



**SME BANK LIMITED
CONDENSED INTERIM UNCONSOLIDATED
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED JUNE 30, 2019**

Directors' Review on Operational Results for the Half Year **Ended June 30, 2019**

Taking the opportunity on behalf of the Board of Directors, I am pleased to present the operational results of SME Bank for the half year ended June 30, 2019.

The economic downturn resulted in increase in inflation rate in the country which have influenced adversely supply and demand chain. That eventually reduced the business activities and repayment capacity in the country. Despite these hindrances the management of the bank made persistent efforts to bring down the non-performing loans of the bank. The efforts succeeded to low down non-performing loans of the bank to Rs 494 million as on June 30, 2019 from Rs 511 million of the same period of previous year.

The deposits of the bank were improved by Rs.466 million and stood at Rs 6,187 million as on June 30, 2019. The deposit of the bank as on December 31, 2018 was of Rs.5,721 million. Loan portfolio of the bank stood at Rs 2,388 million as on June 30, 2019 as compared to Rs 2,500 million on December 31, 2018. The bank made fresh disbursements of Rs 82.17 million during first six months of the year 2019. The disbursement for the corresponding period of year 2018 was Rs 262.76 million. Shortage of funds was remained a hurdle in building substantial level of loan portfolio. The bank's treasury investment portfolio stood at Rs 5,694 million by June 30, 2019, whereas it was of Rs 5,765 million as on December 31, 2018.

The bank is still managing its operations with a negative equity base of Rs (2,230.42) million as on June 30, 2019. The bank is being operated with a limited branch network of 13 branches. Budgetary allocations made by the government during financial years 2011-12 to 2014-2015 for equity injection could not be released. Subsequently in previous four financial budgets Government has not allocated any amount for the bank. Moreover, uncertainty with regard to the future of the bank continued to affect the performance of the bank.

The bank booked an operating net loss of Rs 506 million for first half of the year 2019 in corresponding period of year 2018 it was of Rs. 373 million. The increase in loss is primarily due to substantial increase in discount rate leading to increased cost of funds. During the period under review, cost of funds of the bank was of Rs 504 million at average rate of 9.73% (2018: Rs 316 million at average rate of 5.98%). Administrative expenses were remained at the level of Rs.440 million.

The bank's gross mark-up/return income was Rs 374 million, which constitutes Rs 150 million from SME advances and Rs 224 million from treasury operations.

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). CCOP approved the new privatization program of SME Bank Limited on March 06, 2019. The privatization program of SME 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 Cabinet Committee on privatization (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 SME Bank Limited were advertised in NEWS Papers on December 13, 2019. Five prospective investors have submitted their Statement of Qualifications (SOQs) against the advertisement, which are being scrutinized at Privatization Commission.

M/S PACRA Limited rated the bank at “CCC”/”B” with negative outlook on November 22, 2018.

We would like to place on record, our thanks and appreciation to the staff for their commitment, dedication and endeavour to enhance business activities under the unfavourable circumstances of economic depression and liquidity crunch. We would also like to thank State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their support and professional guidance.

For and on Behalf

Board of Directors



Chairman



Grant Thornton

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Grant Thornton Anjum Rahman

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INDEPENDENT AUDITORS' REVIEW REPORT

To the members of SME Bank Limited

Report on review of Interim Unconsolidated Financial Statements

Introduction

We have reviewed the accompanying condensed interim unconsolidated financial position of SME Bank Limited (the Bank) as at June 30, 2019 and the related condensed interim unconsolidated profit and loss account, condensed interim unconsolidated statement of comprehensive income, condensed interim unconsolidated cash flow statement and condensed interim unconsolidated statement of changes in equity and the notes to the condensed interim unconsolidated financial statements for the half year then ended (here-in-after referred to as the "condensed interim unconsolidated financial statements"). Management is responsible for the preparation and presentation of these condensed interim unconsolidated financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review. The figures of the condensed interim unconsolidated profit and loss account and the condensed interim unconsolidated statement of comprehensive income for the three months ended June 30, 2019 and June 30, 2018 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2019.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim unconsolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

Based on information provided to us by management:

- a) The Bank has investment in SME Leasing Limited (SMEL), which is carried in these condensed interim unconsolidated financial statements at Rs. 80.748 million (net of provision) and has an outstanding running finance exposure of Rs. 141.529 million (including markup) at the balance sheet date. SMEL continues to operate on a net loss basis and therefore the recoverability of investment and running finance exposure appears doubtful of recovery. Accordingly, we are unable to determine the extent of impairment that might be necessary to be recorded against the current carrying values of investment and running finance and its possible effect on accumulated losses;
- b) Deferred tax asset of Rs. 624,438 has been recognized on the basis of expected net profits arising from future privatization of the Bank as described in Note 13 to the condensed interim 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 10.2, the loan portfolios of Small Business Finance Corporation (SBFC) and Regional Development Finance Corporation (RDFC) transferred to National Bank of Pakistan together with collection rights under an agreement dated February 23, 2019 continue to appear in the books of the Bank. However, as per the terms of the referred agreement the Bank has no legal rights over these portfolios classified as assets of the Bank.

Qualified Conclusion

Based on our review, except for the possible effects of the matters described in paragraphs 'a', 'b' and 'c' above, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting.

Material uncertainties relating to Going Concern

We draw attention to note 6.2 to the condensed interim unconsolidated financial statements which describes that during the current period, the Bank incurred a net loss of Rs. 506.305 million (June 30, 2018: 372.89 million) resulting into accumulated losses of Rs. 4,363.395 million (December 31, 2018: Rs. 3,857.090 million). As of June 30, 2019, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 2,230.420 million (December 31, 2018: Rs. 1,693.862 million) indicating the negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative working capital of Rs. 5.854 billion (2018: Rs. 7.267 billion) which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10% and has failed on multiple times in maintaining the minimum statutory liquidity requirement (SLR) in current half 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 condensed interim 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.

The 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**Condensed Interim Unconsolidated Statement of Financial Position****As at June 30, 2019**

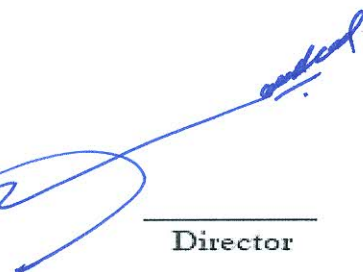
		(Un-audited) June 30, 2019	(Audited) December 31, 2018
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	428,343	443,839
Balances with other banks	8	1,832	16,238
Lendings to financial institutions		-	-
Investments	9	5,694,336	5,765,155
Advances	10	2,085,919	2,230,763
Fixed assets	11	566,915	55,376
Intangible assets	12	1,975	2,401
Deferred tax assets - net	13	624,438	525,695
Other assets	14	580,120	599,029
		9,983,878	9,638,496
LIABILITIES			
Bills payable	15	37,794	118,788
Borrowings	16	4,563,520	4,739,895
Deposits and other accounts	17	6,187,476	5,721,008
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,425,508	752,667
		12,214,298	11,332,358
NET LIABILITIES		(2,230,420)	(1,693,862)
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Deficit on revaluation of assets - net of tax	19	(466,058)	(435,805)
Unappropriated loss		(4,363,395)	(3,857,090)
		(2,230,420)	(1,693,862)
CONTINGENCIES AND COMMITMENTS			
	20		

The annexed notes from 1 to 36 form an integral part of these condensed interim unconsolidated financial statements.


