

**CONDENSED INTERIM
FINANCIAL STATEMENTS**
(UNAUDITED)

FOR THE QUARTER ENDED
MARCH 31, 2019

Directors' Report

On behalf of the Board of Directors, I am pleased to present the operational results of SME Bank for the quarter ended on March 31, 2019.

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.

Limited branch network, and low credit rating of the Bank due to negative equity, remained major impediments to attract a wide deposit base at market rate. The deposits were decreased from Rs 5,721 million as on December 31, 2018, to Rs 5,406, million as on March 31, 2019.

The economic downturn resulted in increase in inflation rate and unemployment in the country, which have adverse impact on supply and demand chain in turn reduced the business activities in the country and also affect the performance of SME sector to a great extent. The economic condition also affected the repayment capacity of the bank's borrowers, which leads to increase the non-performing loans of the bank to Rs 583 million on March 31, 2019 as compared to Rs 499 million on March 31, 2018.

Bank is operating with paid up capital of Rs. 2,392 million since 2007. Presently the equity of the bank has been completely eroded and stands at Rs. -1,911.24 million as on March 31, 2019.

SME loan portfolio was declined by Rs. 92 million from Rs. 2,500 million as on December 31, 2018 to Rs. 2,408 million as on March 31, 2019. The bank made fresh disbursements of Rs 25.4 million during three months period ended on March 31, 2019 as compared to Rs 88.8 million of corresponding period of last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio.

During the period under review cost of funds of the Bank was Rs 238 million (March 2018: Rs 152 million) at average rate of 9.19%. The increase in cost of funds was mainly due to increase in volume of borrowing and discount rate by Rs. 619 million (Mar-19 Rs.4,806 million, Mar-18 Rs.4,187 million). Administrative expenses incurred more by Rs 10.43 million from Rs. 217.46 million for quarter ended March 31,2018 to Rs 227.89 million for quarter ended March 31,2019 because of upward going inflation.

Investment portfolio of the Bank was shrunk by Rs 524 million during the three months period and stands at Rs 5,241 million (December 2018: Rs 5,765 million). Major portion of investment is in government securities.

The Bank has booked a net loss of Rs 250 million for the 1st quarter 2019, as compared to Rs 221 million during the 1st quarter 2018. The bank's gross income was Rs 183.71 million, which constitutes Rs 69.29 million from SME advances, Rs. 112.55 million from treasury operations and Rs. 1.87 million from non-mark-up income.

M/S PACRA Limited affirmed the credit rating of the bank at "CCC"/"B" with negative outlook on November 22, 2018.

On behalf of the Board, I would like to thank the State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their support and guidance. I would also like to express my gratitude to our shareholders for their counsel. Most importantly, I am grateful to our valued customers for their extended support. I will also acknowledge the dedication and hard work of our employees who contributed to the organization and enable us to perform in a challenging business environment.

For and on Behalf of

Board of Directors



Chairman

SME BANK LIMITED
Condensed Interim Unconsolidated Statement of Financial Position
As at March 31, 2019

		(Un-audited) March 31, 2019	(Audited) December 31, 2018
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	437,376	443,839
Balances with other banks	8	1,957	16,238
Lendings to financial institutions	9	100,000	-
Investments	10	5,241,131	5,765,155
Advances	11	2,118,264	2,230,763
Fixed assets	12	49,325	55,376
Intangible assets	13	2,307	2,401
Deferred tax assets - net	14	571,534	525,695
Other assets	15	661,431	599,029
		9,183,325	9,638,496
LIABILITIES			
Bills payable	16	99,032	118,788
Borrowings	17	4,806,038	4,739,895
Deposits and other accounts	18	5,406,350	5,721,008
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	19	783,149	752,667
		11,094,569	11,332,358
NET LIABILITIES			
		(1,911,244)	(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	20	(403,361)	(435,805)
Unappropriated loss		(4,106,916)	(3,857,090)
		(1,911,244)	(1,693,862)
CONTINGENCIES AND COMMITMENTS			
	21		

The annexed notes from 1 to 35 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 quarter ended March 31, 2019

	Note	March 31, 2019 (Rupees in '000)	March 31, 2018
Mark-up/ Return/ Interest Earned	22	181,836	177,226
Mark-up/ Return/ Interest Expensed	23	237,958	152,228
Net Mark-up/ Interest (Loss)/Income		(56,122)	24,998
NON MARK-UP/ INTEREST INCOME			
Fee and Commission income	24	1,831	2,915
Dividend income		-	1
Foreign Exchange income		-	-
Income / (loss) from derivatives		-	-
Gain/(loss) on securities	25	2	250
Other income	26	44	1
Total non-markup/ interest income		1,877	3,167
Total (Loss)/Income		(54,245)	28,165
NON MARK-UP/ INTEREST EXPENSES			
Operating expenses	27	227,891	217,536
Workers Welfare Fund		-	-
Other charges		-	-
Total non-markup/ interest expenses		227,891	217,536
Loss Before Provisions		(282,136)	(189,371)
Provisions and write offs - net	28	11,000	48,197
LOSS BEFORE TAXATION		(293,136)	(237,568)
Taxation	29	(43,310)	(17,056)
LOSS AFTER TAXATION		(249,826)	(220,512)
Basic/diluted (loss) per share (Rupees)	30	(1.04)	(0.92)

The annexed notes from 1 to 35 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 quarter ended March 31, 2019

