



**SME BANK LIMITED
UN CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018**

DIRECTORS' REPORT TO THE SHAREHOLDERS

We are pleased to present the 17th annual report of SME Bank Limited with the audited accounts and auditors' report thereon for the year ended December 31, 2018.

Economic Review

CPI Inflation and Market expectation

The annual inflation rate in Pakistan has jumped from 5.1% in September to 7.0% in October, the highest in four years, as a result of increase in prices of gas, fuel and eatable items as well as rupee devaluation.

Core inflation (i.e. non-food, non-energy) clocked in at 8.2%YoY during Oct'18 versus an increase of 8.0%YoY depicted in the preceding month. On a MoM basis, NFNE inflation arrived at 1.1% in Oct'18 versus an increase of 0.4% recorded in the previous month.

Food inflation arrived at 2.7%YoY during the month as compared to an increase of 1.4%YoY registered in Sep'18, primarily on the back of hike in the prices of food items and several other food group constituents.

With regards to inflation outlook, we estimate average headline inflation for FY19 to arrive within 8.0%-8.5% range (4MFY19 - 5.95%YoY) due to re-emergence of food inflation along with increase in utility rates & fuel prices. The above picture of inflation stops the traders to trade in the bond activities. Since they are waiting for stability of the market.

Foreign Exchange

The country's total foreign exchange reserves decreased 0.7 percent or \$111.3 million to \$14.184 billion. They stood at \$14.295 billion in the previous week. The reserves of commercial banks stood at \$6.407 billion as against \$6.470 billion a week earlier, according to the SBP. Last week, Saudi Arab pledged six billion dollars to help Pakistan meet its external account challenges. The package includes three billion dollars in immediate balance of payments support and three billion dollars a year on account of oil deferred payment. Current account deficit widened to \$18 billion during the last fiscal year, up 42.5 percent from a year earlier.

Money Market

All the banks are seeking for the deposits in this critical economic situation even on higher rates due to expected further increase of policy rate in upcoming monetary policy in this month of November. Banks are not showing interest in long term financing even in six-month securities and keeping themselves restrict in only 3M investment. On the basis of mark-to-market of Pakistan Investment Bond prices, banks are facing huge deficit in their portfolio. This upward yield trend also decreased the investment opportunities in long term securities. Less participation in treasury bills auction against huge maturity left liquidity in market.

The State Bank Diversion

The growth momentum gained further strength as the economy achieved its 13-year highest real GDP growth of 5.8 percent in FY18. The GDP growth was also broad-based, as all the three sectors – agriculture, industry and services – contributed positively to this acceleration. The acceleration in GDP growth was supported by host of factors, including low cost of financing, improved energy

supplies, favorable business sentiments, fiscal incentives through subsidies, and increased access to credit. At the same time, higher public spending and progress on CPEC-related projects stimulated economic activities besides inducing firms to enhance their production capacities.

The pickup in GDP growth, however, came at the cost of widening of macroeconomic imbalances as manifested in a 5-year high fiscal deficit and a record high current account deficit in FY18. Therefore, the challenge to maintain desired equilibrium of low inflation-high growth grew substantially which prompted several demand containment measures including monetary tightening, exchange rate adjustments, and other regulatory measures aimed at curbing imports.

Challenges for Banks

Pakistan banking sector's peak performance has passed and is likely to suffer pressures on profitability from a slowdown in loan growth and further declines in asset growth due to rising interest costs, estimates Fitch Solutions. Sector's profitability has been on the decline and is expected to continue the downward trend in the coming quarters as economic and credit growth slows amidst tightening monetary policy. The health of banking sector is likely to dip the overall progress of economy, already under stress on account of external debt and rising oil prices. According to exchange filings for the third quarter ending Sept 31, sector's profitability declined by 27 per cent to Rs31.6 billion on a year-on-year basis.

Policy Rate Scenario

In terms of monetary policy outlook, State Bank of Pakistan has already hiked key policy rate by 275bps to 8.50% in 9MCY18. With several macroeconomic challenges such as surging oil import bill, depleting foreign exchange reserves and higher inflation truncating country's real interest rate, Interbank market expects SBP to further raise rates by 100bps in 4QCY18, taking cumulative rate hike for the year to 375bps, for this reason banks are not interested for further buying the longer tenure government securities.

Operational Highlights

The Bank is operating with paid up capital of Rs 2.39 billion since 2007. State Bank has granted exemption to meet the requirement of minimum paid up capital of Rs 10 billion up till December 31, 2018. 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 2018 and the Bank continued to operate with 13 commercial banking branches and five recovery offices.

Interest Rate Scenario

SBP discount rate at the beginning of the year 2018 was 6.25 percent. During the year the net increase in discount rate was 4.25 percent to bring the discount rate to 10.50 percent at the year end.

Credit Rating

Bank was assigned a long term credit rating of CCC and short term rating of B (Single B) by PACRA credit rating agency on November 22, 2018. The credit rating company has expressed that the bank's operational performance is significantly under pressure because of delay in capital injection by GoP. Thus continuation of the bank's operations going forward is dependent on either of the two factors: (i) fresh capital injection by GoP, or (ii) development on the privatization front, as growth in the bank's operations is restricted due to these two factors although the management is taking measures to improve business functions, operational sustainability is dependent upon equity injection by the primary sponsor.

Operational Results

In the backdrop of narrow equity base and shortage of funds, management has been able to meet day to day liquidity needs and maintenance of statutory liquidity requirements (SLR) set by the State Bank of Pakistan. Despite enormous pressure of liquidity crunch, loans and advances portfolio stood at Rs 2,500 million. During the year under review income from SME lending operations decreased by an amount of Rs 11.16 million. The cost of deposits and borrowing increased by an amount of Rs 203.252 million. The average cost of deposits increased to 6.13% as compared to 5.56% in 2017.

The bank has booked loss before tax of Rs 876.27 million during the year 2018 as compared to loss before tax of Rs 721.007 million in 2017, and Net loss of Rs 825.94 million as compared to Net loss of Rs 294.002 million in 2017. The reason for incurring losses were due to pending privatization, restructuring, limited outreach, inadequate level of equity and economic condition. In future, we expect to decrease the losses by enhancing revenues and reducing volume of our non-performing loans.

During the year 2018, the bank charged net provision of Rs 20.159 million against non-performing loans as against reversal of provision of Rs 16.877 million in 2017 and charged further provision of Rs 47.747 million against SMEBL as advised by SBP. Loans and advances on account of the bank's lending operation were Rs 2,500 million in 2018 to Rs 2,735 million in 2017.

The energy crisis seriously dampened the business activities in the country 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 resulting in decrease from Rs 505 million on December 31, 2017 to Rs 479 million on December 31, 2018.

The deposits of the bank has been increased by Rs. 377 million and stand at Rs 5,721 million as on December 31, 2018 as compared to last year Rs. 5,344 million as on December 31, 2017.

Bank has investment of Rs 215.457 million in SME Leasing Limited (SMEL) which is carried in these financial statements at Rs 80.748 million and has outstanding running finance exposure of Rs 141,556 million as at December 31, 2018. The company during the year has mainly focused on internal cash generation through recoveries from its portfolio and investing these to build-in new quality business. The company has managed to write fresh leases worth Rs 104 million. Total recoveries aggregated to Rs 112 million (including Rs 22 million from non performing portfolio). The percentage of default in new business written over last 3 years has been negligible. Market value of its share ranged between Rs 2.2 to Rs 4.29 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.

With regard to the exposure granted to SME Leasing Limited, SME Bank applied for exemption on per party exposure to SBP in 2015. SBP has granted relaxation to SME Bank Limited 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 till December 31, 2019, subject to the condition that exposure to related party be adjusted within the prescribed limit and a plan to this effect is required to be submitted to SBP, which was accordingly submitted.

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 the State Bank of Pakistan has granted exemption to meet the requirements of minimum paid up capital till December 31, 2019.

Financial Statements

Financial statements have been prepared in accordance with International Accounting Standards as applicable in Pakistan, SBP Prudential Regulations and Companies Act 2017. The disclosures in notes to financial statements correspond to the requirement of law and guidelines issued by the regulatory authorities.

Internal Control over financial reporting

The board is fully committed to ensure the existence of an effective system of internal control in the bank and continuously reviews and evaluates the adequacy and integrity of those systems. However, the board recognizes that such systems are designed to manage rather than eliminate the risks identified to acceptable levels. Therefore, the systems implemented can provide only reasonable and not absolute assurance against the occurrence of any material misstatement and loss.

Whilst the Board has overall responsibility for the bank's system of internal controls, it has delegated the implementation of these internal control systems to the management in order to identify risk and take action to mitigate the risk. These internal control systems are subject to the board's regular review with a view towards appraising the effectiveness of these systems in the bank.

Deposits

Despite all the impediments, the deposit portfolio of the Bank was increased to Rs. 5,721 million as on December 31, 2018.

Disbursements

Liquidity constraints notwithstanding, the bank was able to achieve disbursement of Rs 1,623 million during the year as compared to Rs 1,714 million in the previous year. The number of clients served during the year was 366 and total number of outstanding borrowers stood at 1399 at the year end.

Leasing Business

SME Leasing Limited, a subsidiary of the Bank incorporated in 2002, has posted a loss before tax of Rs 21.011 million as compared to loss of Rs 22.177 million from last year. The increase in loss resulted from maturing leases, as pace of new leases written was slow and accelerated towards the year end and also due to certain non-recurring revenue in last year. Net equity of the company is

112 million (2017: Rs 133 million). PACRA has, assigned the long term entity rating at B+ (B positive) and short term at B with stable outlook.

SME Leasing disbursed Rs 85.52 million (2017: Rs 74.56 million) to 16 clients in 2018 (2017: 16). Outstanding lease portfolio stands at Rs 383 million with 202 clients.

Customer Complaint Management

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

A comprehensive Complaint Resolution Mechanism has been designed and is in place. For effective management of complaints, a complaint management system (CMS) has been designed and implemented in the bank. It provides more than one channels to the clients for lodging their complaints to the bank. It outlines detail guidelines for receipt, recording, probing, resolving and responding to the complainants. Most of the complaints have been properly responded and ultimately resolved timely. An assessment survey also reflects the encouraging response from the banks' customers.

Training & HR Development

For enhancement of skill/knowledge base of human capital available for specialised tasks, necessary training and skill development activities were carried out for the staff on the basis of training need assessment.

Information Technology

SME Bank has focused greatly on Cyber Security of SME Bank's ICT infrastructure. Bank's Cyber Security Action Plan, duly approved by the Board, has been developed with the very objective to ensure Cyber Security through continuous monitoring, timely incident management & response, comprehensive risk assessment & management, frequent user awareness and periodic review of procedures/policies.

SME Bank's ICT infrastructure has been organized smartly with the objective to support the innovative digital product line that the Bank intends to launch in the coming future. Moreover, latest technology products have been deployed, within the applicable constraints, to support the business operations and Business Continuity Planning 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%. During the year ended on December 31, 2015 the CAR of the bank has reduced from prescribed limit. Bank has applied for exemption from maintaining

the CAR below benchmark. SBP has granted the exemption in meeting the minimum CAR requirements up till December 31, 2019

Income Taxes

Tax Department served notices regarding Income Tax pertaining to tax years 2003, 2004, 2005, 2008, 2010, 2012, 2013, 2014, 2016, 2017. Bank has filed appeals with Appellate Tribunal for the Tax years 2008 & 2010, meanwhile demand for the Tax Year 2008 is in process for adjustment against refunds for the tax year 2009.

Whereas for the tax years 2003 and 2004 Tax Department has filed reference in The Islamabad High Court against the decisions of the Appellate Tribunal & for the tax year 2005 tax department has filed an appeal with Appellate Tribunal against the decision. For the tax year 2012 appeal filed by the bank with the Commissioner (Appeals) who remanded the case back to DCIR for fresh consideration, whereas Order under section 221/113 for the same year is being contested in ATIR. Tax Year 2014 is assessed u/s 122(1) / 122(5) of the ITO, 2001. Tax Years 2016, 2017 & 2018 are deemed to be assessed u/s 120 of the ITO, 2001. Meanwhile notices under section 161 read with 205 are also issued for the tax years 2013, 2016 & 2017 which are being contested.

Sales Tax

Tax Department also served notices regarding FED/sales tax pertaining to tax years 2008, 2009, 2010, Jul'2011-Jun'2012 and Jul'2015-Jun'2016. Bank replied these notices and contested the cases. Resultantly Tax year 2008 and 2010 have been remanded back for fresh consideration of the cases, meanwhile the bank has filed appeals with the Appellate Tribunal Inland Revenue against Jul'2011-Jun'2012.

Risk Management Framework

To comply with SBP guidelines on Risk Management, risk function of the Bank has been made more robust whilst the State Bank has exempted the Bank from implementation of Basel-II till its privatization. Risk Management Division (RMD) has been setup for performing risk functions relating to various risk; particularly Credit Risk, Liquidity Risk, Interest Rate Risk & Operational Risk.

Moreover, lending decisions are subjected to extensive and diligent credit risk evaluation and assessment process. Obligor facility and guarantor internal credit risk rating system is in place and regular part of credit processing. Keeping in view the nature of SME lending, quick turnaround time and efficiency, credit risk managers/officers have been placed at branch level where ever feasible. Above a certain limit fixed, proposals are being reviewed at Head Office. Compliance with the State Bank's regulations, policies and Bank's own credit policies are ensured.

The management endeavours that bank's operation and credit activities conform to the Prudential Regulations and SBP instructions are strictly followed and efforts are consistently made to incorporate good business practices for an effective risk management strategy.

Green Banking

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

The bank is in process to 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 Green Banking Guidelines and Bank Policy.
- Green Banking Policy along with Environmental Risk Management Framework was duly approved by Board of Directors and circulated for the guidance of all concerned offices/branches in August, 2018.
 - In house training session on Green Banking capacity building was held in Oct 2018 for officials of the bank to provide awareness about the responsibility of financial sector in supporting policy initiatives of government of Pakistan and State Bank of Pakistan.
- Reporting/monitoring and implementation status of Green Banking Guidelines to State Bank of Pakistan on each quarter
- Regular sensitization of staff in branches and Head Office on Green Banking as part of organization culture.
- Review/customization of all lending products with a purpose to promote green banking facilitation, environmental friendly practices and reduction in carbon footprint.

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. The privatization program of the Bank has been required to be completed by 30th June 2020 to divest GOPs equity stake in the Bank along with management control to a strategic investor. Accordingly, PC recommended the transaction structure for the privatization of the Bank to CCOP who approved the referred transaction structure on November 15, 2019. Thereafter through a due process invitation for expression of interest for acquisition of 93.88% shares of the Bank were advertised in newspapers on December 13, 2019. The last date for submission of EOIs and Statement of Qualifications (SOQs) was February 28, 2020. Five prospective investors have submitted their SOQs against the advertisement, out of that Four have been cleared by SBP. Due diligence of Buyers side is in progress, Privatization Commission has opened data room for the prospective Buyers up to August 24, 2020.

Board of Directors

Board of Directors consists of seven directors nominated by the Federal Government; however, three positions two independent directors and one non-executive director remained vacant during the year. Board meets frequently and ensures to meet at least every quarter.

Board held five meetings during 2018; attendance of which is given hereunder:

Directors	Meetings Attended
Mr. Muhammad Adnan Jalil	5
Mr. Zarar Haider	2
Mr. Ihsan ul Haq Khan	3

Mr. Badr-ul-Arifeen	5
Mr. Sher Ayub Khan	5
Mr. Muhammad Arshad Khan	1
Mr. Dilshad Ali Ahmad	2

Board has constituted six sub-committees namely Audit Committee, Risk Management Committee, Human Resource Committee, Nomination Committee, Procurement Committee and Remuneration Committee.