Chief Financial Officer

President/CEO

Director

Director

Director

SME BANK LIMITED
Condensed Interim Unconsolidated Profit and Loss Account (un-audited)
For the half year ended June 30, 2019

		Quarter ended		Half year ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Note		(Rupees in '000)			
Mark-up/return/interest earned	21	192,013	181,774	373,849	359,000
Mark-up/return/interest expensed	22	265,919	163,519	503,877	315,747
Net mark-up/interest (loss)/income		(73,906)	18,255	(130,028)	43,253
NON MARK-UP/INTEREST INCOME					
Fee and commission income	23	2,227	2,453	4,058	5,368
Dividend income		-	-	-	1
Foreign exchange income		-	-	-	-
Income/(loss) from derivatives		-	-	-	-
Gain/(loss) on securities	24	-	1,356	2	1,606
Other income	25	3	509	47	510
Total non-markup/interest income		2,230	4,318	4,107	7,485
Total (loss)/income		(71,676)	22,573	(125,921)	50,738
NON MARK-UP/INTEREST EXPENSES					
Operating expenses	26	212,581	209,714	440,472	427,250
Workers Welfare Fund		-	-	-	-
Other charges	27	35,067	-	35,067	-
Total non-markup/interest expenses		247,648	209,714	475,539	427,250
Loss before provisions		(319,324)	(187,141)	(601,460)	(376,512)
Provisions and write offs - net	28	(12,575)	(13,957)	(1,575)	34,240
LOSS BEFORE TAXATION		(306,749)	(173,184)	(599,885)	(410,752)
Taxation	29	(50,270)	(20,807)	(93,580)	(37,863)
LOSS AFTER TAXATION		(256,479)	(152,377)	(506,305)	(372,889)
Basic/diluted (loss) per share (rupees)	30	(1.07)	(0.64)	(2.12)	(1.56)

The annexed notes from 1 to 36 form an integral part of these condensed interim unconsolidated financial statements.



Chief Financial Officer



President/CEO



Director



Director

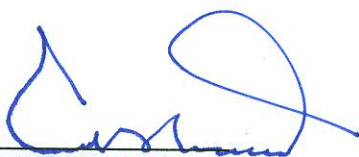


Director

SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Comprehensive Income (un-audited)****For the half year ended June 30, 2019**

	Quarter ended		Half year ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(Rupees in '000)			
Net loss after taxation	(256,479)	(152,377)	(506,305)	(372,889)
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequently periods				
Movement in deficit on revaluation of investment - net	(62,697)	(29,676)	(30,253)	(92,326)
Items that will not be reclassified to profit and loss account in subsequently periods				
Remeasurement loss on defined benefit obligations - net	-	-	-	-
Total comprehensive income/(loss)	(319,176)	(182,053)	(536,558)	(465,215)

The annexed notes from 1 to 36 form an integral part of these condensed interim unconsolidated financial statements.

**Chief Financial Officer****President/CEO****Director****Director****Director**

SME BANK LIMITED
Condensed Interim Unconsolidated Cash Flow Statement (un-audited)
For the half year ended June 30, 2019

		June 30, 2019	June 30, 2018
	Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(599,885)	(410,752)
Less: Dividend income		-	(1)
		(599,885)	(410,753)
Adjustments:			
Depreciation		35,564	9,795
Interest expense on lease liability on right of use assets		32,956	-
Amortization		652	559
Provision and write-offs	28	(1,575)	34,240
Loss on sale of fixed assets		-	55
Finance charges on leased assets		-	-
		67,597	44,649
		(532,288)	(366,104)
(Increase)/decrease in operating assets			
Lendings to financial institutions		-	-
Held-for-trading securities		-	-
Advances		126,998	172,214
Other assets (excluding advance taxation)		7,599	11,887
		134,597	184,101
Increase/(decrease) in operating liabilities			
Bills payable		(80,994)	(34,758)
Borrowings from financial institutions		(176,375)	481,173
Deposits		466,468	740,794
Other liabilities (excluding current taxation)		132,139	7,144
		341,238	1,194,353
		(56,453)	1,012,350
		(928)	(835)
		(57,381)	1,011,515
Income tax paid			
Net cash flow (used in)/from operating activities			
CASH FLOW FROM INVESTING ACTIVITIES			
Net (investment)/disinvestment in available-for-sale securities		60,305	(1,067,963)
Net disinvestment in held-to-maturity securities		-	200,000
Dividend received		-	1
Investment in operating fixed assets		(411)	(13,014)
Proceeds from sale of fixed assets		800	1
Net cash flow from/(used in) investing activities		60,694	(880,975)
CASH FLOW FROM FINANCING ACTIVITIES			
Payment against lease liability		(33,215)	-
Net cash flow from/(used in) financing activities		(33,215)	-
Increase/(decrease) in cash and cash equivalents		(29,902)	130,540
Cash and cash equivalents at beginning of the period		460,077	447,112
Cash and cash equivalents at end of the period	32	430,175	577,652

The annexed notes from 1 to 36 form an integral part of these condensed interim unconsolidated financial statements.



Chief Financial Officer



President/CEO



Director



Director



Director

SME BANK LIMITED

Condensed Interim Unconsolidated Statement of Change in Equity (un-audited)

For the half year ended June 30, 2019

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments (Rupees in '000)	Unappropriated loss	Total
Balance as at January 01, 2018	2,392,507	206,526	(27,980)	(3,005,398)	(434,345)
Total comprehensive income for the half year ended June 30, 2018					
Loss after taxation for half year ended June 30, 2018	-	-	-	(372,889)	(372,889)
Other comprehensive income - net	-	-	(92,326)	-	(92,326)
Balance as at June 30, 2018 (un-audited)	2,392,507	206,526	(120,306)	(3,378,287)	(899,560)
Total comprehensive income for the half year ended December 31, 2018					
Loss after taxation for the half year ended December 31, 2018	-	-	-	(453,049)	(453,049)
Other comprehensive income - net	-	-	(315,499)	(25,754)	(341,253)
Balance as at December 31, 2018 (audited)	2,392,507	206,526	(435,805)	(3,857,090)	(1,693,862)
Total comprehensive income for the half year ended June 30, 2019					
Loss after taxation for the half year ended June 30, 2019	-	-	-	(506,305)	(506,305)
Other comprehensive income - net	-	-	(30,253)	-	(30,253)
Balance as at June 30, 2019	2,392,507	206,526	(466,058)	(4,363,395)	(2,230,420)

The annexed notes from 1 to 36 form an integral part of these condensed interim unconsolidated financial statements.


or


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, the 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 this license, and at all times thereafter during which the above capital is required to be raised to Rs. 1.5 billion by December 31, 2004 and to Rs. 2.0 billion by December 31, 2005 or any other amount prescribed by State Bank of Pakistan (SBP) from time to time. SBP granted exemption vide its letter No. BPRD/BA&CPD/646/332/2020 dated January 06, 2020 from meeting the minimum capital requirement (MCR) till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier. 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, Ministry of Finance issued an Order (SRO (1) 2001) dated December 29, 2001 setting forth the scheme of amalgamation of RDFC and SBFC with the Bank effective January 1, 2002. Pursuant to this scheme entire assets and liabilities of defunct RDFC and SBFC as at December 31, 2001 were transferred to the Bank at fair value. These two institutions stand dissolved and ceased to exist effective January 1, 2002. The Bank allotted its shares to the share holders of defunct RDFC and SBFC in proportion to their shareholding therein based on the fair value of net assets of defunct RDFC and SBFC on December 31, 2001.