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
	(Rupees in '000)	
Net loss after taxation	(249,826)	(220,512)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequently periods:		
Movement in deficit on revaluation of investment - net	32,444	(62,650)
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)	<u>(217,382)</u>	<u>(283,162)</u>

The annexed notes from 1 to 35 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 quarter ended March 31, 2019

	Share Capital	Statutory reserve	Surplus/(deficit) on revaluation of Investments	Unappropriated loss	Total
	(Rupees in '000)				
Balance as at January 01, 2018	2,392,507	206,526	(27,980)	(3,005,398)	(434,345)
Comprehensive income for the three months period ended March 31, 2018					
Loss after taxation for the period	-	-	-	(220,512)	(220,512)
Other comprehensive income - net	-	-	(62,650)	-	(62,650)
Balance as at March 31, 2018	2,392,507	206,526	(90,630)	(3,225,910)	(717,507)
Comprehensive income for the nine months period ended December 31, 2018					
Loss after taxation for the period	-	-	-	(605,426)	(605,426)
Other comprehensive income - net	-	-	(345,175)	(25,754)	(370,929)
Balance as at December 31, 2018	2,392,507	206,526	(435,805)	(3,857,090)	(1,693,862)
Comprehensive income for the three months period ended March 31, 2019					
Loss after taxation for the period	-	-	-	(249,826)	(249,826)
Other comprehensive income - net	-	-	32,444	-	32,444
Balance as at March 31, 2019	2,392,507	206,526	(403,361)	(4,106,916)	(1,911,244)

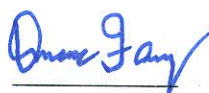
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Chief Financial Officer



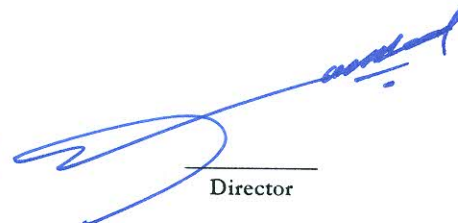
President/CEO



Director



Director



Director


SME BANK LIMITED
Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)
For the quarter ended March 31, 2019

	March 31, 2019	March 31, 2018
Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(293,136)	(237,568)
Less: Dividend income	-	(1)
	(293,136)	(237,569)
Adjustments:		
Depreciation	5,374	4,648
Amortization	320	239
Provision and write-offs	11,000	48,197
Loss/(Gain) on sale of fixed assets	-	56
Finance charges on leased assets	-	-
	16,694	53,140
	(276,442)	(184,429)
(Increase)/ Decrease in operating assets		
Lendings to financial institutions	-	-
Held-for-trading securities	-	(499,093)
Advances	101,275	263,958
Other assets (excluding advance taxation)	(64,143)	(79,322)
	37,132	(314,457)
Increase/ (Decrease) in operating liabilities		
Bills payable	(19,756)	(25,831)
Borrowings from financial institutions	66,143	(1,121,245)
Deposits	(314,658)	687,562
Other liabilities (excluding current taxation)	30,482	(1,734)
	(237,789)	(461,248)
	(477,099)	(960,134)
Income tax paid	(420)	(369)
Net cash flow (used in)/from operating activities	(477,519)	(960,503)
CASH FLOW FROM INVESTING ACTIVITIES		
Net (investment)/disinvestment in available-for-sale securities	556,324	563,477
Net investment in held-to-maturity securities	-	500,000
Dividend received	-	1
Investment in operating fixed assets	(349)	(4,721)
Proceeds from sale of fixed assets	800	-
Net cash flow from / (used in) investing activities	556,775	1,058,757
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligation	-	-
Net cash flow from / (used in) financing activities	-	-
Increase / (Decrease) in cash and cash equivalents	79,256	98,254
Cash and cash equivalents at beginning of the period	460,077	447,112
Cash and cash equivalents at end of the period	539,333	545,366

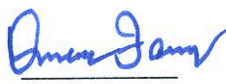
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Chief Financial Officer



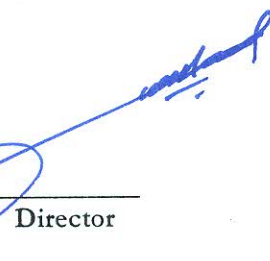
President/CEO



Director



Director



Director

SME BANK LIMITED

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

For the quarter ended March 31, 2019

1. GENERAL INFORMATION

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

In terms of Bank's License No. BL-05 dated September 13, 2004 issued under section 27 of the Banking Companies Ordinance 1962, the Bank is required to hold minimum paid-up-capital (net of losses) of Rs. 1.0 billion at the time of issuance of the license, and at all times thereafter during which the above capital is required to be raised to Rs. 1.5 billion by December 31, 2004 and to Rs. 2.0 billion by December 31, 2005 or any other amount prescribed by the State Bank of Pakistan (SBP) from time to time. SBP granted exemption vide its letter No. BPRD/BA&CPD/646/332/2020 dated January 06, 2020 from meeting the minimum capital requirement (MCR) till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier. The said relaxation from SBP was subject to submission of a concrete plan from the Ministry of Finance (MoF) of providing firm commitment to inject the required amount of capital in the Bank if its privatization is not materialize by March 31, 2020. Subsequent to above the MoF through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is at advanced stage which is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of MCR till June 30, 2020. In view of the current stage of privatization of the Bank the MoF and the management of the Bank are hopeful of further extension of relaxation of MCR requirement by SBP.

