



**CONDENSED INTERIM
FINANCIAL STATEMENTS**
(UNAUDITED)

**FOR THE QUARTER ENDED
MARCH 31, 2020**


SME BANK LIMITED
Condensed Interim Unconsolidated Statement of Financial Position
As at March 31, 2020

		(Un-audited) March 31, 2020	(Audited) December 31, 2019
		(Rupees in '000)	
	Note		
ASSETS			
Cash and balances with treasury banks	7	366,221	650,565
Balances with other banks	8	2,174	4,537
Lendings to financial institutions		-	-
Investments	9	6,089,944	5,739,975
Advances	10	1,690,311	1,907,995
Fixed assets	11	514,749	532,112
Intangible assets	12	1,011	1,331
Deferred tax assets - net	13	757,475	752,294
Other assets	14	642,423	563,192
		10,064,308	10,152,001
LIABILITIES			
Bills payable	15	48,323	51,543
Borrowings	16	4,461,838	3,654,771
Deposits and other accounts	17	6,710,552	7,500,708
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,523,635	1,457,424
		12,744,348	12,664,446
NET LIABILITIES		(2,680,040)	(2,512,445)
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Deficit on revaluation of assets - net of tax	19	(148,952)	(300,316)
Unappropriated loss		(5,130,121)	(4,811,162)
		(2,680,040)	(2,512,445)
CONTINGENCIES AND COMMITMENTS			

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, 2020

	Note	March 31, 2020 (Rupees in '000)	March 31, 2019
Mark-up/ Return/ Interest Earned	21	232,012	181,836
Mark-up/ Return/ Interest Expensed	22	340,558	237,958
Net Mark-up/ Interest (Loss)/Income		(108,546)	(56,122)
NON MARK-UP/ INTEREST INCOME			
Fee and Commission income	23	2,295	1,831
Dividend income		-	-
Foreign Exchange income		-	-
Income / (loss) from derivatives		-	-
Gain/(loss) on securities	24	-	2
Other income	25	101	44
Total non-markup/ interest income		2,396	1,877
Total (Loss)/Income		(106,150)	(54,245)
NON MARK-UP/ INTEREST EXPENSES			
Operating expenses	26	225,637	227,891
Workers Welfare Fund		-	-
Other charges	27	17,224	-
Total non-markup/ interest expenses		242,861	227,891
Loss Before Provisions		(349,011)	(282,136)
Provisions and write offs - net	28	(28,893)	11,000
LOSS BEFORE TAXATION		(320,118)	(293,136)
Taxation	29	(1,159)	(43,310)
LOSS AFTER TAXATION		(318,959)	(249,826)
Basic/diluted (loss) per share (Rupees)	30	(1.33)	(1.04)

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, 2020**

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
	(Rupees in '000)	
Net loss after taxation	(318,959)	(249,826)
Other comprehensive income		
Items that may be reclassified to profit and loss account in subsequently periods:		
Movement in deficit on revaluation of investment - net	151,364	32,444
Items that will not be reclassified to profit and loss account in subsequently periods:		
Remeasurement gain/(loss) on defined benefit obligations - net	-	-
Total comprehensive income/(loss)	<u>(167,595)</u>	<u>(217,382)</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 Cash Flow Statement (Un-audited)
For the quarter ended March 31, 2020

	March 31, 2020	March 31, 2019
Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(320,118)	(293,136)
Less: Dividend income	-	-
	(320,118)	(293,136)
Adjustments:		
Depreciation	17,516	5,374
Amortization	320	320
Provision and write-offs	(28,893)	11,000
Loss/(Gain) on sale of fixed assets	(101)	-
Interest on leased liability	17,124	-
Finance charges on leased assets	-	-
	5,966	16,694
	(314,152)	(276,442)
(Increase)/ Decrease in operating assets		
Lendings to financial institutions	-	-
Held-for-trading securities	-	-
Advances	247,150	101,275
Other assets (excluding advance taxation)	(82,928)	(64,143)
	164,222	37,132
Increase/ (Decrease) in operating liabilities		
Bills payable	(3,220)	(19,756)
Borrowings from financial institutions	807,067	66,143
Deposits	(790,156)	(314,658)
Other liabilities (excluding current taxation)	66,214	30,482
	79,905	(237,789)
	(70,025)	(477,099)
	(500)	(420)
	(70,525)	(477,519)
Income tax paid		
Net cash flow (used in)/from operating activities		
CASH FLOW FROM INVESTING ACTIVITIES		
Net (investment)/disinvestment in available-for-sale securities	(199,003)	556,324
Net investment in held-to-maturity securities	-	-
Dividend received	-	-
Investment in operating fixed assets	(455)	(349)
Proceeds from sale of fixed assets	403	800
Net cash flow from / (used in) investing activities	(199,055)	556,775
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligation	(17,127)	-
Net cash flow from / (used in) financing activities	(17,127)	-
Increase / (Decrease) in cash and cash equivalents	(286,707)	79,256
Cash and cash equivalents at beginning of the period	655,102	460,077
Cash and cash equivalents at end of the period	368,395	539,333