2. BASIS OF PRESENTATION

The SBP vide BPRD Circular No. 05 of 2019 dated March 22, 2019 has amended the format of quarterly & half yearly financial statements of banks. All banks are directed to prepare their quarterly & half yearly financial statements on the revised format effective from the accounting year starting from 1st January, 2019. Accordingly, the Bank has prepared these condensed interim unconsolidated 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 year.

These condensed interim unconsolidated financial statements have been prepared following the accrual basis of accounting except for the cash flow statements.

The condensed interim 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

These condensed interim unconsolidated financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

Whenever the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of IAS 34, the 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" (IAS 39) (before its replacement by IFRS -9), International Accounting Standard 40, "Investment Property" (IAS 40), for banking companies till further instructions. Further, according to the notification of SECP dated April 28, 2008, the International Financial Reporting Standard 7, "Financial Instruments: Disclosure" (IFRS 7), has not been made applicable for banks in Pakistan. Accordingly, the requirements of these Standards have not been considered in the preparation of these condensed interim unconsolidated financial statements. Accordingly, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

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

4. BASIS OF MEASUREMENT

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

5. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS AND FINANCIAL RISK MANAGEMENT POLICIES

5.1 Significant accounting policies, estimates and judgements

The accounting policies, underlying estimates and judgements and method of computation followed in the preparation of these condensed interim unconsolidated financial statements are same as those applied in preparing the financial statements of the Bank for the year ended December 31, 2018 except for those disclosed under note 5.2.

5.2 Standards, interpretations and amendments to published accounting and reporting standards that are effective in the current period

There are certain new and amended standards, interpretations and amendments that are mandatory for the Bank's current accounting period but, except for IFRS 16 (refer Note 5.2.2) are considered not to be relevant or do not have any significant effect on the Bank's operations. These include:

- IAS 28 - Long term interests in associates and Joint Venture (Amendments to IAS 28)
- IFRIC 23 - Uncertainty over Income Tax Treatments
- Annual improvements to IFRS Standards 2-15-2017 cycle
- IAS 19 Plan amendment, curtailment or settlement (Amendments to IAS 19)
- IFRS 15 - Revenue from contracts with customers (Note 5.2.1)

5.2.1 IFRS 15, Revenue from Contracts with Customers, which replaced IAS 18, Revenue and IAS 11, Construction Contracts, has been applied effective from January 01, 2018. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model requires the Bank to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognize revenue as each performance obligation is satisfied.

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SME BANK LIMITED**Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)****For the half year ended June 30, 2019**

There are no significant impacts from the adoption of IFRS 15 in relation to the timing of when the Bank recognizes revenues or when revenue should be recognized gross as a principal or net as an agent. Therefore, the Bank will continue to recognize fee and commission income charged for services provided as the services are provided (for example on completion of the underlying transaction). The Accounting policy is updated to reflect the terminology in the new standard but it has had no effect on financial statements reported in the current or comparative periods. Interest income and expense continues to be recognized using the effective interest rate method for financial instruments measured at historical cost. There has been no restatement of profit or loss for comparative periods. Accordingly, these condensed interim unconsolidated financial statements do not include detailed disclosures of the amounts by which line items are affected by the application of IFRS 15 compared to revenue standards no longer in effect.

5.2.2 IFRS 16 Leases supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on statement of financial position.

The Bank has lease contracts for various properties. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased asset was not capitalized and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other asset and other liabilities, respectively.

Upon adoption of IFRS 16, the Bank applied the recognition and measurement approach of IFRS 16 for all leases, except for short-term leases and leases of low-value assets. The standard also provides practical expedients, which have been applied by the Bank.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 01, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at January 01, 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Accordingly, the Bank recognised right-of-use assets and lease liabilities for those leases where the Bank is the lessee and which were previously accounted for as operating leases. The right-of-use assets and lease liabilities were recognised on the present value of future cash flows, discounted using the incremental borrowing rate at the date of initial application.

Impact on statements of financial position

	As at June 30, 2019	As at January 01, 2019
	(Rupees in '000)	
Increase in fixed assets - right-of-use assets	522,656	547,718
Decrease in other assets - advance rent	(5,952)	(6,758)
Increase in total assets	516,704	540,960
Increase in deferred tax asset	4,200	
Increase in other liabilities - lease liability against right of use assets	(540,702)	(540,960)
Decrease in net assets	(19,798)	-
		Half year ended June 30, 2019
		(Rupees in '000)

Impact on profit and loss account

Increase in mark-up expense - lease liability against right-of-use	(32,956)
(Increase)/decrease in administrative expenses:	
-Depreciation on right-of-use assets	(25,062)
-Rent expense	34,020
	8,958
Increase in deferred tax asset	4,200
Decrease in profit	(19,798)
Reduction in earning per share	(0.08)

SME BANK LIMITED**Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)****For the half year ended June 30, 2019****5.3 Standards, interpretations and amendments to approved accounting standards that are not yet effective**

The following new standards and interpretations of and amendments to existing accounting and reporting standards will be effective from the dates mentioned below against the respective standard, interpretation or amendment:

	Effective date (annual periods beginning on or after)
IAS 1 Presentation of Financial Statements (Amendments)	January 1, 2020
IAS 8 Accounting Policies, Change in Accounting Estimates and Errors	January 1, 2020
IFRS 3 Business Combinations (Amendments)	January 1, 2020
	Effective date (periods ending on or after)
IFRS 9 - Financial Instruments: Classification and Measurement	June 30, 2019

The SECP, through SRO 229(I)/2019 dated February 14, 2019, has notified that IFRS 9, Financial Instruments, is applicable for accounting periods ending on or after June 30, 2019. However, based on the guidance received from the SBP, the requirements of IFRS 9 have not been considered in preparation of these condensed interim unconsolidated financial statements.

IFRS 9: 'Financial Instruments' addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'Expected Credit Losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL has impact on all assets of the Bank which are exposed to credit risk.

The Bank is in the process of assessing the full impact of this standard.

The Bank expects that the adoption of the remaining amendments will not affect its condensed interim unconsolidated financial statements in the period of initial application.

5.4 Financial risk management

The financial risk management objectives and policies adopted by the Bank are consistent with those disclosed in the financial statements for the year ended December 31, 2018.

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.

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6.2 Going concern assumption and minimum capital requirement

During the current period, the Bank incurred a net loss of Rs. 506.305 million (June 30, 2018: 372.89 million) resulting into accumulated losses of Rs. 4,363.395 million (December 31, 2018: Rs. 3,857.090 million). As of June 30, 2019, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 2,230.420 million (December 31, 2018: Rs. 1,693.862 million) indicating the negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative working capital of Rs. 5.854 billion (2018: Rs. 7.267 billion) which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10% and has failed on multiple times in maintaining the minimum statutory liquidity requirement (SLR) in current half 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 condensed interim unconsolidated financial statements is appropriate and, therefore, have prepared the same on a going concern basis.