1.2 Amalgamation of defunct RDFC and SBFC

The Federal Government promulgated the Regional Development Finance Corporation (RDFC) and Small Business Finance Corporation (SBFC) Amalgamation and Conversion Ordinance, 2001 (the Ordinance 2001) setting forth the mechanism of amalgamation of defunct RDFC and SBFC. Both these entities were Development Financial Institutions (DFIs). In pursuance of the Ordinance 2001, Finance Division, 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 information have been prepared following the accrual basis of accounting except for the cash flow information.

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

SME BANK LIMITED**Notes to the Condensed Interim Unconsolidated Financial Statements (Un-audited)****For the quarter ended March 31, 2019**

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), 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 unconsolidated financial statements. Accordingly, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The basis and method used for critical accounting estimates and judgments adopted in the condensed interim unconsolidated financial statements are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2018.

5. SIGNIFICANT ACCOUNTING POLICIES**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 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 5.1)

- 5.1** 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.

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 information 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 interim 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.

SBP advised the banks to submit impact assessment of "IFRS 16 - Leases", to which the Bank has complied. As necessary guidance and instructions with regard to implementation of said Standard are awaited, therefore the requirements of IFRS 16 have not been considered in preparation of these unconsolidated condensed interim financial statements.

5.2 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)
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

SME BANK LIMITED

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

For the quarter ended March 31, 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 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 financial statements in the period of initial application.

5.3 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, which are being scrutinized at PC.

6.2 Going concern assumption and minimum capital requirement

During the current period the Bank incurred a net loss of Rs. 249.826 million (March 31, 2017: Rs. 220.512 million) resulting into accumulated losses of Rs. 4,106.916 million (Dec 31, 2018: Rs. 3,857.090 million). As of March 31, 2019, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 1,911.244 million (Dec 31, 2018: Rs. 1,693.862 million), negative equity which indicates the Bank's inadequate capacity for timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10%. and has failed on multiple times in maintaining the minimum statutory liquidity requirement (SLR) in first half of current 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 which is at the advance stage as the prospective investors have submitted their statement of qualifications which are currently under evaluation by State Bank of Pakistan for pre-qualification meeting the fit and proper test while 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. In view of above the management of the Bank strongly believes that the privatization of the Bank shall be completed soon and will result into injection of fresh equity enabling the Bank to expand and finance its operations while MoF is committed to provide all necessary financial assistance to the Bank to support its operations. In view of above the management of the Bank believes that the use of going concern assumption in preparation of these unconsolidated financial statements is appropriate and, therefore, have prepared the same on a going concern basis.

SME BANK LIMITED

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

For the quarter ended March 31, 2019

	Note	(Un-audited) March 31, 2019	(Audited) December 31, 2018
		(Rupees in '000)	
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		109,465	106,514
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in :			
Local currency current accounts	7.1	316,029	294,873
With National Bank of Pakistan in :			
Local currency current accounts		11,852	42,080
Prize bonds		30	372
		<u>437,376</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.			
		(Rupees in '000)	
8. BALANCES WITH OTHER BANKS			
In Pakistan:			
On current accounts		500	500
On deposit accounts		11,457	25,738
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>1,957</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.			
		(Rupees in '000)	
9. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		100,000	-
		<u>100,000</u>	<u>-</u>
9.1 PARTICULARS OF LENDING			
In local currency	9.1.1	100,000	-
In foreign currencies		-	-
		<u>100,000</u>	<u>-</u>
9.1.1 This lending carry markup rate @ 11.0% per annum and have maturity period upto 1 month			

SME BANK LIMITED

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

For the quarter ended March 31, 2019

10. INVESTMENTS

10.1 Investment by type:

Note

Available-for-sale securities

Federal Government Securities

Shares

Mutual Funds

10.1.1

Held-to-maturity securities

Non Government Debt Securities

- Term Deposit Receipts (TDRs) *

- Certificates of Investments (COIs)

Subsidiary

Total Investment

March 31, 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
Rupees in 000				Rupees in 000			
5,499,363	-	(404,734)	5,094,629	6,055,687	-	(437,444)	5,618,243
62,542	(35,770)	2,222	28,994	62,542	(35,770)	2,472	29,244
1,870	-	(110)	1,760	1,870	-	50	1,920
5,563,775	(35,770)	(402,622)	5,125,383	6,120,099	(35,770)	(434,922)	5,649,407
Held-to-maturity securities				Held-to-maturity securities			
35,000	-	-	35,000	35,000	-	-	35,000
762	(762)	-	-	762	(762)	-	-
35,762	(762)	-	35,000	35,762	(762)	-	35,000
215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
5,814,994	(171,241)	(402,622)	5,241,131	6,371,318	(171,241)	(434,922)	5,765,155

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

10.1.1 Investment given as collateral

Market Treasury Bills (MTBs)

Pakistan Investment Bonds (PIBs)

(Un-audited)	(Audited)
March 31,	December 31,
2019	2018
Rupees in 000	
-	199,888
4,650,818	4,469,910
4,650,818	4,669,798

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10.2 Provision for diminution in value of investments

	(Un-audited) March 31, 2019	(Audited) December 31, 2018
	Rupees in 000	
10.2.1 Opening balance	171,241	125,709
Charge / reversals		
Charge for the year	-	47,747
Reversal on disposals	-	(2,215)
	-	45,532
Closing balance	171,241	171,241