Audit Committee

This committee consists of three non-executive directors 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 2018, four meetings of Board Audit Committee were held.

Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr. Muhammad Adnan Jalil	4
Mr. Badr-ul-Arifeen	4
Mr. Zarar Haider	2
Mr. Sher Ayub Khan	2
Mr. Muhammad Arshad Khan	1

Risk Management Committee

This Committee consists of two non-executive and one independent director and it assists the Board in measurement and mitigation of different risks. During the year 2018, four meetings of Board Risk Management Committee were held. Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr. Muhammad Adnan Jalil	4
Mr. Badr-ul-Arifeen	4
Mr. Zarar Haider	2

Human Resource Committee

Board Human Resource Committee comprising three directors has been formed to assist the Board in all staff related matters, policies and benefits including compensation. During the year 2018, three meetings of Board Human Resource Committee were held. Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr. Muhammad Adnan Jalil	3
Mr. Badr-ul-Arifeen	3
Mr. Ihsan ul Haq Khan	1
Mr. Dilshad Ali Ahmad	2

Procurement Committee

Board Procurement Committee comprising three directors 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 2018, no meeting of Board Procurement Committee was held.

Nomination Committee

This Committee consists of two non-executive directors and it assists the Board in identification and recommendation of independent directors on the Board. It meets on need basis. No meeting was held of Board nomination Committee during the year 2018.

Board Remuneration Committee

This Committee consisting of one independent and one non-executive director was formed as per instructions of SBP received vide BPRD circular # 2 of 2017 to assist the Board in development of the structure of compensation package of Executive Directors, CEO, Key Executives and any other employee or group of employees and subsequent improvements therein to encourage the culture of 'pay for performance'. No meeting was held of Board remuneration Committee during the year 2018.

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, 2017, 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, 2017, except as disclosed in the financial statements;
- the value of investments held for staff funds is reflected in note 33 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, 2018, as required under Code of Corporate Governance is annexed.

Loss per share

The basic and diluted after tax loss per share for the year 2018 is Rs. (3.45). (2017: Rs. (1.23))

Auditors

The present auditors, M/s Grant Thornton Anjum Rehman, Chartered Accountants, have completed their assignment for the year ended December 31, 2017 and shall retire at the conclusion of 16th Annual General Meeting. Being eligible, they have offered themselves for reappointment. As advised by Board Audit Committee, Board recommends appointment of M/s Grant Thornton Anjum Rehman as auditors for the year 2018.

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
Shareholding Pattern
As on December 31, 2018

S.No.	Name	Total Number	Total Value of Shares (Rs.)	Percentage
1	Mr. Dilshad Ali Ahmad	1	10	0
2	Mr. Sher Ayub Khan	1	10	0
3	Mr. Muhammad Arshad	1	10	0
4	Mr. Badr-ul-Arifeen	1	10	0
5	Mr. Majyd Aziz Balagamwala	1	10	0
6	Mr. Muhammad Adnan Jalil	1	10	0
7	Mr. Zahid Oosman	1	10	0
8	President of Pakistan (on behalf of Federal Government)	224,615,978	2,246,159,780	93.88
9	National Bank of Pakistan	6,121,095	61,210,950	2.56
10	IDBL	286,146	2,861,460	0.12
11	United Bank Limited	3,975,003	39,750,030	1.66
12	Habib Bank Limited	1,987,501	19,875,010	0.83
13	MCB Bank Limited	1,490,619	149,061,900	0.62
14	Allied Bank of Pakistan Limited	774,351	7,743,510	0.32
		239,250,700	2,392,507,000	100.00

**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 ending December 31, 2018

I. This statement is being presented to comply with Regulation G-1 of the Prudential Regulations for Corporate/ Commercial Banking issued by the State Bank of Pakistan and the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "the Rules") issued for the purpose of establishing a framework of good governance, whereby a public sector company is managed in compliance with the best practices of public sector governance.

II. SME Bank Ltd (the Bank) has complied with the provisions of the Rules in the following manner:

Sr. No.	Provision of the Rules	Rule No.	Y N		Remarks												
			Tick the relevant box														
1.	The independent directors meet the criteria of independence, as defined under the Rules.	2(d)	✓														
2.	The Board has the requisite percentage of independent directors. At present the board includes: <table><tr><th>Category</th><th>Names</th><th>Date of appointment</th></tr><tr><td>Independent Directors</td><td>Mr. Muhammad Adnan Jalil</td><td>23-07-2012</td></tr><tr><td>Executive Directors</td><td>Mr. Dilshad Ali Ahmad</td><td>16-10-2018</td></tr><tr><td>Non-Executive Directors</td><td>Mr. Muhammad Arshad Khan Mr. Badr-ul-Arifeen Mr. Sher Ayub Khan</td><td>31-08-2018 27-10-2015 10-01-2018</td></tr></table>	Category	Names	Date of appointment	Independent Directors	Mr. Muhammad Adnan Jalil	23-07-2012	Executive Directors	Mr. Dilshad Ali Ahmad	16-10-2018	Non-Executive Directors	Mr. Muhammad Arshad Khan Mr. Badr-ul-Arifeen Mr. Sher Ayub Khan	31-08-2018 27-10-2015 10-01-2018	3(2)		✓	The position of two independent directors vacated on Jan 23, 2013 and Mar 06, 2014 were not filled by Government of Pakistan by December 31, 2018.
Category	Names	Date of appointment															
Independent Directors	Mr. Muhammad Adnan Jalil	23-07-2012															
Executive Directors	Mr. Dilshad Ali Ahmad	16-10-2018															
Non-Executive Directors	Mr. Muhammad Arshad Khan Mr. Badr-ul-Arifeen Mr. Sher Ayub Khan	31-08-2018 27-10-2015 10-01-2018															
3.	The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.	3(5)	✓														
4.	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Act.	3(7)	✓		All the nominations on the Board of Directors are made by the GoP The appointing authorities apply 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.
5.	The chairman of the board is working separately from the chief executive of the Bank.	4(1)		✓	The chairman of the board is working separately from the chief executive of the Bank. Prior to MoF Notification # F.2(7)IF-III/2001-68 dated January 25, 2018 that President has been directed to Chair the meetings of BoD till completion of privatization of SME Bank Ltd.
6.	The chairman has been elected by the Board of directors except where Chairman of the Board has been appointed by the Government	4(4)	✓		As per MoF Notification # F.2(7)IF-III/2001-68 dated January 25, 2018 that President has been directed to Chair the meetings of BoD till completion of privatization of SME Bank Ltd. However, prior to the direction the chairman of the board was elected by the Board of Directors of the Bank. except where Chairman of the Board has been appointed by the Government
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		Federal Government has appointed Acting CEO with effect from October 16, 2018 in pursuance of cabinets decision taken in its meeting held on October 4, 2018.
8.	(a) The company 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 company along with its supporting	5(4)	✓ ✓		

	<p>policies and procedures, including posting the same on the company's website. (www.smebank.org)</p> <p>(c) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.</p>		✓		
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 company'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 company.	5(6)	✓		
15.	The Board has developed significant policies of the company. 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)	No t Ap pli cab le		
17.	The Board has ensured compliance with policy directions requirements received from the Government.	5(11)	✓		
18.	<p>a) The board has met at least four times during the year.</p> <p>b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings.</p> <p>c) The minutes of the meetings were appropriately recorded and circulated.</p>	<p>6(1)</p> <p>6(2)</p> <p>6(3)</p>	<p>✓</p> <p>✓</p> <p>✓</p>		

19.	The Board has monitored and assessed the performance of senior management on annual/half-yearly/quarterly basis* and held them accountable for accomplishing objectives, goals and key performance indicators set for this purpose. *Strike out whichever is not applicable	8 (2)	✓																				
20.	The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9	✓																				
21.	(a) The Board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end. (b)In case of listed PSCs, the Board has prepared half yearly accounts and undertaken limited scope review by the auditors. (c)The Board has placed the annual financial statements on the company’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		✓	Orientation Course was not arranged by the bank due to non-availability of the directors for 1-3 days.																		
23.	<div><div>a) The board has formed the requisite committees, as specified in the Rules.</div><div>b) The committees were provided with written term of reference defining their duties, authority and composition.</div><div>c) The minutes of the meetings of the committees were circulated to all the board members.</div><div>d) The committees were chaired by the following non-executive directors:</div><table><thead><tr><th>Committee</th><th>Number of members</th><th>Name of Chair</th></tr></thead><tbody><tr><td>Audit Committee</td><td>4</td><td>Mr. Muhammad Adnan Jalil</td></tr><tr><td>Risk Management Committee</td><td>2</td><td>Mr. Badr-ul-Arifeen</td></tr><tr><td>Human Resources Committee</td><td>3</td><td>Mr. Muhammad Adnan Jalil</td></tr><tr><td>Procurement Committee</td><td>3</td><td>No meeting was held during the year</td></tr><tr><td>Nomination Committee</td><td>2</td><td>No meeting was held during the year</td></tr></tbody></table></div>	Committee	Number of members	Name of Chair	Audit Committee	4	Mr. Muhammad Adnan Jalil	Risk Management Committee	2	Mr. Badr-ul-Arifeen	Human Resources Committee	3	Mr. Muhammad Adnan Jalil	Procurement Committee	3	No meeting was held during the year	Nomination Committee	2	No meeting was held during the year	12	✓ ✓ ✓ ✓		
Committee	Number of members	Name of Chair																					
Audit Committee	4	Mr. Muhammad Adnan Jalil																					
Risk Management Committee	2	Mr. Badr-ul-Arifeen																					
Human Resources Committee	3	Mr. Muhammad Adnan Jalil																					
Procurement Committee	3	No meeting was held during the year																					
Nomination Committee	2	No meeting was held during the year																					
24.	The Board has approved appointment of Chief Financial Officer, Company 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 Company Secretary have requisite qualification prescribed in the Rules	14	✓																				

26.	The company 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 company except those disclosed to the company.	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 company contains criteria and details of remuneration of each director.	19	✓ ✓																	
30.	The financial statements of the company were duly endorsed by the chief executive and chief financial officer before consideration and approval of the audit committee and the Board.	20	✓																	
31.	<p>The board has formed an audit committee, with defined and written terms of reference, and having the following members:</p> <table><tr><th>Name of member</th><th>Category</th><th>Professional background</th></tr><tr><td>Mr. Muhammad Adnan Jalil</td><td>Independent</td><td>Businessman</td></tr><tr><td>Mr. Badr-ul-Arifeen</td><td>Non-Executive</td><td>Deputy Secretary-Ministry of Finance</td></tr><tr><td>Mr. Muhammad Arshad Khan</td><td>Non-Executive</td><td>Joint Secretary-Ministry of Industries & Production</td></tr><tr><td>Mr. Sher Ayub Khan</td><td>Non-Executive</td><td>CEO SMEDA</td></tr></table> <p>The chief executive and chairman of the Board are not members of the audit committee.</p>	Name of member	Category	Professional background	Mr. Muhammad Adnan Jalil	Independent	Businessman	Mr. Badr-ul-Arifeen	Non-Executive	Deputy Secretary-Ministry of Finance	Mr. Muhammad Arshad Khan	Non-Executive	Joint Secretary-Ministry of Industries & Production	Mr. Sher Ayub Khan	Non-Executive	CEO SMEDA	21 (1) and 21(2)	✓		
Name of member	Category	Professional background																		
Mr. Muhammad Adnan Jalil	Independent	Businessman																		
Mr. Badr-ul-Arifeen	Non-Executive	Deputy Secretary-Ministry of Finance																		
Mr. Muhammad Arshad Khan	Non-Executive	Joint Secretary-Ministry of Industries & Production																		
Mr. Sher Ayub Khan	Non-Executive	CEO SMEDA																		
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	22	✓ ✓																	

	experience prescribed in the Rules. (c) The internal audit reports have been provided to the external auditors for their review.		✓		
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)	✓		

CEO
DILSHAD ALI AHMAD

Independent Director

**Explanation for Non-Compliance
with the Public Sector Companies (Corporate Governance) Rules, 2013
For the year ended December 31, 2018**

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 company 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.	3(2)	Government of Pakistan has not nominated directors as a result of which two seats of independent directors are vacant.	Appointment by Federal Government is awaited
2.	4(1)	As per MoF Notification # F.2(7)IF-III/2001-68 dated January 25, 2018 that President has been directed to Chair the meetings of BoD till completion of privatization of SME Bank Ltd.	Appointed by Federal Government.
3	11	Orientation Course was not arranged by the bank due to high cost, current position of the bank and non-availability of the directors for 1-3 weeks.	Bank will arrange the Orientation course in future.



**CEO
DILSHAD ALI AHMAD**



Independent Director

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

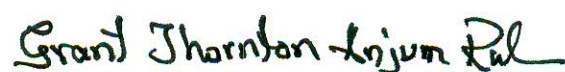
We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors (the Board) of SME Bank Limited ("the Bank") for the year ended December 31, 2018 to comply with Regulation G-1 of the Prudential regulation for Corporate/Commercial Banking issued by State Bank of Pakistan and the requirements of the provisions of Public Sector Companies (Corporate Governance) Rules, 2013.

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

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

The Rules requires the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board for their review and approval of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not. Moreover, the Rules also requires the Board to ensure compliance with the law as well as the Bank's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services, in accordance with the PPRA Rules. We have not carried out any procedures to verify the compliance with the above stated requirements of PPRA Rules.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material aspects with the best practices contained in the Rules as applicable to the Bank for the year ended 31 December 2018.



GRANT THORNTON ANJUM RAHMAN

Chartered Accountants

Audit Engagement Partner: Hassan Riaz

Islamabad

Date: July 25, 2020

Statement of Internal Control
SME Bank Limited
Year Ended: December 31, 2018

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

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

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

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

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

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

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

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

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



Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the members of SME Bank Limited

Report on the Audit of the Unconsolidated Financial Statements

Qualified Opinion

We have audited the annexed unconsolidated financial statements of SME Bank Limited (the Bank), which comprise the unconsolidated statement of financial position as at December 31, 2018, and unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the year then ended, along with unaudited certified returns received from the branches except for nine branches which have been audited by us and notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account and unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2018 and of the loss and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Qualified Opinion

- a) The Bank has investment in SME Leasing Limited (SMEL) which is carried in these unconsolidated financial statements at Rs. 80.748 million (net of provision of Rs. 134.709) and has outstanding running finance exposure of Rs. 141.556 million at the reporting date. SMEL continues to operate on a net loss basis and therefore the recoverability of investment and running finance exposure is doubtful. Accordingly, we are unable to determine the extent of impairment that might be necessary to be recorded against the current carrying values of investment and running finance exposure and its possible effect on current year losses and accumulated losses;
- b) Deferred tax asset of Rs. 525.695 million has been recognized on the basis of expected profits arising from future privatization of the Bank as described in Note 13 to the unconsolidated financial statements which we have not been able to verify. Advance income tax includes refunds aggregating to Rs. 232.599 million for tax years 2003 and 2004. These refunds were recorded on the basis of an order of the Appellate Tribunal Inland Revenue dated February 10, 2011 whereby provision for doubtful debts was allowed to be taken as a deductible expense. The issue of allowing provision for doubtful debts as an expense, in the case of another bank, was successfully challenged by tax department in the Islamabad High Court. The High Court rules in favor of the tax department through its order dated March 13, 2018 which has also been upheld by the Supreme Court of Pakistan through its order dated June 05, 2018 due to which the bank has no legal basis to continue to recognize the receivable as an asset; and
- c) As explained in Note 10.3, the loan portfolios of Small Business Finance Corporation (SBFC) and Regional Development Finance Corporation (RDFC) was transferred to National Bank of Pakistan due to envisaged privatization of the Bank, however, the portfolio continues to appear as an asset in the books of the Bank.