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SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

		(Un-audited) June 30, 2019	(Audited) December 31, 2018
7. CASH AND BALANCES WITH TREASURY BANKS	Note	(Rupees in '000)	
In hand			
Local currency		128,131	106,514
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in:			
Local currency current accounts	7.1	227,790	294,873
With National Bank of Pakistan in:			
Local currency current accounts		43,236	42,080
Prize bonds		29,186	372
		<u>428,343</u>	<u>443,839</u>
7.1	Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.		
		(Un-audited) June 30, 2019	(Audited) December 31, 2018
8. BALANCES WITH OTHER BANKS	Note	(Rupees in '000)	
In Pakistan:			
On current accounts		500	500
On deposit accounts		11,332	25,738
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>1,832</u>	<u>16,238</u>
8.1	Provision for doubtful balance is in respect of deposit of Rs. 10 million with Indus Bank Limited which is under liquidation.		

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the half year ended June 30, 2019

9. INVESTMENTS

9.1 Investment by type:

Note

(Rupees in '000)

(Rupees in '000)

June 30, 2019 (un-audited)				December 31, 2018 (audited)			
Cost/ amortized cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortized cost	Provision for diminution	Surplus / (deficit)	Carrying value

Available-for-sale securities

Federal government securities

Shares

Mutual funds

9.1.1	6,015,382	-	(467,213)	5,548,169	6,055,687	-	(437,444)	5,618,243
	42,542	(15,770)	1,932	28,704	62,542	(35,770)	2,472	29,244
	1,870	-	(155)	1,715	1,870	-	50	1,920
	6,059,794	(15,770)	(465,436)	5,578,588	6,120,099	(35,770)	(434,922)	5,649,407

Held-to-maturity securities

Non government debt securities

- Term Deposit Receipts (TDRs) *

- Certificates of Investments (COIs)

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

Subsidiary

Total investment

	215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
	6,311,013	(151,241)	(465,436)	5,694,336	6,371,318	(171,241)	(434,922)	5,765,155

* TDR of Rs. 35 million (December 31, 2018: Rs. 35 million) was under lien at period/year end.

9.1.1 Investment given as collateral

Market treasury bills (MTBs)

Pakistan investment bonds (PIBs)

(Un-audited)		(Audited)	
June 30,	December 31,	June 30,	December 31,
2019	2018	2019	2018
('Rupees in '000)		('Rupees in '000)	
195,974	199,888	195,974	199,888
4,355,238	4,469,910	4,355,238	4,469,910
4,551,212	4,669,798	4,551,212	4,669,798

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Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

(Un-audited)	(Audited)
June 30,	December 31,
2019	2018

(00)

125,709

47,747

(2.215)

171,241

June 30, 2019 (un-audited)	December 31, 2018 (audited)
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171,241762

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

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

Note

(Rupees in '000)

	Performing (Un-audited) June 30, 2019	(Audited) December 31, 2018	Non performing (Un-audited) June 30, 2019	(Audited) December 31, 2018	Total (Un-audited) June 30, 2019	(Audited) December 31, 2018
10.3	-	-	4,882,991	4,883,623	4,882,991	4,883,623
	1,893,815	2,020,891	493,939	479,475	2,387,754	2,500,366
	82,656	97,020	6,188	6,188	88,844	103,208
	1,976,471	2,117,911	5,383,118	5,369,286	7,359,589	7,487,197
	280	280	973	973	1,253	1,253
	1,976,751	2,118,191	5,384,091	5,370,259	7,360,842	7,488,450
10.4	-	-	(5,274,912)	(5,257,662)	(5,274,912)	(5,257,662)
	(11)	(25)	-	-	(11)	(25)
	(11)	(25)	(5,274,912)	(5,257,662)	(5,274,923)	(5,257,687)
	1,976,740	2,118,166	109,179	112,597	2,085,919	2,230,763

10.1 Particulars of advances (gross)

In local currency

In foreign currencies

	(Un-audited) June 30, 2019	(Audited) December 31, 2018
(Rupees in '000)		
7,360,842		7,488,450
-		-
7,360,842		7,488,450

10.2 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 favour 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;

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SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

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 board of directors (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 (MoF) 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 BoD 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 BoD held on May 16, 2011 and July 13, 2011 respectively by overruling to verdict of the BoD given on the issue in 75th Meeting of BoD 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 MoF.

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

In line with the steps proposed by the legal advisor the board of directors of the Bank in its meeting held on December 31, 2017 has approved the 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 BoD 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 Agreement the Bank has transferred and surrendered all the recoveries, rights, obligation, claims and liabilities of the referred loan portfolios in favour of the FCF.

The management of the Bank continues to show these loan portfolios in its book of accounts pending confirmation of recording by NBP in its books of accounts to ensure that the above loans are duly accounted by NBP in compliance to the terms of the agreement dated Feb 23, 2018. The Bank has requested with various intervals to share the details of the road map prepared by NBP for smooth transfer of accounting record related to the legacy loan portfolio from the Bank to NBP but NBP did not respond.

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For the half year ended June 30, 2019

- 10.3** Advances include Rs. 5,384.091 million (December 31, 2018: Rs. 5,370.259 million) which have been placed under non-performing status as detailed below:

Category of classification
Domestic

Other assets especially mentioned
Substandard
Doubtful
Loss

Un-audited June 30, 2019		Audited December 31, 2018	
Non performing loans	Provision	Non Performing Loans	Provision
(Rupees in '000)			
	6,692	28	3,762
	22,786	60	42,490
	42,680	10,267	2,454
	5,311,933	5,264,557	5,321,553
	5,384,091	5,274,912	5,257,480
			5,257,662

10.4 Particulars of provision against advances

	June 30, 2019 (un-audited)			December 31, 2018 (audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,257,662	25	5,257,687	5,238,459	81	5,238,540
Charge/(reversal)						
Charge for the year	30,586	-	30,586	52,096	15	52,111
Reversal for the year	(12,726)	(14)	(12,740)	(31,881)	(71)	(31,952)
	17,860	(14)	17,846	20,215	(56)	20,159
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(610)	-	(610)	(1,012)	-	(1,012)
Closing balance	5,274,912	11	5,274,923	5,257,662	25	5,257,687

- 10.4.1** General provision is being provided @ 1% against unsecured performing small enterprises (SE) portfolio.

- 10.4.2** The FSV benefit already availed in last years has been decreased by Rs. 11.390 million (net of FSV benefit availed during the period), which has resulted in increased charge for specific provision for the period ended June 30, 2019 by the same amount. The FSV benefit is not available for cash or stock dividend/bonus to employees. Had the FSV benefit not decreased, loss before and after tax for the period would have been decreased by Rs. 11.390 million (June 30, 2018: increased by Rs. 2.237 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 64.729 million (December 31, 2018: Rs. 76.119 million).

