SME Bank Ltd
small business - Big opportunities

CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2019

Directors' Review on Operational Results for the Period Ended September 30, 2019

I am pleased to present the operational results of SME Bank for the period ended September 30, 2019 on behalf of the Board of Directors.

The deposits of the bank were of Rs 6,186 million, which improved from Rs 5,721 million at December 31, 2018. Loan portfolio of the bank stood at Rs 2,193 million as on September 30, 2019 as compared to Rs 2,500 million on December 31, 2018. The bank made fresh disbursements of Rs 102.33 million during the period under review ended on September 30, 2019, as compared to Rs 349.66 million for the correspondence period of the last year. Shortage of funds remained bottleneck in expending sizeable loan portfolio. The bank's treasury investment portfolio stood at Rs 5,455 million by September 30, 2019, whereas it was of Rs 5,765 million as on December 31, 2018.

Non-performing loans of the bank were increased to Rs 547 million on September 30, 2019 as compared to Rs 501 million on September 30, 2018.

The bank is still managing its operations with negative equity of Rs (2,427) million as on September 30, 2019. The bank has been operating with a limited branch network of 13 branches. Budgetary allocations made by the government during financial years 2011-12 to 2014-2015 for equity injection could not be released. Subsequently in previous four financial budgets Government has not allocated any amount for the bank. Moreover, uncertainty with regard to the future of the bank effected the performance of the bank.

The bank has booked pre-tax loss of Rs.933 million for nine months ended on September 30, 2019, as compared to Rs.630 million during the same period of 2018. The increase in loss is primarily due to increase in net interest expense by Rs 303 million due to substantial increase in discount rate. The bank's mark-up / return income was Rs 573 million, which constitutes Rs 230 million from SME advances and Rs 343 million from treasury operations. During the period of nine months, cost of funds (Deposits & Borrowings) of the bank was reached at Rs 821 million (2018: Rs 517 million) at average rate of 10.51% (2018: 6.33%) due to increased discount rate. Administrative expenses remained at the level of Rs.656 million.

Limited branch network and low rating of the bank were remained major impediments to attract economical deposits.

The management of the Bank is making vigorous efforts to generate additional avenues of deposits / income by mobilizing available resources.

Government of Pakistan (GOP) decided in their meeting held on November 19, 2018 to relaunch the privatization transaction of the Bank through Privatization Commission (PC). CCOP approved the new privatization program of SME Bank Limited on March 06, 2019. The privatization program of SME Bank has been required to be completed by 30th June 2020 to divest GOPs equity stake in the Bank along with management control to a strategic investor. Accordingly, PC recommended the transaction structure for the privatization of the Bank to Cabinet Committee on privatization (CCOP) who approved the referred transaction structure on November 15, 2019. Thereafter through a due process Invitation for expression of interest for acquisition of 93.88% shares of SME Bank Limited were advertised in NEWS Papers on December 13, 2019. Five prospective investors have submitted their Statement of Qualifications (SOQs) against the advertisement, which are being scrutinized at Privatization Commission.

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

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

For and on Behalf of

Board of Directors

Chairman

SME BANK LIMITED

Condensed Interim Unconsolidated Statement of Financial Position

As at September 30, 2019

	Note	(Un-audited) September 30, 2019	(Audited) December 31, 2018
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	375,821	443,839
Balances with other banks	8	2,782	16,238
Lendings to financial institutions	9	300,000	-
Investments	10	5,455,288	5,765,155
Advances	11	1,903,939	2,230,763
Fixed assets	12	549,611	55,376
Intangible assets	13	1,651	2,401
Deferred tax assets - net	14	682,531	525,695
Other assets	15	651,535	599,029
		9,923,158	9,638,496
LIABILITIES			
Bills payable	16	47,405	118,788
Borrowings	17	4,625,888	4,739,895
Deposits and other accounts	18	6,185,837	5,721,008
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	19	1,491,311	752,667
		12,350,441	11,332,358
NET LIABILITIES		(2,427,283)	(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	(384,864)	(435,805)
Unappropriated loss		(4,641,452)	(3,857,090)
		(2,427,283)	(1,693,862)
CONTINGENCIES AND COMMITMENTS	21		