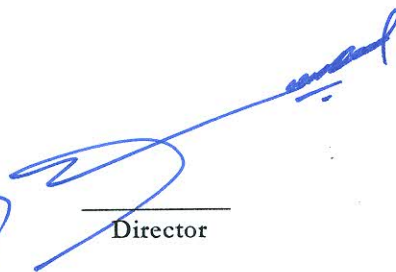
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Chief Financial Officer


President/CEO


Director


Director


Director

SME BANK LIMITED

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

For the quarter ended March 31, 2020

	Share Capital	Statutory reserve	Surplus/(deficit) on revaluation of Investments	Unappropriated loss	Total
	(Rupees in '000)				
Balance as at January 01, 2019	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)
Comprehensive income for the nine months period ended December 31, 2019					
Loss after taxation for the period	-	-	-	(822,483)	(822,483)
Other comprehensive income - net	-	-	103,045	118,237	221,282
Balance as at December 31, 2019	2,392,507	206,526	(300,316)	(4,811,162)	(2,512,445)
Comprehensive income for the three months period ended March 31, 2020					
Loss after taxation for the period	-	-	-	(318,959)	(318,959)
Other comprehensive income - net	-	-	151,364	-	151,364
Balance as at March 31, 2020	2,392,507	206,526	(148,952)	(5,130,121)	(2,680,040)

The annexed notes from 1 to 35 form an integral part of these condensed interim unconsolidated financial statements.



Chief Financial Officer



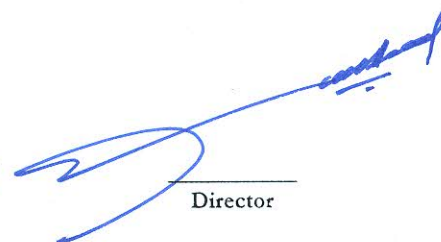
President/CEO



Director



Director



Director

SME BANK LIMITED

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

For the quarter ended March 31, 2020

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 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 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;

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

4. BASIS OF MEASUREMENT

This condensed interim financial information has 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 information are same as those applied in preparing the financial statements of the Bank for the year ended December 31, 2019.

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, do not have any significant effect on the Bank's operations. These include:

IAS 1 Presentation of Financial Statements (Amendments)

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors (Amendments)

IFRS 3 Business Combinations (Amendments)

5.3 Standards, interpretations and amendments to approved accounting standards that are not yet effective

IFRS 9 'Financial Instruments' - SBP vide its BPRD Circular No. 04 of 2019 dated 23 October 2019 directed the banks in Pakistan to implement IFRS 9 with effect from 01 January 2021. IFRS 9 replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. SBP has directed the Bank to conduct an impact

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, 2019.

The COVID-19 pandemic outbreak has resulted in consequences on economy, health and society. The COVID-19 pandemic has significantly impacted the markets around the globe and may continue to do so in the coming months of 2020, affecting the earnings and cash flows of businesses. The scale and duration of the COVID-19 pandemic remains uncertain till date. In addition, SBP has issued circulars allowing certain regulatory relief like reduction in margin requirements, Capital Conservation Buffer (CCB), relief in principal repayments / mark-up and recording of impairment in securities etc. to dampen the effect of the COVID-19. The management is continuously assessing the potential impact.

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.

6.2 Going concern assumption and minimum capital requirement

During the current period, the Bank incurred a net loss of Rs. 318.959 million (March 31, 2019: 249.826 million) resulting into accumulated losses of Rs. 5,130.121 million (December 31, 2019: Rs. 4,811.162 million). As of March 31, 2020, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 2,680.040 million (December 31, 2019: Rs. 2,512.445 million) indicating the complete erosion of the Bank's equity, which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to above conditions, 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%. As of current the balance sheet date the capital shortfall as against the MCR was Rs. 12,531.088 million (December 31, 2019: Rs. 12,212.129 million) whereas CAR stood at negative 79.38%. The continued stressed financial conditions caused a further down grade of Bank's last reported credit rating from B- (single B-) to CCC in long term, signifying a high risk of default, issued on November 22, 2018 by Pakistan Credit Rating Agency Limited (PACRA). The foregoing results reflect a further deterioration in the financial condition of the Bank which is attributable to the absence of financial support and insufficient revenue streams. Based on the operational results SBP has granted exemption from meeting the MCR and CAR till December 31, 2019 or restructuring/privatization, whichever is earlier, subject to the submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds 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. Having regard to the above, the Government of Pakistan (GoP) being the majority shareholder with 93.88% shareholding in the Bank has already 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 of SBP for their pre-qualification and fit and proper testing. 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, for which MoF and the management of the Bank hopeful for 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. Till the privatization of the Bank 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 information is appropriate and, therefore, have prepared on a going concern basis.

