

**CONDENSED INTERIM  
FINANCIAL STATEMENTS**  
(UNAUDITED)

**FOR THE QUARTER ENDED  
MARCH 31, 2018**

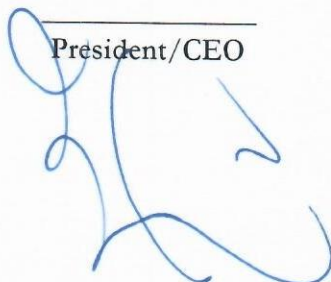
**SME BANK LIMITED**
**Condensed Interim Unconsolidated Statement of Financial Position**
**As at March 31, 2018**

		(Un-audited) March 31, 2018	(Audited) December 31, 2017
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks		540,848	435,791
Balances with other banks		4,518	11,321
Lendings to financial institutions		-	-
Investments	7	6,236,677	6,911,314
Advances	8	2,240,151	2,505,509
Operating fixed assets	9	64,029	64,251
Deferred tax assets - net	10	484,451	465,198
Other assets		680,010	601,710
		10,250,684	10,995,094
LIABILITIES			
Bills payable	11	66,723	92,554
Borrowings	12	4,187,070	5,308,315
Deposits and other accounts	13	6,031,217	5,343,655
Deferred tax liabilities		-	-
Other liabilities		683,181	684,915
		10,968,191	11,429,439
NET ASSETS		(717,507)	(434,345)
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Unappropriated loss		(3,225,910)	(3,005,398)
		(626,877)	(406,365)
Deficit on revaluation of assets - net of tax		(90,630)	(27,980)
		(717,507)	(434,345)
CONTINGENCIES AND COMMITMENTS			

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The annexed notes from 1 to 16 form an integral part of these condensed interim unconsolidated financial information.

  
Chief Financial Officer

  
President/CEO

  
Director

  
Director

  
Director

**SME BANK LIMITED**

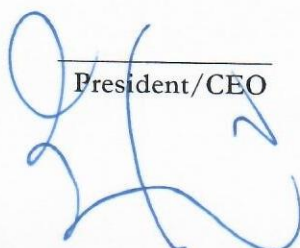
**Condensed Interim Unconsolidated Profit and Loss Account (Un-audited)**

For the Quarter ended March 31, 2018

	Note	March 31, 2018 (Rupees in '000)	March 31, 2017 (Rupees in '000)
Mark-up/ return/ interest earned		177,226	151,498
Mark-up/ return/ interest expensed		152,228	119,701
Net mark-up/ interest income		24,998	31,797
Provision against non-performing loans and advances-net		1,400	(820)
Charge/(Reversal) for diminution in the value of investments		47,747	70
Bad debts written off directly		-	-
		49,147	(750)
Net mark-up/ interest income after provisions		(24,149)	32,547
<b>NON MARK-UP/ INTEREST INCOME</b>			
Fee, commission and brokerage income		2,743	2,621
Dividend income		1	-
Income from dealing in foreign currencies		-	-
Gain on sale of securities		267	6,621
Unrealized gain/(loss) on revaluation of investments classified as held for trading		(17)	-
Other income		96	13
Total non-markup/ interest income		3,090	9,255
		(21,059)	41,802
<b>NON MARK-UP/ INTEREST EXPENSES</b>			
Administrative expenses		217,459	206,735
Other provisions/ write offs		(950)	194
Other charges		-	-
Total non-markup/ interest expenses		216,509	206,929
<b>LOSS BEFORE TAXATION</b>		(237,568)	(165,127)
Taxation - Current		2,341	1,644
- Prior		-	-
- Deferred		(19,397)	(56,410)
		(17,056)	(54,766)
<b>LOSS AFTER TAXATION</b>		(220,512)	(110,361)
Unappropriated loss brought forward		(3,005,398)	(2,590,705)
<b>Basic/diluted Profit/(loss) per share (Rupees)</b>		(0.92)	(0.46)

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**SME BANK LIMITED**

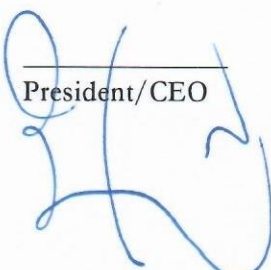
**Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)**