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

Material uncertainties relating to Going Concern

We draw attention to note 6.2 to the unconsolidated financial statements which describes that during the current year the Bank incurred a net loss of Rs. 825.938 million (2017: Rs. 294.022 million) resulting into accumulated losses of Rs. 3,857.090 million (2017: Rs. 3,005.398 million). As of December 31, 2018, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 1,693.862 million (2017: Rs. 434.345 million) indicating negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative working capital of Rs. 7.267 billion (2017: Rs. 3.479 billion) which indicates the Bank's inadequate capacity for 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%, and has also failed in maintaining the minimum statutory liquidity requirement (SLR) in first half of subsequent year. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. As stated in note 6.2, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter

We draw attention to note 14.3 to the unconsolidated financial statements, which describes in detail the status of possession of property at Lahore. Our opinion is not modified in respect of this matter.

Information Other than the Unconsolidated Financial Statements and Auditor's Report Thereon

Management is responsible for other information. The other information comprises the information included in the Annual Report, but does not include the unconsolidated financial statements and our auditor's report thereon. Our opinion on the unconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of 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 Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The board of directors is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

- a) proper books of account have been kept by the Bank/branches as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;
 - b) the unconsolidated statement of financial position, the unconsolidated profit and loss account, the unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
 - c) investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank/branches and the transactions of the Bank/branches which have come to our notice have been within the powers of the Bank/branches; and
 - d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.
2. We confirm that for the purpose of our audit we have covered more than sixty per cent of the total loans and advances of the Bank.

Engagement partner on the audit resulting in this independent auditor's report is Hassan Riaz



GRANT THORNTON ANJUM RAHMAN

Chartered Accountants

Islamabad


July 25, 2020


SME BANK LIMITED
UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

		2018	2017
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	443,839	435,791
Balances with other banks	8	16,238	11,321
Lendings to financial institutions		-	-
Investments	9	5,765,155	6,911,314
Advances	10	2,230,763	2,505,509
Fixed assets	11	55,376	63,122
Intangible assets	12	2,401	1,129
Deferred tax assets - net	13	525,695	465,198
Other assets	14	599,029	601,710
		9,638,496	10,995,094
LIABILITIES			
Bills payable	15	118,788	92,554
Borrowings	16	4,739,895	5,308,315
Deposits and other accounts	17	5,721,008	5,343,655
Liabilities against assets subject to finance lease		-	-
Subordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	752,667	684,915
		11,332,358	11,429,439
NET LIABILITIES		(1,693,862)	(434,345)
REPRESENTED BY			
Share capital	19	2,392,507	2,392,507
Reserves		206,526	206,526
Deficit on revaluation of assets - net of tax	20	(435,805)	(27,980)
Unappropriated loss		(3,857,090)	(3,005,398)
		(1,693,862)	(434,345)
CONTINGENCIES AND COMMITMENTS			
	21		

The annexed notes from 1 to 43 and annexure 1 form an integral part of these unconsolidated financial statements.


Chief Financial Officer


President/CEO


Director


Director


Director


SME BANK LIMITED
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2018

		2018	2017
	Note	(Rupees in '000)	
Mark-up/return/interest earned	22	741,444	649,278
Mark-up/return/interest expensed	23	723,660	520,408
Net mark-up/interest income		17,784	128,870
NON MARK-UP/INTEREST INCOME			
Fee and commission income	24	9,441	11,818
Dividend income		456	498
Foreign exchange income		-	-
Income/(loss) from derivatives		-	-
Gain on securities	25	1,001	10,009
Other income	26	1,219	2,413
Total non-markup/interest income		12,117	24,738
Total income		29,901	153,608
NON MARK-UP/ INTEREST EXPENSES			
Operating expenses	27	839,127	840,252
Workers Welfare Fund		-	-
Other charges	28	2,254	-
Total non-markup/interest expenses		841,381	840,252
Loss before provisions		(811,480)	(686,644)
Provisions and write offs - net	29	64,796	34,363
LOSS BEFORE TAXATION		(876,276)	(721,007)
Taxation	30	(50,338)	(426,985)
LOSS AFTER TAXATION		(825,938)	(294,022)
Basic/diluted (loss) per share (rupees)	31	(3.45)	(1.23)

The annexed notes from 1 to 43 and annexure 1 form an integral part of these unconsolidated financial statements.

g


Chief Financial Officer


President/CEO


Director


Director


Director

SME BANK LIMITED
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	(Rupees in '000)	
Loss after taxation	(825,938)	(294,022)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequent periods:		
Movement in deficit on revaluation of investment - net	(407,825)	(40,300)
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement loss on defined benefit obligations - net	(25,754)	(120,671)
Total comprehensive loss	(1,259,517)	(454,993)

The annexed notes from 1 to 43 and annexure 1 form an integral part of these unconsolidated financial statements.

9



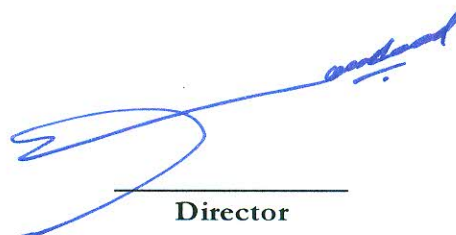
Chief Financial Officer



President/CEO



Director



Director



Director

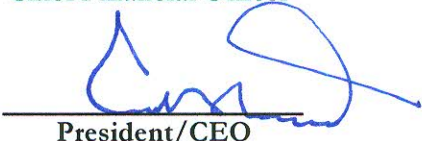
SME BANK LIMITED
UNCONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018 (Rupees in '000)	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(876,276)	(721,007)
Less: Dividend income		(456)	(498)
		(876,732)	(721,505)
Adjustments:			
Depreciation		20,596	26,848
Amortization		1,186	746
Provision and write-offs	29	64,796	34,363
Loss/(gain) on sale of fixed assets		(236)	(1,317)
Finance charges on leased assets		-	-
		86,342	60,640
		(790,390)	(660,865)
(Increase)/decrease in operating assets			
Lendings to financial institutions		-	445,000
Held-for-trading securities		-	-
Advances		254,587	283,088
Other assets (excluding advance taxation)		(4,216)	(25,746)
		250,371	702,342
Increase/(decrease) in operating liabilities			
Bills payable		26,234	(2,889)
Borrowings from financial institutions		(568,420)	1,847,989
Deposits		377,353	114,939
Other liabilities (excluding current taxation)		41,998	(8,838)
		(122,835)	1,951,201
		(662,854)	1,992,678
Income tax paid		(1,980)	(1,898)
Net cash flow (used in)/from operating activities		(664,834)	1,990,780
CASH FLOW FROM INVESTING ACTIVITIES			
Net (investment)/disinvestment in available-for-sale securities		192,415	(1,588,932)
Net (investment)/disinvestment in held-to-maturity securities		500,000	(500,000)
Dividend received		456	498
Investment in operating fixed assets/intangibles		(15,364)	(23,336)
Proceeds from sale of fixed assets		292	3,074
Net cash flow from/(used in) investing activities		677,799	(2,108,696)
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of lease obligation		-	-
Net cash flow from/(used in) financing activities		-	-
Increase/(decrease) in cash and cash equivalents		12,965	(117,916)
Cash and cash equivalents at beginning of the year		447,112	565,028
Cash and cash equivalents at end of the year	32	460,077	447,112

The annexed notes from 1 to 43 and annexure 1 form an integral part of these unconsolidated financial statements.



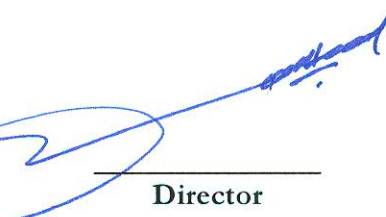
Chief Financial Officer



President/CEO



Director



Director




Director

SME BANK LIMITED
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018


	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
	(Rupees in '000)				
Balance as at January 01, 2017	2,392,507	206,526	12,320	(2,590,705)	20,648
Total comprehensive income for the year ended December 31, 2017					
Net loss for the year ended December 31, 2017	-	-	-	(294,022)	(294,022)
Other comprehensive income - net	-	-	(40,300)	(120,671)	(160,971)
Balance as at December 31, 2017	2,392,507	206,526	(27,980)	(3,005,398)	(434,345)
Total comprehensive income for the year ended December 31, 2018					
Net loss for the year ended December 31, 2018	-	-	-	(825,938)	(825,938)
Other comprehensive income - net	-	-	(407,825)	(25,754)	(433,579)
Balance as at December 31, 2018	2,392,507	206,526	(435,805)	(3,857,090)	(1,693,862)

The annexed notes from 1 to 43 and annexure 1 form an integral part of these unconsolidated financial statements.


Chief Financial Officer


President/CEO


Director


Director


Director

1 GENERAL INFORMATION

1.1 SME Bank Limited (the Bank) is a public limited company incorporated in Pakistan on October 30, 2001 under the repealed Companies Ordinance, 1984 having its registered office at 56-F, Nazim-ud-Din Road, F-6/1, Blue Area Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is a scheduled commercial bank engaged in the business of banking with the primary objective to support and develop small and medium enterprise (SME) sector in Pakistan by providing necessary financial assistance and business support services on sustainable basis. The Bank is operating through a network of 13 commercial banking branches. Based on the latest credit rating report dated November 22, 2018 issued by Pakistan Credit Rating Agency Limited (PACRA), credit rating of the Bank was "CCC" in the long term and "B" (Single B) in the short term. Subsequent to above, credit rating of Bank could not be updated as the approved accounts of the Bank were not available due to inexistence of its board of directors throughout the year 2019.

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 the 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 the 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. The said relaxation from SBP was subject to submission of a concrete plan from the Ministry of Finance (MoF) of providing firm commitment to inject the required amount of capital in the Bank if its privatization is not materialize by March 31, 2020. Subsequent to above the MoF through its letter no. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is at advanced stage which is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of MCR till June 30, 2020. In view of the current stage of privatization of the Bank the MoF and the management of the Bank are hopeful of further extension of relaxation of MCR requirement by SBP.

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

2 BASIS OF PRESENTATION

2.1 The SBP vide BPRD Circular No. 02 of 2018 dated January 25, 2018 has amended the format of annual financial statements of banks. All banks are directed to prepare their annual financial statements on the revised format effective from the accounting year ending December 31, 2018. Accordingly, the Bank has prepared these financial statements on the new format prescribed by the State Bank of Pakistan. The adoption of new format contains reclassification of comparative information and additional disclosures, however, the same has not materially impacted the balance sheet of the Bank pertaining to prior years.

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

The SBP, vide BSD circular no. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, according to a notification of SECP dated April 28, 2008, IFRS 7 "Financial Instruments: Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through its various circulars.

IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BPRD Circular No. 02 dated January 25, 2018, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2018. Management believes that as the SBP has defined the segment categorization in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

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

3.2 Standards, interpretations of and amendments to published accounting and reporting standards that were not effective during the current year ended December 31, 2018

The following standards, amendments and interpretations of accounting and reporting standards are effective for accounting periods as given below:

	Effective date (annual periods beginning on or after)
IAS 28 - Long Term Interest in Associates and Joint Venture (Amendments to IAS-28)	January 1, 2019
IFRIC 23 - Uncertainty over Income Tax Treatments	January 1, 2019
IFRS 15 - Revenue from contracts with customers	July 1, 2018
IFRS 16 - Leases	January 1, 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	January 1, 2019
-Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	N/A
IAS-19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Employee Benefits)	January 1, 2019
IFRS 17- Insurance Contracts	January 1, 2021
IFRS 9 - Financial Instruments	period ending on or after June 30, 2019

3.3 With respect to 'IFRS 15 - Revenue from contracts with customers' the Bank is currently in the process of assessing the potential impacts of changes required in revenue recognition policies upon adoption of the standard. Whereas on the application of "IFRS 9 - Financial Instruments", instructions of SBP are awaited.

3.4 Standards, interpretations and amendments to published accounting and reporting standards that were effective during the current year ended December 31, 2018

There are certain other and amended standards, interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 1, 2018 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in these financial statements.

4 BASIS OF MEASUREMENT

4.1 These unconsolidated financial statements have been prepared under the historical cost convention as modified for certain investments which are carried at fair value, obligations in respect of defined benefit schemes at their present values.

4.2 Use of critical accounting estimates and judgments

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

- i) Classification of investments (note 5.2)
- ii) Provision/impairment against investments (note 5.2), advances (note 5.4) and other assets (note 5.6)
- iii) Valuation and impairment of available for sale securities (note 5.2 and 5.6)
- iv) Useful life and residual value of property and equipment and intangible assets (note 5.5)
- v) Taxation (note 5.8)
- vi) Staff retirement benefits (note 5.9)

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

5.2 Investments

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

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


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

Held for trading

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

Held to maturity

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



SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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. On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus/(deficit) on revaluation of assets' 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 available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or MUFAP or the Stock Exchanges, as the case may be.

Investment in subsidiary

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

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

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

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

5.4 Advances

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

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

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

Capital work-in-progress

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

Operating fixed assets-owned

These are stated at cost less impairment loss and accumulated depreciation except for 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 11.2, 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.

Assets subject to finance lease

Assets subject to finance lease are stated at cost less accumulated depreciation at the rates similar to the bank's owned assets and impairment loss (if any). The outstanding obligation under finance lease less financial charges allocated to future periods is shown as liability. Finance charges are calculated at interest rates implicit in the lease and are charged to unconsolidated profit and loss account in the period in which these are incurred.

dfm

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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 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.

5.7 Deposits

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

5.8 Taxation

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

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

5.9 Staff retirement and other benefits


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

Defined benefit plan - pension and gratuity schemes

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

Defined benefit funded gratuity scheme

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



SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

5.10 Revenue recognition

5.10.1 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 recognized as permitted by the regulations of the SBP.

Advances disbursed by defunct RDFC and defunct SBFC:

Advances and related markup are suspended. Markup/interest on advances is recognized on receipt basis.

5.10.2 Return on investments

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

5.10.3 Dividend income

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

5.10.4 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.

5.11 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.

5.12 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.

5.13 Provisions

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

9

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

5.14 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 derecognized 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 derecognized when the obligation under the liability is discharged or cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

5.15 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:

5.15.1 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

5.15.2 Geographical segments

The Bank operates only in Pakistan.

5.16 Appropriation to reserves

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

5.17 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. The privatization program of the Bank has been required to be completed by 30th June 2020 to divest GOPs equity stake in the Bank along with management control to a strategic investor. Accordingly, PC recommended the transaction structure for the privatization of the Bank to CCOP who approved the referred transaction structure on November 15, 2019. Thereafter through a due process invitation for expression of interest for acquisition of 93.88% shares of the Bank were advertised in news papers on December 13, 2019. The last date for submission of EOIs and Statement of Qualifications (SOQs) was February 28, 2020. Five prospective investors have submitted their SOQs against the advertisement, out of that Four have been cleared by SBP. Due diligence of Buyers side is in progress, Privatization Commission has opened data room for the prospective Buyers up to August 24, 2020.

