the Bank which would result in fresh equity injection from the new strategic shareholder of the Bank and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future. The Cabinet Committee on Privatization (CCOP meeting was held on December 26, 2022, wherein summary dated December 24, 2022 submitted by Ministry of Privatization regarding "privatization of SME Bank Limited" and approved the recommendation of PC Board, in its meeting held on November 25, 2022 regarding delisting of SME Bank from privatization programme, to enable Finance Division and SBP to proceed further in the matter.

**13.2 Reconciliation of deferred tax**

	2021				2022			
	Balance at January 1,	Recognized in profit and loss account	Recognized in OCI	Balance at December 31,	Balance at January 1,	Recognized in profit and loss account	Recognized in OCI	Balance at December 31,
	(Rupees in '000)							
<b>Deferred tax asset arising in respect of:</b>								
Accelerated tax depreciation & amortization	82,155	3,843	-	85,998	85,998	3,250	-	89,248
Unused tax losses	808,488	114,713	-	923,201	923,201	153,528	-	1,076,729
	890,643	118,556	-	1,009,199	1,009,199	156,778	-	1,165,977
<b>Deferred tax liability arising in respect</b>								
Surplus on revaluation of investment	(1,392)	-	399	(993)	(993)	-	77	(916)
Remeasurement of defined benefit plan	(14,336)	-	14,336	-	-	-	-	-
<b>Deferred tax (liability)/asset - net</b>	874,915	118,556	14,735	1,008,206	1,008,206	156,778	77	1,165,061



**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

14. OTHER ASSETS	Note	2022	2021
		(Rupees in '000)	
Income/mark-up accrued in local currency - net of provision	14.1 & 41.1.6	70,019	84,185
Advances, deposits, advance rent and other prepayments		19,569	20,295
Advance taxation - net	14.2	231,211	236,293
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured		8,487	8,685
Receivable from NBP		4,986	3,971
Receivable from subsidiary company		6,548	4,252
Receivable from Equity Participation Fund		4,146	3,017
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		42,147	76,656
		<b>580,527</b>	<b>630,768</b>
Less: Provision held against other assets	14.4	<b>83,815</b>	<b>117,919</b>
Other assets (net of provision)		<b>496,712</b>	<b>512,849</b>

14.1 The balance has been arrived at after adjusting interest in suspense of Rs. 3,876.982 million (2021: Rs. 4,041.059 million) which includes Rs. 83.253 million (2021: Rs. 247.449 million) relating to SME portfolio.

14.2 This includes the effect of refunds aggregating to Rs. 232.599 million (2021: 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. However, subsequent to year end, the Islamabad High Court has decided in the favour of Bank through its judgement dated March 28, 2023.

14.3 This include Rs. 138.6 million (December 31, 2021: 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. On June 24, 2019, the sponsor of the case died and thereafter on August 20, 2019, the legal heirs of the judgement

**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

debtor submitted an objection petition for release of the property which was turned down by the court. Meanwhile, the legal heirs also approached High Court and submitted a Civil Miscellaneous Application (CMA) for restoration of RFA 635/13 which had been already decided ex-parte in favor of the Bank. The same was also dismissed by the Hon'ble Lahore High Court, Lahore vide Order dated February 28, 2022. Consequently, the main file returned back from the Hon'ble Lahore High Court, Lahore to Banking Court whereby execution proceedings restored on March 12, 2022. The learned Judge Banking Court while giving equal opportunities to the opponent counsel adjourned the matter for arguments many times and finally after hearing arguments advanced by the Counsel of the Bank apropos to compliance of warrant of possession passed Order dated September 14, 2022 with the direction to concerned authorities to get the possession and handover the property in question to decree holder Bank under intimation to the Court. However, due to non-availability of Police force to the bailiff, the possession of the said Property could not be handed over to the Bank so far. As per latest valuation report dated November 11, 2022 the market value of the Property was Rs. 296.113 million.

	2022	2021
	(Rupees in '000)	
<b>14.4 Provision held against other assets</b>		
Advances, deposits, advance rent & other prepayments	4,477	4,477
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	5,148	5,148
Other receivables - SME Portfolio	10,228	44,326
Legal charges recoverable from borrowers - SBFC & RDFC	22,653	22,659
Trading right entitlement certificate - TREC	21,560	21,560
Others	109	109
	<u>83,815</u>	<u>117,919</u>

**14.4.1 Movement in provision held against other assets**

Opening balance	117,919	117,354
Charge for the period	2,746	3,891
Reversals for the period	(8,051)	(3,326)
	(5,305)	565
Transferred to NBP	(5)	-
Amount charged off	41.1.6 (28,794)	-
Closing balance	<u>83,815</u>	<u>117,919</u>





**SME BANK LIMITED**

**Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

		2022	2021
		(Rupees in '000)	
<b>15. BILLS PAYABLE</b>	<b>Note</b>		
In Pakistan		34,591	19,071
Outside Pakistan		-	-
		<u>34,591</u>	<u>19,071</u>

**16. BORROWINGS**

**Secured**

Borrowing from State Bank of Pakistan

Under Financing facility for storage of agricultural produce

Under Modernisation of small and medium enterprises

16.2	97,810	67,981
16.2	33,831	39,310
	<u>131,641</u>	<u>107,291</u>

Repurchase agreement borrowings

State Bank of Pakistan

Financial Institutions

16.3	3,367,714	3,098,998
16.3	-	-
	<u>3,367,714</u>	<u>3,098,998</u>
	<u>3,499,355</u>	<u>3,206,289</u>

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

In local currency	3,499,355	3,206,289
In foreign currencies	-	-
	<u>3,499,355</u>	<u>3,206,289</u>

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 rates ranging from 16.24% to 17.00% (2021: 10.00% to 10.15%) per annum maturity period upto three months (2021: for period upto three months). REPO transactions are secured against investment of the Bank in Government securities.



## 17. DEPOSITS AND OTHER ACCOUNTS

2022			2021		
In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total

(Rupees in '000)

### Customers

Current deposits	1,212,304	-	1,212,304	1,394,107	-	1,394,107
Savings deposits	3,707,884	-	3,707,884	3,911,666	-	3,911,666
Term deposits	2,768,090	-	2,768,090	2,163,357	-	2,163,357
Others	80,941	-	80,941	141,070	-	141,070
	7,769,219	-	7,769,219	7,610,200	-	7,610,200

### Financial Institutions

Current deposits	19	-	19	441	-	441
Savings deposits	635,950	-	635,950	570,330	-	570,330
Term deposits	67,300	-	67,300	67,300	-	67,300
Others	-	-	-	-	-	-
	703,269	-	703,269	638,071	-	638,071
	8,472,488	-	8,472,488	8,248,271	-	8,248,271

### 17.1 Composition of deposits

	2022	2021
	(Rupees in '000)	
Individuals	2,640,623	1,794,810
Government (Federal and Provincial)	864,005	784,859
Public Sector Entities	36,242	58,119
Banking Companies	-	-
Non-Banking Financial Institutions	703,269	638,071
Private Sector	4,228,349	4,972,412
	8,472,488	8,248,271

17.2 Total deposits include eligible deposits of Rs. 2,777.833 million (2021: Rs. 3,290.526 million) as required by the Deposit Protection Corporation's (a subsidiary of SBP) Circular No. 4 of 2018 dated June 22, 2018.



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

	Note	2022	2021
		(Rupees in '000)	
<b>18. OTHER LIABILITIES</b>			
Mark-up/ return/ interest payable in local currency		207,044	98,484
Unearned commission on guarantees		6,203	3,840
Accrued expenses		16,754	14,513
Sundry creditors	18.1	131,783	132,585
Branch adjustment account		2,054	1,548
Payable against employees' benefit plans			
Defined benefit pension		358,708	500,705
Defined benefit funded gratuity scheme		11,866	7,362
Unfunded compensated absences		82,186	67,410
Security deposits against lease		280	280
Leased liability against right of use assets	18.2	526,856	537,165
Employees' VSS payments withheld		12,076	12,076
Income tax withheld payable		19,098	18,049
Others		1,757	1,655
		<u>1,376,665</u>	<u>1,395,672</u>

18.1 This includes Rs. 90.615 million (2021: 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. 30.799 million (2021: Rs. 31.027 million).