10.2.2 Particulars of provision against debt securities category of classification

	March 31, 2019 (un-audited)	December 31, 2018 (audited)
	Rupees in 000	
Domestic		
Other assets especially mentioned	-	-
Substandard	-	-
Doubtful	762	762
Loss	762	762
	762	762

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11. ADVANCES

Note

	Performing		Non Performing		Total	
	(Un-audited) March 31, 2019	(Audited) December 31, 2018	(Un-audited) March 31, 2019	(Audited) December 31, 2018	(Un-audited) March 31, 2019	(Audited) December 31, 2018
Rupees in '000						
Loans, cash credits, running finances, etc- In Pakistan						
Extended by:						
Defunct RDFC & SBFC	-	-	4,883,129	4,883,623	4,883,129	4,883,623
SME Bank Ltd	1,825,207	2,020,891	583,159	479,475	2,408,366	2,500,366
Due from employees	87,756	97,020	6,188	6,188	93,944	103,208
	1,912,963	2,117,911	5,472,476	5,369,286	7,385,439	7,487,197
Net investment in finance lease	280	280	973	973	1,253	1,253
Advances - gross	1,913,243	2,118,191	5,473,449	5,370,259	7,386,692	7,488,450
Provision for non-performing advances						
Specific provision	-	-	(5,268,413)	(5,257,662)	(5,268,413)	(5,257,662)
General provision	(15)	(25)	-	-	(15)	(25)
	(15)	(25)	(5,268,413)	(5,257,662)	(5,268,428)	(5,257,687)
Advances - net of provision	1,913,228	2,118,166	205,036	112,597	2,118,264	2,230,763

11.1 Particulars of Advances (Gross)	(Un-audited) March 31, 2019		(Audited) December 31, 2018	
	Rupees in '000			
In local currency	7,386,692		7,488,450	
In foreign currencies	-		-	
	7,386,692		7,488,450	

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

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

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

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

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

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

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

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

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

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

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

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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 transferred 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 transferred of the portfolios as approved by the board of directors of the Bank, however, the Allied Bank Limited carrying 0.33% holding in the Bank has opposed the resolution and required the sale of the portfolio at a fair market value (FMV). According to above majority decision of the shareholders both the portfolios have been transferred to the FCF and NBP against an aggregate sale consideration of Rs. 100 under a tri-party agreement (the Agreement) executed on February 23, 2018 between the Bank, NBP and FCF. As of the date of the tri-party Agreement the Bank has transferred and surrendered all the recoveries, rights, obligation, claims and liabilities of the referred loan portfolios in favour of the FCF.

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

- 11.3 Advances include Rs. 5,473.449 million (Dec 31, 2018: Rs. 5,370.259 million) which have been placed under non-performing status as detailed below:**

Category of Classification	Un-audited March 31, 2019		Audited December 31, 2018	
	Non Performing Loans	Provision	Non Performing Loans	Provision
(Rupees in '000)				
Domestic				
Other Assets Especially Mentioned	19,039	-	3,762	-
Substandard	99,238	-	42,490	8
Doubtful	37,063	10,126	2,454	174
Loss	5,318,109	5,258,287	5,321,553	5,257,480
	5,473,449	5,268,413	5,370,259	5,257,662

- 11.4 Particulars of provision against advances**

	March 31, 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	19,563		19,563	52,096	15	52,111
Reversal for the year	(8,329)	(10)	(8,339)	(31,881)	(71)	(31,952)
	11,234	(10)	11,224	20,215	(56)	20,159
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(483)	-	(483)	(1,012)	-	(1,012)
Closing balance	5,268,413	15	5,268,428	5,257,662	25	5,257,687

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

- 11.4.2** The FSV benefit availed in last years has been increased by Rs. 18.825 million (net of FSV benefit availed during the period), which has resulted in decreased charge for specific provision for the period ended March 31, 2019 by the same amount. The FSV benefit is not available for cash or stock dividend / bonus to employees. Had the FSV benefit not recognized, loss before and after tax for the period would have been increased by Rs. 18.825 million (March 31, 2018: reduced by Rs. 1.151 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 94.944 million (December 31, 2018: Rs. 76.119 million).

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	Note	(Un-audited) March 31, 2019	(Audited) December 31, 2018
		(Rupees in '000)	
12. FIXED ASSETS			
Property and equipment	12.1	49,325	55,376
		<u>49,325</u>	<u>55,376</u>
12.1 Property and equipment			
Net book value at the beginning of the period/year		55,376	63,122
Additions		123	12,906
Disposals		(800)	(56)
Depreciation		(5,374)	(20,596)
Net book value at the end of ther period/year		<u>49,325</u>	<u>55,376</u>
		(Un-audited) March 31, 2019	(Audited) December 31, 2018
		(Rupees in '000)	
13. INTANGIBLE ASSETS			
Computer Software	13.1	2,307	2,401
		<u>2,307</u>	<u>2,401</u>
13.1 Computer Software			
Net book value at the beginning of the period/year		2,401	1,129
Additions		226	2,458
Disposals		-	-
Amortizations		(320)	(1,186)
Net book value at the end of ther period/year		<u>2,307</u>	<u>2,401</u>
The following additions have been made to intangible assets during the period/year			
Directly purchased		226	2,458
		<u>226</u>	<u>2,458</u>
		(Un-audited) March 31, 2019	(Audited) December 31, 2018
		(Rupees in '000)	
14. DEFERRED TAX ASSET - NET			
Deferred tax asset		572,273	526,578
Deferred tax (liability)		(739)	(883)
		<u>571,534</u>	<u>525,695</u>
14.1	The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition of deferred tax asset is the expected privatization of the Bank which would result in fresh equity injection from the new strategic shareholder of the Bank as detailed in Note 6.1 to the financial statements and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future.		