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

6.2 Going concern assumption

During the current year the Bank incurred a net loss of Rs. 825.938 million (2017: Rs. 294.022 million) resulting into accumulated losses of Rs. 3,857.090 million (2017: Rs. 3,005.398 million). As of December 31, 2018, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 1,693.862 million (2017: Rs 434.345 million) indicating negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative working capital of Rs. 7.267 billion (2017: Rs. 3.479 billion) which indicates the Bank's inadequate capacity for 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%. and has failed on multiple times in maintaining the minimum statutory liquidity requirement (SLR) in first half of subsequent year. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. These conditions indicate the existence of material uncertainty that may cast a significant doubt on the Bank's ability to continue as going concern and therefore it may not be able to realize its assets and discharge its liabilities in the ordinary course of business. To overcome the same, the Government of Pakistan (GoP) being the majority shareholder with 93.88% shareholding in the Bank has initiated the process of privatization of the Bank. The MoF through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of regulatory requirements till June 30, 2020. MoF and management of the Bank are hopeful of a favorable response. The process of privatization is at the advance stage as Five prospective investors have submitted their Statement of Qualifications (SOQs), out of that four have been cleared by SBP. Due diligence of Buyers side is in progress, Privatization Commission has opened data room for the prospective Buyers up to August 24, 2020. In view of above the management of the Bank strongly believes that the privatization of the Bank shall be completed soon and will result into injection of fresh equity enabling the Bank to expand and finance its operations while MoF is committed to provide all necessary financial assistance to the Bank to support its operations. In view of above the management of the Bank believes that the use of going concern assumption in preparation of these unconsolidated financial statements is appropriate and, therefore, have prepared the same on a going concern basis.

92

SME BANK LIMITED

**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

		2018	2017
		(Rupees in '000)	
7. CASH AND BALANCES WITH TREASURY BANKS	Note		
In hand			
Local currency		106,514	112,204
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in :			
Local currency current accounts	7.1	294,873	296,841
With National Bank of Pakistan in :			
Local currency current accounts		42,080	26,417
Local currency deposit account		-	-
Prize bonds		372	329
		<u>443,839</u>	<u>435,791</u>

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

		2018	2017
		(Rupees in '000)	
8. BALANCES WITH OTHER BANKS	Note		
In Pakistan:			
On current accounts		500	500
On deposit accounts	8.1	25,738	20,821
Provision for doubtful balance with a bank	8.2	(10,000)	(10,000)
		<u>16,238</u>	<u>11,321</u>

8.1 These carry interest rate ranging from 3.75% to 8.0% (2017: 3.70 % to 3.75%) per annum.

8.2 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 with Indus Bank Limited which is under liquidation.

95

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

9. INVESTMENTS

9.1

Investment by type:

Available-for-sale securities

Federal government securities

Shares

Mutual fund

Held-to-maturity securities

Non-government debt securities

- Term deposit receipts (TDRs) *

- Certificates of investments (COIs)

Investment in subsidiary

SME Leasing Limited (SMEEL)

9.1.1

Total investment

Note

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '000)

(Rupees in '00

* TDR of Rs. 35 million (2017: Rs. 35 million) was under lien at year end.

9.1.1 SME Leasing Limited (SMEEL)

Holding Percentage	2018	2017
Country	73.14%	73.14%
	Pakistan	Pakistan
	(Rupees in '000)	
Total assets	509,001	477,644
Total liabilities	397,319	344,397
Total revenue	31,451	27,363
Total expenses	58,064	50,866
Loss after taxation	(21,011)	(22,177)
Total comprehensive loss	(21,568)	(23,705)

(SMEEL) was incorporated on July 12, 2002 as a public limited company under the repealed Companies Ordinance 1984 and listed on Pakistan Stock Exchange. Up to the year 2005 SMEEL was a wholly owned subsidiary of the Bank and since after the subscription of 1,405,205 shares against the public offering of 10 million shares in the year 2006 the Bank's shareholding in SMEEL continued at a level of 73.14%. This investment is designated as a strategic investment of the Bank in terms of BPD circular letter No. 16 dated August 01, 2006 of SBP. SMEEL continued to operate on a net loss basis and therefore the Bank maintains a provision of Rs. 134,709 million (2017: Rs. 86,962 million) against the aforesaid investment of Rs. 215,457 million.

[Signature]

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

9.2 Investment by segment:

	2018				2017			
	Cost / amortized cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortized cost	Provision for diminution	Surplus / (deficit)	Carrying value
(Rupees in '000)								
Federal Government Securities								
Market Treasury Bills (MTBs)	993,284	-	(53)	993,231	2,193,209	-	(133)	2,193,076
Pakistan Investment Bonds (PIBs)	5,062,403	-	(437,391)	4,625,012	4,054,269	-	(30,206)	4,024,063
	6,055,687	-	(437,444)	5,618,243	6,247,478	-	(30,339)	6,217,139
Shares								
Listed companies/ mutual fund	14,999	(14,697)	2,472	2,774	14,999	(14,697)	2,071	2,373
Unlisted companies	47,543	(21,073)	-	26,470	47,543	(21,073)	-	26,470
	62,542	(35,770)	2,472	29,244	62,542	(35,770)	2,071	28,843
Mutual Fund:								
Open end	1,216	-	7	1,223	-	-	-	-
Close end - Listed	654	-	43	697	2,494	(2,215)	1,558	1,837
	1,870	-	50	1,920	2,494	(2,215)	1,558	1,837
Non-government debt securities								
Term deposit receipts (TDRs)	35,000	-	-	35,000	535,000	-	-	535,000
Certificates of investments (COIs)	762	(762)	-	-	762	(762)	-	-
	35,762	(762)	-	35,000	535,762	(762)	-	535,000
Investment in subsidiary								
SME Leasing Limited	215,457	(134,709)	-	80,748	215,457	(86,962)	-	128,495
Total investment	6,371,318	(171,241)	(434,922)	5,765,155	7,063,733	(125,709)	(26,710)	6,911,314

9.2.1 Investment given as collateral

Market Treasury Bills (MTBs)	199,888	1,534,337
Pakistan Investment Bonds (PIBs)	4,469,910	3,796,731
	4,669,798	5,331,068

95

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018 (Rupees in '000)	2017 (Rupees in '000)
9.3 Provision for diminution in value of investments			
Opening balance		125,709	125,639
Charge/reversals			
Charge for the year	10.8	47,747	70
Reversal on disposals		(2,215)	-
		45,532	70
Closing balance		171,241	125,709

9.3.1 Particulars of provision against debt securities category of classification

Domestic

Other assets especially mentioned
Substandard
doubtful
Loss

2018		2017	
NPL	Provision	NPL	Provision
(Rupees in '000)			
-	-	-	-
-	-	-	-
-	-	-	-
762	762	762	762
762	762	762	762

9.4 Quality of available-for-sale securities

Federal government securities - government guaranteed

Market treasury bill
Pakistan investment bonds

2018	2017
Cost	
(Rupees in '000)	
993,284	2,193,209
5,062,403	4,054,269
6,055,687	6,247,478

Shares

Listed companies

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

30	30
587	587
810	810
13,236	13,236
336	336
14,999	14,999

Unlisted/delisted companies

- ISE Towers REIT Management Company Limited
- LSE Financial Services Limited
- AKD Venture Fund
- News-v/s Credit Information Services (Pvt) Limited.
- Companies delisted from stock exchange

Note

2018		2017	
Cost	Breakup value	Cost	Breakup value
(Rupees in '000)			
18,000	42,758	18,000	36,810
8,440	18,314	8,440	15,436
20,000	-	20,000	-
100	30	100	30
1,003	-	1,003	-
47,543	61,102	47,543	52,276

4

SME BANK LIMITED

**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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

9.4.2 Management has fully provided the investment in AKD Venture Fund as irrecoverable and impaired.

9.4.3 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 in '000)	
- Mohib Exports Company Limited	4,600	23.81	109
- Sunflow Citrus Limited	100,000	4.22	422
- Tawakal Garments Company Limited	4,000	38.38	154
- Tristar Shipping Lines Limited	5,000	23.56	118
- Zahoor Textile Mills Limited	15,200	13.16	200
			<u>1,003</u>

Mutual Fund

PICIC investment fund limited
HBL investment fund - Class A
HBL investment fund - Class B

2018	2017
Cost	
(Rupees in '000)	
-	2,494
654	-
1,216	-
<u>1,870</u>	<u>2,494</u>

9.5 Particulars relating to held to maturity securities are as follows:

Non-government debt securities-unlisted

	2018	2017
	Cost	
	(Rupees in '000)	
- AA/A-1+	-	300,000
- A/A-1	35,000	35,000
- BBB/A3	-	200,000
- Unrated	762	762
	<u>35,762</u>	<u>535,762</u>

Since the securities are unlisted, respective market values are not available.

96

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

10. ADVANCES

Loans, cash credits, running finances, etc- In Pakistan

Extended by:

- Defunct RDFC & SBFC

- SME Bank Ltd

Due from employees

Net investment in finance lease

Advances - gross

Provision for non-performing advances

Specific provision

General provision

Advances - net of provision

10.1 Includes net investment in finance lease as disclosed below:

	Performing		Non Performing		Total	
	2018	2017	2018	2017	2018	2017
Note	(Rupees in '000)					
10.3	-	50	4,883,623	4,884,680	4,883,623	4,884,730
	2,020,891	2,230,201	479,475	505,143	2,500,366	2,735,344
	97,020	116,534	6,188	6,188	103,208	122,722
	2,117,911	2,346,785	5,369,286	5,396,011	7,487,197	7,742,796
	280	280	973	973	1,253	1,253
10.3	2,118,191	2,347,065	5,370,259	5,396,984	7,488,450	7,744,049
10.5	-	-	(5,257,662)	(5,238,459)	(5,257,662)	(5,238,459)
	(25)	(81)	-	-	(25)	(81)
	(25)	(81)	(5,257,662)	(5,238,459)	(5,257,687)	(5,238,540)
	2,118,166	2,346,984	112,597	158,525	2,230,763	2,505,509

	2018			2017				
	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
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)

In local currency

In foreign currencies

2018	2017
(Rupees in '000)	
7,48,450	7,74,049
-	-
7,48,450	7,74,049

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

10.3 Non-Performing Loan (NPL) portfolios of defunct SBFC & RDFC

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

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

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

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

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

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

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


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

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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 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 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 the Bank to NBP but NBP did not respond.



SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

10.4 Advances include Rs. 5,370.259 million (2017: Rs. 5,396.984 million) which have been placed under non-performing status as detailed below:

Category of classification	2018		2017	
	Non performing loans	Provision	Non performing loans	Provision
(Rupees in '000)				
Domestic				
Other assets especially mentioned	3,762	-	21,648	4
Substandard	42,490	8	15,225	32
Doubtful	2,454	174	18,529	268
Loss	5,321,553	5,257,480	5,341,582	5,238,155
	5,370,259	5,257,662	5,396,984	5,238,459
Overseas	-	-	-	-
	5,370,259	5,257,662	5,396,984	5,238,459

10.5 Particulars of provision against advances

	2018			2017		
	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
Charge/(reversal)						
Charge for the year	52,096	15	52,111	41,669	9	41,678
Reversal for the year	(31,881)	(71)	(31,952)	(46,236)	(12,319)	(58,555)
	20,215	(56)	20,159	(4,567)	(12,310)	(16,877)
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(1,012)	-	(1,012)	(1,575)	-	(1,575)
Closing balance	5,257,662	25	5,257,687	5,238,459	81	5,238,540

10.5.1 The FSV benefit availed in last years has been reduced by Rs. 42.241 million (net of FSV benefit availed during the year), which has resulted in increased charge for specific provision for the year ended December 31, 2018 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 year would have been decreased by Rs. 42.241 million (2017: decrease by Rs. 34.424 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 76.119 million (2017: Rs. 118.360 million).

10.5.2 Particulars of provisions against advances	2018			2017		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	5,257,662	25	5,257,687	5,238,459	81	5,238,540
In foreign currencies	-	-	-	-	-	-
	5,257,662	25	5,257,687	5,238,459	81	5,238,540

10.6 Particulars of write off:

	2018	2017
	(Rupees in '000)	
10.6.1 Against provisions	-	-
Directly charged to profit & loss account	-	-
10.6.2 Write offs of Rs. 500,000 and above	-	-
Write offs of below Rs. 500,000	-	-

10.7 Details of loan write off of Rs. 500,000 and above

In terms of sub-section(3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of rupees five hundred thousand or above allowed to a person(s) during the year ended December 31, 2018 is given at Annexure-1.

9/11

SME BANK LIMITED

**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

		2018	2017
	Note	(Rupees in '000)	
11. FIXED ASSETS			
Property and equipment	11.1	55,376	126,759
Less: Provision held against property and equipment		-	(63,637)
Property and equipment - net	11.2	<u>55,376</u>	<u>63,122</u>
11.1	This includes costs of leasehold lands as detailed below:		
Land at G-5/2	11.1.1	-	52,673
Land at G-7	11.1.1	-	10,964
Land at Hatter		<u>450</u>	<u>450</u>
		<u>450</u>	<u>64,087</u>
Provision held against leasehold land	11.1.1	-	(63,637)
Net carrying value		<u>450</u>	<u>450</u>

11.1.1 This represent 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. 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 Capital Development Authority and MoF for resolution of the matter by finalizing the status of rights and claims associated with the above plots so as to enable the Bank to accordingly adjust the books of accounts. 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 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.

f

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

11.2 Property and equipment

At January 01, 2018

Note

2018						
Leasehold land	Building on freehold land	Lease hold improvement	Furniture and fixture	Electrical office and computer equipment	Vehicles	Total

(Rupees in '000)

Cost
 Accumulated depreciation/impairment
 Net book value

64,087	15,794	38,414	9,218	166,592	48,521	342,626
63,637	9,563	31,169	7,981	132,175	34,979	279,504
450	6,231	7,245	1,237	34,417	13,542	63,122

Year ended December 2018

Opening net book value
 Additions
 Impairment loss recognized
 Disposals
 Depreciation charge
 Closing net book value

11.1.1
 11.3

450	6,231	7,245	1,237	34,417	13,542	63,122
-	-	362	116	12,428	-	12,906
-	-	-	-	-	-	-
-	(56)	-	-	-	-	(56)
-	(780)	(2,865)	(537)	(11,506)	(4,908)	(20,596)
450	5,395	4,742	816	35,339	8,634	55,376

At December 31, 2018

Cost
 Accumulated depreciation/impairment
 Net book value

450	15,600	38,771	9,334	178,561	44,780	287,496
-	10,205	34,029	8,518	143,222	36,146	232,120
450	5,395	4,742	816	35,339	8,634	55,376

Rate of depreciation (percentage)

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

of

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

2017							
	Leasehold land	Building on freehold land	Lease hold improvements	Furniture and fixture	Electrical office and computer equipment	Vehicles	Total
Property and equipment							
At January 01, 2017				(Rupees in '000)			
Cost	64,087	15,794	31,211	9,187	152,695	62,747	335,721
Accumulated depreciation/impairment	32,044	8,773	25,650	7,527	120,484	42,194	236,672
Net book value	32,043	7,021	5,561	1,660	32,211	20,553	99,049
Year ended December 2017							
Opening net book value	32,043	7,021	5,561	1,660	32,211	20,553	99,049
Additions	-	-	7,242	112	14,857	2,060	24,271
Impairment loss recognized	11.1.1 (31,593)	-	-	-	-	-	(31,593)
Disposals	-	-	-	-	(6)	(1,751)	(1,757)
Depreciation charge	-	(790)	(5,558)	(535)	(12,645)	(7,320)	(26,848)
Closing net book value	450	6,231	7,245	1,237	34,417	13,542	63,122
At December 31, 2017							
Cost	64,087	15,794	38,414	9,218	166,592	48,521	342,626
Accumulated depreciation/impairment	63,637	9,563	31,169	7,981	132,175	34,979	279,504
Net book value	450	6,231	7,245	1,237	34,417	13,542	63,122
Rate of depreciation (percentage)	-	5	33.33	20	15 & 33.33	20	-

97

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

11.3 Details of disposal of fixed assets:

Particulars of assets	Cost	Accumulated depreciation /impairment	Book value	Sale proceeds	(loss)/gain on sale of fixed assets	Mode of disposal	Particulars of buyers
(Rupees in '000)							
Leasehold lands	63,637	63,637	-	* 0.1	0.1	Through agreement	Ministry of Finance (GoP)
Vehicles							
Toyota Corolla	2,082	2,082	-	-	-	As per Bank policy	Ihsan-ul-Haq(employee)
Toyota Corolla	1,659	1,659	-	292	292	As per Bank policy	Raja Muhammad Altaf (employee)
	3,741	3,741	-	292	292		
Other assets having book value of less than Rs. 250,000 or cost less than of Rs.1,000,000 which ever is less	658	602	56	-	(56)		
2018	68,036	67,980	56	292	236		
2017	17,366	15,609	1,757	3,074	1,317		

* As discussed in note 11.1.1 the plots were sold against aggregate consideration of Rs. 100.