	2022	2021
	(Rupees in '000)	
18.2 This represents lease liability under IFRS 16 :		
Opening net book value	537,165	541,078
- Additions/adjustment	7,102	12,805
- Interest	67,851	69,183
- Payment	(85,262)	(85,901)
Closing net book value	<u>526,856</u>	<u>537,165</u>

*AS*

**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

**19. SHARE CAPITAL**

**19.1 Authorized Capital**

2022	2021		2022	2021
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**

2022	2021	Ordinary shares	2022	2021
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>

19.3 Break-up of share capital is as follows:	Number of shares	Percentage (%)	2022	2021
			(Rupees in '000)	
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	2022	2021
		(Rupees in '000)	
Surplus/(deficit) on revaluation of Available-for-sale securities			
- Federal Government securities	9.1	(1,881)	(15,522)
- Listed companies/mutual funds		2,618	2,836
		737	(12,686)
Deferred tax on surplus/(deficit) on revaluation of Available-for-sale securities			
- Federal Government securities		-	-
- Listed companies/mutual funds		(916)	(993)
		<u>(179)</u>	<u>(13,679)</u>

*Handwritten signature*



**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**

21. CONTINGENCIES AND COMMITMENTS	Note	2022	2021
		(Rupees in '000)	
- Guarantees	21.1	260,245	338,308
- Commitments	21.2	3,557,269	3,316,589
- Other contingent liabilities	21.3	1,180,924	1,170,700
		<u>4,998,438</u>	<u>4,825,597</u>
<b>21.1 Guarantees</b>			
Financial guarantees		-	-
Performance guarantees	21.1.1	260,245	338,308
Other guarantees		-	-
		<u>260,245</u>	<u>338,308</u>
21.1.1 This include expired letter of guarantees/performance aggregating to Rs. 60.558 million (2021: Rs. 92.941 million) for which formalities for return of original documents are in process.			
<b>21.2 Commitments</b>	<b>Note</b>	<b>2022</b>	<b>2021</b>
		<b>(Rupees in '000)</b>	
Commitments in respect of:			
- forward government securities transactions	21.2.1	3,382,447	3,099,258
- forward lending	21.2.2	157,292	215,662
Commitments for acquisition of:			
- operating fixed assets		17,435	1,669
Other commitments	21.2.3	95	-
		<u>3,557,269</u>	<u>3,316,589</u>
21.2.1 Commitments in respect of forward government securities transactions			
Sale and repurchase agreements		<u>3,382,447</u>	<u>3,099,258</u>
21.2.2 Commitments in respect of forward lending			
Undrawn facilities		140,292	142,562
Commitments to extend credit		17,000	73,100
		<u>157,292</u>	<u>215,662</u>
21.2.3 Other commitments			
Bills for collection			
Payable in Pakistan		95	-

**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

	<u>2022</u>	<u>2021</u>
	<u>(Rupees in '000)</u>	
<b>21.3 Other contingent liabilities</b>	<b><u>1,180,924</u></b>	<b><u>1,170,700</u></b>
a) Claims not acknowledged as debt from various borrowers of defunct RDFC.	<b>31,860</b>	31,860
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.	<b>612,707</b>	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.	<b>6,163</b>	6,163
d) 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.	<b>36,076</b>	36,076





**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

	2022	2021
	(Rupees in '000)	
e) 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
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

**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

	<u>2022</u>	<u>2021</u>
	<u>(Rupees in '000)</u>	
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.	20,452	20,807
k) The Officer Inland Revenue, LTU, Islamabad demand of Rs. 16.939 million for the tax year 2016 under section 122(5A) of the Income tax Ordinance, 2001. An appeal is pending before Commissioner (Appeals). Meanwhile stay is also granted in the instant case to keep the recovery proceedings in abeyance.	16,939	-
l) Back benefits and claims of staff/employees under litigation.	<u>60,920</u>	<u>67,280</u>



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

	2022	2021
	(Rupees in '000)	
<b>22. MARK-UP/ RETURN/ INTEREST EARNED</b>		
On loans and advances to Customers		
Extended by:		
Defunct RDFC & SBFC	-	-
SME Bank Limited	283,731	227,933
	<u>283,731</u>	<u>227,933</u>
Employees	2,231	1,883
Financial Institution - SME Leasing Limited - a subsidiary company	22,725	16,869
	<u>308,687</u>	<u>246,685</u>
On investments in		
Available for sale securities	474,224	359,318
Held to maturity securities	850	2,280
	<u>475,074</u>	<u>361,598</u>
On deposits with financial institutions	268	124
Lendings to financial institutions	401	1,185
	<u>784,430</u>	<u>609,592</u>
<b>23. MARK-UP/ RETURN/ INTEREST EXPENSED</b>		
On deposits	765,329	453,488
On securities sold under repurchase agreements	459,333	260,511
On SBP Refinance Scheme	2,329	2,038
Brokerage and commission	1,491	1,468
Bank charges	142	132
	<u>1,228,624</u>	<u>717,637</u>
<b>24. FEE &amp; COMMISSION INCOME</b>		
Branch banking customer fees	3,022	3,095
Card related fees	484	427
Credit related fees	1,299	2,473
Commission on guarantees	8,414	7,937
Commission on remittances	39	65
Others	24	12
	<u>13,282</u>	<u>14,009</u>

*h*

**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

	Note	2022 (Rupees in '000)	2021
<b>25. GAIN / (LOSS) ON SECURITIES</b>			
Realised	25.1	(2,839)	925
Unrealised - held for trading		-	-
		<u>(2,839)</u>	<u>925</u>
25.1 Federal Government Securities - net		<u>(2,839)</u>	<u>925</u>
<b>26. OTHER INCOME</b>			
Gain on sale of operating fixed assets - net		9,328	1,159
Fee on fund managed by the Bank -EPF		974	974
Others		-	36
		<u>10,302</u>	<u>2,169</u>



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

27. OPERATING EXPENSES	Note	2022	2021
		(Rupees in '000)	
<b>Total compensation expense</b>	27.1	714,649	695,478
<b>Property expense</b>			
Rent & taxes		7,756	4,886
Insurance		2,343	3,712
Utilities cost		33,926	23,635
Security (including guards)		25,545	18,330
Repair & maintenance		7,363	6,752
Depreciation		54,590	56,147
Others		-	-
		131,523	113,462
<b>Information technology expenses</b>			
Software maintenance		5,542	6,517
Hardware maintenance		2,695	1,970
Depreciation		1,199	2,818
Amortization		906	1,078
• Network charges		15,855	13,758
Others		563	224
		26,760	26,365
<b>Other operating expenses</b>			
Directors' fees, allowances and other expenses		3,349	4,315
Legal and professional charges		8,510	6,062
Outsourced services costs	27.2 & 33.1	29,364	25,079
Travelling and conveyance		2,442	2,942
NIFT clearing charges		3,047	2,424
Depreciation		2,500	5,540
Training & development		943	959
Postage & courier charges		722	736
Communications		4,536	4,477
Stationery and printing		6,388	5,435
Marketing, advertisement & publicity		1,857	1,469
Donations		-	-
Auditors' remuneration	27.3	1,093	1,126
Separations cost		-	1,389
Vehicle running and maintenance		6,610	4,683
Entertainment		2,576	2,224
Subscription, books and newspapers		3,551	3,049
Deposits premium		5,265	3,784
Others		969	356
		83,722	76,049
		956,654	911,354