For the Quarter ended March 31, 2018

	March 31, 2018	March 31, 2017
	(Rupees in '000)	
Net loss after taxation	(220,512)	(110,361)
Items that will never be reclassified subsequently to profit and loss account		
Recognition of net actuarial (loss)/gain	-	-
Comprehensive income transferred to equity	<u>(220,512)</u>	<u>(110,361)</u>
Components of comprehensive income not reflected in equity		
Net change on remeasurement of available for sale investment to fair value	(62,506)	16,206
Deferred tax	(144)	(9,984)
	(62,650)	6,222
Total comprehensive income	<u>(283,162)</u>	<u>(104,139)</u>

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Director

  
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Director

  
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Director

**SME BANK LIMITED**
**Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)  
For the Quarter ended March 31, 2018**

	March 31, 2018	March 31, 2017
Note	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(237,568)	(165,127)
Less: Dividend income	(1)	-
	(237,569)	(165,127)
<b>Adjustments for non-cash/ other items</b>		
Depreciation	4,648	7,730
Amortization	239	163
Reversal against non-performing advances	1,400	(820)
Charge/(Reversal) of provision for diminution in the value of investment	47,747	70
Gain on sale of fixed asset	56	-
Finance charges on leased assets	-	-
Other provisions	(950)	194
Bad debts written off directly	-	-
	53,140	7,337
	(184,429)	(157,790)
<b>(Increase)/ Decrease in operating assets</b>		
Lendings to financial institutions	-	160,000
Held-for-trading securities	(499,093)	-
Advances	263,958	265,177
Other assets (excluding advance taxation)	(79,322)	(14,199)
	(314,457)	410,978
<b>Increase/ (Decrease) in operating liabilities</b>		
Bills payable	(25,831)	40,695
Borrowings from financial institutions	(1,121,245)	196,691
Deposits	687,562	(765,985)
Other liabilities (excluding current taxation)	(1,734)	13,048
	(461,248)	(515,551)
	(960,134)	(262,363)
	(369)	(380)
	(960,503)	(262,743)
Income tax paid		
<b>Net cash flow (used in) from operating activities</b>		
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net (investment)/disinvestment in available-for-sale securities	563,477	71,125
Net investment in held-to-maturity securities	500,000	-
Dividend received	1	-
Investment in operating fixed assets	(4,721)	(3,380)
Sale proceeds of property and equipment disposed-off	-	-
<b>Net cash flow generated from investing activities</b>	1,058,757	67,745
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment of lease obligation	-	-
<b>Net cash flow used in financing activities</b>	-	-
<b>(Decrease) / Increase in cash and cash equivalents</b>		
	98,254	(194,998)
Cash and cash equivalents at beginning of the period	447,112	565,028
<b>Cash and cash equivalents at end of the period</b>	545,366	370,030

The annexed notes from 1 to 16 form an integral part of these condensed interim unconsolidated financial information.

  
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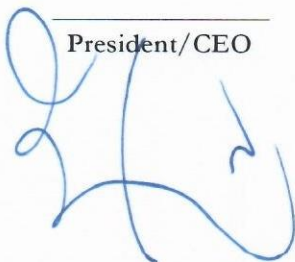
  
Director

**SME BANK LIMITED****Condensed Interim Unconsolidated Statement of Change in Equity (Un-audited)****For the Quarter ended March 31, 2018**

	Share Capital	Statutory reserve	Unappropriated loss	Total
	(Rupees in '000)			
Balance as at January 01, 2017	2,392,507	206,526	(2,590,705)	8,328
Total comprehensive income for the year ended March 31, 2017				
Net loss for the period ended March 31, 2017	-	-	(110,361)	(110,361)
Effect of recognition of actuarial gain	-	-	-	-
Balance as at March 31, 2017	2,392,507	206,526	(2,701,066)	(102,033)
Total comprehensive income for the period ended December 31, 2017				
Net profit for the period	-	-	(183,661)	(183,661)
Effect of recognition of actuarial loss	-	-	(120,671)	(120,671)
Balance as at December 31, 2017	2,392,507	206,526	(3,005,398)	(406,365)
Total comprehensive income for the period ended March 31, 2018				
Net loss for the period ended March 31, 2018	-	-	(220,512)	(220,512)
Effect of recognition of actuarial loss	-	-	-	-
Balance as at March 31, 2018	2,392,507	206,526	(3,225,910)	(626,877)

The annexed notes from 1 to 16 form an integral part of these condensed interim unconsolidated financial information.