11.4 Cost of fully depreciated assets that are still in use was Rs. 172.361 million (2017: Rs. 171.882 million).

12. INTANGIBLE ASSETS

	2018	2017
	Computer software (Rupees in '000)	Computer software (Rupees in '000)
At January 1		
Cost	28,189	27,032
Accumulated amortization and impairment	27,060	26,314
Net book value	1,129	718
Year ended December 31		
Opening net book value	1,129	718
Additions:		
- developed internally	-	-
- directly purchased	2,458	1,157
	2,458	1,157
Amortization charge	1,186	746
Closing net book value	2,401	1,129
As December 31		
Cost	30,561	28,189
Accumulated amortization and impairment	28,160	27,060
Net book value	2,401	1,129
Rate of amortization (percentage)	33.33	33.33
Useful life	3 years	3 years

12.1 Cost of fully depreciated intangible assets that are still in use was Rs. 26.800 million (2017: Rs. 25.947 million).

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

13. DEFERRED TAX ASSET - NET

Deferred tax asset arising in respect of:
 Unabsorbed depreciation and amortization
 Unused tax losses

Deferred tax liability arising in respect of:
 Surplus on revaluation of investment-listed companies and mutual fund

	2018	2017
	(Rupees in '000)	
	71,121	63,957
	455,457	402,511
	526,578	466,468
	(883)	(1,270)
	525,695	465,198

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

13.2 Reconciliation of deferred tax

	2017	2018
	(Rupees in '000)	
Balance at January 1,	51,315	63,957
Recognized in profit and loss account	12,642	7,164
Recognized in Equity	-	-
Balance at December 31,	212,915	402,511
Recognized in profit and loss account	189,596	52,946
Recognized in Equity	-	-
Balance at January 1,	264,230	466,468
Recognized in profit and loss account	202,238	60,110
Recognized in Equity	-	-
Balance at December 31,	(8,053)	387
Recognized in profit and loss account	6,783	-
Recognized in Equity	-	-
Balance at January 1,	256,177	465,198
Recognized in profit and loss account	209,021	60,110
Recognized in Equity	-	387
Balance at December 31,	(1,270)	525,695

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

	2018	2017
	(Rupees in '000)	
	2,051,258	1,239,918
	717,940	433,971

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

14. OTHER ASSETS	Note	2018	2017
		(Rupees in '000)	
Income/mark-up accrued in local currency- net of provision	14.1	162,453	161,393
Advances, deposits, advance rent and other prepayments		58,967	60,316
Advance taxation - net	14.2	216,946	224,738
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured	35.2	5,642	1,593
Receivable from NBP		981	339
Receivable from subsidiary company		1,300	975
Trading right entitlement certificate		21,560	21,560
Receivable from Speedway Fondmetall Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		5,148	5,148
Others		76,421	76,933
		<u>716,124</u>	<u>719,701</u>
Less: Provision held against other assets	14.4	117,095	117,991
Other assets (net of provision)		<u>599,029</u>	<u>601,710</u>

- 14.1** This balance has been arrived at after adjusting interest in suspense of Rs. 4.048 million (2017: Rs. 4.052 million).
- 14.2** This include the effect of refunds aggregating to Rs. 232.599 million due from government. In respect of tax years 2003 and 2004, the period prior to enactment of the seventh schedule of the Income Tax Ordinance, 2001, the tax authorities disallowed the Bank's claims for provisions for its bad debts. Subsequently, the Appellate Tribunal Inland Revenue (ATIR) through its order dated February 10, 2011 has ruled in favor of the Bank which resulted in creation of refunds of Rs. 80.059 million and Rs. 152.54 million for tax years 2003 and 2004 respectively. Thereafter, against the referred judgement of ATIR the tax authorities filed references before the Islamabad High Court which are pending adjudication to date. The Bank upon receiving the appeal affect orders dated July 28, 2017 from tax authorities has accrued the above refunds in its books of account. The management of the Bank is of the firm view that the Bank will be successful in the said references.
- 14.3** This include Rs. 138.6 million 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 record of Excise and Taxation Department has been transferred in name of SME Bank Ltd. The Bank applied for possession of the acquired Property, which has been accepted by the court after hearing both the parties. The court has repeatedly issued orders to bailiff for taking possession of the Property to handover the Bank, however, due to non- availability of police force to the bailiff, the possession of the Property could not be handed over to the Bank. On 24 June 2019 the sponsor of the case was died and thereafter on 20 August 2019 the legal heirs of the judgement debtor submitted an objection petition for release of the Property which is already auctioned and purchased by the Bank through an open auction. During argument the request of the legal heirs has been turned down by the honorable judge as the transaction is past and closed and advised the council to discuss only the issue of remaining cost of funds. The next date of hearing of the case is fixed on 11 August 2020. At of the current balance sheet date, the market value of the Property was Rs. 224.368 million (2017: Rs. 220.040 million).

af

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

14.4 Provision held against other assets	2018	2017
	(Rupees in '000)	
Advances, deposits, advance rent & other prepayments	2,706	2,706
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	5,148	5,148
Other receivables - SME portfolio	43,494	44,453
Legal charges recoverable from borrowers - SBFC & RDFC	22,661	22,598
Trading right entitlement certificate - TREC	21,560	21,560
Others	1,886	1,886
	117,095	117,991
14.4.1 Movement in provision held against other assets		
Opening balance	117,991	98,402
Charge for the year	3,486	20,800
Reversals	(4,381)	(1,223)
	(895)	19,577
Transferred to NBP	(1)	12
Closing balance	117,095	117,991
15. BILLS PAYABLE		
In Pakistan	118,788	92,554
Outside Pakistan	-	-
	118,788	92,554
16. BORROWINGS		
Secured		
Repurchase agreement borrowings		
State Bank of Pakistan	16.2	1,003,155
Financial institutions	16.2	3,713,195
	4,716,350	5,294,046
Unsecured		
Borrowing from State Bank of Pakistan		
Financing facility for storage of agri produce	16.3	23,545
	4,739,895	5,308,315
16.1 Particulars of borrowings with respect to currencies		
In local currency	4,739,895	5,308,315
In foreign currencies	-	-
	4,739,895	5,308,315
16.2 These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 10.20% to 10.50% (2017: 5.95% to 6.25%) per annum for period upto two month (2017: upto three month). REPO transactions are secured against investment of the Bank in Government securities disclosed in note 9.2.		
16.3 This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agricultural Produce (FFSAP). This carries mark up rate ranging from 2.0% to 3.25% and is repayable in quarterly instalments.		

gfw

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

17. DEPOSITS AND OTHER ACCOUNTS

2018			2017		
In local currency	In foreign currency	Total	In local currency	In foreign currency	Total

(Rupees in '000)

(Rupees in '000)

Customers

Current accounts	503,208	-	503,208	508,378	-	508,378
Savings deposits	2,042,659	-	2,042,659	2,356,370	-	2,356,370
Term deposits	2,565,542	-	2,565,542	1,558,096	-	1,558,096
Margin accounts	56,983	-	56,983	96,513	-	96,513
	5,168,392	-	5,168,392	4,519,357	-	4,519,357

2018			2017		
In local currency	In foreign currency	Total	In local currency	In foreign currency	Total

(Rupees in '000)

(Rupees in '000)

Financial institutions

Current accounts	1,562	-	1,562	30,057	-	30,057
Savings deposits	417,877	-	417,877	394,241	-	394,241
Term deposits	133,177	-	133,177	400,000	-	400,000
Margin accounts	-	-	-	-	-	-
	552,616	-	552,616	824,298	-	824,298
	5,721,008	-	5,721,008	5,343,655	-	5,343,655

17.1 Composition of deposits

	2018	2017
	(Rupees in '000)	
Individuals	1,102,728	914,117
Government (federal and provincial)	836,731	742,330
Public sector entities	60,003	67,434
Banking companies	-	200,000
Non-banking financial institutions	552,616	624,298
Private sector	3,168,930	2,795,476
	5,721,008	5,343,655

17.2 Total deposits include eligible deposits of Rs. 1,481.536 million (2017: 2,260.532 million) as required by the Deposit Protection Corporation's (a subsidiary of SBP) Circular No. 4 of 2018 dated June 22, 2018.

qf

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

18. OTHER LIABILITIES	Note	2018	2017
		(Rupees in '000)	
Mark-up/return/interest payable in local currency		102,093	78,453
Unearned commission on guarantees		692	1,547
Accrued expenses		14,741	13,156
Sundry creditors	18.1	120,266	123,413
Branch adjustment account		912	2,321
Payable against employees' benefit plans		-	-
Defined benefit pension	34.4	388,974	333,420
Defined benefit funded gratuity scheme	34.4	10,730	6,952
Unfunded compensated absences	34.4	80,304	90,659
Security deposits against lease		280	280
Employees' VSS payments withheld	18.2	13,341	13,341
Payable to equity participation fund - unsecured		794	1,817
Income tax withheld payable		17,780	17,794
Others		1,760	1,762
		<u>752,667</u>	<u>684,915</u>

18.1 This include Rs. 90.6 million (2017: Rs. 90.6 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments.

18.2 Employees VSS payments of Rs. 13.341 million (2017: Rs. 13.341 million) have been withheld due to legal cases pending in the courts against employees, filed by the Bank and customers.

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

19. SHARE CAPITAL

19.1 Authorized capital

2018	2017		2018	2017
Number of Shares			(Rupees in '000)	
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	10,000,000	10,000,000

19.2 Issued, subscribed and paid up capital

2018	2017	Ordinary shares of Rs. 10 each		
Number of Shares				
152,853,153	152,853,153	Fully paid in cash	1,528,532	1,528,532
50,000,000	50,000,000	Issued as bonus shares	500,000	500,000
36,397,547	36,397,547	Issued for consideration other than cash	363,975	363,975
239,250,700	239,250,700		2,392,507	2,392,507

19.3 Break-up of share capital is as follows:

	Number of shares	% age		
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	4	-	-	-
Individuals	3	-	-	-
	239,250,700	100	2,392,507	2,392,507

20. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

Note

Surplus/(deficit) on revaluation of
Available-for-sale securities

- Federal government securities
- Listed companies/mutual funds

2018	2017
(Rupees in '000)	
(437,444)	(30,339)
2,522	3,629
(434,922)	(26,710)

Deferred tax on deficit on revaluation of available-for-sale securities

- Listed companies/mutual funds

2018	2017
(883)	(1,270)
(435,805)	(27,980)

of

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

		2018	2017
		(Rupees in '000)	
21. CONTINGENCIES AND COMMITMENTS	Note		
- Guarantees	21.1	143,409	232,807
- Commitments	21.2	4,962,001	5,649,383
- Other contingent liabilities	21.3	1,074,888	1,057,848
		<u>6,180,298</u>	<u>6,940,038</u>
21.1 Guarantees:			
Financial guarantees		-	-
Performance guarantees	21.1.1	143,409	232,807
Other guarantees		-	-
		<u>143,409</u>	<u>232,807</u>
21.1.1 This includes expired letter of guarantees/performance aggregating to Rs. 77.464 million (2017: 30.057 million) for which formalities for return of original documents are in process.			
		2018	2017
		(Rupees in '000)	
21.2 Commitments:	Note		
Commitments in respect of:			
- forward government securities transactions	21.2.1	4,669,798	5,331,068
- forward lending	21.2.2	290,484	311,496
Commitments for acquisition of:			
- operating fixed assets		1,493	6,619
- intangible assets		226	-
Other commitments	21.2.3	-	200
		<u>4,962,001</u>	<u>5,649,383</u>
21.2.1 Commitments in respect of forward government securities transactions			
Sale and repurchase agreements		<u>4,669,798</u>	<u>5,331,068</u>
21.2.2 Commitments in respect of forward lending			
Undrawn facilities		173,684	161,346
Commitments to extend credit		116,800	150,150
		<u>290,484</u>	<u>311,496</u>
21.2.3 Other commitments			
Bills for collection			
Payable in Pakistan		-	200
21.3 Other contingent liabilities		<u>1,074,888</u>	<u>1,057,848</u>
a) Claims not acknowledged as debt from various borrowers of defunct RDFC.		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
c) 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 favour 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 favourable outcome and therefore no provision has been made for this effect in the financial statements		612,707	612,707

af

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	(Rupees in '000)	
d) 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 financial statements as the management is confident of a favorable outcome.	6,163	6,163
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.	198,529	211,716
f) 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 2005, 2006, 2008, 2009, 2010, 2011, 2013 which was not deposited upon advice of the Legal Advisor due to stay order of Supreme Court of Pakistan. The case is pending before Appellate Tribunal Inland Revenue and the provision of default surcharge Rs. 36.076 million was not made ipso facto.	36,076	34,506
g) 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	-
h) The Officer Inland Revenue, LTU, Islamabad (OIR) 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	-
i) 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.	38,723	-
j) Back benefits and claims of staff/employees under litigation.	89,170	129,070

95

SME BANK LIMITED
**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

		2018	2017
	Note	(Rupees in '000)	
22. MARK-UP/ RETURN/ INTEREST EARNED			
On loans and advances to			
Customers			
Extended by:			
Defunct RDFC & SBFC		-	16,734
SME Bank Limited		246,162	244,690
		<u>246,162</u>	<u>261,424</u>
Employees		5,126	5,785
Financial Institution - SME Leasing Limited - a subsidiary company		14,318	10,213
		<u>265,606</u>	<u>277,422</u>
On investments in			
Held for trading securities		6,817	-
Available for sale securities		446,599	345,751
Held to maturity securities		14,273	12,142
		<u>467,689</u>	<u>357,893</u>
On deposits with financial institutions		436	145
On securities purchased under resale agreements		306	171
On clean lending		-	9,726
On call money lending		7,407	3,921
		<u>741,444</u>	<u>649,278</u>
23. MARK-UP/ RETURN/ INTEREST EXPENSED			
On deposits		345,360	270,462
On securities sold under repurchase agreements		375,321	245,037
On SBP Refinance Scheme		409	655
Brokerage and commission		2,288	3,818
Bank charges		282	436
		<u>723,660</u>	<u>520,408</u>
24. FEE & COMMISSION INCOME			
Branch banking customer fees		1,976	1,356
Card related fees		251	310
Credit related fees		3,877	5,774
Commission on guarantees		3,183	4,168
Commission on remittances		139	204
Others		15	6
		<u>9,441</u>	<u>11,818</u>
25. GAIN ON SALE OF SECURITIES			
Realized	25.1	1,001	10,009
Unrealized - held for trading		-	-
		<u>1,001</u>	<u>10,009</u>
25.1 Realized gain on:			
Federal government securities - net		1,625	9,909
Shares		(624)	100
		<u>1,001</u>	<u>10,009</u>

gfr

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

		2018	2017
		(Rupees in '000)	
26. OTHER INCOME	Note		
Gain on sale of operating fixed asset		236	1,317
Fee on fund managed by the Bank -EPF		974	1,073
Others		9	23
		<u>1,219</u>	<u>2,413</u>
27. OPERATING EXPENSES			
Total compensation expense	27.1	623,111	630,775
Property expense			
Rent & taxes		69,724	65,671
Insurance		1,309	1,837
Utilities cost		17,361	17,035
Security (including guards)		16,221	15,001
Repair & maintenance		6,110	7,397
Depreciation		780	790
Others		-	-
		<u>111,505</u>	<u>107,731</u>
Information technology expenses			
Software maintenance		3,226	3,333
Hardware maintenance		1,086	921
Depreciation		3,920	5,984
Amortization		1,186	746
Network charges		9,480	8,494
Others		1,825	1,840
		<u>20,723</u>	<u>21,318</u>
Other operating expenses			
Directors' fees, allowances and other expenses		1,068	1,090
Legal and professional charges		8,378	3,763
Outsourced services costs	33.1	24,232	20,393
Travelling and conveyance		2,660	5,221
NIFT clearing charges		1,887	1,581
Depreciation		15,896	20,074
Training & development		928	1,394
Postage & courier charges		806	873
Communications		4,564	4,735
Stationery and printing		6,353	6,803
Marketing, advertisement & publicity		1,625	371
Donations		-	-
Auditors' remuneration	27.3	922	922
Vehicle running and maintenance		6,293	6,373
Entertainment		2,677	3,187
Subscription, books and newspapers		3,140	3,129
Deposits premium expense		1,808	-
Others		551	519
		<u>83,788</u>	<u>80,428</u>
		<u>839,127</u>	<u>840,252</u>