**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022****27.1 Total compensation expense**

	Note	2022 (Rupees in '000)	2021
Managerial Remuneration			
- Fixed		292,742	296,399
- Variable			
Cash award		189	305
Charge for defined benefit plans			
- pension fund and gratuity	34.8.1	110,143	100,098
- funded gratuity scheme	34.8.1	11,801	11,220
- unfunded compensated absences	34.8.1	17,480	28,496
Contribution to defined contribution plan - benevolent fund	35.2	555	(2,722)
Rent & house maintenance		95,305	96,840
Utilities		29,796	30,023
Medical		43,185	43,825
Conveyance		14,169	15,257
Telephone		3,916	3,865
Uniform allowance		1,065	1,269
Child education allowance		6,305	6,611
Group insurance		2,137	1,622
Overtime		1,654	1,564
Adhoc relief		16,547	1,421
Leave absence		5,363	7,232
Leave fare assistance		13,159	13,508
Rental in lieu of vehicle		6,609	6,591
Reimbursement of vehicle running & maintenance		41,796	28,472
Staff welfare benefits		733	3,582
		<u>714,649</u>	<u>695,478</u>

27.2 Total cost for the year included in other operating expenses relating to outsourced activities is Rs 29.364 million (2021: Rs 25.079 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**

	2022 (Rupees in '000)	2021
Audit fee	920	928
Fee for other statutory certifications	115	116
Fee for audit of employees funds	58	82
	<u>1,093</u>	<u>1,126</u>





**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

	<u>2022</u>	<u>2021</u>
	<u>(Rupees in '000)</u>	
<b>28. OTHER CHARGES</b>		
Penalties imposed by the State Bank of Pakistan	5	-
Right of use assets - unwinding of present value	<u>67,851</u>	<u>69,183</u>
	<u>67,856</u>	<u>69,183</u>
<b>29. PROVISIONS &amp; WRITE OFFS - NET</b>		
Provisions for diminution in value of investment	-	311
Reversals against loans & advances	<u>(41,382)</u>	<u>(18,328)</u>
(Reversals) / Provisions against other assets	<u>(5,305)</u>	<u>565</u>
Bad debts written off directly	-	-
	<u>(46,687)</u>	<u>(17,452)</u>



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

**30. TAXATION**

		2022	2021
	Note	(Rupees in '000)	
Current	30.2	10,014	9,530
Prior years	30.3	(1,589)	-
Deferred		(156,778)	(118,556)
		<u>(148,353)</u>	<u>(109,026)</u>

**30.1 Relationship between tax expense and accounting loss**

Loss before tax		<u>(1,398,229)</u>	<u>(1,051,447)</u>
Applicable tax rate		<u>35%</u>	<u>35%</u>
Tax on loss		(489,380)	(368,006)
Deferred tax asset recognised during the year		(156,778)	(118,556)
Tax effect of income taxed at lower rate		3	53
Minimum tax		10,011	9,477
Other permanent differences		487,791	368,006
		<u>(148,353)</u>	<u>(109,026)</u>

30.2 Provision for current year tax expense is charged on minimum tax rate of 1.25% of the turnover due to tax losses of the Bank for the year ended December 31, 2022.

30.3 This represents the effect which reconciles the balance of advance tax with the tax position of the Bank as per tax returns pertaining to years/ tax year 2021-2022.

**31. BASIC/ DILUTED LOSS PER SHARE**

	2022	2021
	(Rupees in '000)	
Net loss after tax for the year	<u>(1,249,876)</u>	<u>(942,421)</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares	<u>239,250,700</u>	<u>239,250,700</u>
	<b>Rupees</b>	
Basic/ diluted loss per share	<u>(5.22)</u>	<u>(3.94)</u>

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





**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

**32. CASH AND CASH EQUIVALENTS**

		<u>2022</u>	<u>2021</u>
	Note	(Rupees in '000)	
Cash and balances with treasury banks	7	609,236	824,944
Balances with other banks	8	1,307	2,737
		<u>610,543</u>	<u>827,681</u>

**33. STAFF STRENGTH**

		<u>2022</u>	<u>2021</u>
		Numbers	
Permanent		147	151
On contract		161	184
		<u>308</u>	<u>335</u>

**Average number of employees**

Permanent	149	157
On contract	173	190
	<u>322</u>	<u>347</u>

33.1 In addition to the above, 113 (2021 : 113) employees of outsourcing services companies were assigned to the Bank.

*AL*

#### 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:

	2022	2021
	( Numbers )	
- Pension fund	147	151
- Gratuity fund	161	184
- Compensated absences	147	151

*BA*



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

**34.3 Principal actuarial assumptions**

The actuarial valuations were carried out as at December 31, 2022 using the following significant assumptions:

	2022	2021
Valuation discount rate - per annum	14.50%	12.25%
Salaries increase rate - per annum	12.50%	10.25%
Expected return on plan assets - per annum	14.50%	12.25%
Pension indexation rate - per annum	9.00%	8.25%
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, 2023	January 1st, 2022

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

	2022			2021		
	Pension fund	Gratuity fund	Compensated Absences	Pension fund	Gratuity fund	Compensated Absences
	(Rupees '000)					
Present value of obligations	1,956,951	135,495	82,186	1,874,581	122,292	67,410
Payable to outgoing employees	-	2,990	-	-	-	-
Fair value of plan assets	(1,598,243)	(126,619)	-	(1,373,876)	(114,930)	-
Payable to defined benefit plans	358,708	11,866	82,186	500,705	7,362	67,410

**34.5 Movement in defined benefit obligations**

Obligations at the beginning of the year	1,874,581	122,292	67,410	1,622,825	111,679	68,328
Current service cost	55,858	11,698	6,358	65,454	11,343	31,130
Interest cost	226,814	14,195	8,092	161,310	10,812	5,496
Benefit paid by the Bank	(46,083)	(11,567)	(2,704)	(98,129)	(12,388)	(29,414)
Past service cost	-	-	-	-	-	-
Actuarial (gain) / loss	(154,219)	1,867	3,030	123,121	846	(8,130)
Obligations at the end of the year	1,956,951	138,485	82,186	1,874,581	122,292	67,410

**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**

	2022			2021		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
	(Rupees '000)					
<b>34.6 Movement in fair value of plan assets</b>						
Fair value at the beginning of the year	1,373,876	114,930	-	1,284,832	106,846	-
Expected return on plan assets	172,529	14,092	-	126,666	10,935	-
Contribution to the fund	115,129	11,787	-	89,907	12,713	-
Benefits paid during the year	(46,083)	(11,567)	-	(98,129)	(12,388)	-
Actuarial loss	(17,208)	(2,623)	-	(29,400)	(3,176)	-
Fair value at the end of the year	1,598,243	126,619	-	1,373,876	114,930	-
<b>34.7 Movement in net liability under defined benefit schemes</b>						
Opening balance	500,705	7,362	67,410	337,993	4,833	68,328
Charge / (reversal) for the year	110,143	11,801	17,480	100,098	11,220	28,496
Re-measurement (gain) / loss recognised in OCI during the year	(137,011)	4,490	-	152,521	4,022	-
Contribution/benefit paid by the Bank	(115,129)	(11,787)	(2,704)	(89,907)	(12,713)	(29,414)
Closing balance	358,708	11,866	82,186	500,705	7,362	67,410
<b>34.8 Charge for defined benefit plans</b>						
<b>34.8.1 Cost recognised in profit and loss</b>						
Current service cost	55,858	11,698	6,358	65,454	11,343	31,130
Net interest on defined benefit asset/liability	54,285	103	8,092	34,644	(123)	5,496
Past service cost	-	-	-	-	-	-
Actuarial loss / (gain) recognised - profit and loss	-	-	3,030	-	-	(8,130)
	110,143	11,801	17,480	100,098	11,220	28,496





**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**

	2022			2021		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
<b>34.8.2 Re-measurements recognised in OCI</b>	<b>(Rupees '000)</b>					
Experience adjustment						
- (Gain) / loss on obligation	(154,219)	1,867	3,030	123,121	846	8,130
- Gain on plan assets	17,208	2,623	-	29,400	3,176	-
- Actuarial gain recognised - profit and loss	-	-	(3,030)	-	-	(8,130)
Total re-measurements loss / (gain) recognised in OCI	(137,011)	4,490	-	152,521	4,022	-