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	(Un-audited) March 31, 2019	(Audited) December 31, 2018
	(Rupees in '000)	
15. OTHER ASSETS		
Income/ mark-up accrued in local currency - net of provision	243,191	162,453
Advances, deposits, advance rent and other prepayments	43,205	58,967
Advance Taxation	214,981	216,946
Non banking asset acquired in satisfaction of claims	147,066	147,066
Due from benevolent fund- unsecured	5,571	5,642
Receivable from NBP	1,153	981
Receivable from subsidiary company	1,346	1,300
Receivable from Equity Participation Fund	-	-
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	75,441	76,421
	<u>778,302</u>	<u>716,124</u>
Less: Provision held against other assets	116,871	117,095
Other assets (net of provision)	<u>661,431</u>	<u>599,029</u>

15.1 This balance has been arrived at after adjusting interest in suspense of Rs. 4,052.823 million (2018: Rs. 4,048.422 million).

	(Un-audited) March 31, 2019	(Audited) December 31, 2018
	(Rupees in '000)	
15.2 Provision held against other assets		
Advances, deposits, advance rent & other prepayments	2,706	2,706
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	5,148	5,148
Other receivables- SME Portfolio	43,223	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>116,871</u>	<u>117,095</u>

15.2.1 Movement in provision held against other assets

Opening balance	117,095	117,991
Charge for the year	604	3,486
Reversals	(828)	(4,381)
	(224)	(895)
Transferred to NBP	-	(1)
Closing balance	<u>116,871</u>	<u>117,095</u>

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	Note	(Un-audited) March 31, 2019	(Audited) December 31, 2018
16. BILLS PAYABLE			
(Rupees in '000)			
In Pakistan		99,032	118,788
Outside Pakistan		-	-
		<u>99,032</u>	<u>118,788</u>
17. BORROWINGS			
(Rupees in '000)			
Secured			
Repurchase agreement borrowings			
State Bank of Pakistan	17.1	-	1,003,155
Financial Institutions	17.1	4,785,102	3,713,195
		<u>4,785,102</u>	<u>4,716,350</u>
Unsecured			
Borrowing from State Bank of Pakistan			
Financing facility for storage of agri produce	17.2	20,936	23,545
		<u>4,806,038</u>	<u>4,739,895</u>

17.1 These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 10.55% to 11.00% (Dec 31, 2018: 10.20% to 10.50%) per annum for period upto one month (Dec 31, 2018: upto two month). REPO transactions are secured against investment of the Bank in Government securities.

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

18. DEPOSITS AND OTHER ACCOUNTS

March 31, 2019 (Un-audited)			December 31, 2018 (Audited)		
In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total

(Rupees in '000)

Customers

Current accounts	401,008	-	401,008	503,208	-	503,208
Savings deposits	2,040,496	-	2,040,496	2,042,659	-	2,042,659
Term deposits	2,356,522	-	2,356,522	2,565,542	-	2,565,542
Margin accounts	45,925	-	45,925	56,983	-	56,983
	<u>4,843,951</u>	<u>-</u>	<u>4,843,951</u>	<u>5,168,392</u>	<u>-</u>	<u>5,168,392</u>

Financial Institutions

Current accounts	91	-	91	1,562	-	1,562
Savings deposits	426,315	-	426,315	417,877	-	417,877
Term deposits	135,993	-	135,993	133,177	-	133,177
Margin accounts	-	-	-	-	-	-
	<u>562,399</u>	<u>-</u>	<u>562,399</u>	<u>552,616</u>	<u>-</u>	<u>552,616</u>
	<u>5,406,350</u>	<u>-</u>	<u>5,406,350</u>	<u>5,721,008</u>	<u>-</u>	<u>5,721,008</u>

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For the quarter ended March 31, 2019

		(Un-audited) March 31, 2019	(Audited) December 31, 2018
19. OTHER LIABILITIES	Note	(Rupees in '000)	
Mark-up/ return/ interest payable in local currency		103,820	102,093
Unearned commission on guarantees		540	692
Accrued expenses		14,722	14,741
Income tax payable		-	-
Sundry creditors	19.1	121,221	120,266
Branch adjustment account		2,711	912
Payable against employees' benefit plans			
Defined benefit pension		408,975	388,974
Defined benefit funded gratuity scheme		12,564	10,730
Unfunded compensated absences		84,016	80,304
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		19,072	17,780
Others		1,567	1,760
		<u>783,149</u>	<u>752,667</u>

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

		(Un-audited) March 31, 2019	(Audited) December 31, 2018
20. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS			
Surplus/(deficit) on revaluation of			
Available-for-sale securities			
- Federal Government securities	10.1	(404,734)	(437,444)
- Listed companies/mutual funds		2,112	2,522
		(402,622)	(434,922)
Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities			
- Listed companies/mutual funds		(739)	(883)
		<u>(403,361)</u>	<u>(435,805)</u>

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For the quarter ended March 31, 2019