SME BANK LIMITED
Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the quarter ended March 31, 2020

	Note	(Un-audited) March 31, 2020	(Audited) December 31, 2019
7. CASH AND BALANCES WITH TREASURY BANKS			
(Rupees in '000)			
In hand			
Local currency		90,664	123,638
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in :			
Local currency current accounts	7.1	264,719	468,270
With National Bank of Pakistan in :			
Local currency current accounts		10,408	58,486
Prize bonds		430	171
		<u>366,221</u>	<u>650,565</u>
7.1 Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.			
8. BALANCES WITH OTHER BANKS			
(Rupees in '000)			
In Pakistan:			
On current accounts		500	500
On deposit accounts		11,674	14,037
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>2,174</u>	<u>4,537</u>
8.1 Particulars of provision for doubtful placement with a bank			
Opening balance		(10,000)	(10,000)
Charge for the year		-	-
Reversals		-	-
		<u>-</u>	<u>-</u>
Closing balance		<u>(10,000)</u>	<u>(10,000)</u>
Provision for doubtful balance is in respect of deposit of Rs. 10 million with Indus Bank Limited which is under liquidation.			

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the quarter ended March 31, 2020

9. INVESTMENTS

9.1 Investment by type:

Note

Rupees in 000

Rupees in 000

Available-for-sale securities

Federal Government Securities

Shares

Mutual Funds

9.1.1

Held-to-maturity securities

Non Government Debt Securities

- Term Deposit Receipts (TDRs) *

- Certificates of Investments (COIs)

Subsidiary

Total Investment

* TDR of Rs. 35 million (Dec 31, 2019: 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)

March 31, 2020 (un-audited)				December 31, 2019 (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			
6,094,235	-	(149,456)	5,944,779	5,895,232	-	(301,559)	5,593,673
42,542	(15,770)	1,269	28,041	42,542	(15,770)	1,847	28,619
1,870	-	(494)	1,376	1,870	-	65	1,935
6,138,647	(15,770)	(148,681)	5,974,196	5,939,644	(15,770)	(299,647)	5,624,227
Rupees in 000				Rupees in 000			
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
6,389,866	(151,241)	(148,681)	6,089,944	6,190,863	(151,241)	(299,647)	5,739,975

(Un-audited)	(Audited)
March 31, 2020	December 31, 2019
Rupees in 000	
148,954	-
4,273,083	3,560,826
4,422,037	3,560,826

SME BANK LIMITED

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

For the quarter ended March 31, 2020

9.2 Provision for diminution in value of investments

9.2.1	Opening balance		
	Charge / reversals		
	Charge for the year		
	Reversal for the year		
	Reversal on disposals		

Transfers - net
Amount written off
Closing balance

(Un-audited) March 31, 2020	(Audited) December 31, 2019
Rupees in 000	
151,241	171,241

-	-
-	-
-	(20,000)
-	(20,000)
-	-
-	-

151,241	151,241
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9.2.2 Particulars of provision against debt securities category of classification

Domestic
Other assets especially mentioned
Substandard
Doubtful
Loss

(Un-audited) March 31, 2020	(Audited) December 31, 2019
NPI	NPI
Provision	Provision

Rupees in 000

-	-
-	-
762	762
762	762

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Statements (un-audited)
For the quarter ended March 31, 2020

10. ADVANCES

Note

	Performing		Non Performing		Total	
	(Un-audited) March 31, 2020	(Audited) December 31, 2019	(Un-audited) March 31, 2020	(Audited) December 31, 2019	(Un-audited) March 31, 2020	(Audited) December 31, 2019
Rupees in '000						
Loans, cash credits, running finances, etc- In Pakistan						
Extended by:						
Defunct RDFC & SBFC	-	-	4,882,125	4,882,321	4,882,125	4,882,321
SME Bank Ltd	1,374,261	1,689,296	576,374	505,657	1,950,635	2,194,953
Due from employees	77,517	80,338	6,188	6,188	83,705	86,526
	1,451,778	1,769,634	5,464,687	5,394,166	6,916,465	7,163,800
Net investment in finance lease	280	280	973	973	1,253	1,253
Advances - gross	1,452,058	1,769,914	5,465,660	5,395,139	6,917,718	7,165,053
Provision for non-performing advances						
Specific provision	-	-	(5,227,402)	(5,257,050)	(5,227,402)	(5,257,050)
General provision	(5)	(8)	-	-	(5)	(8)
	(5)	(8)	(5,227,402)	(5,257,050)	(5,227,407)	(5,257,058)
Advances - net of provision	1,452,053	1,769,906	238,258	138,089	1,690,311	1,907,995

10.1 Particulars of Advances (Gross)	(Un-audited) March 31, 2020		(Audited) December 31, 2019	
	Rupees in '000			
In local currency	6,917,718	7,165,053		
In foreign currencies	-	-		
	6,917,718	7,165,053		

10.2 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:

SME BANK LIMITED

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

For the quarter ended March 31, 2020

- 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 SBIFC & RDIFC outstanding as on June 30, 2010 (Except outstanding loans of RDIFC 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. SME 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 SME Bank to books of NBP but NBP did not respond.