<b>34.9 Components of plan assets</b>	2022		2021	
	Pension fund	Gratuity fund	Pension fund	Gratuity fund
	<b>(Rupees '000)</b>			
Cash and cash equivalents	17,911	1,505	17,152	2,338
Term Deposits Receipts (TDRs)	1,580,332	125,114	1,356,724	112,592
	1,598,243	126,619	1,373,876	114,930

**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:

	2022			2021		
	Pension fund	Gratuity fund	Compensated Absences	Pension fund	Gratuity fund	Compensated Absences
	<b>(Rupees '000)</b>					
Current liability	1,956,951	135,495	82,186	1,874,581	122,292	67,410
1% increase in discount rate	1,783,236	125,457	79,392	1,690,746	111,517	64,589
1% decrease in discount rate	2,164,405	146,828	85,158	2,096,660	134,634	70,433
1% increase in expected rate of salary increase	2,020,652	147,586	85,548	1,949,383	135,362	70,778
1% decrease in expected rate of salary increase	1,896,396	124,645	78,981	1,803,941	110,736	64,222
1 Year Mortality age set back	1,962,850	135,408	-	1,909,037	122,389	-
1 Year Mortality age set forward	1,951,350	135,582	-	1,842,793	122,193	-

#### 34.11 Expected charge 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)		
104,237	12,747	17,936

#### 34.12 Maturity profile

The weighted average duration of the obligation (in years)

2022	2021
9.30	10.42

#### 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**

	2022	2021	2020	2019	2018
<b>Deficit position</b>	<b>(Rupees in '000)</b>				
Present value of obligation	1,956,951	1,874,581	1,622,825	1,484,477	1,403,012
Fair value of plan assets	(1,598,243)	(1,373,876)	(1,284,832)	(1,114,322)	(1,014,038)
Net defined benefit liability	358,708	500,705	337,993	370,155	388,974
<b>Experience adjustments</b>					
Remeasurement (gain)/loss on obligation	(154,219)	123,121	(47,678)	(145,069)	7,146
Remeasurement loss on plan asset	17,208	29,400	16,810	31,642	18,231
Other comprehensive income	(137,011)	152,521	(30,868)	(113,427)	25,377

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

	2022	2021	2020	2019	2018
<b>Deficit position</b>	<b>(Rupees in '000)</b>				
Present value of obligation	138,485	122,292	111,679	102,736	90,898
Fair value of plan assets	(126,619)	(114,930)	(106,846)	(88,564)	(80,168)
Net defined benefit liability	11,866	7,362	4,833	14,172	10,730
<b>Experience adjustments</b>					
Remeasurement loss/(gain) on obligation	1,867	846	(8,036)	(7,437)	(1,675)
Remeasurement loss/(gain) on plan asset	2,623	3,176	(2,056)	2,627	2,052
Other comprehensive income	4,490	4,022	(10,092)	(4,810)	377

**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**
**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.

	2022			2021		
	Officers Benevolent Fund	Staff Benevolent Fund	Total	Officers Benevolent Fund	Staff Benevolent Fund	Total
	(Rupees '000)			(Rupees '000)		
<b>35.2 Actuarial liability for active employees</b>	16,619	3,424	20,043	14,354	1,919	16,273
Actuarial liability for beneficiaries	1,625	460	2,085	2,732	318	3,050
<b>Total actuarial liability</b>	<b>18,244</b>	<b>3,884</b>	<b>22,128</b>	<b>17,086</b>	<b>2,237</b>	<b>19,323</b>
Fair value of plan assets	(24,581)	(6,034)	(30,615)	(22,226)	(5,782)	(28,008)
<b>Funding surplus</b>	<b>(6,337)</b>	<b>(2,150)</b>	<b>(8,487)</b>	<b>(5,140)</b>	<b>(3,545)</b>	<b>(8,685)</b>
<b>Asset recognized in balance sheet</b>	<b>(6,337)</b>	<b>(2,150)</b>	<b>(8,487)</b>	<b>(5,140)</b>	<b>(3,545)</b>	<b>(8,685)</b>
The amount recognized in the profit and loss account is as follows:						
Expense for the year	(906)	1,461	555	(1,169)	(1,553)	(2,722)
	(906)	1,461	555	(1,169)	(1,553)	(2,722)

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

	2022	2021
	(Rupees '000)	
Cash and cash equivalents	369	715
Term Deposits Receipts (TDRs)	30,246	27,293
	<b>30,615</b>	<b>28,008</b>



#### 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:

	2022 (Rupees '000)	2021 (Rupees '000)
Current liability	22,128	19,323
1% increase in discount rate	21,108	18,594
1% decrease in discount rate	23,230	20,103
1% increase in expected rate of salary increase	22,128	19,323
1% decrease in expected rate of salary increase	22,128	19,323

#### 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

The weighted average duration of the obligation (in years)

2022	2021
9.30	10.42

**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**
**36. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL**
**36.1 Total Compensation Expense**

Items	2022			2021		
	Non-Executives Directors	President / CEO	Executives	Non-Executives Directors	President / CEO	Executives
(Rupees '000)						
Fees and allowances etc.	1,925	-	-	2,500	-	-
Managerial remuneration						
i) Fixed	-	5,402	143,690	-	4,500	124,884
ii) Total variable	-	-	101	-	-	50
Charge for defined benefit plan	-	1,282	52,828	-	1,388	41,021
Rent & house maintenance	-	2,971	35,401	-	2,475	35,449
Utilities	-	1,063	13,690	-	804	12,473
Medical	-	810	13,123	-	675	12,284
Conveyance	-	-	1,467	-	-	1,575
Motor car running & maintenance	-	-	42,250	-	-	27,363
Leave fare assistance	-	909	11,160	-	756	10,752
Club membership	-	-	-	-	937	-
Others	1,424	1,791	10,831	1,815	1,325	12,173
<b>Total</b>	<b>3,349</b>	<b>14,228</b>	<b>324,541</b>	<b>4,315</b>	<b>12,860</b>	<b>278,024</b>
Number of Persons	6	1	78	6	1	71

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**

		2022					
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	200	-	100	-	50	350
2	Mr. Rauf Ahmad	200	-	-	150	50	400
3	Mr. Enamullah Khan	200	50	-	150	-	400
4	Mr. Hashim Raza	150		50	-	50	250
5	Mr. Omar Farooq	100	75	50	-	-	225
6	Mr. Waqar Uddin Siddiqui	200	100	-	-	-	300
	Total amount paid	1,050	225	200	300	150	1,925



**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

		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 Remuneration Committee	
(Rupees in '000)							
1	Mr. Muhammad Waqas	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

36.3 The President/CEO was also provided with free use of Bank's owned and maintained car in accordance with their terms of employment.

**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022****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.

		2022				
		FAIR VALUE				
		Level 1	Level 2	Level 3	carrying / notional value	Total
<b>37.1 On balance sheet financial instruments</b>	<b>Note</b>	<b>(Rupees in '000)</b>				
Financial assets measured at fair value						
- Investments						
Government securities (T bills and PIBs)		-	3,920,993	-	-	3,920,993
Ordinary shares of listed companies/Mutual funds		4,479	-	-	-	4,479
Ordinary shares of unlisted companies		-	-	-	26,470	-
Financial assets not measured at fair value						
- Bank balances with treasury banks	37.2	-	-	-	451,681	451,681
- Balances with other banks	37.2	-	-	-	1,307	1,307
- Lending to financial institutions	37.2	-	-	-	-	-
- Advances	37.2	-	-	-	1,329,573	1,329,573
- Other assets	37.2	-	-	-	87,948	87,948
-Other Investment (COI/TDR)	37.2	-	-	-	2,600	2,600
- Subsidiary						
SME Leasing Limited		-	-	-	80,748	80,748



**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**

		2021				
		FAIR VALUE				
		Level 1	Level 2	Level 3	carrying / notional value	Total
On balance sheet financial instruments	Note	(Rupees in '000)				
Financial assets measured at fair value						
- Investments						
Government Securities (T bills and PIBs)		-	4,090,800	-	-	4,090,800
Ordinary shares of listed companies/Mutual funds		4,697	-	-	-	4,697
Ordinary shares of unlisted companies		-	-	-	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

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

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

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

**SME BANK LIMITED**

**Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

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).