SME BANK LIMITED

**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

		2018	2017
		(Rupees in '000)	
27.1 Total compensation expense	Note		
Managerial remuneration			
- Fixed		279,284	273,163
Charge for defined benefit plans			
- pension fund and gratuity	34.8.1	85,025	95,779
- funded gratuity scheme	34.8.1	11,649	15,607
- unfunded compensated absences	34.8.1	4,620	6,718
Contribution to defined contribution plan - benevolent fund		(3,821)	511
Rent & house maintenance		91,892	90,611
Utilities		27,701	27,095
Medical		36,382	36,768
Conveyance		13,919	13,803
Telephone		4,398	4,475
Uniform allowance		1,188	1,213
Child education allowance		7,256	7,287
Group insurance		1,278	1,241
Overtime		1,964	1,987
Adhoc relief		1,248	1,248
Leave absence		8,646	7,543
Leave fare assistance		15,803	14,900
Rental in lieu of vehicle		6,274	5,421
Reimbursement of vehicle running & maintenance		26,823	23,222
Others		1,582	2,183
		<u>623,111</u>	<u>630,775</u>
27.2	Total cost for the year included in other operating expenses relating to outsourced activities is Rs 24.232 million (2017: Rs 20.393 million) related to companies incorporated in Pakistan. The outsourced cost mainly includes the services of messengers, drivers, IT coordinators and electronic financial transaction (EFT).		
27.3 Auditors' remuneration		2018	2017
		(Rupees in '000)	
Audit fee		800	800
Fee for other statutory certifications		100	100
Fee for audit of employees funds		22	22
Tax services		-	-
Out-of-pocket expenses		-	-
		<u>922</u>	<u>922</u>
28. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		<u>2,254</u>	-
29. PROVISIONS & WRITE OFFS - NET			
Provisions for diminution in value of investment	9.3.1	45,532	70
Provisions against loans & advances	10.5	20,159	(16,877)
Other provisions/written off directly			
- against other assets	14.4.1	(895)	19,577
- against leasehold land	11.1.1	-	31,593
		<u>64,796</u>	<u>34,363</u>

95

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

		2018	2017
		(Rupees in '000)	
30. TAXATION	Note		
Current	30.2	9,772	7,854
Prior years	14.2	-	(232,601)
Deferred		(60,110)	(202,238)
		<u>(50,338)</u>	<u>(426,985)</u>
30.1 Relationship between tax expense and accounting loss		2018	2017
Loss before tax		<u>(876,276)</u>	<u>(721,007)</u>
Applicable tax rate		<u>35%</u>	<u>35%</u>
		2018	2017
		(Rupees in '000)	
Tax on loss		(306,697)	(252,352)
Deferred tax asset recognised during the year		(60,110)	(202,238)
Tax effect of income taxed at lower rate		19	109
Minimum tax		9,753	7,745
Prior year adjustment		-	(232,601)
Other permanent differences		306,697	252,352
		<u>(50,338)</u>	<u>(426,985)</u>
30.2	Due to tax losses during the current year the provision for current tax is charged on minimum tax rate of 1.25% of the turnover.		
31. BASIC/DILUTED LOSS PER SHARE		2018	2017
		(Rupees in '000)	
Net loss after tax for the year		<u>(825,938)</u>	<u>(294,022)</u>
		Number of shares	
Weighted average number of ordinary shares		<u>239,250,700</u>	<u>239,250,700</u>
		Rupees	
Basic/diluted loss per share		<u>(3.45)</u>	<u>(1.23)</u>
There is no dilutive effect on the basic earning per share of the Bank.			
32. CASH AND CASH EQUIVALENTS		2018	2017
		(Rupees in '000)	
Cash and balances with treasury banks		443,839	435,791
Balances with other banks		16,238	11,321
Call money lendings		-	-
		<u>460,077</u>	<u>447,112</u>
33. STAFF STRENGTH		Numbers	
Permanent		175	178
On bank contract		188	200
Bank's own staff strength at the end of the year		<u>363</u>	<u>378</u>
Average number of employees			
Permanent		177	180
On bank contract		194	200
		<u>371</u>	<u>380</u>
33.1	In addition to the above, 123 (2017: 119) employees of outsourcing services companies were assigned to the Bank as at the end of the year to perform services which include mainly guarding and janitorial services.		

Handwritten signature

SME BANK LIMITED

**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 schemes)

The Bank operates a defined benefit funded gratuity and pension schemes for all its permanent employees, which 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 its contractual employees.

34.1.2 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 schemes

The number of employees covered under the following defined benefit schemes are:

	2018	2017
(Numbers)		
- Pension fund	175	178
- Gratuity fund	187	199
- Compensated absences	175	178

34.3 Principal actuarial assumptions

The actuarial valuations were carried out as at December 31, 2018 using the following significant assumptions:

	2018	2017
Valuation discount rate - per annum	13.75%	9.50%
Salaries increase rate - per annum (Short term - 1 year)	11.75%	7.50%
Expected return on plan assets - per annum	13.75%	9.50%
Pension indexation rate - per annum	9.75%	5.50%
Normal retirement age (NRA)	60 years	60 years
Mortality rate	SLIC 2001-05	SLIC 2001-05
Withdrawal rate	Low	Low
Effective salary increase timing	January 1st, 2019	January 1st, 2018

8

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

	2018			2017		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
Note	(Rupees in '000)			(Rupees in '000)		
Present value of obligations	1,403,012	90,898	80,304	1,244,580	77,987	90,659
Fair value of plan assets	(1,014,038)	(80,168)	-	(911,160)	(71,035)	-
Net liability	388,974	10,730	80,304	333,420	6,952	90,659

34.5 Movement in defined benefit obligations

Obligations at the beginning of the year	1,244,580	77,987	90,659	1,017,166	67,626	72,245
Current service cost	55,956	10,938	2,540	47,618	9,635	367
Interest cost	117,196	7,238	7,901	95,693	5,972	6,351
Benefit paid	(21,866)	(3,590)	(14,975)	(19,752)	(9,528)	(10,775)
Past service cost	-	-	-	31,291	-	-
Actuarial loss/(gain)	7,146	(1,675)	(5,821)	72,564	4,282	22,471
Obligations at the end of the year	1,403,012	90,898	80,304	1,244,580	77,987	90,659

34.6 Movement in fair value of plan assets

Fair value at the beginning of the year	911,160	71,305	-	805,739	-	-
Expected return on plan assets	88,127	6,527	-	78,823	-	-
Contribution to the fund	54,848	8,248	-	67,704	80,563	-
Benefits paid	(21,866)	(3,590)	-	(19,752)	(9,258)	-
Actuarial (loss)	(18,231)	(2,052)	-	(21,354)	-	-
Fair value at the end of the year	1,014,038	80,438	-	911,160	71,305	-

34.7 Movement in net liability under defined benefit schemes

Opening balance	333,420	6,952	90,659	211,427	67,626	72,245
Charge/(reversal) for the year	85,025	11,649	4,620	95,779	15,607	6,718
Re-measurement loss/(gain) recognised in OCI during the year	25,377	377	-	93,918	4,282	22,471
Contribution by the Bank	(54,848)	(8,248)	(14,975)	(67,704)	(80,563)	(10,775)
Closing balance	388,974	10,730	80,304	333,420	6,952	90,659

46

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

34.8 Charge for defined benefit plans

34.8.1 Cost recognised in profit and loss

	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
	(Rupees in '000)			(Rupees in '000)		
Current service cost	55,956	10,938	2,540	47,618	9,635	367
Net interest on defined benefit liability	29,069	711	7,901	16,870	5,972	6,351
Past service cost	-	-	-	31,291	-	-
Actuarial (gain)/loss recognised - P&L	-	-	(5,821)	-	-	-
	85,025	11,649	4,620	95,779	15,607	6,718

34.8.2 Re-measurements recognised in OCI

Experience adjustment						
-Loss/(gain) on obligation	7,146	(1,675)	5,821	72,564	4,282	22,471
-Loss/(gain) on plan assets	18,231	2,052	-	21,354	-	-
-Actuarial (gain)/loss recognised - P&L	-	-	(5,821)	-	-	-
Total re-measurements loss/(gain) recognised in OCI	25,377	377	-	93,918	4,282	22,471

34.9 Components of plan assets

Cash and cash equivalents - net
Term deposits receipts (TDRs)

	2018		2017	
	Pension fund	Gratuity fund	Pension fund	Gratuity fund
	(Rupees in '000)			
	18,061	-	14,386	71,035
	995,977	80,168	896,774	-
	1,014,038	80,168	911,160	71,035

pf

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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:

	2018			2017		
	Pension fund	Gratuity fund	Compensated absences	Pension fund	Gratuity fund	Compensated absences
	(Rupees in '000)			(Rupees in '000)		
Current liability	1,403,012	90,898	80,304	1,244,580	77,987	90,659
1% increase in discount rate	1,247,894	81,991	75,754	1,096,184	69,745	84,796
1% decrease in discount rate	1,592,040	101,233	85,269	1,427,503	87,655	97,116
1% increase in expected rate of salary increase	1,489,608	101,784	85,691	1,333,036	88,159	97,628
1% decrease in expected rate of salary increase	1,322,616	81,400	75,301	1,163,334	69,207	84,245
1 year mortality age set forward	1,381,363	90,814	-	1,225,960	77,908	-
1 year mortality age set back	1,426,536	90,982	-	1,264,809	78,066	-

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

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

	Pension fund	Gratuity fund	Compensated absences
	(Rupees in '000)		
	2018	2017	
Expected charge for the next financial year	114,458	9,835	15,028
Maturity profile			
The weighted average duration of the obligation (in years)	11.86	13.01	

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.

f

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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.

35. DEFINED CONTRIBUTION PLAN (BENEVOLENT FUND)

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.

	2018			2017		
	Officers benevolent fund	Staff benevolent fund	Total	Officers benevolent fund	Staff benevolent fund	Total
	(Rupees in '000)			(Rupees in '000)		
35.2 Actuarial liability for active employees	12,108	2,670	14,778	14,521	3,151	17,672
Actuarial liability for beneficiaries	852	123	975	573	263	836
Total actuarial liability	12,960	2,793	15,753	15,094	3,414	18,508
Fair value of plan assets	(16,737)	(4,658)	(21,395)	(15,546)	(4,533)	(20,079)
Funding surplus	(3,777)	(1,865)	(5,642)	(452)	(1,119)	(1,571)
Receivable from fund	-	-	-	-	(22)	(22)
Asset recognized in balance sheet	(3,777)	(1,865)	(5,642)	(452)	(1,119)	(1,593)
The amount recognized in the profit and loss account is as follows:						
Expense for the year	(3,124)	(697)	(3,821)	236	275	511
Funding surplus	-	-	-	-	-	-
	(3,124)	(697)	(3,821)	236	275	511

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

35.3	Break-up of category of assets	2018		2017	
		(Rupees in '000)	% age	(Rupees in '000)	% age
	Term deposits receipts (TDRs)	21,162	99%	19,922	99%
	Bank deposit accounts	233	1%	157	1%
		21,395	100%	20,079	100%

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:

	2018		2017	
	(Rupees in '000)		(Rupees in '000)	
Current liability		15,753		18,508
1% increase in discount rate		15,027		17,450
1% decrease in discount rate		16,538		19,667
1% increase in expected rate of salary increase		15,753		18,508
1% decrease in expected rate of salary increase		15,753		18,508

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)

2018	2017
11.86	13.01

of

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

36. COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

36.1 Total compensation expense

Items	2018			2017		
	Non-executive directors	President / CEO	Executives	Non-executive directors	President / CEO	Executives
(Rupees in '000)						
Fees and allowances etc.	885	-	-	855	-	-
Managerial remuneration						
i) Fixed	-	6,885	87,974	-	7,986	82,789
ii) Variable	-	-	-	-	-	-
Charge for defined benefit plan	-	2,791	28,510	-	2,462	31,792
Rent & house maintenance	-	3,787	23,903	-	4,392	24,307
Utilities	-	688	8,485	-	799	7,989
Medical	-	1,033	8,421	-	1,198	8,064
Conveyance	-	-	390	-	-	240
Motor car running & maintenance	-	1,039	19,210	-	977	16,058
Leave fare assistance	-	1,785	-	-	1,231	-
Leave absence	-	1,729	-	-	1,231	-
Others	183	1,320	18,264	235	1,526	16,301
Total	1,068	21,057	195,157	1,090	21,802	187,540
Number of persons	5	1	52	3	1	49

Executive mean employees, other than the chief executive and directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year. The remuneration of directors has been fixed in accordance with the Article of Association which include Rs. 25,000 and Rs. 15,000 for attending board meetings and meetings of committee of board respectively.

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

		2018					
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 Adnan Jalil	125	60	60	45	-	290
2	Mr. Zarar Haider	50	30	30	-	-	110
3	Mr. Badr-ul-Arifeen	125	60	60	45	-	290
4	Mr. Sher Ayub Khan	125	30	-	-	-	155
5	Mr. Muhammad Arshad Khan	25	15	-	-	-	40
Total amount paid		450	195	150	90	-	885

		2017					
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 Adnan Jalil	125	60	60	45	15	305
2	Mr. Zarar Haider	125	60	60	-	-	245
3	Mr. Badr-ul-Arifeen	125	60	60	45	15	305
Total amount paid		375	180	180	90	30	855

gf

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
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 the break-up value of these investments as per their latest available financial statements.

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

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values. Since these are either short term in nature or, in the case of deposits, are frequently pre-priced.