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.

- 10.3 Advances include Rs. 5,465.660 million (Dec 31, 2019: Rs. 5,395.139 million) which have been placed under non-performing status as detailed below:**

Category of Classification	(Un-audited) March 31, 2020		(Audited) December 31, 2019	
	Non Performing Loans	Provision	Non Performing Loans	Provision
(Rupees in '000)				
Domestic				
Other Assets Especially Mentioned	68,658	403	6,613	2
Substandard	57,149	3,673	10,763	36
Doubtful	34,742	287	43,808	326
Loss	5,305,111	5,223,039	5,333,955	5,256,686
	5,465,660	5,227,402	5,395,139	5,257,050

10.4 Particulars of provision against advances

	March 31, 2020 (un-audited)			December 31, 2020 (audited)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	5,257,050	8	5,257,058	5,257,662	25	5,257,687
Charge/(Reversal)						
Charge for the year	11,354		11,354	24,874		24,874
Reversal for the year	(40,817)	(3)	(40,820)	(24,229)	(17)	(24,246)
	(29,463)	(3)	(29,466)	645	(17)	628
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(185)	-	(185)	(1,257)	-	(1,257)
Closing balance	5,227,402	5	5,227,407	5,257,050	8	5,257,058

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

- 10.4.2** The FSV benefit availed in last years has been increased by Rs. 14.072 million (net of FSV benefit availed during the period), which has resulted in decrease charge for specific provision for the period ended March 31, 2020 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. 14.072 million (March 31, 2019: increased by Rs. 18.825 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 116.235 million (December 31, 2019: Rs. 102.163 million).

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For the quarter ended March 31, 2020

	Note	(Un-audited) March 31, 2020	(Audited) December 31, 2019
		(Rupees in '000)	
11. FIXED ASSETS			
Property and equipment	11.1	29,762	34,519
Right of use assets (ROU)	11.2	484,987	497,593
		<u>514,749</u>	<u>532,112</u>
11.1 Property and equipment			
Net book value at the beginning of the period/year		34,519	55,376
Additions		455	505
Disposals		(302)	(800)
Depreciation		(4,910)	(20,562)
Net book value at the end of their period/year		<u>29,762</u>	<u>34,519</u>
11.2 Right of use assets:			
Effect of initial application of IFRS		497,593	547,718
Additions		-	-
Depreciation charge		(12,606)	(50,125)
Closing net book value		<u>484,987</u>	<u>497,593</u>
		(Un-audited) March 31, 2020	(Audited) December 31, 2019
		(Rupees in '000)	
12. INTANGIBLE ASSETS			
Computer Software	12.1	1,011	1,331
		<u>1,011</u>	<u>1,331</u>
12.1 Computer Software			
Net book value at the beginning of the period/year		1,331	2,401
Additions		-	226
Disposals		-	-
Amortizations		(320)	(1,296)
Net book value at the end of their period/year		<u>1,011</u>	<u>1,331</u>
		(Un-audited) March 31, 2020	(Audited) December 31, 2019
		(Rupees in '000)	
13. DEFERRED TAX ASSET - NET			
Deferred tax asset		757,746	752,963
Deferred tax (liability)		(271)	(669)
		<u>757,475</u>	<u>752,294</u>
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.		

SME Bank Limited

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For the quarter ended March 31, 2020

		(Un-audited) March 31, 2020	(Audited) December 31, 2019
		(Rupees in '000)	
14. OTHER ASSETS			
Income/ mark-up accrued in local currency - net of provision	14.1	238,242	168,490
Advances, deposits, advance rent and other prepayments		37,679	24,279
Advance Taxation	14.2	205,164	208,288
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured		5,428	5,412
Receivable from NBP		2,171	1,853
Receivable from subsidiary company		2,148	2,212
Receivable from Equity Participation Fund		611	611
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		75,246	75,742
		<u>760,103</u>	<u>680,301</u>
Less: Provision held against other assets	14.4	117,680	117,109
Other assets (net of provision)		<u>642,423</u>	<u>563,192</u>
14.1	This balance has been arrived at after adjusting interest in suspense of Rs. 4,051.968 million (2019: Rs. 4,066.115 million).		
14.2	This include refunds aggregating to Rs. 232.599 million due from government. In respect of tax years 2003 and 2004 the tax authorities disallowed the Bank's claims for provisions for bad debts and SBP's share in profits of the Bank. Subsequently, the Appellate Tribunal Inland Revenue (ATIR) through its order dated February 10, 2011 has ruled in favor of the Bank which results in creation of refunds of Rs. 80.059 million and Rs. 152.54 million for tax years 2003 and 2004 respectively. Thereafter, against the referred judgement of ATIR the tax authorities filed references before the Islamabad High Court which are pending adjudication to date. 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(Dec 31, 2019: Rs. 224.368 million)		