*h*



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

**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, 2022		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
<b>Profit and Loss</b>			
Net mark-up/return/profit	475,476	308,954	784,430
Inter segment revenue - net	-	96,467	96,467
Non mark-up/return/interest income	204	23,584	23,788
Total income	475,680	429,005	904,685
Segment direct expenses	483,216	1,769,918	2,253,134
Inter segment expenses allocation	96,467	-	96,467
Total expenses	579,683	1,769,918	2,349,601
Provisions	-	(46,687)	(46,687)
Loss before tax	(104,003)	(1,294,226)	(1,398,229)
<b>Balance Sheet</b>			
Cash & bank balances	429,864	180,679	610,543
Investments	4,035,290	-	4,035,290
Net inter segment lending	-	2,861,829	2,861,829
Lending to financial institutions	-	-	-
Advances - Performing	-	1,259,513	1,259,513
- Non-performing	-	70,060	70,060
Others	838,428	1,204,434	2,042,862
<b>Total Assets</b>	<b>5,303,582</b>	<b>5,576,515</b>	<b>10,880,097</b>
Borrowings	3,367,714	131,641	3,499,355
Deposits & other accounts	-	8,472,488	8,472,488
Net inter segment borrowing	2,861,829	-	2,861,829
Others	369,889	1,041,367	1,411,256
<b>Total Liabilities</b>	<b>6,599,432</b>	<b>9,645,496</b>	<b>16,244,928</b>
Equity	(1,295,850)	(4,068,981)	(5,364,831)
<b>Total Equity &amp; liabilities</b>	<b>5,303,582</b>	<b>5,576,515</b>	<b>10,880,097</b>
<b>Contingencies &amp; Commitments</b>	<b>3,382,447</b>	<b>1,615,991</b>	<b>4,998,438</b>

**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022**

	December 31, 2021		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
<b>Profit and Loss</b>			
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)
<b>Balance Sheet</b>			
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
<b>Total Assets</b>	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
<b>Total Liabilities</b>	5,613,190	9,344,944	14,958,134
Equity	(37,330)	(4,223,646)	(4,260,976)
<b>Total Equity &amp; liabilities</b>	5,575,860	5,121,298	10,697,158
<b>Contingencies &amp; Commitments</b>	3,099,258	1,726,339	4,825,597





**SME BANK LIMITED**

**Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

Assumptions used:

- Unallocatable assets representing 10.74% (December 31, 2021: 9.02%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 4.52% (December 31, 2021: 5.64%) of the gross liabilities have been allocated to segments based on their respective incomes.

**38.2 Segment details with respect to geographical locations**

Presently the Bank does not deal outside Pakistan.



### 39. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its majority shareholder (Government of Pakistan) subsidiary, directors/CEO, 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, 2022						December 31, 2021					
	Subsidiary SMEL	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Subsidiary SMEL	Key Management Personnel	Directors/C EO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust
	(Rupees in '000)						(Rupees in '000)					
<b>Investments</b>												
Opening balance	215,457	-	-	-	-	-	215,457	-	-	-	-	-
Investment made during the year	-	-	-	-	-	-	-	-	-	-	-	-
Investment redeemed / disposed off during the year	-	-	-	-	-	-	-	-	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	215,457	-	-	-	-	-	215,457	-	-	-	-	-
Provision for diminution in value of investments	134,709	-	-	-	-	-	134,709	-	-	-	-	-
<b>Advances</b>												
Opening balance	134,689	6,620	-	-	-	-	144,747	7,869	-	-	-	-
Addition (total debits) during the year	52,517	6,822	-	-	-	-	37,582	6,075	-	-	-	-
Repaid (total credits) during the year	(48,048)	(7,717)	-	-	-	-	(47,640)	(7,324)	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	139,158	5,725	-	-	-	-	134,689	6,620	-	-	-	-
Provision held against advances	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other Assets</b>												
Interest / mark-up accrued	6,548	5,708	-	-	-	-	4,252	6,769	-	-	-	-
Receivable from staff retirement fund	-	-	-	-	8,487	-	-	-	-	-	8,685	-
Other receivable	-	-	-	4,146	-	-	-	-	-	3,017	-	-
<b>Deposits and other accounts</b>												
Opening balance	422	15,197	16,373	520,507	1,461,658	7,227	-	9,107	21,770	492,509	1,360,263	5,356
Received during the year	9,127	159,445	17,464	59,071	189,647	48,385	15,963	153,119	32,899	27,998	114,865	53,147
Withdrawn during the year	-	(164,297)	(26,083)	-	(4,940)	(44,540)	-	(144,259)	(38,296)	-	(13,470)	(51,276)
Transfer in / (out) - net	(9,549)	(296)	-	-	-	-	(15,541)	(2,770)	-	-	-	-
Closing balance	-	10,049	7,754	579,578	1,646,365	11,072	422	15,197	16,373	520,507	1,461,658	7,227
<b>Other Liabilities</b>												
Interest / mark-up payable	-	96	174	7,138	110,712	65	-	103	572	3,205	56,322	46
Payable to staff retirement funds	-	-	-	-	452,760	-	-	-	-	-	575,477	-
Others liabilities	-	-	-	-	-	-	-	-	-	-	-	-
<b>Contingencies and Commitments</b>												



**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**

	December 31, 2022						December 31, 2021					
	Subsidiary SMEL	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Subsidiary SMEL	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust
	Rupees in '000						Rupees in '000					
<b>Income</b>												
Mark-up / return / interest earned	22,725	227	-	-	-	-	16,869	294	-	-	-	-
Fee and commission income	-	-	-	974	-	-	-	-	-	974	-	-
<b>Expense</b>												
Mark-up / return / interest expense	-	1,564	1,381	63,004	170,423	245	-	684	1,270	28,902	107,207	326
Fees and other expenses	-	-	-	-	-	-	-	-	-	-	-	-
Remuneration and allowances	-	79,030	-	-	-	-	-	69,586	-	-	-	-
Charge for the period relating to employees benefit plans	-	-	-	-	139,979	-	-	-	-	-	137,092	-

	Description	Interest rate
Principal terms of loan facility to SMEL	Running finance facility upto Rs. 150 million	6 months Kibor + 4.0%
Principal terms of deposit to Equity Participation Fund	Remunerative deposits	14.50%
Principal terms of deposit to Employee Benefit Plans	Remunerative deposits	10.00% to 16.60%
Principal terms of deposit to Employee Provident Trust	Remunerative deposits	14.75%
Principal terms of deposit to Directors/CEO	Remunerative deposits	14.50% to 15.00%

**SME BANK LIMITED**

**Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

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 06, 2020. SME Bank has requested SBP to allow further extension which is pending.