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

Chief Financial Officer

President/CEO | Director | Director | Director

SME BANK LIMITED

Condensed Interim Unconsolidated Profit and Loss Account (un-audited)

For the Nine months ended September 30, 2019

	Note	Quarter ended		Period ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
		(Rupees in '000)			
Mark-up/ Return/ Interest Earned	22	198,750	201,809	572,599	560,809
Mark-up/ Return/ Interest Expensed	23	316,807	201,719	820,684	517,466
Net Mark-up/ Interest (Loss)/Income		(118,057)	90	(248,085)	43,343
NON MARK-UP/ INTEREST INCOME					
Fee and Commission income	24	2,236	1,864	6,294	7,232
Dividend income		-	-	-	1
Foreign Exchange income		-	-	-	-
Income / (loss) from derivatives			-	-	-
Gain/(loss) on securities	25	1	(603)	3	1,003
Other income	26	18	4	65	514
Total non-markup/ interest income		2,255	1,265	6,362	8,750
Total (Loss)/Income		(115,802)	1,355	(241,723)	52,093
NON MARK-UP/ INTEREST EXPENSES					
Operating expenses	27	206,875	212,245	656,304	639,495
Workers Welfare Fund		-	-	-	-
Other charges	28	50,136	1,549	52,247	1,549
Total non-markup/ interest expenses		257,011	213,794	708,551	641,044
Loss Before Provisions		(372,813)	(212,439)	(950,274)	(588,951)
Provisions and write offs - net	29	(15,947)	7,077	(17,522)	41,317
LOSS BEFORE TAXATION		(356,866)	(219,516)	(932,752)	(630,268)
Taxation	30	(59,010)	(36,190)	(148,390)	(74,053)
LOSS AFTER TAXATION		(297,856)	(183,326)	(784,362)	(556,215)
Basic/diluted (loss) per share (Rupees)	31	(1.24)	(0.77)	(3.28)	(2.32)

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

Chief Financial Officer

President/CEO

Director

Director

Director

SME BANK LIMITED

Condensed Interim Unconsolidated Statement of Comprehensive Income (un-audited)

For the Nine months ended September 30, 2019

	Quarter Ended		Period Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Rupees in '000)			
Net loss after taxation	(297,856)	(183,326)	(784,362)	(556,215)
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequently periods:				
Movement in deficit on revaluation of investment - net	81,194	(92,326)	50,941	(186,477)
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)	(216,662)	(275,652)	(733,421)	(742,692)

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

Chief Financial Officer

President/CEO

Director

Director

Director

SME BANK LIMITED
Condensed Interim Unconsolidated Cash Flow Statement (un-audited)
For the Nine months ended September 30, 2019

	Note	September 30, 2019	September 30, 2018
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(932,752)	(630,268)
Less: Dividend income		-	(1)
		(932,752)	(630,269)
Adjustments:			
Depreciation		53,147	15,184
Amortization		976	873
Interest expense on lease liability on right of use assets		50,136	
Provision and write-offs	29	(17,522)	41,317
Loss/(Gain) on sale of fixed assets		-	55
Finance charges on leased assets		-	-
		86,737	57,429
		(846,015)	(572,840)
(Increase)/ Decrease in operating assets			
Lendings to financial institutions		-	-
Held-for-trading securities		-	-
Advances		324,116	230,569
Other assets (excluding advance taxation)		(65,344)	(92,126)
		258,772	138,443
Increase/ (Decrease) in operating liabilities			
Bills payable		(71,383)	(1,897)
Borrowings from financial institutions		(114,007)	933,409
Deposits		464,829	(267,669)
Other liabilities (excluding current taxation)		196,908	20,314
		476,347	684,157
		(110,896)	249,760
Income tax paid		(1,714)	(1,467)
Net cash flow (used in)/from operating activities		(112,610)	248,293
CASH FLOW FROM INVESTING ACTIVITIES			
Net (investment)/disinvestment in available-for-sale securities		380,387	(864,619)
Net investment in held-to-maturity securities		-	500,000
Dividend received		-	1
Investment in operating fixed assets		(689)	(13,670)
Proceeds from sale of fixed assets		800	1
Net cash flow from /(used in) investing activities		380,498	(378,287)
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of lease liability		(49,362)	-
Net cash flow from / (used in) financing activities		(49,362)	-
Increase / (Decrease)in cash and cash equivalents		218,526	(129,994)
Cash and cash equivalents at beginning of the period		460,077	447,112
Cash and cash equivalents at end of the period		678,603	317,118