SME Bank Limited

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

For the quarter ended March 31, 2020

	(Un-audited) March 31, 2020	(Audited) December 31, 2019
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	44,034	43,461
Legal charges recoverable from borrowers- SBFC & RDFC	22,659	22,661
Trading right entitlement certificate- TREC	21,560	21,560
Others	1,933	1,933
	<u>117,680</u>	<u>117,109</u>
14.4.1 Movement in provision held against other assets		
Opening balance	117,109	117,095
Charge for the year	1,546	3,054
Reversals	(973)	(3,040)
	573	14
Transferred to NBP	(2)	-
Closing balance	<u>117,680</u>	<u>117,109</u>

SME BANK LIMITED

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

For the quarter ended March 31, 2020

	Note	(Un-audited) March 31, 2020	Audited) December 31, 2019
15. BILLS PAYABLE			
(Rupees in '000)			
In Pakistan		48,323	51,543
Outside Pakistan		-	-
		<u>48,323</u>	<u>51,543</u>
16. BORROWINGS			
(Rupees in '000)			
Secured			
Repurchase agreement borrowings			
State Bank of Pakistan	16.1	1,412,607	1,137,846
Financial Institutions	16.1	2,958,197	2,442,609
		<u>4,370,804</u>	<u>3,580,455</u>
Unsecured			
Borrowing from State Bank of Pakistan			
Financing facility for storage of agri produce	16.2	91,034	74,316
		<u>4,461,838</u>	<u>3,654,771</u>

16.1 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 11.13% to 13.75% (Dec 31, 2019: 13.38% to 13.75%) per annum for period upto three months (Dec 31, 2019: upto two months). 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 Agri 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

March 31, 2020 (un-audited)			December 31, 2019 (audited)		
In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total
(Rupees in '000)					

Customers

Current accounts	618,141	-	618,141	499,200	-	499,200
Savings deposits	2,128,228	-	2,128,228	3,153,652	-	3,153,652
Term deposits	3,354,523	-	3,354,523	3,207,339	-	3,207,339
Margin accounts	71,699	-	71,699	112,398	-	112,398
	<u>6,172,591</u>	<u>-</u>	<u>6,172,591</u>	<u>6,972,589</u>	<u>-</u>	<u>6,972,589</u>

Financial Institutions

Current accounts	24	-	24	24	-	24
Savings deposits	481,537	-	481,537	471,695	-	471,695
Term deposits	56,400	-	56,400	56,400	-	56,400
Margin accounts	-	-	-	-	-	-
	<u>537,961</u>	<u>-</u>	<u>537,961</u>	<u>528,119</u>	<u>-</u>	<u>528,119</u>
	<u>6,710,552</u>	<u>-</u>	<u>6,710,552</u>	<u>7,500,708</u>	<u>-</u>	<u>7,500,708</u>

SME Bank Limited

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For the quarter ended March 31, 2020

		(Un-audited) March 31, 2020	(Audited) December 31, 2019
18. OTHER LIABILITIES	Note	(Rupees in '000)	
Mark-up/ return/ interest payable in local currency		281,907	218,915
Unearned commission on guarantees		2,150	1,875
Accrued expenses		12,141	11,819
Income tax payable		-	-
Sundry creditors	18.1	155,181	172,039
Branch adjustment account		412	586
Payable against employees' benefit plans			
Defined benefit pension		381,270	370,155
Defined benefit funded gratuity scheme		15,653	14,172
Unfunded compensated absences		98,900	95,297
Security deposits against lease		280	280
Leased liability against right of use assets		538,753	538,756
Employees' VSS payments withheld		12,603	12,603
Income tax withheld payable		22,672	19,311
Others		1,713	1,616
		<u>1,523,635</u>	<u>1,457,424</u>

18.1 This include Rs. 90.6 million (Dec 31, 2019: 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. 53.396 million (Dec 31, 2019: Rs. 72.847 million).