*Me*



**SME BANK LIMITED**  
**Notes to the Unconsolidated Financial Statements**  
**For the year ended December 31, 2022**

**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:

	2022	2021
	(Rupees in '000)	
Regulatory capital base		
Tier I capital		
Shareholders capital/assigned capital	2,392,507	2,392,507
Reserves	206,526	206,526
Unappropriated/unremitted profits (net of losses)	(7,963,685)	(6,846,330)
	(5,364,652)	(4,247,297)
Less: Adjustments		
Goodwill/intangible Assets	779	1,455
Investment in equity of subsidiary	80,748	80,748
Deficit on revaluation of available for sale investments	179	13,679
	81,706	95,882
Total Tier I capital	(5,446,358)	(4,343,179)
Tier II capital	29	884
Eligible Tier III capital	-	-
Total regulatory capital (a)	(5,446,329)	(4,342,295)

	2022		2021	
	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	610,543	261	827,681	547
Investments/ lending to financial institutions	4,035,290	33,548	4,237,715	66,167
Loans and advances	1,329,573	811,546	1,596,181	959,171
Fixed assets	381,089	380,310	425,695	424,240
Deferred tax assets	1,165,061	1,165,061	1,008,206	1,008,206
Other assets	496,712	265,501	512,849	266,213
	8,018,268	2,656,227	8,608,327	2,724,544
Off balance sheet items				
Weighted non-funded exposures	208,638	104,319	281,430	140,715
	208,638	104,319	281,430	140,715
Credit risk-weighted exposures (b)	8,226,906	2,760,546	8,889,757	2,865,259
Market risk	-	182,034	-	163,072
Market risk-weighted exposures	-	182,034	-	163,072
Total risk-weighted exposures (c)		2,942,580		3,028,331
Capital adequacy ratio credit risk [ (a) / (b) x 100 ]		-197.29%		-151.55%
Total capital adequacy ratio [ (a) / (c) x 100 ]		-185.09%		-143.39%

**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**
**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	
	2022	2021	2022	2021	2022	2021
	(Rupees in '000)					
Chemical and pharmaceuticals	116,341	119,104	100,204	101,623	96,522	99,016
Agriculture, forestry, hunting and fishing	205,420	235,585	201,425	201,662	201,425	201,662
Mining & quarrying	9,053	9,053	9,053	9,053	9,053	9,053
Textile	358,708	406,539	305,795	326,819	302,987	324,487
Cement	-	-	-	-	-	-
Sugar	-	-	-	-	-	-
Footwear and leather garments	68,230	62,010	56,930	59,375	56,465	59,246
Automobile and transportation equipment	49,069	70,881	20,665	27,453	18,162	22,827
Financial	204,757	200,553	-	-	-	-
Insurance	-	-	-	-	-	-
Electronics and electrical appliances	16,866	39,962	10,126	11,477	10,126	10,512
Construction	249,361	277,774	70,141	77,951	68,372	67,227
Power (electricity), gas, water and sanitary	31,316	42,070	16,391	28,302	14,132	15,580
Wholesale and trade	1,580,011	1,723,175	1,368,133	1,436,485	1,343,357	1,404,381
Transport, storage, and communication	129,968	96,140	19,943	19,943	13,722	11,222
Individuals	1,025,143	1,077,356	983,792	1,028,316	983,792	1,028,316
Services	361,557	372,501	242,670	284,444	225,368	266,542
Government	-	-	-	-	-	-
Others	1,917,634	2,085,981	1,658,624	1,715,015	1,650,349	1,701,548
	<b>6,323,434</b>	<b>6,818,684</b>	<b>5,063,892</b>	<b>5,327,918</b>	<b>4,993,832</b>	<b>5,221,619</b>

**41.1.2 Segment by sector**

Public/ Government	-	-	-	-	-	-
Private	6,323,434	6,818,684	5,063,892	5,327,918	4,993,832	5,221,619
	<b>6,323,434</b>	<b>6,818,684</b>	<b>5,063,892</b>	<b>5,327,918</b>	<b>4,993,832</b>	<b>5,221,619</b>



**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022****41.1.3 Contingencies and Commitments****Credit risk by industry sector**

	2022	2021
	(Rupees in '000)	
Chemical and pharmaceuticals	13	1,126
Agriculture, forestry, hunting and fishing	5	77
Mining & quarrying	-	-
Textile	17,173	12,682
Cement	-	-
Sugar	-	-
Footwear and leather garments	-	10,000
Automobile and transportation equipment	65,175	24,338
Financial	3,396,190	3,114,605
Insurance	-	-
Electronics and electrical appliances	-	5,003
Construction	76,487	331,229
Power (electricity), gas, water and sanitary	-	21,400
Wholesale and trade	12,892	16,018
Exports/ Imports	-	-
Transport, storage and communication	-	-
Individuals	60,920	68,080
Services	7,594	48,048
Government	1,283,739	1,071,560
Others	78,250	101,431
	<u>4,998,438</u>	<u>4,825,597</u>

**Credit risk by public/private sector**

Public/ Government	1,283,739	1,071,560
Private	3,714,699	3,754,037
	<u>4,998,438</u>	<u>4,825,597</u>

**41.1.4 Concentration of Advances**

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs. 712.188 million (2021: Rs. 836.541 million) are as following:

	2022	2021
	(Rupees in '000)	
Funded	500,974	550,809
Non funded	211,214	285,732
Total exposure	<u>712,188</u>	<u>836,541</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 904.525 million (2021: Rs. 908.632 million).

**Total funded classified therein**

	2022		2021	
	Amount	held	Amount	held
	(Rupees in '000)			
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**SME BANK LIMITED**
**Notes to the Unconsolidated Financial Statements**
**For the year ended December 31, 2022**
**41.1.5 Advances - Province/Region-wise Disbursement & Utilization**

Province/region	Disbursements	2022					
		Utilization					
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
(Rupees in '000)							
Punjab	274,120	274,120	-	-	-	-	-
Sindh	222,700	-	222,700	-	-	-	-
KPK including FATA	54,000	-	-	54,000	-	-	-
Balochistan	179,400	-	-	-	179,400	-	-
Islamabad	133,000	131,000	-	-	-	2,000	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-	-
Total	863,220	405,120	222,700	54,000	179,400	2,000	-

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

Province/Region	Disbursements	2021					
		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	-

**41.1.6 SME Portfolio Charged off**

During the year Bank has charged off 381 loan cases of SME portfolio in default for the last 10 years & above extinguished through provisions to clean the balance sheet, approved by BoD in its 116th meeting held on March 05, 2022. Charged off these loans does not means cessation of the Bank's right to recover its money from borrowers through litigation or any other way. As at reporting date outstanding amount of charged off portfolio was Principal Rs. 180.489 million, Markup 143.670 million and Others Rs. 29.324 million.

**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.



**SME BANK LIMITED****Notes to the Unconsolidated Financial Statements****For the year ended December 31, 2022****41.2.1 Balance sheet split by trading and banking books**

	2022			2021		
	Banking book	Trading book	Total	Banking book	Trading book	Total
(Rupees in '000)						
Cash and balances with treasury banks	609,236	-	609,236	824,944	-	824,944
Balances with other banks	1,307	-	1,307	2,737	-	2,737
Lendings to financial institutions	-	-	-	-	-	-
Investments	114,297	3,920,993	4,035,290	146,915	4,090,800	4,237,715
Advances	1,329,573	-	1,329,573	1,596,181	-	1,596,181
Fixed assets	380,310	-	380,310	424,240	-	424,240
Intangible assets	779	-	779	1,455	-	1,455
Deferred tax assets	1,165,061	-	1,165,061	1,008,206	-	1,008,206
Other assets	496,712	-	496,712	512,849	-	512,849
	<b>4,097,275</b>	<b>3,920,993</b>	<b>8,018,268</b>	<b>4,517,527</b>	<b>4,090,800</b>	<b>8,608,327</b>