SME BANK LIMITED
Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the half year ended June 30, 2019

		(Un-audited) June 30, 2019	(Audited) December 31, 2018
	Note	(Rupees in '000)	
11. FIXED ASSETS			
Property and equipment	11.1	44,259	55,376
Right of use asset	5.2.2	522,656	-
		<u>566,915</u>	<u>55,376</u>

11.1 Property and equipment

Net book value at the beginning of the period/year		55,376	63,122
Additions	11.1.1	185	12,906
Disposals	11.1.2	(800)	(56)
Depreciation		(10,502)	(20,596)
Net book value at the end of the period/year		<u>44,259</u>	<u>55,376</u>

11.1.1 Additions to fixed assets

Following additions have been made to fixed assets during the period/year:

	(Un-audited) June 30, 2019	(Audited) December 31, 2018
	(Rupees in '000)	
Property and equipment		
Leasehold land	-	-
Leasehold improvements	28	362
Building on freehold land	-	-
Furniture and fixture	12	116
Electrical office and computer equipment	145	12,428
Vehicles	-	-
	<u>185</u>	<u>12,906</u>

11.1.2 Disposals of fixed assets

The net book value of fixed assets disposed off during the period/year is as follows:

	(Un-audited) June 30, 2019	(Audited) December 31, 2018
	(Rupees in '000)	
Leasehold land	-	-
Leasehold improvements	-	-
Building on freehold land	-	56
Furniture and fixture	-	-
Electrical office and computer equipment	-	-
Vehicles	800	-
	<u>800</u>	<u>56</u>

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

			(Un-audited) June 30, 2019	(Audited) December 31, 2018
			(Rupees in '000)	
12.	INTANGIBLE ASSETS	Note		
	Computer software	12.1	1,975	2,401
12.1	Computer software			
	Net book value at the beginning of the period/year		2,401	1,129
	Additions		226	2,458
	Disposals		-	-
	Amortizations		(652)	(1,186)
	Net book value at the end of the period/year		1,975	2,401
	The following additions have been made to intangible assets during the period/year:			
	Directly purchased		226	2,458
13.	DEFERRED TAX ASSET - NET			
	Deferred tax asset		625,060	526,578
	Deferred tax (liability)		(622)	(883)
			624,438	525,695
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.			



		(Un-audited) June 30, 2019	(Audited) December 31, 2018
14. OTHER ASSETS	Note	(Rupees in '000)	
Income/mark-up accrued in local currency-net of provision	14.1	174,263	162,453
Advances, deposits, advance rent and other prepayments		31,301	58,967
Advance taxation	14.2	212,972	216,946
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured		5,558	5,642
Receivable from NBP		1,343	981
Receivable from subsidiary company		2,557	1,300
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		76,386	76,421
		<u>697,794</u>	<u>716,124</u>
Less: Provision held against other assets	14.4	117,674	117,095
Other assets (net of provision)		<u>580,120</u>	<u>599,029</u>

14.1 This balance has been arrived at after adjusting interest in suspense of Rs. 4,055.006 million (December 31, 2018: Rs. 4,048.422 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(2018: Rs. 220.040 million)

SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

	(Un-audited) June 30, 2019	(Audited) December 31, 2018
14.4 Provision held against other assets		
	(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	44,026	43,494
Legal charges recoverable from borrowers- SBFC & RDFC	22,661	22,661
Trading right entitlement certificate- TREC	21,560	21,560
Others	1,933	1,886
	<u>117,674</u>	<u>117,095</u>
Movement in provision held against other assets		
Opening balance	117,095	117,991
Charge for the year	1,599	3,486
Reversals	(1,020)	(4,381)
	579	(895)
Transferred to NBP	-	(1)
Closing balance	<u>117,674</u>	<u>117,095</u>
15. BILLS PAYABLE		
In Pakistan	37,794	118,788
Outside Pakistan	-	-
	<u>37,794</u>	<u>118,788</u>

SME BANK LIMITED
Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the half year ended June 30, 2019

			(Un-audited) June 30, 2019	(Audited) December 31, 2018
	Note		(Rupees in '000)	
16. BORROWINGS				
Secured				
Repurchase agreement borrowings				
State Bank of Pakistan	16.1	-		1,003,155
Financial institutions	16.1	4,544,616	3,713,195	
		<u>4,544,616</u>	<u>4,716,350</u>	
Unsecured				
Borrowing from State Bank of Pakistan				
Financing facility for storage of agricultural produce	16.2	18,904	23,545	
		<u>4,563,520</u>	<u>4,739,895</u>	

16.1 These represent transactions with financial institutions and SBP for sale of government securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rate 12.75% (December 31, 2018: 10.20% to 10.50%) per annum for period upto one month (December 31, 2018: upto two month). REPO transactions are secured against investment of the Bank in government securities.

16.2 This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agricultural Produce (FFSAP)". These carries mark up rate ranging from 2.0% to 3.25% and is repayable in quarterly instalments.

17. DEPOSITS AND OTHER ACCOUNTS

June 30, 2019 (un-audited)			December 31, 2018 (audited)		
In local currency	In foreign currency	Total	In local currency	In foreign currency	Total
(Rupees in '000)			(Rupees in '000)		

Customers

Current accounts	538,521	-	538,521	503,208	-	503,208
Savings deposits	2,220,873	-	2,220,873	2,042,659	-	2,042,659
Term deposits	2,766,403	-	2,766,403	2,565,542	-	2,565,542
Margin accounts	88,641	-	88,641	56,983	-	56,983
	<u>5,614,438</u>	<u>-</u>	<u>5,614,438</u>	<u>5,168,392</u>	<u>-</u>	<u>5,168,392</u>

Financial institutions

Current accounts	106	-	106	1,562	-	1,562
Savings deposits	519,755	-	519,755	417,877	-	417,877
Term deposits	53,177	-	53,177	133,177	-	133,177
Margin accounts	-	-	-	-	-	-
	<u>573,038</u>	<u>-</u>	<u>573,038</u>	<u>552,616</u>	<u>-</u>	<u>552,616</u>
	<u>6,187,476</u>	<u>-</u>	<u>6,187,476</u>	<u>5,721,008</u>	<u>-</u>	<u>5,721,008</u>

SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

		(Un-audited) June 30, 2019	(Audited) December 31, 2018
	Note	(Rupees in '000)	
18. OTHER LIABILITIES			
Mark-up/return/interest payable in local currency		91,374	102,093
Unearned commission on guarantees		1,764	692
Accrued expenses		13,909	14,741
Sundry creditors	18.1	204,989	120,266
Branch adjustment account		1,736	912
Payable against employees' benefit plans			
Defined benefit pension		435,595	388,974
Defined benefit funded gratuity scheme		14,382	10,730
Unfunded compensated absences		87,762	80,304
Leased liability against right of use asset	5.1.2	540,702	-
Security deposits against lease		280	280
Employees' VSS payments withheld		13,051	13,341
Payable to equity participation fund - unsecured		610	794
Income tax withheld payable		17,754	17,780
Others		1,600	1,760
		<u>1,425,508</u>	<u>752,667</u>

- 18.1** This include Rs. 90.6 million (December 31, 2018: Rs. 90.6 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of stale bills payable Rs. 80.284 million (December 31, 2018: Rs. 15.604 million).