		2018				
		Level 1	Level 2	Level 3	Carrying/ notional value	Total
		(Rupees in '000)				
37.1	On balance sheet financial instruments					
	Financial assets measured at fair value					
	Investments					
	- Government securities (T bills and PIBs)	-	5,618,243	-	-	5,618,243
	- Ordinary shares/mutual funds of listed companies	4,694	-	-	-	4,694
	- Ordinary shares of unlisted companies	-	-	-	26,470	26,470
	Financial assets not measured at fair value					
	- Bank balances with treasury banks	37.2	-	-	337,325	337,325
	- Balances with other banks	37.2	-	-	16,238	16,238
	- Advances	37.2	-	-	2,230,763	2,230,763
	- Other assets	37.2	-	-	168,584	168,584
	- Other investment (COI/TDR)	37.2	-	-	35,000	35,000
	Subsidiary - SME Leasing Limited	-	-	-	80,748	80,748

		2017				
		Level 1	Level 2	Level 3	Carrying/ notional value	Total
		(Rupees in '000)				
	Financial assets measured at fair value Investments					
	- Government securities (T bills and PIBs)	-	6,217,139	-	-	6,217,139
	- Ordinary shares/mutual funds of listed companies	4,211	-	-	-	4,211
	- Ordinary shares of unlisted companies	-	-	-	26,469	26,469
	Financial assets not measured at fair value					
	- Bank balances with treasury banks	37.2	-	-	323,587	323,587
	- Balances with other banks	37.2	-	-	11,321	11,321
	- Advances	37.2	-	-	2,505,509	2,505,509
	- Other assets	37.2	-	-	165,971	165,971
	- Other investment (COI/TDR)	37.2	-	-	535,000	535,000
	Subsidiary - SME Leasing Limited	-	-	-	128,495	128,495

95

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

Level 3: Fair value measurements using inputs for the assets and liabilities that are not based on observable market data (i.e. unobservable inputs).

37.2 The Bank's policy is to recognize transfer into and out of the different fair value hierarchy levels at the date, the event or change in circumstances, that caused the transfer occurred. There were no transfers between level 1 and level 2 during the year.

37.3 Currently no financial instruments are classified in level 3.

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).

gfa

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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, 2018		
	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
Profit & loss			
Net mark-up/return/profit	475,402	266,042	741,444
Inter segment revenue - net	-	142,309	142,309
Non mark-up/return/interest income	1,457	10,660	12,117
Total income	476,859	419,011	895,870
Segment direct expenses	396,523	1,168,518	1,565,041
Inter segment expenses allocation	142,309	-	142,309
Total expenses	538,832	1,168,518	1,707,350
Provisions	45,532	19,264	64,796
Loss before tax	(107,505)	(768,771)	(876,276)
	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
Balance sheet			
Cash & bank balances	260,427	199,650	460,077
Investments	5,765,155	-	5,765,155
Net inter segment lending		1,745,739	1,745,739
Advances - Performing	-	2,118,166	2,118,166
- Non-performing	-	112,597	112,597
Others	591,454	591,047	1,182,501
Total assets	6,617,036	4,767,199	11,384,235
Borrowings	4,716,350	23,545	4,739,895
Deposits & other accounts	-	5,721,008	5,721,008
Net inter segment borrowing	1,745,739	-	1,745,739
Others	417,915	453,540	871,455
Total liabilities	6,880,004	6,198,093	13,078,097
Equity	(262,968)	(1,430,894)	(1,693,862)
Total equity & liabilities	6,617,036	4,767,199	11,384,235
Contingencies & commitments	4,669,798	1,510,500	6,180,298

95

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	December 31, 2017		
	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
Profit & loss			
Net mark-up/return/profit	371,721	277,557	649,278
Inter segment revenue - net	-	123,391	123,391
Non mark-up/return/interest income	10,507	14,231	24,738
Total income	382,228	415,179	797,407
Segment direct expenses	390,796	1,021,034	1,411,830
Inter segment expenses allocation	123,391	-	123,391
Total expenses	514,187	1,021,034	1,535,221
Provisions	70	(16,877)	(16,807)
Loss before tax	(132,029)	(588,978)	(721,007)

	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
Balance sheet			
Cash & Bank balances	261,964	185,148	447,112
Investments	6,911,314	-	6,911,314
Net inter segment lending	-	1,813,866	1,813,866
Lending to financial institutions	-	-	-
Advances - Performing	-	2,346,984	2,346,984
- Non-performing	-	158,525	158,525
Others	569,138	562,021	1,131,159
Total assets	7,742,416	5,066,544	12,808,960
Borrowings	5,294,046	14,269	5,308,315
Deposits & other accounts	-	5,343,655	5,343,655
Net inter segment borrowing	1,813,866	-	1,813,866
Others	362,112	415,357	777,469
Total Liabilities	7,470,024	5,773,281	13,243,305
Equity	272,392	(706,737)	(434,345)
Total equity & liabilities	7,742,416	5,066,544	12,808,960
Contingencies & commitments	5,331,068	1,608,970	6,940,038

Assumptions used:

- Unallocatable assets representing 5.16% (2017: 5.02%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.45% (2017: 5.31%) 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.

gh

SME BANK LIMITED

**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

39. RELATED PARTY TRANSACTIONS

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

Banking transactions with related parties are carried out in the normal course of business at agreed terms. Contribution to and accruals in respect of staff retirement benefit plan are made in accordance with actuarial valuations (refer note 34 to these unconsolidated financial statements for the details of plan). Compensation of directors disclosed in note 36 to these unconsolidated financial statements are determined in accordance with terms of their appointments.

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

	2018					2017				
	Subsidiary SMEL	Key management personnel	Equity participation fund	Employees benefit plans	Employees provident trust	Subsidiary SMEL	Key management personnel	Equity participation fund	Employees benefit plans	Employees provident trust
	(Rupees in '000)					(Rupees in '000)				
Balances outstanding as at										
Investments										
Opening balance	215,457	-	-	-	-	215,457	-	-	-	-
Investment made during the year	-	-	-	-	-	-	-	-	-	-
Investment redeemed/disposed off during the year	-	-	-	-	-	-	-	-	-	-
Transfer in/(out) - net	-	-	-	-	-	-	-	-	-	-
Closing balance	215,457	-	-	-	-	215,457	-	-	-	-
Provision for diminution in value of investments	134,709	-	-	-	-	86,962	-	-	-	-
Advances										
Opening balance	110,352	18,241	-	-	-	126,580	15,840	-	-	-
Addition/(total debits) during the year	97,150	17,238	-	-	-	87,952	16,209	-	-	-
Repaid/(total credits) during the year	(65,946)	(20,227)	-	-	-	(104,180)	(13,808)	-	-	-
Transfer in/(out) - net	-	-	-	-	-	-	-	-	-	-
Closing balance	141,556	15,252	-	-	-	110,352	18,241	-	-	-
Provision held against advances	-	-	-	-	-	-	-	-	-	-

Signature

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

2018												2017											
Subsidiary SMEEL		Key management personnel		Equity participation fund		Employees benefit plans		Employees provident trust		Subsidiary SMEEL		Key management personnel		Equity participation fund		Employees benefit plans		Employees provident trust					
(Rupees in '000)												(Rupees in '000)											
Other assets																							
Interest/mark-up accrued		1,300		5,655		-		-		975		7,070		-		-		-					
Receivable from staff retirement fund		-		-		-		5,642		-		-		-		1,593		-					
Other receivable		-		-		-		-		-		-		-		-		-					
Deposits and other accounts																							
Opening balance		56		9,917		394,236		603,787		52,518		1,741		7,048		380,094		-					
Received during the year		23,434		87,748		18,956		224,275		28,401		24,196		91,257		14,489		614,667					
Withdrawn during the year		-		(93,066)		(418)		(17,056)		(68,150)		-		(88,292)		(347)		(10,880)					
Transfer in/(out) - net		(21,928)		103		-		-		-		(25,881)		(96)		-		-					
Closing balance		1,562		4,702		412,774		811,006		12,769		56		9,917		394,236		603,787					
Other liabilities																							
Interest/mark-up payable		-		39		2,771		25,269		75		-		47		1,256		22,336					
Payable to staff retirement fund		-		-		-		480,008		-		-		-		-		431,031					
Others liabilities		-		-		794		-		-		-		-		1,817		-					
Contingencies and commitments																							
Income																							
Mark-up/return/interest earned		14,318		589		-		-		-		10,213		634		-		-					
Fee and commission income		-		-		974		-		-		-		-		1,073		-					
Expense																							
Mark-up/return/interest paid		-		467		20,471		41,764		768		-		520		15,745		22,451					
Fees and other expenses		-		-		-		-		-		-		-		-		-					
Remuneration and allowances		-		71,772		-		-		-		-		68,977		-		-					
Charge for the year relating to employees benefit plans		-		-		-		97,473		-		-		-		-		118,615					
Remuneration of chief executive officer, directors and executives is disclosed in note 36 to the financial statements.																							
Description																							
Principal terms of loan facility to SMEEL		Running finance facility upto Rs. 150 million (reviewable annually)																					
Principal terms of deposit from equity participation fund		Remunerative deposits																					
Principal terms of deposit from employee benefit plan		Remunerative deposits																					
Principal terms of deposit from Employee provident fund		Remunerative deposits																					

6

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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:

	2018		2017	
	(Rupees in '000)			
Regulatory capital base				
<i>Tier I capital</i>				
Shareholders capital/assigned capital	2,392,507		2,392,507	
Reserves	206,526		206,526	
Unappropriated/unremitted profits (net of losses)	(3,857,090)		(3,005,398)	
	(1,258,057)		(406,365)	
Less: Adjustments				
Goodwill/intangible Assets	2,401		1,129	
Investment in equity of subsidiary	80,748		128,495	
Deficit on revaluation of available for sale investments	435,805		27,980	
	518,954		157,604	
<i>Total tier I capital</i>	(1,777,011)		(563,969)	
<i>Tier II capital</i>	25		81	
<i>Eligible tier III capital</i>	-		-	
Total regulatory capital (a)	(1,776,986)		(563,888)	
Risk-weighted exposures				
	2018		2017	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	(Rupees in '000)			
<i>Credit risk</i>				
Balance sheet items:				
Cash and other liquid assets	460,077	3,248	447,112	2,264
Investments/ lending to financial institutions	5,765,155	66,164	6,911,314	565,680
Loans and advances	2,230,763	1,355,327	2,505,509	1,505,252
Fixed assets	57,777	55,376	64,251	64,251
Deferred tax assets	525,695	525,695	465,198	465,198
Other assets	599,029	305,334	601,710	303,771
	9,638,496	2,311,144	10,995,094	2,906,416
Off balance sheet items				
Weighted non-funded exposures	112,676	56,338	188,521	94,261
	112,676	56,338	188,521	94,261
Credit risk-weighted exposures (b)	9,751,172	2,367,482	11,183,615	3,000,677
Market risk		1,037,278		1,131,523
Market risk-weighted exposures	-	1,037,278	-	1,131,523
Total risk-weighted exposures (c)		3,404,760		4,132,200
Capital adequacy ratio credit risk [(a)/(b) x 100]		-75.06%		-18.79%
Total capital adequacy ratio [(a)/(c) x 100]		-52.19%		-13.65%

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 (CAR) 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 under BASEL I and SBP has allowed exemption in meeting the minimum CAR requirements of 10% till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier vide SBP letter No. BPRD/BA&CPD/646/332/20 dated January 6, 2020.

gfh

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
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	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Chemical and pharmaceuticals	170,949	172,470	95,741	98,027	94,462	95,311
Agriculture, forestry, hunting and fishing	234,078	244,178	203,971	203,971	203,276	203,276
Mining & quarrying	9,053	9,053	9,053	9,053	9,053	9,053
Textile	383,895	407,278	337,933	343,646	336,957	342,355
Cement	20,268	20,268	20,268	20,268	20,268	20,268
Sugar	-	-	-	-	-	-
Footwear and leather garments	67,224	70,005	59,481	60,075	58,115	58,179
Automobile and transportation equipment	31,546	48,818	7162	13,514	6,191	8,251
Financial	189,107	110,352	-	-	-	-
Insurance	-	-	-	-	-	-
Electronics and electrical appliances	54,947	34,843	13,036	13,712	11,136	11,812
Construction	345,684	357,210	68,330	70,411	68,181	68,631
Power (electricity), gas, water and sanitary	83,035	83,742	5,066	7,153	5,066	5,534
Wholesale and trade	1,602,704	1,725,291	1,361,326	1,374,232	1,327,462	1,331,679
Exports/imports	-	-	-	-	-	-
Transport, storage, and communication	29,384	45,115	20,597	654	654	654
Individuals	1,625,308	1,644,361	1,521,485	1,521,582	1,521,485	1,521,582
Services	284,096	240,045	74,276	73,837	60,208	51,510
Others	2,357,172	2,531,020	1,572,534	1,586,849	1,535,148	1,510,364
	7,488,450	7,744,049	5,370,259	5,396,984	5,257,662	5,238,459
41.1.2 Segment by sector						
Public/government	-	-	-	-	-	-
Private	7,488,450	7,744,049	5,370,259	5,396,984	5,257,662	5,238,459
	7,488,450	7,744,049	5,370,259	5,396,984	5,257,662	5,238,459

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	(Rupees in '000)	
41.1.3 Contingencies and commitments		
Credit risk by industry sector		
Chemical and pharmaceuticals	1,900	187
Agriculture, forestry, hunting and fishing	73	318
Textile	14,863	10,821
Footwear and leather garments	999	1,133
Automobile and transportation equipment	679	2,450
Financial	4,678,491	5,370,716
Electronics and electrical appliances	3,408	6,594
Construction	140,248	218,940
Power (electricity), gas, water and sanitary	29,220	34,436
Wholesale and trade	66,260	55,586
Transport, storage and communication	-	18,556
Individuals	89,203	139,111
Services	18,371	56,580
Government	932,032	865,092
Others	204,551	159,518
	6,180,298	6,940,038
Credit risk by public/private sector		
Public/government	932,032	865,092
Private	5,248,266	6,074,946
	6,180,298	6,940,038

41.1.4 Concentration of advances

The Bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs.716.895 million (2017: Rs. 806.217 million) are as following

	2018	2017
	(Rupees in '000)	
Funded	627,176	652,251
Non funded	89,719	153,966
Total exposure	716,895	806,217

The sanctioned limits against these top 10 exposures aggregated to Rs 871.758 million (2017: Rs. 852.280 million)

Total funded classified therein

	2018		2017	
	Amount	Provision held	Amount	Provision held
	(Rupees in '000)			
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	39,997	17,470
Total	-	-	39,997	17,470

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

41.1.5 Advances - province/region-wise disbursement & utilization

2018							
Province/ region	Utilization						
	Disbursements	Punjab	Sindh	KPK including FATA	Baluchistan	Islamabad	AJK including Gilgit-Baltistan
	(Rupees in '000)						
Punjab	576,100	576,100	-	-	-	-	-
Sindh	299,400	-	299,400	-	-	-	-
KPK including FATA	95,850	-	-	95,850	-	-	-
Baluchistan	264,500	-	-	-	264,500	-	-
Islamabad	386,665	120,665	-	142,200	-	123,800	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-	-
Total	1,622,515	696,765	299,400	238,050	264,500	123,800	-

Advances - province/region-wise disbursement & utilization

2017							
Province/region	Utilization						
	Disbursements	Punjab	Sindh	KPK including FATA	Baluchistan	Islamabad	AJK including Gilgit-Baltistan
	(Rupees in '000)						
Punjab	673,475	668,850	-	-	-	4,625	-
Sindh	292,000	-	292,000	-	-	-	-
KPK including FATA	110,550	-	-	110,550	-	-	-
Baluchistan	231,000	-	-	-	231,000	-	-
Islamabad	407,380	153,280	-	102,200	-	151,900	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-	-
Total	1,714,405	822,130	292,000	212,750	231,000	156,525	-

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.

th

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

41.2.1 Balance sheet split by trading and banking books

	2018			2017		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	(Rupees in '000)					
Cash and balances with treasury banks	443,839	-	443,839	435,791	-	435,791
Balances with other banks	16,238	-	16,238	11,321	-	11,321
Lendings to financial institutions	-	-	-	-	-	-
Investments	146,912	5,618,243	5,765,155	694,175	6,217,139	6,911,314
Advances	2,230,763	-	2,230,763	2,505,509	-	2,505,509
Fixed assets	55,376	-	55,376	63,122	-	63,122
Intangible assets	2,401	-	2,401	1,129	-	1,129
Deferred tax assets	525,695	-	525,695	465,198	-	465,198
Other assets	599,029	-	599,029	601,710	-	601,710
	4,020,253	5,618,243	9,638,496	4,777,955	6,217,139	10,995,094