**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.

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

Rs. In thousands

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

Sr. No	Name and Address of Borrower	Name of Individual/ Partner/Directors (with NIC No.)	Father's/Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off/waived	Other financial relief/ waiver	TOTAL
				Principal	Interest/ Mark-up	Others	Total				
1	Sydney Heels Shop No. 6-A, G Block, F-6, Super Market, Islamabad	Laeq Hassan Rana 35201-4477265-1	Rana Muhammad Lehasaf	2	-	89	91	-	457	1,056	1,513
2	Shah Din & Co Morecha stop, Sultanpura Park Near Kholhar Road, Bund road Lahore.	Shah Din 35202-6009055-5	Jamat Ali	-	687	278	965	-	1,072	-	1,072
3	Wasim Iron Merchant H.NO.5, Butt Street, Malik Park Bilal Ganj Lahore.	Muhammad Wasim Butt 35202-5726705-7	Muhammad Rafique Butt	66	1,093	405	1,564	-	798	-	798
4	AM Pipe Opposite Yadgar Shaheedan, Mouza Kot Duni Chand, Tehsil & District Lahore.	Muhammad Ashfaq 35201-1614778-1	Miraj Din	-	1,450	499	1,949	-	8,961	-	8,961
5	Olympia Packages Opposite Butt Floor Sialkot Bypass Road Adeel Park Gujranwala.	Muhammad Rafiq Kousar 34101-0427428-5 Muhammad Irfan Rafique 34101-7605797-7	Ghulam Nabi Muhammad Rafique	2,500	1,620	911	5,031	-	3,304	789	4,093
6	Moosa Pak International Shafi Market, Main Raibazar, Gujranwala.	Sohail Shahzad 34101-2639656-5 Muhammad Waseem 34101-2639656-9	Haji Muhammad Haji Muhammad	9,500	5,628	568	15,696	-	11,496	658	12,154
7	M. Manzoor Alam Company Bajwa Road N/o Bajwa Jamia Masjid Bajwa Cly G.T Road Gujranwala.	Azhar Manzoor Alam 34101-5892549-7	Mian Manzoor Alam	965	392	138	1,495	-	1,099	89	1,188
8	Manzoor & Company Shop # 214 New Grain Market Dijkot Road Faisalabad.	Sheikh Manzoor Ahmad 38403-3559660-7	Sheikh Naik Ahmad	1,499	985	157	2,641	-	783	-	783
9	Shabbaz Bricks Chak No.260 RB, Tehsil & Distt. Faisalabad.	Muhammad Shahbaz Gill 33100-6427732-1 Saghar Shahbaz Gill 33100-9687661-1	Muhammad Nazir Gill Allah Dad Gill	2,398	1,616	203	4,217	-	1,045	-	1,045
<b>Total</b>				<b>16,930</b>	<b>13,471</b>	<b>3,248</b>	<b>33,649</b>	<b>-</b>	<b>29,015</b>	<b>2,592</b>	<b>31,607</b>

*Handwritten signature*



41.2.4 Mismatch of interest rate sensitive assets and liabilities

Mismatch of interest rate sensitive assets and liabilities		2022										Non-interest bearing financial instruments
Effective Yield/ Interest rate	Total	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		
(Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		609,236	-	-	-	-	-	-	-	-	-	609,236
Balances with other banks	7.40%	1,307	474	-	107	45	51	-	9	121	-	500
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	12.49%	4,035,290	612,206	1,842,442	1,488,196	1,432	2,141	-	-	8,125	-	80,748
Advances	17.90%	1,329,573	20,488	140,391	281,489	323,546	25,870	514,253	17,907	2,492	3,137	-
Other assets		87,948	-	-	-	-	-	-	-	-	-	87,948
		6,063,354	633,168	1,982,833	1,769,792	325,023	28,062	514,253	17,916	10,738	3,137	778,432
Liabilities												
Bills payable		34,591	-	-	-	-	-	-	-	-	-	34,591
Borrowings from financial institutions	12.96%	3,499,355	1,163,380	2,211,597	8,611	17,544	28,380	27,115	23,018	19,710	-	-
Deposits and other accounts	9.98%	8,472,488	1,993,373	945,225	1,250,175	660,689	12,800	28,000	200	2,288,762	-	1,293,264
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		369,414	-	-	-	-	-	-	-	-	-	369,414
		12,375,848	3,156,753	3,156,822	1,258,786	678,233	41,180	55,115	23,218	2,308,472	-	1,697,269
On-balance sheet gap		(6,312,494)	(2,523,585)	(1,173,989)	511,006	(353,210)	(13,118)	459,138	(5,302)	(2,297,734)	3,137	(918,837)
Off-balance sheet financial instruments												
Commitments to extend credit		157,292	157,292	-	-	-	-	-	-	-	-	-
Commitments against repo borrowing		3,382,447	1,161,617	2,220,830	-	-	-	-	-	-	-	-
Off-balance sheet gap		3,539,739	1,318,909	2,220,830	-	-	-	-	-	-	-	-
Total yield/ interest risk sensitivity gap			(3,842,494)	(3,394,819)	511,006	(353,210)	(13,118)	459,138	(5,302)	(2,297,734)	3,137	-
Cumulative yield/ interest risk sensitivity gap			(3,842,494)	(7,237,313)	(6,726,307)	(7,079,517)	(7,092,635)	(6,633,497)	(6,638,799)	(8,936,533)	(8,933,396)	-

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

	(Rupees '000)		(Rupees '000)
Total financial assets as per note 41.2.4	6,063,354	Total financial liabilities as per note 41.2.4	12,375,848
Add non-financial assets:		Add non-financial liabilities:	
Fixed assets	380,310	Other liabilities	1,007,251
Intangible assets	779		
Deferred tax assets	1,165,061		
Other assets	408,764		
Balance as per balance sheet	<b>8,018,268</b>	Balance as per Balance Sheet	<b>13,383,099</b>

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. 6,063.35 million (2021: Rs. 6,759.65 million), the financial assets which were subject to interest rate risk amounted to Rs. 5,284.92 million (2021: Rs. 5,755.39 million). Investments and other assets amounting to Rs. 3,920.99 million (2021: Rs. 4,101.14 million) respectively are guaranteed by the Government of Pakistan. An Assets Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.

Mismatch of interest rate sensitive assets and liabilities

		2021										
Effective Yield/ Interest rate		Exposed to Yield/Interest risk									Non-interest bearing financial instruments	
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		824,944	-	-	-	-	-	-	-	-	-	824,944
Balances with other banks	4.21%	2,737	1,540	-	225	94	106	-	20	252	-	500
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	7.47%	4,237,715	1,095,369	2,652,352	3,885	395,031	2,157	-	-	8,173	-	80,748
Advances	13.10%	1,596,181	98,875	219,177	730,751	297,014	39,034	154,787	47,171	6,203	3,169	-
Other assets		98,077	-	-	-	-	-	-	-	-	-	98,077
		6,759,654	1,195,784	2,871,529	734,861	692,139	41,297	154,787	47,191	14,628	3,169	1,004,269
Liabilities												
Bills payable		19,071	-	-	-	-	-	-	-	-	-	19,071
Borrowings from financial institutions	7.21%	3,206,289	1,241,035	1,862,777	8,129	12,055	26,379	22,410	28,504	-	-	-
Deposits and other accounts	5.93%	8,248,271	1,877,378	845,493	1,089,809	510,816	18,892	8,700	-	2,361,565	-	1,535,618
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		259,313	-	-	-	-	-	-	-	-	-	259,313
		11,732,944	3,118,413	2,713,270	1,097,938	522,871	45,271	31,110	28,504	2,361,565	-	1,814,002
On-balance sheet gap		(4,973,290)	(1,922,629)	158,259	(363,077)	169,268	(3,974)	123,677	18,687	(2,346,937)	3,169	(809,733)
Off-balance sheet financial instruments												
Commitments to extend credit		215,662	215,662	-	-	-	-	-	-	-	-	-
Commitments against repo borrowing		3,099,258	1,237,196	1,862,062	-	-	-	-	-	-	-	-
Off-balance sheet gap		3,314,920	1,452,858	1,862,062	-	-	-	-	-	-	-	-
Total yield/ interest risk sensitivity gap			(3,375,487)	(1,703,803)	(363,077)	169,268	(3,974)	123,677	18,687	(2,346,937)	3,169	-
Cumulative yield/ interest risk sensitivity gap			(3,375,487)	(5,079,290)	(5,442,367)	(5,273,099)	(5,277,073)	(5,153,396)	(5,134,709)	(7,481,646)	(7,478,477)	-

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

	(Rupees '000)		(Rupees '000)
Total financial assets	6,759,654	Total financial liabilities	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

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. 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 (2019: 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.