		(Un-audited) March 31, 2019	(Audited) December 31, 2018
		(Rupees in '000)	
21.	CONTINGENCIES AND COMMITMENTS		
- Guarantees	21.1	116,295	143,409
- Commitments	21.2	5,082,899	4,962,001
- Other contingent liabilities	21.3	1,074,888	1,074,888
		<u>6,274,082</u>	<u>6,180,298</u>
21.1	Guarantees:		
Financial guarantees		-	-
Performance guarantees	21.1.1	116,295	143,409
Other guarantees		-	-
		<u>116,295</u>	<u>143,409</u>
21.1.1	This includes expired Letter of guarantees/performance aggregating to Rs. 72.153 million (Dec 31 2018: 77.464 million) for which formalities for return of original documents are in process.		
21.2	Commitments:		
Commitments in respect of:			
- forward government securities transactions	21.2.1	4,650,818	4,669,798
- forward lending	21.2.2	430,588	290,484
Commitments for acquisition of:			
- operating fixed assets		1,493	1,493
- intangible assets		-	226
Other commitments	21.2.3	-	-
		<u>5,082,899</u>	<u>4,962,001</u>
21.2.1	Commitments in respect of forward government securities transactions		
Sale and repurchase agreements		4,650,818	4,669,798
		<u>4,650,818</u>	<u>4,669,798</u>
21.2.2	Commitments in respect of forward lending		
Undrawn facilities		222,088	173,684
Commitments to extend credit		208,500	116,800
		<u>430,588</u>	<u>290,484</u>
21.2.3	Other commitments		
Bills for collection			
Payable in Pakistan		-	-
		<u>-</u>	<u>-</u>
21.3	Other Contingent liabilities	<u>1,074,888</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) has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals). The management of the Bank strongly believes and expects favourable outcome and therefore no provision has been made for this effect in the financial statements.	612,707	612,707

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	(Un-audited) March 31, 2019	(Audited) December 31, 2018
	(Rupees in '000)	
c) The Bank and the income tax department have filed an appeal before the Appellate Tribunal Inland Revenue against the appellate order of the Commissioner (Appeals), who had partly set aside the order of the Taxation officer, resulting in taxable income of Rs. 151.234 million and tax liability of Rs. 52.932 million against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4.249 million for the tax year 2008. Without prejudice to the appeal, the Bank has offered adjustment of said demand against Refunds available for tax year 2009. However no provision has been made in these financial statements as the management is confident of a favorable outcome.	6,163	6,163
d) The bank is in appeal before the Appellate Tribunal Inland Revenue against the amended assessment order for the tax year 2010, whereby the taxation officer had assessed income of Rs. 636.499 million and tax liability of Rs. 222.774 million as against income of Rs. 7.559 million and tax liability of Rs. 3.947 million admitted by the Bank. The CIR(A) decided the appeal partly in the Bank's favor while setting aside certain matters. the re-assessment has not yet been finalized by the taxation officer.	198,529	198,529
e) Income tax amounting to Rs. 17.598 million was withheld from payment of VSS to employees during the Tax Years 2005, 2006, 2008, 2009, 2010, 2011 and 2013 against which some employees of different organizations including SME Bank Ltd filed writ in the Supreme Court of Pakistan wherein leave to appeal accepted and status quo was maintained. Accordingly Income Tax withheld was not deposited with the Government Treasury. Meanwhile the tax authorities raised demand of Rs. 52.104 million u/s 161/205 of ITO, 2001 on 20-Apr-2017 which consist of Rs. 17.598 million and 34.506 million against principal and default surcharge respectively . The bank preferred an appeal before the Commissioner Inland Revenue (Appeals-I) who remanded the case back for fresh consideration of the facts on merit. The OT heard the case in pass in order for aggregate demand to Rs. 53.673 million. The provision of default surcharge Rs.36.076 million was not made ipso facto.	36,076	36,076
f) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205, treating the Bank as a taxpayer in default for alleged short deduction of withholding tax on mark-up/interest. Bank filed an appeal before Commissioner (Appeals), who has upheld the order of the OIR. Bank has filed second appeal before the ATIR, which is not yet fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad (OIR) issued an order u/s 161/205, treating the Bank as a taxpayer in default for alleged short deduction of withholding tax on mark-up/interest. The Bank filed an appeal before the Commissioner (Appeals), who has remanded back the case for denovo consideration. The tax demand has been nullified as a result of the Appellate Order. The OIR has issued notice to initiate appeal-effect/remand back proceedings. Response to the notice has been submitted. No further action has been taken by the OIR.	18,663	18,663
h) The Officer Inland Revenue, LTU, Islamabad issued an exparte order u/s 161/205, treating the Bank as a taxpayer in default for alleged shorting deduction of withholding tax on mark-up/interest. The Bank has filed an appeal before the Commissioner (Appeals), which is not yet fixed for hearing.	38,723	38,723
i) Back benefits and claims of staff/employees under litigation.	89,170	89,170

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For the quarter ended March 31, 2019