  
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**1. GENERAL INFORMATION**

- 1.1 SME Bank Limited (the Bank) is a public limited company incorporated in Pakistan on October 30, 2001 under the Companies Ordinance, 1984 having its registered office at 56-F, Nazim-ud-Din Road, F-6/1, Blue Area Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is a Scheduled Commercial Bank engaged in the business of banking with 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 13, 2017 issued by PACRA Credit Rating Company Limited, credit rating of the Bank was "B" (Single B) in the long term and "B" (Single B) in the short term.

In terms of the provisions of the State Bank of Pakistan BSD circular No. 7 of 2009, the Bank was required to increase its paid up capital (net of losses) as at December 31, 2017 up to Rs. 10 billion. The State Bank of Pakistan (SBP) has granted exemption vide SBP letter # BPRD/BA&CP/646/5111/2018 dated March 07, 2018 from meeting minimum capital requirement till June 30, 2018 or completion of restructuring/privatization of the Bank, whichever is earlier.

**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 issued an Order (SRO (1) 2001) dated December 29, 2001 setting forth the scheme of amalgamation of RDFC and SBFC with the Bank effective January 1, 2002. Pursuant to this scheme entire assets and liabilities of defunct RDFC and SBFC as at December 31, 2001 were transferred to the Bank at fair value. These two institutions stand dissolved and ceased to exist effective January 1, 2002. The Bank allotted its shares to the share holders of defunct RDFC and SBFC in proportion to their shareholding therein based on the fair value of net assets of defunct RDFC and SBFC on December 31, 2001.

**2. BASIS OF MEASUREMENT**

This condensed interim unconsolidated statement of financial position, condensed interim unconsolidated profit and loss account, condensed interim unconsolidated statement of comprehensive income, condensed interim unconsolidated cash flow statement, condensed interim unconsolidated statement of changes in equity together with the explanatory notes have been prepared under the historic cost convention except that certain investments are stated at market value and certain staff retirement benefits are carried at present value.

This condensed interim unconsolidated financial information has been prepared following the accrual basis of accounting except for the cash flow information.

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates. The condensed interim unconsolidated financial statements are presented in Pak. Rupee, which is the Bank's functional currency.

**3. STATEMENT OF COMPLIANCE**

This condensed interim unconsolidated financial information of the Bank for the Quarter ended March 31, 2018 has been prepared in accordance with the requirements of International Accounting Standard 34, 'Interim Financial Reporting' requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the provisions of and directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). In case requirements differ, the provisions of Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the requirement of said directives have been followed.



The disclosures made in this condensed interim unconsolidated financial information have been limited based on the format prescribed by the SBP vide BSD circular Letter No.2 dated May 12, 2004 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and do not include all the information required in the annual financial statements. Accordingly, this condensed interim unconsolidated financial information should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2017.

International Accounting Standard 39, "Financial Instruments: Recognition and Measurement", International Accounting Standard 40, "Investment Property" and International Financial Reporting Standard 7, "Financial Instruments: Disclosure" are not applicable to banking companies in Pakistan. Accordingly, the requirements of these Standards have not been considered in the preparation of these condensed interim unconsolidated financial information. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The basis and method used for critical accounting estimates and judgments adopted in the condensed interim unconsolidated financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2017.

#### **5. ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of this condensed interim unconsolidated financial information are the same as those applied in the preparation of the financial statements for the year ended December 31, 2017.

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

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

Government of Pakistan (GOP) decided to divest its equity stake in the Bank along with management control to a strategic investor through Privatization Commission (PC). Accordingly PC has appointed financial advisory consortium (FCC) comprising of Elixir Securities Pakistan (Pvt) Limited, Bridge Factor (Pvt) Limited, KPMG Taseer Hadi & Co (financial and tax advisor) and Mohsin Tayebaly & Co. (Legal counsel) to conduct this transaction. The transaction structure was approved by PC board on January 17, 2017 and recommended to Cabinet Committee on privatization (CCOP). CCOP approved the transaction structure in its meeting held on January 27, 2017. Thereafter PC invited Expression of Interest (EOI) on February 14, 2017, from reputed local and international investors who have an interest in entering the process towards acquiring strategic shareholding in SME Bank. Last date to receive Statement of Qualification (SOQ) is March 17, 2017. Salient features of the transaction structure are as follows:

- i) SBP will issue a new banking license of specialized nature (with at least 60% advances for SME) to the investors.
- ii) Investor to maintain MCR of Rs. 6 billion on staggered basis, 2 billion would be required to be injected upfront while 1 billion each year for next four years.
- iii) SME Leasing limited, a majority owned listed subsidiary of SME Bank, would be the part of transaction on "as is basis".
- iv) The defunct SBFC and RDFC portfolios appearing in books of SME Bank will not be part of the transaction.
- v) CDA plots in G-5/2 and G-7 Islamabad appearing in the books of the Bank will not be part of the transaction.
- vi) The Bank can be used as a platform for delivering Digital Finance/Fintech/Branch less banking services, subject to fulfilment of applicable requirement of SBP.
- vii) The SBP has offered a variety of incentives including youth business loans scheme, credit guarantee schemes, export finance schemes, refinancing facilities amongst others to promote SME financing. The potential investor will be able to avail these incentives offered by the SBP, subject to fulfillment of requisite operational requirements.



Subsequently, based on SOQ's received the Transaction Steering Committee of PC evaluated/assessed five interested parties for prequalification and forwarded its recommendation to PC Board for decision. PC board in its meeting held on 2nd November 2017 has pre-qualified 3 parties for due diligence and participation in bidding process.

Two parties FINCA Microfinance Bank and Saudi Pak Investment Co. Ltd are in process of completing their due diligence.

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

During the period, the Bank incurred a net loss of Rs. 220.51 million (Mar 31, 2017: 110.36 million) resulting into accumulated losses of Rs. 3,226 million (Dec 31, 2017: Rs. 3,005 million) as of March 31, 2018, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 717.51 million and, as of that date, the accumulated losses have surpassed the equity by Rs. 626.88 million. Due to cash deficit the Bank has not been able to meet the minimum capital requirement (MCR) of 10,000 million for the period/year, falling short by Rs. 10,627 million (Dec 31, 2017: 10,406 million). Based on the operational results the State Bank of Pakistan has waived MCR of Rs. 10,000 million till June 30, 2018 or completion of restructuring/privatization whichever is earlier. The cash shortage has also not improved due to negligible GoP budget allocation for the Bank. These conditions indicate the existence of material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the ordinary course of business. Having regard to the above, GoP being a majority shareholder with 93.88% (Dec 31, 2017: 93.88%) shareholding in the Bank has invited expression of interest from reputed local and or international investors who have an interest in entering the process towards acquiring strategic shareholding in Bank with management control. As explained in note 6.1 potential buyers have been pre-qualified by PC and due diligence/bidding process has started. The management of the Bank strongly believes that the privatization process of the Bank will be completed in due course of time and will result into injection of fresh equity enabling the Bank to expand and finance its operations. Till the privatization of the Bank the Ministry of Finance, GoP, has given commitment to provide all necessary financial assistance to the Bank to support its operations. In view of above the management of the Bank believes that the use of going concern assumption in preparation of these condensed interim unconsolidated financial information is appropriate and, therefore, has prepared these condensed interim unconsolidated financial statements on a going concern basis.

**SME Bank Limited**

**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)**  
**For the Quarter ended March 31, 2018**

	March 31, 2018 (Un-audited)		December 31, 2017 (Audited)	
	Held by the bank	Given as collateral	Total	Held by the bank
	(Rupees in '000)			Given as collateral
				Total
				(Rupees in '000)
<b>7. INVESTMENTS</b>				
<b>7.1 INVESTMENTS BY TYPES :</b>				
<b>Held-for-trading securities</b>				
Market Treasury Bills (MTBs)	499,110	-	499,110	-
	499,110	-	499,110	-
<b>Available-for-sale securities</b>				
Market Treasury Bills (MTBs)	149,614	397,361	546,975	658,759
Pakistan Investment Bonds (PIBs)	1,275,154	3,861,872	5,137,026	228,390
Fully paid ordinary shares / mutual fund	65,036	-	65,036	65,036
	1,489,804	4,259,233	5,749,037	952,185
				5,360,329
				6,312,514
<b>Held-to-maturity securities</b>				
Term Deposit Receipts (TDRs)	35,000	-	35,000	535,000
Certificates of Investments (COIs)	762	-	762	762
	35,762	-	35,762	535,762
<b>Investment in subsidiary</b>				
SME Leasing Limited	215,457	-	215,457	-
Investments at cost	2,240,133	4,259,233	6,499,366	1,703,404
Less: Provision for diminution in value of investments	(173,456)	-	(173,456)	(125,709)
Investments net of impairment	2,066,677	4,259,233	6,325,910	1,577,695
Net Surplus / (Deficit) on revaluation of available-for-sale securities	1,653	(90,869)	(89,216)	2,551
Net Deficit on revaluation of held-for-trading	(17)	-	(17)	-
Total investments	2,068,313	4,168,364	6,236,677	1,580,246
				5,331,068
				6,911,314



SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)  
For the Quarter ended March 31, 2018

	Note	(Un-audited) March 31, 2018	(Audited) December 31, 2017
		(Rupees in '000)	
<b>8. ADVANCES</b>			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	8.2	4,374,767	4,374,964
Defunct RDFC	8.2	494,199	494,199
SME Bank Ltd		2,475,996	2,735,344
Due from ex-employees	8.2	15,600	15,567
Due from employees		118,068	122,722
		<u>7,478,630</u>	<u>7,742,796</u>
Net investment in finance lease - In Pakistan	8.3	1,253	1,253
Advances - gross		<u>7,479,883</u>	<u>7,744,049</u>
Provision for non-performing advances			
Specific provision		(5,239,612)	(5,238,459)
General provision		(120)	(81)
	8.5	<u>(5,239,732)</u>	<u>(5,238,540)</u>
Advances - net of provision		<u><u>2,240,151</u></u>	<u><u>2,505,509</u></u>
<b>Particulars of Advances (Gross)</b>			
In local currency		7,479,883	7,744,049
In foreign currencies		-	-
		<u><u>7,479,883</u></u>	<u><u>7,744,049</u></u>
Short term (upto one year)		1,133,627	1,490,809
Long term (over one year)		<u>6,346,256</u>	<u>6,253,240</u>
		<u><u>7,479,883</u></u>	<u><u>7,744,049</u></u>

**8.1 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 favour of the acquirer with respect to:

- the non-performing loans, collateral and the debtors;
- 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;
- all legal proceedings by and against the transferor with respect to the non-performing loans, the debtors and collateral, which may be pending before any court, tribunal, arbitrator or authority, without being subject to any liabilities of the transferor to any person.

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

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

On request of the Bank's management the decision to transfer 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.



**SME Bank Limited**

**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)  
For the Quarter ended March 31, 2018**

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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 remove the said portfolios from books of Bank and that all recoveries made by NBP from the loan portfolio shall be deposited in the Federal Consolidated Fund (FCF), a related party as being managed by Ministry of Finance (MoF).

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

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

Tri party novation agreement was executed on Feb 23, 2018 and the management of SME Bank is coordinating with management of NBP for smooth transfer of loan portfolio from books of accounts.



## SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)  
For the Quarter ended March 31, 2018

- 8.2 Advances include Rs. 5,391.003 million (Dec 31, 2016: Rs. 5,396.984 million) which have been placed under non-performing status as detailed below:

Category of Classification	March 31, 2018 (Un-audited)				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
	(Rupees in '000)				
Other Assets Especially Mentioned	7,481	-	7,481	6	6
Substandard	20,476	-	20,476	11	11
Doubtful	24,189	-	24,189	371	371
Loss	5,338,857	-	5,338,857	5,239,224	5,239,224
	5,391,003	-	5,391,003	5,239,612	5,239,612

Category of Classification	December 31, 2017 (Audited)				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
	(Rupees in '000)				
Other Assets Especially Mentioned	21,648	-	21,648	4	4
Substandard	15,225	-	15,225	32	32
Doubtful	18,529	-	18,529	268	268
Loss	5,341,582	-	5,341,582	5,238,155	5,238,155
	5,396,984	-	5,396,984	5,238,459	5,238,459

## 8.3 Particulars of provision against non-performing advances

	March 31, 2018 (Un-audited)			December 31, 2017 (Audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,238,459	81	5,238,540	5,244,601	12,391	5,256,992
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(208)	-	(208)	(1,575)	-	(1,575)
Charge/(Reversal)	7,221	49	7,270	41,669	9	41,678
Charge for the year	(5,860)	(10)	(5,870)	(46,236)	(12,319)	(58,555)
Reversal for the year	1,361	39	1,400	(4,567)	(12,310)	(16,877)
Closing balance	5,239,612	120	5,239,732	5,238,459	81	5,238,540

- 8.3.1 The FSV benefit availed in last years has been reduced by Rs. 1.151 million (net of FSV benefit availed during the period), which has resulted in increased charge for specific provision for the period ended by the same amount. The FSV benefit is not available for cash or stock dividend / bonus to employees. Had the FSV benefit not recognized, loss before and after tax for the period ended would have been lowered by Rs. 1.151 million (Mar 31, 2017: increased by Rs. 1.833 million).