	(Un-audited) March 31, 2020	(Audited) December 31, 2019
19. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS	(Rupees in '000)	
Surplus/(deficit) on revaluation of		
Available-for-sale securities		
- Federal Government securities	(149,456)	(301,559)
- Listed companies/mutual funds	775	1,912
	(148,681)	(299,647)
Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities		
- Listed companies/mutual funds	(271)	(669)
	<u>(148,952)</u>	<u>(300,316)</u>

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For the quarter ended March 31, 2020

		(Un-audited) March 31, 2020	(Audited) December 31, 2019
		(Rupees in '000)	
20.	CONTINGENCIES AND COMMITMENTS		
- Guarantees	20.1	259,640	261,582
- Commitments	20.2	4,720,694	3,842,670
- Other contingent liabilities	20.3	1,136,759	1,136,759
		<u>6,117,093</u>	<u>5,241,011</u>
20.1	Guarantees:		
Financial guarantees		-	-
Performance guarantees	20.1.1	259,640	261,582
Other guarantees		-	-
		<u>259,640</u>	<u>261,582</u>
20.1.1	This includes expired Letter of guarantees/performance aggregating to Rs. 66.693 million (Dec 31, 2019: 34.142 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	4,422,037	3,560,826
- forward lending	20.2.2	297,421	280,608
Commitments for acquisition of:			
- operating fixed assets		987	987
- intangible assets		249	249
Other commitments	20.2.3	-	-
		<u>4,720,694</u>	<u>3,842,670</u>
20.2.1	Commitments in respect of forward government securities transactions		
Sale and repurchase agreements		4,422,037	3,560,826
		<u>4,422,037</u>	<u>3,560,826</u>
20.2.2	Commitments in respect of forward lending		
Undrawn facilities		245,461	174,708
Commitments to extend credit		51,960	105,900
		<u>297,421</u>	<u>280,608</u>
20.2.3	Other commitments		
Bills for collection			
Payable in Pakistan		-	-
		<u>-</u>	<u>-</u>
20.3	Other Contingent liabilities	<u>1,136,759</u>	<u>1,136,759</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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For the quarter ended March 31, 2020

	(Un-audited) March 31, 2020	(Audited) December 31, 2019
	(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 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 # 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 Appellate Tribunal Inland Revenue 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 Appellate Tribunal Inland Revenue along with stay application to keep the recovery proceedings in abeyance. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad (OIR) issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the	18,663	18,663
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. The Bank has filed an appeal against this impugned order before the Commissioner (Appeals), which is not yet fixed for hearing.	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 our favor vide Order # ITA No.857/IB/2006 dated 05-Apr-2007. Now the Tax Department has filed Income Tax Reference with the Islamabad High Court having # I.T.R. 48 of 2007.	118,721	118,721
j) Back benefits and claims of staff/employees under litigation.	32,320	32,320

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

For the quarter ended March 31, 2020

		March 31, 2020	March 31, 2019
		(Rupees in '000)	
21. MARK-UP/ RETURN/ INTEREST EARNED	Note		
On loans and advances to Customers			
Extended by:			
Defunct RDFC & SBFC		-	-
SME Bank Limited		90,314	64,525
		<u>90,314</u>	<u>64,525</u>
Employees		912	1,065
Financial Institution - SME Leasing Limited - a subsidiary company		6,188	3,695
		<u>97,414</u>	<u>69,285</u>
On investments in			
Available for sale securities		133,218	110,990
Held to maturity securities		1,063	868
		<u>134,281</u>	<u>111,858</u>
On deposits with financial institutions		143	120
On securities purchased under resale agreements		-	91
On clean lending		140	-
On call money lending		34	482
		<u>232,012</u>	<u>181,836</u>
22. MARK-UP/ RETURN/ INTEREST EXPENSED			
On deposits		202,591	109,812
On securities sold under repurchase agreements		137,076	127,624
On SBP Refinance Scheme		500	125
Brokerage and commission		337	348
Bank charges		54	49
		<u>340,558</u>	<u>237,958</u>
23. FEE & COMMISSION INCOME			
Branch Banking customer fees		764	572
Card related fees		39	92
Credit related fees		435	739
Commission on guarantees		1,027	401
Commission on remittances		24	24
Others		6	3
		<u>2,295</u>	<u>1,831</u>
24. GAIN / (LOSS) ON SECURITIES			
Realised	24.1	-	2
Unrealised - held for trading		-	-
		<u>-</u>	<u>2</u>
24.1 Realised gain on:			
Federal Government Securities - net		-	2
Shares		-	-
		<u>-</u>	<u>2</u>
25. OTHER INCOME			
Gain on sale of operating fixed assets - net		101	-
Others		-	44
		<u>101</u>	<u>44</u>