		March 31, 2019	March 31, 2018
	Note	(Rupees in '000)	
22. MARK-UP/ RETURN/ INTEREST EARNED			
On loans and advances to Customers			
Extended by:			
Defunct RDFC & SBFC		-	-
SME Bank Limited		64,525	61,365
		64,525	61,365
Employees		1,065	1,333
Financial Institution - SME Leasing Limited - a subsidiary company		3,695	3,257
		69,285	65,955
On investments in			
Held for trading securities		-	5,926
Available for sale securities		110,990	97,250
Held to maturity securities		868	7,576
		111,858	110,752
On deposits with financial institutions		120	68
On securities purchased under resale agreements		91	65
On clean lending		-	-
On call money lending		482	386
		181,836	177,226
23. MARK-UP/ RETURN/ INTEREST EXPENSED			
On deposits		109,812	81,651
On securities sold under repurchase agreements		127,624	69,692
On SBP Refinance Scheme		125	105
Brokerage and commission		348	681
Bank charges		49	99
		237,958	152,228
24. FEE & COMMISSION INCOME			
Branch Banking customer fees		572	532
Card related fees		92	71
Credit related fees		739	1,069
Commission on guarantees		401	1,201
Commission on remittances		24	41
Others		3	1
		1,831	2,915
25. GAIN / (LOSS) ON SECURITIES			
Realised	25.1	2	267
Unrealised - held for trading		-	(17)
		2	250
25.1 Realised gain on:			
Federal Government Securities - net		2	267
Shares		-	-
		2	267
26. OTHER INCOME			
Gain on sale of operating fixed assets - net		-	-
Others		44	1
		44	1

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For the quarter ended March 31, 2019

	March 31, 2019	March 31, 2018
27. OPERATING EXPENSES	(Rupees in '000)	
Total compensation expense	173,617	169,551
Property expense		
Rent & taxes	18,222	16,387
Insurance	468	514
Utilities cost	4,032	2,803
Security (including guards)	3,756	3,930
Repair & maintenance	1,482	1,531
Depreciation	195	195
Others	-	-
	28,155	25,360
Information technology expenses		
Software maintenance	1,254	949
Hardware maintenance	534	287
Depreciation	1,307	509
Amortisation	320	239
Network charges	2,144	626
Others	579	370
	6,138	2,980
Other operating expenses		
Directors' fees, allowances and other expenses	-	260
Legal and professional charges	782	1,855
Outsourced services costs	6,050	5,280
Travelling and conveyance	1,438	574
NIFT clearing charges	394	358
Depreciation	3,872	3,944
Training & development	295	214
Postage & courier charges	249	279
Communications	1,141	1,084
Stationery and printing	1,190	1,371
Marketing, advertisement & publicity	153	189
Donations	-	-
Auditors' remuneration	225	225
Vehicle running and maintenance expenses	1,369	1,697
Entertainment	585	687
Subscription, books and newspapers	1,118	1,308
Deposits premium expense	904	-
Loss on sale of operating fixed assets - net	32	56
Others	184	264
	19,981	19,645
	227,891	217,536

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		March 31, 2019	March 31, 2018
		(Rupees in '000)	
28. PROVISIONS & WRITE OFFS - NET			
Provisions for diminution in value of investment	10.2	-	47,747
Provisions against loans & advances	11.4	11,224	1,400
Other provisions / written off directly		-	-
against other assets	15.2.1	(224)	(950)
Bad debts written off directly		-	-
		<u>11,000</u>	<u>48,197</u>
29. TAXATION			
Current		2,385	2,341
Prior years		-	-
Deferred		(45,695)	(19,397)
		<u>(43,310)</u>	<u>(17,056)</u>
30. BASIC/ DILUTED LOSS PER SHARE			
Net loss after tax for the year		<u>(249,826)</u>	<u>(220,512)</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>(1.04)</u>	<u>(0.92)</u>

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.

31.1 On balance sheet financial instruments

		March 31, 2019 (un-audited)				
		FAIR VALUE				
Note		Level 1	Level 2	Level 3	Carrying / Notional Value	Total
(Rupees in '000)						
Financial assets measured at fair value						
- Investments						
	Government Securities (T bills and PIBs)	-	5,094,629	-	-	5,094,629
	Ordinary shares of listed companies/Mutual funds	4,284	-	-	-	4,284
	Ordinary shares of unlisted companies	-	-	-	26,470	26,470
Financial assets not measured at fair value						
	- Bank balances with treasury banks	31.2	-	-	327,911	327,911
	- Balances with other banks	31.2	-	-	1,957	1,957
	- Lending to financial institutions	31.2	-	-	100,000	100,000
	- Advances	31.2	-	-	2,118,264	2,118,264
	- Other assets	31.2	-	-	248,819	248,819
	- 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
(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	-	-	-	337,325	337,325
	- Balances with other banks	-	-	-	16,238	16,238
	- Lending to financial institutions	-	-	-	-	-
	- Advances	-	-	-	2,230,763	2,230,763
	- Other assets	-	-	-	168,584	168,584
	- Other Investment (COI/TDR)	-	-	-	35,000	35,000
	Subsidiary- SME Leasing Limited	-	-	-	80,748	80,748

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

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

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

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.