		(Un-audited) June 30, 2019	(Audited) December 31, 2018
	Note	(Rupees in '000)	
19. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS			
Surplus/(deficit) on revaluation of			
Available-for-sale securities			
- Federal government securities	9.1	(467,213)	(437,444)
- Listed companies/mutual funds		1,777	2,522
		(465,436)	(434,922)
Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities			
- Listed companies/mutual funds		(622)	(883)
		<u>(466,058)</u>	<u>(435,805)</u>

SME BANK LIMITED
Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the half year ended June 30, 2019

			(Un-audited) June 30, 2019	(Audited) December 31, 2018
			(Rupees in '000)	
20.	CONTINGENCIES AND COMMITMENTS	Note		
	- Guarantees	20.1	216,526	143,409
	- Commitments	20.2	4,926,381	4,962,001
	- Other contingent liabilities	20.3	1,184,629	1,074,888
			<u>6,327,536</u>	<u>6,180,298</u>
20.1	Guarantees:			
	Financial guarantees		-	-
	Performance guarantees	20.1.1	216,526	143,409
	Other guarantees		-	-
			<u>216,526</u>	<u>143,409</u>
20.1.1	This includes expired letter of guarantees/performance aggregating to Rs. 53.044 million (December 31, 2018: 77.464 million) for which formalities for return of original documents are in process.			
20.2	Commitments:			
	Commitments in respect of:			
	- forward government securities transactions	20.2.1	4,551,212	4,669,798
	- forward lending	20.2.2	372,747	290,484
	Commitments for acquisition of:			
	- operating fixed assets		987	1,493
	- intangible assets		1,243	226
	Other commitments	20.2.3	192	-
			<u>4,926,381</u>	<u>4,962,001</u>
20.2.1	Commitments in respect of forward government securities transactions			
	Sale and repurchase agreements		<u>4,551,212</u>	<u>4,669,798</u>
20.2.2	Commitments in respect of forward lending			
	Undrawn facilities		178,372	173,684
	Commitments to extend credit		194,375	116,800
			<u>372,747</u>	<u>290,484</u>
20.2.3	Other commitments			
	Bills for collection			
	Payable in Pakistan		<u>192</u>	<u>-</u>
20.3	Other Contingent liabilities		<u>1,184,629</u>	<u>1,074,888</u>
	a) Claims not acknowledged as debt from various borrowers of defunct RDFC		53,686	53,686
	b) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) which has been decided in 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 condensed interim unconsolidated financial statements.		612,707	612,707

SME BANK LIMITED
Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the half year ended June 30, 2019

	(Un-audited) June 30, 2019	(Audited) December 31, 2018
	(Rupees in '000)	
c) The Bank and the income tax department have filed cross appeals against the appellate order of the Commissioner (Appeals), who had partly set aside the order of the Taxation officer, resulting in taxable income of Rs. 151.234 million and tax liability of Rs. 52.932 (payable amounting Rs. 6.163 million after adjustment of credit for taxes paid/suffered at source amounting Rs. 46.768 million) against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4.249 million for the tax year 2008. Without prejudice to the appeal, the Bank has offered adjustment of said demand against refunds available for tax year 2009. However no provision has been made in these condensed interim unconsolidated financial statements as the management is confident of a favorable outcome.	6,163	6,163
d) DCIR raised tax demand for the tax year 2010 for Rs. 211.716 million which was again amended to Rs.198, 528,541/- vide order # 11/40 dated 22-May-2013 u/s 221, stay against from Islamabad High Court was obtained and also appeal was filed with CIRA-II who partly accepted the Bank's plea in the case and remanded it back to DCIR for verification of evidences and opportunity of hearing the Bank for certain issues vide his order in appeal no. 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	198,529
e) The Taxation Officer created aggregate demand of Rs.53.674 million for withheld amount of Rs.17.598 million from VSS payment of employees for the Tax Years 2003-2004 -2005-2006-2008-2009-2010-2011-2013 which was not deposited upon advice of the legal advisor due to stay order of Supreme Court of Pakistan. The case is pending before ATIR and the provision of default surcharge Rs. 36.076 million was not made ipso facto.	36,076	36,076
f) The Officer Inland Revenue, LTU, Islamabad created demand for Rs. 21.171 million for tax year 2016 under section 161/205 of the Income Tax Ordinance, 2001. After rejection of the first appeal by CIRA the Bank has submitted second appeal before ATIR along with stay application to keep the recovery proceedings in abeyance. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response.	18,663	18,663

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SME BANK LIMITED**Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)****For the half year ended June 30, 2019**

	(Un-audited) June 30, 2019	(Audited) December 31, 2018
	(Rupees in '000)	
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation. Without prejudice, the tax department has been requested to adjust the tax demand with the available income tax refunds.	38,723	38,723
i) The Officer Inland Revenue, LTU, Islamabad made an assessment for the year 2001-2002 vide order dated June 20, 2005 of Rs. 590.667 million and a tax demand of Rs. 118.721 million which was contested in ATIR which ordered the appeal in Bank's favor vide Order no. ITA No.857/IB/2006 dated April 05, 2007. Now the Tax Department has filed income tax reference with the Islamabad High Court having no. I.T.R. 48 of 2007.	118,721	-
j) Back benefits and claims of staff/employees under litigation.	80,190	89,170

SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

		(Un-audited) June 30, 2019	(Un-audited) June 30, 2018
	Note	(Rupees in '000)	
21. MARK-UP/RETURN/INTEREST EARNED			
On loans and advances to			
Customers			
Extended by:			
Defunct RDFC & SBFC		-	-
SME Bank Limited		138,997	119,656
		138,997	119,656
Employees		2,046	2,648
Financial institution - SME Leasing Limited - a subsidiary company		8,748	6,995
		149,791	129,299
On investments in			
Held for trading securities		-	6,817
Available for sale securities		221,517	211,586
Held to maturity securities		1,758	8,682
		223,275	227,085
On deposits with financial institutions		180	179
On securities purchased under resale agreements		91	65
On clean lending		-	-
On call money lending		512	2,372
		373,849	359,000
22. MARK-UP/RETURN/INTEREST EXPENSED			
On deposits		237,247	166,589
On securities sold under repurchase agreements		265,611	147,451
On SBP refinance scheme		282	222
Brokerage and commission		617	1,324
Bank charges		120	161
		503,877	315,747
23. FEE & COMMISSION INCOME			
Branch banking customer fees		1,049	1,019
Card related fees		136	103
Credit related fees		1,391	2,097
Commission on guarantees		1,433	2,068
Commission on remittances		44	74
Others		5	7
		4,058	5,368
24. GAIN/(LOSS) ON SECURITIES			
Realised	24.1	2	1,606
Unrealised - held for trading		-	-
		2	1,606
24.1 Realised gain on			
Federal government securities - net		2	1,606
Shares		-	-
		2	1,606
25. OTHER INCOME			
Gain on sale of operating fixed assets - net		-	-
Fee on fund managed by the Bank -EPF		-	480
Others		47	30
		47	510

	(Un-audited) June 30, 2019	(Un-audited) June 30, 2018
26. OPERATING EXPENSES	(Rupees in '000)	
Total compensation expense	336,082	326,268
Property expense		
Rent & taxes	3,628	33,947
Insurance	723	776
Utilities cost	9,070	7,834
Security (including guards)	7,479	7,997
Repair & maintenance	3,007	3,042
Depreciation	25,452	390
Others	-	-
	49,359	53,986
Information technology expenses		
Software maintenance	2,382	1,706
Hardware maintenance	950	541
Depreciation	2,584	3,761
Amortisation	652	559
Network charges	8,147	2,153
Others	869	667
	15,584	9,387
Other operating expenses		
Directors' fees, allowances and other expenses	-	487
Legal and professional charges	1,404	4,012
Outsourced services costs	12,742	11,502
Travelling and conveyance	2,573	963
NIFT clearing charges	821	951
Depreciation	7,528	5,644
Training & development	689	432
Postage & courier charges	431	471
Communications	2,290	2,240
Stationery and printing	2,299	3,094
Marketing, advertisement & publicity	789	376
Donations	-	-
Auditors' remuneration	450	450
Recruitment expenses	23	7
Vehicle running and maintenance expenses	2,393	3,296
Entertainment	1,177	1,441
Subscription, books and newspapers	1,731	1,931
Deposits premium expense	1,808	-
Loss on sale of operating fixed assets - net	32	55
Others	267	257
	39,447	37,609
	440,472	427,250
27. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	2,111	-
Right of use assets - unwinding of PV	32,956	-
	35,067	-

SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

		(Un-audited) June 30, 2019	(Un-audited) June 30, 2018
28. PROVISIONS & WRITE OFFS - NET	Note	(Rupees in '000)	
Provisions for diminution in value of investment	9.2	(20,000)	47,747
Provisions against loans & advances	10.4	17,846	(12,053)
Other provisions/written off directly		579	(1,454)
Bad debts written off directly		-	-
		<u>(1,575)</u>	<u>34,240</u>
29. TAXATION			
Current		4,902	4,755
Prior years		-	-
Deferred		<u>(98,482)</u>	<u>(42,618)</u>
		<u>(93,580)</u>	<u>(37,863)</u>
30. BASIC/DILUTED LOSS PER SHARE			
Net loss after tax for the period		<u>(506,305)</u>	<u>(372,889)</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>(2.12)</u>	<u>(1.56)</u>

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31 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 as 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 audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings can not 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.

June 30, 2019 (un-audited)

Fair Value				
Level 1	Level 2	Level 3	Carrying/ notional value	Total

31.1 On balance sheet financial instruments

Note

(Rupees in '000)

Financial assets measured at fair value

Investments

- Government securities (T bills and PIBs)	-	5,548,169	-	-	5,548,169
- Ordinary shares of listed companies/mutual funds	3,949	-	-	-	3,949
- Ordinary shares of unlisted companies	-	-	-	26,470	26,470

Financial assets not measured at fair value

- Bank balances with treasury banks	31.2	-	-	-	300,212	300,212
- Balances with other banks	31.2	-	-	-	1,832	1,832
- Lending to financial institutions	31.2	-	-	-	-	-
- Advances	31.2	-	-	-	2,085,919	2,085,919
- Other assets	31.2	-	-	-	181,353	181,353
- Other investment (COI/TDR)	31.2	-	-	-	35,000	35,000
- Subsidiary SME Leasing Limited	-	-	-	-	80,748	80,748

On balance sheet financial instruments (continued)

December 31, 2018 (audited)

Fair value				
Level 1	Level 2	Level 3	Carrying / notional value	Total

Note

(Rupees in '000)

Financial assets measured at fair value

Investments

- Government securities (T bills and PIBs)	-	5,618,243	-	-	5,618,243
- Ordinary shares of listed companies/Mutual funds	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	31.2	-	-	-	337,325	337,325
- Balances with other banks	31.2	-	-	-	16,238	16,238
- Lending to financial institutions	31.2	-	-	-	-	-
- Advances	31.2	-	-	-	2,230,763	2,230,763
- Other assets	31.2	-	-	-	168,584	168,584
- Other investment (COI/TDR)	31.2	-	-	-	35,000	35,000
Subsidiary- SME Leasing Limited	-	-	-	-	80,748	80,748

SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

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).

31.2 The Bank has not disclosed the fair value for these financial assets and liabilities, as these are for short term and or re-priced over short term. Therefore their carrying amounts are reasonable approximation of fair value.

31.3 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.

31.4 Valuation techniques and inputs used in determination of fair values within level 1

Fully paid-up ordinary shares

Fair values of investments in listed equity securities are valued on the basis of closing quoted market prices available at the Pakistan Stock Exchange.

Valuation techniques and inputs used in determination of fair values within level 2

Pakistan investment bonds/market treasury bills

Fair values of pakistan investment bonds and treasury bills are derived using the PKRV rates (Reuters page).

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SME BANK LIMITED
Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the half year ended June 30, 2019
32. SEGMENT INFORMATION
32.1 Segment details with respect to business activities

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

	June 30, 2019 (un-audited)		
	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
Profit & loss			
Net mark-up/return/profit	223,878	149,971	373,849
Inter segment revenue - net	-	77,980	77,980
Non mark-up/return/interest income	2	4,105	4,107
Total income	223,880	232,056	455,936
Segment direct expenses	276,029	703,387	979,416
Inter segment expenses allocation	77,980	-	77,980
Total expenses	354,009	703,387	1,057,396
Provisions	(20,000)	18,425	(1,575)
Loss before tax	(110,129)	(489,756)	(599,885)
	Trading & sales	Commercial banking	Total
	(Rupees in '000)		
Balance sheet			
Cash & bank balances	199,963	230,212	430,175
Investments	5,694,336	-	5,694,336
Net inter segment lending	-	1,641,046	1,641,046
Lending to financial institutions	-	-	-
Advances - Performing	-	1,976,740	1,976,740
- Non-performing	-	109,179	109,179
Others	603,779	1,169,669	1,773,448
Total assets	6,498,078	5,126,846	11,624,924
Borrowings	4,544,616	18,904	4,563,520
Deposits & other accounts	-	6,187,476	6,187,476
Net inter segment borrowing	1,641,046	-	1,641,046
Others	459,864	1,003,438	1,463,302
Total liabilities	6,645,526	7,209,818	13,855,344
Equity	(147,448)	(2,082,972)	(2,230,420)
Total equity & liabilities	6,498,078	5,126,846	11,624,924
Contingencies & commitments	4,551,212	1,776,324	6,327,536

SME BANK LIMITED
Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the half year ended June 30, 2019

	June 30, 2018 (un-audited)		
	Trading & sales	Commercial banking	Total
Profit & loss	(Rupees in '000)		
Net mark-up/return/profit	229,526	129,474	359,000
Inter segment revenue - net	-	73,622	73,622
Non mark-up/return/interest income	1,607	5,878	7,485
Total income	231,133	208,974	440,107
Segment direct expenses	158,058	583,485	741,543
Inter segment expenses allocation	73,622	-	73,622
Total expenses	231,680	583,485	815,165
Provisions	47,747	(12,053)	35,694
Loss before tax	(48,294)	(362,458)	(410,752)

	December 31, 2018 (audited)		
	Trading & sales	Commercial banking	Total
Balance sheet	(Rupees in '000)		
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
Lending to financial institutions	-	-	-
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

Assumptions used:

- "Unallocable assets representing 5.46% (December 31, 2018: 5.16%) of the gross assets have been allocated to segments based on their respective incomes."
- "Unallocable liabilities representing 6.22% (December 31, 2018: 5.45%) of the gross liabilities have been allocated to segments based on their respective incomes."

32.2 Segment details with respect to geographical locations

Presently the Bank does not deal outside Pakistan.