Particulars of provisions against non-performing advances	March 31, 2018 (Un-audited)			December 31, 2017 (Audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	5,239,612	120	5,239,732	5,238,459	81	5,238,540
In foreign currencies	-	-	-	-	-	-
	5,239,612	120	5,239,732	5,238,459	81	5,238,540

## SME Bank Limited

## Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the Quarter ended March 31, 2018

	Note	(Un-audited) March 31, 2018	Audited December 31, 2017
		(Rupees in '000)	
<b>9. OPERATING FIXED ASSETS</b>			
Property and equipment		61,276	126,759
Less: Provision held against property and equipment	9.1.1	-	(63,637)
Property and equipment - net	9.2	61,276	63,122
Intangible assets	9.3	2,753	1,129
Operating Fixed Assets		64,029	64,251
<b>9.1 Lease hold land</b>			
Book value at the beginning of the period/year	9.1.1	64,087	64,087
Cost of additions during the period/year		-	-
Book value of the deletions during the period/year	9.1.1	(63,637)	-
Less: Provision held against property and equipment		-	(63,637)
		450	450

- 9.1.1 This represents the aggregate cost of plots measuring 500 square yards and 4166.67 square yards located in Islamabad in sectors G-7 and G-5/2 respectively originally allotted to SBFC and RDFC respectively. Capital Development Authority (CDA) required payment of Rs. 3.637 million for AGR, delayed charges & extension surcharges. However, on receiving draft of the required amount, CDA returned the same in view of proposed privatization of the Bank. The management of the Bank has taken up the matter with the Privatization Commission (PC) Government of Pakistan.

Subsequent to the above, 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 plots from the privatization transaction and the CCOP in above referred meeting has directed CDA and MoF for resolution of the matter by finalizing the status of rights and claims associated with the above plots so as to enable Thereafter PC through its letter No.F.NO.1/BKG/SME/PC/2015 dated November 24, 2017 has required the Bank to remove the referred plots from the balance sheet of the Bank by December 31, 2017. To implement the above MoF being the representative of Government of Pakistan (GoP), the majority shareholder of the Bank, has required the Bank's management to transfer the above plots to MoF at a nominal value. 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 sale agreement, transfer all its rights, titles, claims and obligations of the Plots to MoF and or any other department, as the case may be, against any amount of sale consideration. The sale agreement will be made possible by authorization of the Bank through the passage of requisite board resolutions and shareholders' special resolution; enabling the Bank to transfer all rights, titles, claims and obligations of Plots to MoF.

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 sale of the Plots to MoF through a sale agreement 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 sale of the Plots 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 Plots at a fair market value (FMV). Although FMVs of the Plots have not been determined for sale in question but it is understood that the same are substantially higher than sale consideration agreed between the Bank and MoF.

According to above majority decision of the shareholders both the Plots have been sold to MoF against an aggregate sale consideration of Rs. 100 under a sale agreement (the Agreement) executed on February 15, 2018 between the Bank and MoF.



## SME Bank Limited

## Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the Quarter ended March 31, 2018

		(Un-audited ) March 31, 2018	(Audited ) December 31, 2017
		(Rupees in '000)	
9.2	<b>Property and equipment</b>		
	Book value at the beginning of the period/year	63,122	99,049
	Cost of additions during the period/year	2,858	24,271
	Book value of the deletions during the period/year	(56)	(1,757)
	Depreciation/impairment charge during the period/year	(4,648)	(58,441)
	Book value at the end of the period/ year	61,276	63,122
9.3	<b>Intangible assets</b>		
	Book value at the beginning of the period/year	1,129	718
	Cost of additions during the period/year	1,863	1,157
	Amortization charge during the period/year	(239)	(746)
	Book value at the end of the period/year	2,753	1,129
10.	<b>DEFERRED TAX ASSET - NET</b>		
		(Un-audited ) March 31, 2018	(Audited ) December 31, 2017
		(Rupees in '000)	
	Deferred tax asset	485,865	466,468
	Deferred tax (liability)	(1,414)	(1,270)
		484,451	465,198

- 10.1 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 as detailed in Note 6.1 to the financial statements 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.