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.

f

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

41.2.4 Mismatch of interest rate sensitive assets and liabilities

On-balance sheet financial instruments	Effective yield/ interest rate	2018										Non-interest bearing financial instruments
		Total	Exposed to yield/interest risk									
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years		

(Rupees in '000)

Assets												
Cash and balances with treasury banks	4.00%	443,839	-	-	-	-	-	-	-	-	-	443,839
Balances with other banks		16,238	9,623	1,964	1,346	559	626	-	119	1,501	-	500
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	7.70%	5,765,155	649,994	393,807	3,870	193,749	343,936	4,090,912	-	8,139	-	80,748
Advances	10.09%	2,230,763	73,689	105,581	382,778	513,720	21,012	1,106,493	19,620	3,732	-	-
Other assets		168,584	-	-	-	-	-	-	-	-	-	168,584
		8,624,579	733,306	501,352	387,994	708,028	365,574	5,197,405	19,739	13,372	-	693,671
Liabilities												
Bills payable		118,788	-	-	-	-	-	-	-	-	-	118,788
Borrowings from financial institutions	7.44%	4,739,895	1,882,985	2,837,214	2,033	3,680	6,160	4,960	2,863	-	-	-
Deposits and other accounts	6.13%	5,721,008	1,377,775	957,309	693,798	844,315	5,138	7,000	-	1,273,920	-	561,753
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		252,995	-	-	-	-	-	-	-	-	-	252,995
		10,832,686	3,260,760	3,794,523	695,831	847,995	11,298	11,960	2,863	1,273,920	-	933,536
		(2,208,107)	(2,527,454)	(3,293,171)	(307,837)	(139,967)	354,276	5,185,445	16,876	(1,260,548)	-	(239,865)
On-balance sheet gap												
Off-balance sheet financial instruments												
Commitments against repo borrowing		290,484	290,484	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		4,669,798	1,854,639	2,815,159	-	-	-	-	-	-	-	-
		4,960,282	2,145,123	2,815,159	-	-	-	-	-	-	-	-
Total yield/interest risk sensitivity gap												
Cumulative yield/interest risk sensitivity gap												
		(4,672,577)	(6,108,330)	(307,837)	(139,967)	354,276	5,185,445	16,876	(1,260,548)	4,138	-	-
		(4,672,578)	(10,780,908)	(11,088,745)	(11,228,712)	(10,874,436)	(5,688,991)	(5,672,115)	(6,932,663)	(6,928,525)	-	-

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

(Rupees in '000)

Total financial assets as per note 41.2.4	8,624,579	Total financial liabilities as per note 41.2.4	10,832,686
Add non-financial assets:		Add non-financial liabilities:	
Fixed assets	55,376	Other liabilities	499,672
Intangible assets	2,401		
Deferred tax assets	525,695		
Other assets	430,445		
Balance as per balance sheet	9,638,496	Balance as per balance sheet	11,332,358

41.2.4.2 Yield risk

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

41.2.4.3 Interest rate risk

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. Out of total financial assets of Rs. 8,624,58 million (2017: Rs. 10,029,91 million), the financial assets which were subject to interest rate risk amounted to Rs. 7,930,91 million (2017: Rs. 9,299,15 million). Investments and other assets amounting to Rs. 5,694,99 million (2017: Rs. 6,290,34 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, 2018

Mismatch of interest rate sensitive assets and liabilities

2017												
Effective yield/ interest rate	Total	Exposed to yield/ interest risk								Non-interest bearing financial instruments		
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years		Above 10 years	
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	1.99%	435,791	-	-	-	-	-	-	-	-	435,791	
Balances with other banks		11,321	6,557	1,369	939	390	437	-	83	1,046	500	
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	
Investments	6.96%	6,911,314	1,796,073	947,270	3,825	258,688	2,124	366,924	3,399,871	8,044	128,495	
Advances	9.69%	2,505,509	102,189	251,260	568,461	821,996	35,833	686,650	25,390	9,270	-	
Other assets		165,971	-	-	-	-	-	-	-	-	165,971	
		10,029,906	1,904,819	1,199,899	573,225	1,081,074	38,394	1,053,574	3,425,344	18,360	4,460	
Liabilities												
Bills payable		92,554	-	-	-	-	-	-	-	-	92,554	
Borrowings from financial institutions	6.05%	5,308,315	4,065,178	1,231,199	2,331	4,469	3,938	1,200	-	-	-	
Deposits and other accounts	5.56%	5,343,655	1,294,039	880,805	674,071	425,120	6,900	-	-	1,427,772	634,948	
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	
Other liabilities		231,942	-	-	-	-	-	-	-	-	231,942	
		10,976,466	5,359,217	2,112,004	676,402	429,589	10,838	1,200	-	1,427,772	959,444	
On-balance sheet gap		(946,560)	(3,454,398)	(912,105)	(103,177)	651,485	27,556	1,052,374	3,425,344	(1,409,412)	4,460	
Off-balance sheet financial instruments												
Commitments to extend credit		311,496	311,496	-	-	-	-	-	-	-	-	
Commitments against repo borrowing		5,331,068	4,090,315	1,240,753	-	-	-	-	-	-	-	
Off-balance sheet gap		5,642,564	4,401,811	1,240,753	-	-	-	-	-	-	-	
Total yield/interest risk sensitivity gap			(7,856,209)	(2,152,858)	(103,177)	651,485	27,556	1,052,374	3,425,344	(1,409,412)	4,460	
Cumulative yield/interest risk sensitivity gap			(7,856,209)	(10,009,067)	(10,112,244)	(9,460,759)	(9,433,203)	(8,380,829)	(4,955,485)	(6,364,897)	(6,360,437)	
Reconciliation of assets and liabilities exposed to yield/interest rate risk with total assets and liabilities												
			(Rupees in '000)								(Rupees in '000)	
Total financial assets as per note 40.2.3			10,029,906								10,976,466	
Add non-financial assets:												
Fixed assets											63,122	
Intangible assets											1,129	
Deferred tax assets											465,198	
Other assets											435,739	
Balance as per balance sheet			10,995,094								11,429,439	
Total financial liabilities as per note 40.2.3											10,029,906	
Add non-financial liabilities:												
Other liabilities											452,973	
Balance as per balance sheet											10,482,879	
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. 10,029.91 million (2016: Rs. 8,803.53 million), the financial assets which were subject to interest rate risk amounted to Rs. 9,299.15 million (2016: Rs. 7,961.5 million). Investments and other assets amounting to Rs. 6,290.34 million (2016: Rs. 4,723.1 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.												

Handwritten signature/initials

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

[illegible]

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

2017												
Total	Upto 1 day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 month	Over 1 month to 2 months	Over 2 months to 3 months	Over 3 months to 6 months	Over 6 months to 9 months	Over 9 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years
(Rupees in '000)												

Assets

Cash and balances with treasury banks	435,791	435,791	-	-	-	-	-	-	-	-	-	-
Balances with other banks	11,321	11,321	-	-	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	6,911,314	1,950	446,505	428	1,347,190	447,150	500,120	3,825	257,978	710	2,124	3,399,871
Advances	2,505,509	343,473	10,158	4,045	29,439	134,932	85,978	510,479	148,348	283,299	222,409	329,333
Fixed assets	63,122	-	-	-	1,534	1,532	1,531	4,574	4,543	4,496	16,911	15,009
Intangible assets	1,129	-	-	-	62	62	62	116	109	109	414	195
Deferred tax assets-net	465,198	-	-	-	-	-	-	-	-	-	-	-
Other assets	601,710	5,595	33,569	20,038	67,438	5,058	12,498	292,715	6,863	150,475	465,198	7,461
	10,995,094	798,130	490,232	24,511	1,445,663	588,734	600,189	811,709	417,841	439,089	707,056	651,691
												3,737,579
												282,670

Liabilities

Bills payable	92,554	92,554	-	-	-	-	-	-	-	-	-	-
Borrowings from financial institutions	5,308,315	-	2,134,785	647,201	1,283,192	1,129,737	101,461	2,331	2,331	2,715	3,362	1,200
Deposits and other accounts	5,343,655	3,385,728	111,570	36,866	97,086	82,000	520,636	674,998	114,521	313,350	6,900	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	684,915	28,422	170,520	1,907	10,096	7,441	1,835	1,028	2,169	772	672	2
	11,429,439	3,506,704	2,416,875	685,974	1,390,374	1,219,178	623,932	678,357	119,021	316,837	10,934	1,202
												1,287
												458,764

Net assets

Share capital	2,392,507											
Reserves	206,526											
Unappropriated profit	(3,005,398)											
Deficit on revaluation of assets	(27,980)											
	(434,345)	(2,708,574)	(1,926,643)	(661,463)	55,289	(630,444)	(23,743)	133,352	298,820	122,252	696,122	650,489
												3,736,292
												(176,094)

ph

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

		2018									
		(Rupees in '000)									
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets											
Cash and balances with treasury banks	443,839	391,586	11,375	1,108	2,941	-	-	-	-	36,829	-
Balances with other banks	16,238	10,123	1,964	1,346	559	626	-	-	119	1,501	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-
Investments	5,765,155	649,994	393,807	3,870	193,749	343,936	4,090,912	-	-	88,887	-
Advances	2,230,763	76,045	172,106	535,221	542,878	275,233	470,699	126,034	-	28,409	4,138
Fixed assets	55,376	1,802	3,600	5,215	10,202	18,918	7,621	5,470	-	2,098	-
Intangible assets	2,401	105	209	313	607	1,014	153	-	-	-	-
Deferred tax assets - net	525,695	-	-	-	-	525,695	-	-	-	-	-
Other assets	599,029	156,545	7,486	223,056	156,164	149	335	255	55,039	-	-
	9,638,496	1,286,200	590,547	770,129	907,100	1,165,571	4,569,720	131,878	212,763	4,588	-
Liabilities											
Bills payable	118,788	102,895	-	-	-	-	-	-	-	15,893	-
Borrowings from financial institutions	4,739,895	1,882,985	2,837,214	2,033	3,680	6,160	4,960	2,863	-	-	-
Deposits and other accounts	5,721,008	1,683,269	961,932	693,798	845,555	5,138	7,000	-	-	1,524,316	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	752,667	236,914	2,146	852	2,199	481	1	950	509,124	-	-
	11,332,358	3,906,063	3,801,292	696,683	851,434	11,779	11,961	3,813	2,049,333	-	-
Net assets	(1,693,862)	(2,619,863)	(3,210,745)	73,446	55,666	1,153,792	4,557,759	128,065	(1,836,570)	4,588	-
Share capital	2,392,507										
Reserves	206,526										
Unappropriated profit	(3,857,090)										
Deficit on revaluation of assets	(435,805)										
	(1,693,862)										

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.

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.

SME BANK LIMITED
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

2017										
Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)										
Assets										
Cash and balances with treasury banks	435,791	385,337	11,063	1,122	2,978	-	-	35,291	-	-
Balances with other banks	11,321	7,057	1,369	939	390	437	83	1,046	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	6,911,314	1,796,073	947,270	3,825	258,688	2,124	3,399,871	136,539	4,460	4,460
Advances	2,505,509	91,936	282,713	599,074	552,065	286,445	508,455	47,527	-	-
Fixed assets	63,122	1,534	3,062	4,574	9,038	16,911	15,009	8,377	4,167	-
Intangible assets	1,129	62	125	116	217	414	195	-	-	-
Deferred tax assets	465,198	-	-	-	-	465,198	-	-	-	-
Other assets	601,710	115,004	7,198	236,991	151,821	138	313	89,971	-	-
	10,995,094	2,397,003	1,252,800	846,641	975,197	771,667	890,896	3,541,439	314,541	4,910
Liabilities										
Bills payable	92,554	80,171	-	-	-	-	-	12,383	-	-
Borrowings from financial institutions	5,308,315	4,065,178	1,231,199	2,331	4,469	3,938	1,200	-	-	-
Deposits and other accounts	5,343,655	1,643,892	885,872	674,998	427,871	6,900	-	1,704,122	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	684,915	220,169	1,959	1,036	2,155	672	2	1,283	457,639	-
	11,429,439	6,009,410	2,119,030	678,365	434,495	11,510	1,202	1,283	2,174,144	-
Net assets	(434,345)	(3,612,407)	(866,230)	168,276	540,702	760,157	889,694	3,540,156	(1,859,603)	4,910
Share capital	2,392,507									
Reserves	206,526									
Unappropriated profit	(3,005,398)									
Deficit on revaluation of assets	(27,980)									
	(434,345)									

of

SME BANK LIMITED

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

42 EVENTS AFTER REPORTING DATE

The coronavirus pandemic and the measures to reduce its spread have significantly impacted Pakistan's economy. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. The SBP has responded to the crisis by taking various measures to maintain banking system soundness and to sustain economic activity.

The risk management function of the Bank is regularly conducting assessments to identify borrowers operating in various economic sectors which are most likely to get adversely affected. The Bank has further strengthened its credit review procedures in the light of COVID-19. Overall, the COVID-19 situation remains fluid and is rapidly evolving, which makes it challenging to reliably reflect related impacts. Nonetheless, the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, and will in turn adversely affect the repayment behaviors of the Bank borrowers' in short to medium term. The situation will continue to be closely monitored and due measures will be initiated to mitigate the risk of potential defaults. The Bank has received applications for deferral of principal amounts of loan obligations and is expected to receive further such applications. These applications are being reviewed by the Bank as per its established policies. The above will have an impact on the maturity profile. The Bank is continuously monitoring the liquidity position and is taking due precautionary measures where needed. The Bank is confident that the liquidity buffer currently maintained by the Bank is sufficient to cater any adverse movement in cash flow maturity profile. Under the current scenario, the banks are under pressure to extend further credit to its borrowers, while overall deteriorating credit risk and increased NPL.

The Bank has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2018 have not been adjusted to reflect their impact.

43 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on July 25, 2020.

jk



Chief Financial Officer



President/CEO



Director

Director



Director

Annex-I referred to note 11.7 to these financial statements

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

Sr. no	Name and address of borrower	Name of individual/ partner/ directors (with NIC no.)	Father's/ husband's name	Outstanding liabilities at				Principal written-off	Interest/ mark-up written-off	Other financial relief/ waiver provided	Total
				Principal	Interest/ mark-up	Others	Total				
(Rupees in '000)											
1	M/s Awan Oxygen & Company main GT road, Attawa Stop near Yar CNG, Gujranwala.	Khalid Mehmood Awan (35401-1838226-9) Muhammad Aslam (35202-7716106-9) Muhammad Shabir (35401-9542507-7) Muhammad Nadeem (35401-1798737-5)	Muhammad Ismail Ghulam Abbass Muhammad Shafi Muhammad Hussain	-	2,804	3,069	5,873	-	2,504	563	3,067
2	M/s Step Up Shop # 80 - B, Panorama Center, The Mall, Lahore.	Syed Mateen Ahmad Shah (35202-2894036-3)	Syed Kadir Ahmad Shah	-	828	185	1,013	-	828	185	1,013
3	M/s Excell Engineering Works plot no. E-9, phase -II, S.I.T.E, industrial area, Super Highway, Karachi.	Muhammad Imran (42401-1887851-3)	Ahmed Deen	4,000	814	82	4,896	-	-	672	672
Total				4,000	4,446	3,336	11,782	-	3,332	1,420	4,752

of