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

33. RELATED PARTY TRANSACTIONS

	June 30, 2019 (un-audited)						December 31, 2018 (audited)					
	Subsidiary management personnel SMEI	Key management personnel	Directors	Equity participation fund	Employees benefit plans	Employees provident trust	Subsidiary management personnel SMEI	Key management personnel	Directors	Equity participation fund	Employees benefit plans	Employees provident trust
	(Rupees in '000)						(Rupees in '000)					
Investments												
Opening balance	215,457	-	-	-	-	-	215,457	-	-	-	-	-
Investment made during the period/year	-	-	-	-	-	-	-	-	-	-	-	-
Investment redeemed/dispensed off during the period/year	-	-	-	-	-	-	-	-	-	-	-	-
Transfer in/(out) - net	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	215,457	-	-	-	-	-	215,457	-	-	-	-	-
Provision for diminution in value of investments	134,709	-	-	-	-	-	134,709	-	-	-	-	-
Advances												
Opening balance	141,556	15,252	-	-	-	-	110,352	18,241	-	-	-	-
Addition (total debits) during the period/year	38,489	5,462	-	-	-	-	97,150	17,238	-	-	-	-
Repaid (total credits) during the period/year	(38,516)	(9,178)	-	-	-	-	(65,946)	(20,227)	-	-	-	-
Transfer in/(out) - net	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	141,529	11,536	-	-	-	-	141,556	15,252	-	-	-	-
Provision held against advances	-	-	-	-	-	-	-	-	-	-	-	-
Other assets												
Interest/mark-up accrued	2,557	6,590	-	-	-	-	1,300	5,655	-	-	-	-
Receivable from staff retirement fund	-	-	-	-	5,558	-	-	-	-	-	5,642	-
Other receivable	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts												
Opening balance	1,562	4,702	-	412,774	811,006	12,769	56	9,917	-	394,236	603,787	52,518
Received during the period/year	11,336	54,537	-	17,414	330,269	16,504	23,434	87,748	-	18,956	224,275	28,401
Withdrawn during the period/year	-	(45,768)	-	-	(5,782)	(20,395)	-	(93,066)	-	(418)	(17,056)	(68,150)
Transfer in/(out) - net	(12,798)	169	-	-	-	-	(21,928)	103	-	-	-	-
Closing balance	100	13,640	-	430,188	1,135,493	8,878	1,562	4,702	-	412,774	811,006	12,769

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SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the half year ended June 30, 2019

	June 30, 2019 (un-audited)						December 31, 2018 (audited)					
	Subsidiary SMEL	Key management personnel	Directors	Equity participation fund	Employees benefit plans	Employees provident trust	Subsidiary SMEL	Key management personnel	Directors	Equity participation fund	Employees benefit plans	Employees provident trust
Other liabilities	(Rupees in '000)						(Rupees in '000)					
Interest/mark-up payable	-	97	-	3,624	23,631	84	-	39	-	2,771	25,269	75
Payable to staff retirement fund	-	-	-	-	537,739	-	-	-	-	-	480,008	-
Others liabilities	-	-	-	610	-	-	-	-	-	794	-	-
Contingencies and commitments	-	-	-	-	-	-	-	-	-	-	-	-
Income	June 30, 2019 (un-audited)						June 30, 2018 (un-audited)					
	(Rupees in '000)						(Rupees in '000)					
Mark-up/return/interest earned	8,748	250	-	-	-	-	6,995	285	-	-	-	-
Fee and commission income	-	-	-	-	-	-	-	-	-	480	-	-
Expense												
Mark-up/return/interest paid	-	432	-	18,278	38,797	611	-	177	-	7,983	20,167	412
Fees and other expenses	-	-	-	-	-	-	-	-	487	-	-	-
Remuneration and allowances	-	36,758	-	-	-	-	-	39,076	-	-	-	-
Charge for the period relating to employees benefit plans	-	-	-	-	69,865	-	-	-	-	-	54,948	-
	Description						Interest rate					
Principal terms of loan facility to SMEL	Running finance facility upto Rs. 150 million						6 month Kibor + 4.0%					
Principal terms of deposit to equity participation fund	Remunerative deposits						8.0% to 10.25%					
Principal terms of deposit to employee benefit plan	Remunerative deposits						6.80% to 12.50%					
Principal terms of deposit to employee provident fund	Remunerative deposits						8.0% to 10.25%					

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34. CAPITAL ADEQUACY

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

		(Un-audited) June 30, 2019	(Un-audited) June 30, 2018		
		(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)		(4,363,395)	(3,857,090)		
		(1,764,362)	(1,258,057)		
Less: Adjustments					
Goodwill/intangible assets		1,975	2,401		
Investment in equity of subsidiary		80,748	80,748		
Deficit on revaluation of available for sale investments		466,058	435,805		
		548,781	518,954		
<i>Total tier I capital</i>		(2,313,143)	(1,777,011)		
<i>Tier II capital</i>		11	25		
<i>Eligible tier III capital</i>		-	-		
Total regulatory capital	(a)	(2,313,132)	(1,776,986)		
Risk-weighted exposures		June 30, 2019	December 31, 2018		
		Book value	Risk adjusted value	Book value	Risk adjusted value
		(Rupees in '000)		(Rupees in '000)	
<i>Credit risk</i>					
Balance sheet items:					
Cash and other liquid assets		430,175	366	460,077	3,248
Investments/lending to financial institutions		5,694,336	65,419	5,765,155	66,164
Loans and advances		2,085,919	1,296,514	2,230,763	1,355,327
Fixed assets		566,915	566,915	57,777	55,376
Deferred tax assets		624,438	624,438	525,695	525,695
Other assets		580,120	284,401	599,029	305,334
		9,981,903	2,838,053	9,638,496	2,311,144
Off balance sheet items					
Weighted non-funded exposures		167,185	83,593	112,676	56,338
		167,185	83,593	112,676	56,338
Credit risk-weighted exposures	(b)	10,149,088	2,921,646	9,751,172	2,367,482
Market risk			760,588		1,037,278
Market risk-weighted exposures		-	760,588	-	1,037,278
Total risk-weighted exposures	(c)		3,682,234		3,404,760
<i>Capital adequacy ratio credit risk</i> [(a)/(b) x 100]			-79.17%		-75.06%
<i>Total capital adequacy ratio</i> [(a)/(c) x 100]			-62.82%		-52.19%

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 no. BPRD/BA&CPD/646/000886/16 dated January 12, 2016. Accordingly, the Bank computes CAR under BASEL I and SBP has allowed exemption in meeting the minimum CAR requirements of 10% till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier vide SBP letter no. BPRD/BA&CPD/646/332/20 dated January 6, 2020.

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)

For the half year ended June 30, 2019

35. 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.

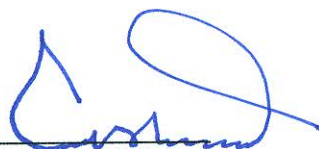
The Bank has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the half year ended 30, June 2019 have not been adjusted to reflect their impact.

36. DATE OF AUTHORIZATION

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



Chief Financial Officer



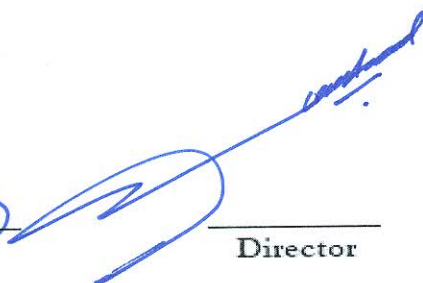
President/CEO



Director



Director



Director