## SME Bank Limited

## Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the Quarter ended March 31, 2018

	Note	(Un-audited) March 31, 2018	Audited December 31, 2017
(Rupees in '000)			
11. <b>BILLS PAYABLE</b>			
In Pakistan		66,723	92,554
Outside Pakistan		-	-
		<u>66,723</u>	<u>92,554</u>
12. <b>BORROWINGS</b>			
In Pakistan		4,187,070	5,308,315
Outside Pakistan		-	-
		<u>4,187,070</u>	<u>5,308,315</u>
12.1 <b>Particulars of borrowings with respect to currencies</b>			
In local currency		4,187,070	5,308,315
In foreign currencies		-	-
		<u>4,187,070</u>	<u>5,308,315</u>
12.2 <b>Details of borrowings secured/unsecured</b>			
Borrowings from State Bank of Pakistan - unsecured	12.2.1	18,038	14,269
Repurchase agreement borrowings - secured	12.2.2	4,169,032	5,294,046
		<u>4,187,070</u>	<u>5,308,315</u>
12.2.1	This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agri Produce (FFSAP)" vide SMEFD circular No. 08 dated June 04, 2010 & IH&SSMEFD circular No. 05 dated Feb 23, 2015. These carries revised mark up rate of 2.50 % & 3.25% respectively and is repayable in quarterly instalments.		
12.2.2	These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 6.10% to 6.50% (Dec 31, 2017: 5.95% to 6.25%) per annum for period upto two month (Dec 31, 2017: upto three month). REPO transactions are secured against investment of the Bank in Government securities.		
		(Un-audited) March 31, 2018	Audited December 31, 2017
(Rupees in '000)			
13. <b>DEPOSITS AND OTHER ACCOUNTS</b>			
Customers			
Fixed deposits		1,914,198	1,558,096
Savings deposits		3,239,268	2,356,370
Current accounts - non-remunerative		401,184	555,060
Margin accounts		45,111	49,831
		<u>5,599,761</u>	<u>4,519,357</u>
Financial Institutions			
Remunerative deposits	13.2	430,112	794,241
Non-remunerative deposits		1,344	30,057
		<u>6,031,217</u>	<u>5,343,655</u>
13.1 <b>Particulars of deposits</b>			
In local currency		6,031,217	5,343,655
In foreign currencies		-	-
		<u>6,031,217</u>	<u>5,343,655</u>
13.2	Remunerative deposits include Rs. 397.551 million (Dec 31, 2017: Rs. 394.236 million) related to Equity Participation Fund.		



## SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)  
For the Quarter ended March 31, 2018

		(Un-audited) March 31, 2018	(Audited) December 31, 2017
		(Rupees in '000)	
<b>14.</b>	<b>CONTINGENCIES AND COMMITMENTS</b>		
<b>14.1</b>	<b>Transaction-related contingent liabilities</b>		
	Guarantees in favour of:		
	Government	14.1.1 195,780	232,807
	Others	-	-
		<u>195,780</u>	<u>232,807</u>
<b>14.1.1</b>	This includes expired Letter of guarantees/performance aggregating to Rs. 54.751 million (Dec 31 2017: 30.057 million) for which formalities for return of original documents are in process.		
<b>14.2</b>	<b>Other Contingencies</b>		
a)	Claims not acknowledged as debt from various borrowers	53,686	53,686
b)	Damages claimed by an ex-employee of the then RDFC involved in Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited affairs and a director of Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited not acknowledged as debt.	10,000	10,000
c)	Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals). The management of the Bank strongly believes and expects favourable outcome and therefore no provision has been made for this effect in the financial statements.	612,707	612,707
d)	The Bank and the income tax department have filed an appeal before the Appellate Tribunal Inland Revenue 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 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 demand has been paid by the Bank; however no provision has been made in these financial statements as the management is confident of a favorable outcome.	6,163	6,163
e)	The bank is in appeal before the Appellate Tribunal Inland Revenue against the amended assessment order for the tax year 2010, whereby the taxation officer had assessed income of Rs. 636.499 million and tax liability of Rs. 222.774 million as against income of Rs. 7.559 million and tax liability of Rs. 3.947 million admitted by the Bank. The CIR(A) decided the appeal partly in the Bank's favor while setting aside certain matters. the re-assessment has not yet been finalized by the taxation officer.	211,716	211,716
f)	Income tax amounting to Rs. 17.598 million was withheld from payment of VSS to employees during the Tax Years 2005, 2006, 2008, 2009, 2010, 2011 and 2013 against which some employees of different organizations including SME Bank ltd filed writ in The Supreme Court of Pakistan wherein leave to appeal accepted and status quo was maintained. Accordingly Income Tax withheld was not deposited with the Government Treasury. Meanwhile the tax authorities raised demand of Rs. 52.104 million u/s 161/205 of ITO, 2001 on 20-Apr-2017 which consist of Rs. 17.598 million and 34.506 million against principal and default surcharge respectively. The bank preferred an appeal before the Commissioner Inland Revenue (Appeals-I) who remanded the case back for fresh consideration of the facts on merit. The OT heard the case in pass in order for aggregate demand to Rs. 53.673 million. The provision of default surcharge Rs.36.075 million was not made ipso facto.	36,075	34,506

## SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)  
For the Quarter ended March 31, 2018

	(Un-audited) March 31, 2018	(Audited) December 31, 2017
	(Rupees in '000)	
g) The bank is in appeal before the Commissioner Inland (Appeals) against tax demand raised for the tax year 2016 under section 161 of Income Tax Ordinance, 2001 of Rs. 21.171 million that is still pending however a stay order has been obtained from Appellate Tribunal Inland Revenue against	21,171	-
h) Back benefits and claims of staff/employees under litigation.	128,780	129,070
<b>14.3 Commitments in respect of forward lending</b>		
Commitments to extend credit	132,200	150,150
<b>14.4 Commitments for the acquisition of operating fixed assets</b>	2,636	6,619
<b>14.5 Commitments against repo/reverse repo transactions</b>		
Sale and repurchase agreements	4,168,364	5,331,068
<b>14.6 Other commitments</b>		
Undrawn facilities	302,447	161,346
<b>14.7 Bills for collection</b>		
Payable in Pakistan	-	200



**SME Bank Limited**

**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)**  
For the Quarter ended March 31, 2018

**15. RELATED PARTY TRANSACTIONS**

The Bank has related party relationship with its majority shareholder (Government of Pakistan) subsidiary, directors, key management personnel and staff retirement benefit plan. Details of balances outstanding at period end and transactions with related parties are as follows:

	March 31, 2018 (Un-audited)							December 31, 2017 (Audited)						
	Subsidiary SMEL	Key Management Personnel	Other Employees	Directors	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Subsidiary SMEL	Key Management Personnel	Other Employees	Directors	Equity Participation Fund	Employees benefit plans	Employees Provident Trust
	Rupees in '000							Rupees in '000						
Balances outstanding as at														
- Investment in subsidiary	215,457	-	-	-	-	-	-	215,457	-	-	-	-	-	-
- Advances	145,282	15,821	130,242	-	-	-	-	110,352	18,241	136,867	-	-	-	-
- Receivables/markup	1,421	6,015	51,906	-	-	1,576	-	975	7,070	51,256	-	-	1,593	-
- Deposits	1,344	5,354	108,719	-	397,551	612,114	6,996	56	9,917	96,934	-	394,236	603,787	52,518
- Payables/markup	-	34	549	-	3,143	452,741	39	-	47	390	-	3,073	453,367	327
Transactions during the period														

	Interest rate	
	1 year Kibor + 3.50%	
Principal terms of loan facility to SMEL	3.75% to 4.9%	
Principal terms of deposit from Equity Participation Fund	4% to 6.80%	
Principal terms of deposit from Employee benefit plan	7.50%	
Principal terms of deposit from Employee provident fund		


SME Bank Limited

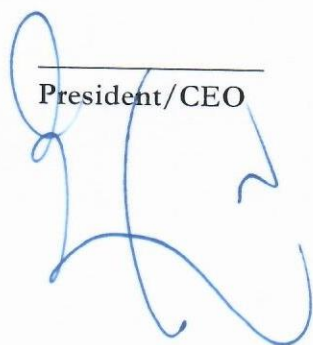
Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)  
For the Quarter ended March 31, 2018

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16. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on \_\_\_\_\_, 2018.

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
President/CEO

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director