SME Bank Limited

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

For the quarter ended March 31, 2020

	March 31, 2020	March 31, 2019
26. OPERATING EXPENSES	(Rupees in '000)	
Total compensation expense	175,559	173,617
Property expense		
Rent & taxes	2,356	18,222
Insurance	262	468
Utilities cost	4,406	4,032
Security (including guards)	3,938	3,756
Repair & maintenance	1,517	1,482
Depreciation	12,801	195
Others	-	-
	25,280	28,155
Information technology expenses		
Software maintenance	1,333	1,254
Hardware maintenance	421	534
Depreciation	1,277	1,307
Amortisation	320	320
Network charges	3,667	2,690
Others	37	33
	7,055	6,138
Other operating expenses		
Directors' fees, allowances and other expenses	-	-
Legal and professional charges	750	782
Outsourced services costs	6,286	6,050
Travelling and conveyance	574	1,438
NIFT clearing charges	454	394
Depreciation	3,438	3,872
Training & development	223	295
Postage & courier charges	193	249
Communications	1,118	1,141
Stationery and printing	927	1,190
Marketing, advertisement & publicity	108	153
Donations	-	-
Auditors' remuneration	261	225
Vehicle running and maintenance expenses	940	1,369
Entertainment	597	585
Subscription, books and newspapers	885	1,118
Deposits premium expense	904	904
Loss on sale of operating fixed assets - net	-	32
Others	85	184
	17,743	19,981
	225,637	227,891

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For the quarter ended March 31, 2020

	March 31, 2020	March 31, 2019
	(Rupees in '000)	
27. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	100	-
Right of use assets - unwinding of PV	17,124	-
	<u>17,224</u>	<u>-</u>
28. PROVISIONS & WRITE OFFS - NET		
Provisions against lending to financial institutions	-	-
Provisions for diminution in value of investment	-	-
Provisions against loans & advances	(29,466)	11,224
Other provisions / written off directly	-	-
against other assets	573	(224)
Bad debts written off directly	-	-
	<u>(28,893)</u>	<u>11,000</u>
29. TAXATION		
Current	3,624	2,385
Prior years	-	-
Deferred	(4,783)	(45,695)
	<u>(1,159)</u>	<u>(43,310)</u>
30. BASIC/ DILUTED LOSS PER SHARE	March 31, 2020	March 31, 2019
	(Rupees in '000)	
Net loss after tax for the year	<u>(318,959)</u>	<u>(249,826)</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>(1.33)</u>	<u>(1.04)</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, 2020 (un-audited)					
Note	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)	-	5,944,779	-	-	5,944,779
Ordinary shares of listed companies/Mutual funds	2,947	-	-	-	2,947
Ordinary shares of unlisted companies	-	-	-	26,470	26,470
Financial assets not measured at fair value					
- Bank balances with treasury banks	31.2	-	-	275,557	275,557
- Balances with other banks	31.2	-	-	2,174	2,174
- Lending to financial institutions	31.2	-	-	-	-
- Advances	31.2	-	-	1,690,311	1,690,311
- Other assets	31.2	-	-	245,190	245,190
-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, 2019 (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)	-	5,593,673	-	-	5,593,673
Ordinary shares of listed companies/Mutual funds	4,084	-	-	-	4,084
Ordinary shares of unlisted companies	-	-	-	26,470	26,470
Financial assets not measured at fair value					
- Bank balances with treasury banks	-	-	-	526,927	526,927
- Balances with other banks	-	-	-	4,537	4,537
- Lending to financial institutions	-	-	-	-	-
- Advances	-	-	-	1,907,995	1,907,995
- Other assets	-	-	-	176,185	176,185
-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).

SME BANK LIMITED

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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, 2020 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	134,455	97,557	232,012
Inter segment revenue - net	-	83,999	83,999
Non mark-up/return/interest income	-	2,396	2,396
Total income	134,455	183,952	318,407
Segment direct expenses	142,588	440,831	583,419
Inter segment expenses allocation	83,999	-	83,999
Total expenses	226,587	440,831	667,418
Provisions	-	(28,893)	(28,893)
Loss before tax	(92,132)	(227,986)	(320,118)
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Balance Sheet			
Cash & Bank balances	213,211	155,184	368,395
Investments	6,089,944	-	6,089,944
Net inter segment lending	-	2,174,974	2,174,974
Lending to financial institutions	-	-	-
Advances - Performing	-	1,452,053	1,452,053
- Non-performing	-	238,258	238,258
Others	732,794	1,182,864	1,915,658
Total Assets	7,035,949	5,203,333	12,239,282
Borrowings	4,370,804	91,034	4,461,838
Deposits & other accounts	-	6,710,552	6,710,552
Net inter segment borrowing	2,174,974	-	2,174,974
Others	424,878	1,147,080	1,571,958
Total Liabilities	6,970,656	7,948,666	14,919,322
Equity	65,293	(2,745,333)	(2,680,040)
Total Equity & liabilities	7,035,949	5,203,333	12,239,282
Contingencies & Commitments	4,422,037	1,695,056	6,117,093

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For the quarter ended March 31, 2020

	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)