**SME BANK LIMITED**

Notes to the Unconsolidated Financial Statements  
For the year ended December 31, 2022

**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**

	2022												
	Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 to 9 months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years
	(Rupees in '000)												
<b>Assets</b>													
Cash and balances with treasury banks	609,236	609,236	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,307	1,307	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	4,035,290	-	-	597,052	15,154	293,382	1,549,060	1,488,196	716	716	2,141	-	88,873
Advances	1,329,573	88,237	-	52	4,754	33,502	9,965	328,951	20,315	192,084	97,776	172,508	338,165
Fixed assets	380,310	-	-	-	4,513	4,506	4,507	13,506	12,570	12,570	46,480	37,475	65,118
Intangible assets	779	-	-	-	77	77	77	197	121	121	77	32	-
Deferred tax assets - net	1,165,061	-	-	-	-	-	-	-	-	-	1,165,061	-	-
Other assets	496,712	2,099	12,624	14,723	46,665	184	184	231,663	230	157,949	-	24	229
	8,018,268	700,879	12,624	611,827	71,163	331,651	1,563,793	2,062,513	33,952	363,440	1,311,535	210,039	403,512
													341,340
<b>Liabilities</b>													
Bills payable	34,591	34,591	-	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	3,499,355	-	1,161,223	1,664	493	963,868	1,247,729	8,611	8,971	8,574	28,380	27,115	42,727
Deposits and other accounts	8,472,488	5,556,157	305,357	25,836	194,753	291,323	144,206	1,188,547	124,950	599,739	13,320	28,200	100
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,376,665	11,591	67,868	79,179	195,798	3,453	3,456	7,608	5,069	5,073	20,876	18,141	53,402
	13,383,099	5,602,339	1,534,448	106,679	391,044	1,258,644	1,395,391	1,204,766	138,990	613,386	62,576	73,456	96,229
													905,151
<b>Net assets</b>	(5,364,831)	(4,901,460)	(1,521,824)	505,148	(319,881)	(926,993)	168,402	857,747	(105,038)	(249,946)	1,248,959	136,583	307,283
													(563,811)
Share capital	2,392,507												
Reserves	206,526												
(Deficit) on revaluation of assets	(179)												
Unappropriated loss	(7,963,685)												
	(5,364,831)												

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

	2021													
	Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 to 2 months	Over 2 to 3 months	Over 3 to 6 months	Over 6 to 9 months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 years
	(Rupees in '000)													
<b>Assets</b>														
Cash and balances with treasury banks	824,944	824,944	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	2,737	2,737	-	-	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	4,237,715	-	35,000	747,331	297,771	1,149,405	1,502,705	-	393,588	-	-	-	-	111,915
Advances	1,596,181	113,122	9,978	-	12,461	10,183	18,281	370,349	78,953	192,765	113,489	156,398	488,248	31,954
Fixed assets	424,240	-	-	-	4,791	4,785	4,783	13,881	13,870	13,853	47,267	40,983	67,516	212,511
Intangible assets	1,455	-	-	-	78	77	71	212	212	212	593	-	-	-
Deferred tax assets - net	1,008,206	-	-	-	-	-	-	-	-	-	1,008,206	-	-	-
Other assets	512,849	2,509	14,190	17,569	50,224	207	208	236,738	213	156,902	-	23	737	33,329
	8,608,327	943,312	59,168	764,900	365,325	1,164,657	1,526,048	621,180	486,836	363,732	1,169,555	197,404	556,501	389,709
<b>Liabilities</b>														
Bills payable	19,071	19,071	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	3,206,289	-	1,237,149	2,218	1,317	982,830	885,564	7,863	8,455	13,516	25,608	19,506	22,263	-
Deposits and other accounts	8,248,271	5,876,544	15,395	80,337	316,966	195,295	129,428	1,104,367	83,139	436,934	1,166	8,700	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,395,672	8,299	48,117	56,137	139,048	2,281	2,282	5,306	4,959	4,960	16,226	17,890	39,491	1,050,676
	12,869,303	5,903,914	1,300,661	138,692	457,331	1,180,406	1,017,274	1,117,536	96,553	453,410	43,000	46,096	61,754	1,050,676
<b>Net assets</b>	(4,260,976)	(4,960,602)	(1,241,493)	626,208	(92,006)	(15,749)	508,774	(496,356)	390,283	(91,678)	1,126,555	151,308	494,747	(660,967)
Share capital	2,392,507													
Reserves	206,526													
(Deficit) on revaluation of assets	(13,679)													
Unappropriated loss	(6,846,330)													
	(4,260,976)													



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

	2022									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
<b>Assets</b>										
Cash and balances with treasury banks	609,236	564,355	8,805	-	-	-	-	-	36,076	-
Balances with other banks	1,307	974	-	107	45	51	-	9	121	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	4,035,290	612,206	1,842,442	1,488,196	1,432	2,141	-	-	88,873	-
Advances	1,329,573	30,144	90,795	389,696	304,910	204,462	221,810	75,794	8,825	3,137
Fixed assets	380,310	4,513	9,012	13,506	25,139	46,480	37,477	65,119	150,097	28,967
Intangible assets	779	77	154	197	241	77	33	-	-	-
Deferred tax assets - net	1,165,061	-	-	-	-	1,165,061	-	-	-	-
Other assets	496,712	76,111	368	231,663	158,179	-	24	229	30,138	-
	8,018,268	1,288,380	1,951,576	2,123,365	489,946	1,418,272	259,344	141,151	314,130	32,104
<b>Liabilities</b>										
Bills payable	34,591	29,963	-	-	-	-	-	-	4,628	-
Borrowings from financial institutions	3,499,355	1,163,380	2,211,597	8,611	17,544	28,380	27,115	23,018	19,710	-
Deposits and other accounts	8,472,488	2,739,361	949,659	1,260,547	660,689	13,320	28,000	300	2,820,612	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,376,665	354,281	6,701	7,649	10,142	20,876	18,141	53,402	805,936	99,537
	13,383,099	4,286,985	3,167,957	1,276,807	688,375	62,576	73,256	76,720	3,650,886	99,537
<b>Net assets</b>	(5,364,831)	(2,998,605)	(1,216,381)	846,558	(198,429)	1,355,696	186,088	64,431	(3,336,756)	(67,433)
Share capital	2,392,507									
Reserves	206,526									
Unappropriated loss	(7,963,685)									
(Deficit) on revaluation of assets	(179)									
	(5,364,831)									

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

41.4 Operational Risk

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

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

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

	2021									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
<b>Assets</b>										
Cash and balances with treasury banks	824,944	731,978	17,243	-	-	-	-	-	75,723	-
Balances with other banks	2,737	2,040	-	225	94	106	-	20	252	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	4,237,715	1,095,369	2,652,352	3,885	395,031	2,157	-	-	88,921	-
Advances	1,596,181	53,359	87,090	441,615	362,930	229,749	280,410	131,388	6,471	3,169
Fixed assets	424,240	4,948	9,411	13,881	28,890	46,296	41,378	68,023	156,122	55,291
Intangible assets	1,455	77	148	212	425	593	-	-	-	-
Deferred tax assets	1,008,206	-	-	-	-	1,008,206	-	-	-	-
Other assets	512,849	84,492	415	236,738	157,115	-	23	217	33,849	-
	8,608,327	1,972,263	2,766,659	696,556	944,485	1,287,107	321,811	199,648	361,338	58,460
<b>Liabilities</b>										
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
<b>Net assets</b>	(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 loss	(6,846,330)									
(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.



**SME BANK LIMITED**

**Notes to the Unconsolidated Financial Statements**

**For the year ended December 31, 2022**

---

**42. DATE OF AUTHORIZATION**

These financial statements were authorized for issue by the Board of Directors of the Bank on May 20, 2023. *A*



President/CEO



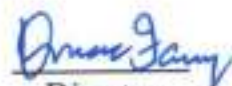
Chief Financial Officer



Director



Director



Director