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

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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32. SEGMENT INFORMATION

32.1 Segment details with respect to Business Activities

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

	March 31, 2019 (un-audited)		
	Trading &	Commercial	Total
	Sales	Banking	
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	112,431	69,405	181,836
Inter segment revenue - net		36,813	36,813
Non mark-up/return/interest income	2	1,875	1,877
Total income	112,433	108,093	220,526
Segment direct expenses	132,732	333,117	465,849
Inter segment expenses allocation	36,813	-	36,813
Total expenses	169,545	333,117	502,662
Provisions	-	11,000	11,000
Loss before tax	(57,112)	(236,024)	(293,136)
	Trading &	Commercial	Total
	Sales	Banking	
	(Rupees in '000)		
Balance Sheet			
Cash & Bank balances	288,248	151,085	439,333
Investments	5,241,131	-	5,241,131
Net inter segment lending		1,634,924	1,634,924
Lending to financial institutions	100,000	-	100,000
Advances - Performing	-	1,913,228	1,913,228
- Non-performing	-	205,036	205,036
Others	670,923	613,674	1,284,597
Total Assets	6,300,302	4,517,947	10,818,249
Borrowings	4,785,102	20,936	4,806,038
Deposits & other accounts	-	5,406,350	5,406,350
Net inter segment borrowing	1,634,924	-	1,634,924
Others	410,414	471,767	882,181
Total Liabilities	6,830,440	5,899,053	12,729,493
Equity	(530,138)	(1,381,106)	(1,911,244)
Total Equity & liabilities	6,300,302	4,517,947	10,818,249
Contingencies & Commitments	4,650,818	1,623,264	6,274,082

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For the quarter ended March 31, 2019

	March 31, 2018 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	111,203	66,023	177,226
Inter segment revenue - net	-	34,717	34,717
Non mark-up/return/interest income	251	2,916	3,167
Total income	111,454	103,656	215,110
Segment direct expenses	74,780	294,034	368,814
Inter segment expenses allocation	34,717	-	34,717
Total expenses	109,497	294,034	403,531
Provisions	47,747	1,400	49,147
Loss before tax	(45,790)	(191,778)	(237,568)

	December 31, 2018 (Audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Balance Sheet			
Cash & Bank balances	260,427	199,650	460,077
Investments	5,765,155	-	5,765,155
Net inter segment lending	-	1,745,739	1,745,739
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	1,533,687	6,203,485

Assumptions used:

- Unallocatable assets representing 5.51% (December 31, 2018: 5.16%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.82% (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

33. RELATED PARTY TRANSACTIONS

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

[illegible]

SME BANK LIMITED

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

For the quarter ended March 31, 2019

	March 31, 2019 (Un-audited)						March 31, 2018 (Un-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
Rupees in '000												
Income												
Mark-up / return / interest earned	3,695		124	-	-	-	3,257	144	-	-	-	-
Fee and commission income	-		-	-	-	-	-	-	-	-	-	-
Expense												
Mark-up / return / interest paid	-		186	-	8,436	17,308	261	135	-	3,826	9,787	605
Fees and other expenses	-		-	-	-	-	-	21,540	260	-	-	-
Remuneration and allowances	-		19,819	-	-	-	-	-	-	-	-	-
Charge for the period relating to employees benefit plans	-		-	-	34,933	-	-	-	-	-	27,790	-

	Description		Interest rate	
Principal terms of loan facility to SMEL.	Running finance facility upto Rs. 150 million (reviewable annually)		1 year Kibor + 3.50%	
Principal terms of deposit to Equity Participation Fund	Remunerative deposits		8.0% to 8.25%	
Principal terms of deposit to Employee benefit plan	Remunerative deposits		6.80% to 10.80%	
Principal terms of deposit to Employee provident fund	Remunerative deposits		8.0% to 8.25%	

SME Bank Limited

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For the quarter ended March 31, 2019

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)	(Audited)
	March 31, 2019	December 31, 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)	(4,106,916)	(3,857,090)
	(1,507,883)	(1,258,057)
Less: Adjustments		
Goodwill/intangible Assets	2,307	2,401
Investment in equity of subsidiary	80,748	80,748
Deficit on revaluation of available for sale investments	403,361	435,805
	486,416	518,954
<i>Total tier I capital</i>	(1,994,299)	(1,777,011)
<i>Tier II capital</i>	15	25
<i>Eligible tier III capital</i>	-	-
Total regulatory capital	(1,994,284)	(1,776,986)
Risk-weighted exposures		
	March 31, 2019	December 31, 2018
	Book Value	Book Value
	Risk Adjusted Value	Risk Adjusted Value
	(Rupees '000)	
<i>Credit risk</i>		
Balance sheet items:		
Cash and other liquid assets	439,333	460,077
Investments/ lending to financial institutions	5,341,131	5,765,155
Loans and advances	2,118,264	2,230,763
Fixed assets	51,632	57,777
Deferred tax assets	571,534	525,695
Other assets	661,431	599,029
	9,183,325	9,638,496
Off balance sheet items		
Weighted Non-funded exposures	89,761	112,676
	89,761	112,676
Credit risk-weighted exposures	9,273,086	9,751,172
Market risk	1,019,321	1,037,278
Market risk-weighted exposures	-	-
Total risk-weighted exposures	3,345,077	3,404,760
<i>Capital adequacy ratio credit risk</i> [(a) / (b) x 100]	-85.75%	-75.06%
<i>Total Capital adequacy ratio</i> [(a) / (c) x 100]	-59.62%	-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 under BASEL II till restructuring/privatization and has granted exemption from implementation of Basel III Capital Instructions till restructuring/privatization vide SBP letter # BPRD/BA&CPD/646/000886/16 dated January 12, 2016. Accordingly, the Bank computes capital adequacy ratio under BASEL I and SBP has allowed exemption in meeting the minimum CAR requirements of 10% till December 31, 2019 or completion of restructuring/ privatization of the Bank, whichever is earlier vide SBP letter No. BPRD/BA&CPD/646/332/20 dated January 6, 2020.

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35. DATE OF AUTHORIZATION

These Condensed Interim 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