	December 31, 2019 (Audited)		
	Trading &	Commercial	Total
	Sales	Banking	
	(Rupees in '000)		
Balance Sheet			
Cash & Bank balances	432,679	222,423	655,102
Investments	5,739,975	-	5,739,975
Net inter segment lending		3,182,440	3,182,440
Lending to financial institutions	-	-	-
Advances - Performing	-	1,769,906	1,769,906
- Non-performing	-	138,089	138,089
Others	663,285	1,185,644	1,848,929
Total Assets	6,835,939	6,498,502	13,334,441
Borrowings	3,580,455	74,316	3,654,771
Deposits & other accounts	-	7,500,708	7,500,708
Net inter segment borrowing	3,182,440	-	3,182,440
Others	415,993	1,092,974	1,508,967
Total Liabilities	7,178,888	8,667,998	15,846,886
Equity	(342,949)	(2,169,496)	(2,512,445)
Total Equity & liabilities	6,835,939	6,498,502	13,334,441
Contingencies & Commitments	3,560,826	1,680,185	5,241,011

Assumptions used:

- Unallocatable assets representing 6.40% (December 31, 2019: 6.19%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.22% (December 31, 2019: 5.26%) 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

For the quarter ended March 31, 2020

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]

For the quarter ended March 31, 2020

Quarter ended March 31, 2020											
March 31, 2020 (un-audited)						March 31, 2019 (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						Rupees in '000					
Income											
Mark-up / return / interest earned	6,188	123	-	-	-	3,695	124	-	-	-	-
Fee and commission income	-	-	-	-	-	-	-	-	-	-	-
Expense											
Mark-up / return / interest expense	-	350	-	12,984	36,171	112	-	186	-	8,436	17,308
Fees and other expenses	-	19,323	-	-	-	-	19,819	-	-	-	-
Remuneration and allowances	-	-	-	-	-	-	-	-	-	-	-
Charge for the period relating to employees benefit plans	-	-	-	-	32,451	-	-	-	-	34,933	-
Description						Interest rate					
Principal terms of loan facility to SMEL						6 months Kibor + 4.0%					
Principal terms of deposit to Equity Participation Fund						11.25%					
Principal terms of deposit to Employee Benefit Plans						11.25% to 13.65%					
Principal terms of deposit to Employee Provident Trust						11.25% to 11.50%					

SME Bank Limited

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

For the quarter ended March 31, 2020

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) March 31, 2020	(Audited) December 31, 2019
		(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)		(5,130,121)	(4,811,162)
		(2,531,088)	(2,212,129)
Less: Adjustments			
Goodwill/intangible Assets		1,011	1,331
Investment in equity of subsidiary		80,748	80,748
Deficit on revaluation of available for sale investments		148,952	300,316
		230,711	382,395
<i>Total tier I capital</i>		(2,761,799)	(2,594,524)
<i>Tier II capital</i>		5	8
<i>Eligible tier III capital</i>		-	-
Total regulatory capital	(a)	(2,761,794)	(2,594,516)
Risk-weighted exposures			
		March 31, 2020	December 31, 2019
		Book Value	Book Value
		Risk Adjusted Value	Risk Adjusted Value
		(Rupees '000)	
<i>Credit risk</i>			
Balance sheet items:			
Cash and other liquid assets		368,395	435
Investments/ lending to financial institutions		6,089,944	64,417
Loans and advances		1,690,311	1,046,191
Fixed assets		514,749	514,749
Deferred tax assets		757,475	757,475
Other assets		642,423	283,246
		10,063,297	2,666,513
Off balance sheet items			
Weighted Non-funded exposures		207,813	103,907
		207,813	103,907
Credit risk-weighted exposures	(b)	10,271,110	2,770,420
Market risk		753,222	728,771
Market risk-weighted exposures		-	753,222
Total risk-weighted exposures	(c)	3,523,642	3,611,962
<i>Capital adequacy ratio credit risk</i> [(a) / (b) x 100]		-99.69%	-89.99%
<i>Total Capital adequacy ratio</i> [(a) / (c) x 100]		-78.38%	-71.83%

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.

SME BANK LIMITED

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

For the quarter ended March 31, 2020

35. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on

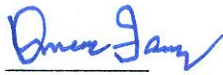
July 25, 2020.



Chief Financial Officer



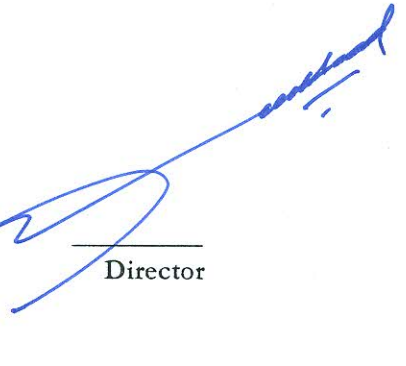
President/CEO



Director



Director



Director