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

Chief Financial Officer

President/CEO **Director** **Director** **Director**

SME BANK LIMITED

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

For the Nine months ended September 30, 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 nine months period ended September 30, 2018					
Loss after taxation for the period	-	-	-	(556,215)	(556,215)
Other comprehensive income - net	-	-	(186,477)	-	(186,477)
Balance as at September 30, 2018	2,392,507	206,526	(214,457)	(3,561,613)	(1,177,037)
Comprehensive income for the three months period ended December 31, 2018					
Loss after taxation for the period	-	-	-	(269,723)	(269,723)
Other comprehensive income - net	-	-	(221,348)	(25,754)	(247,102)
Balance as at December 31, 2018	2,392,507	206,526	(435,805)	(3,857,090)	(1,693,862)
Comprehensive income for the nine months period ended September 30, 2019					
Loss after taxation for the period	-	-	-	(784,362)	(784,362)
Other comprehensive income - net	-	-	50,941	-	50,941
Balance as at September 30, 2019	2,392,507	206,526	(384,864)	(4,641,452)	(2,427,283)

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

Chief Financial Officer

President/CEO

Director

Director

Director

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.

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

4. BASIS OF MEASUREMENT

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, 2018 except for those disclosed under note 5.2.

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

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

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

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

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.

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

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

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

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

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

Impact on Statements of Financial position

	As at September 30, 2019	As at January 01, 2019
	(Rupees in "000")	
Increase in fixed assets - right-of-use assets	510,125	547,718
Decrease in other assets - advance rent	(4,703)	(6,758)
Increase in total assets	505,422	540,960
Increase in deferred tax asset	6,355	
Increase in other liabilities - lease liability against right of use assets	(541,736)	(540,960)
Decrease in net assets	(29,959)	-

Impact on Profit and Loss account	Nine months period ended September 30, 2019 (Rupees in "000")
Increase in mark-up expense - lease liability against right-of-use	(50,136)
(Increase) / decrease in administrative expenses:	
-Depreciation on right-of-use assets	(37,594)
-Rent expense	51,416
	13,822
Increase in deferred tax asset	6,355
Decrease in profit	(29,959)
Reduction in earning per share	(0.13)

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

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

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

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

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.

5.4 Financial Risk Management

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

6. FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION

6.1 Current status of privatization of SME Bank

Government of Pakistan (GOP) decided in their meeting held on November 19, 2018 to relaunch the privatization transaction of the Bank through Privatization Commission (PC). Cabinet Committee on Privatization (CCOP) approved the new privatization program of the Bank on March 06, 2019. The privatization program of the Bank has been required to be completed by 30th June 2020 to divest GOPs equity stake in the Bank along with management control to a strategic investor. Accordingly, PC recommended the transaction structure for the privatization of the Bank to CCOP who approved the referred transaction structure on November 15, 2019. Thereafter through a due process invitation for expression of interest for acquisition of 93.88% shares of the Bank were advertised in news papers on December 13, 2019. The last date for submission of EOIs and Statement of Qualifications (SOQs) was February 28, 2020. Five prospective investors have submitted their SOQs against the advertisement, 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. 784.362 million (September 30, 2018: 556.215 million) resulting into accumulated losses of Rs. 4,641.452 million (December 31, 2018: Rs. 3,857.090 million). As of September 30, 2019, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 2,427.283 million (December 31, 2018: Rs 1,693.862 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. 12,042.419 million (December 31, 2018: Rs. 11,258.057 million) whereas CAR stood at negative 69.35%. 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.

	Note	(Un-audited) September 30, 2019	(Audited) December 31, 2018
7. CASH AND BALANCES WITH TREASURY BANKS		(Rupees in '000)	
In hand			
Local currency		120,732	106,514
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in :			
Local currency current accounts	7.1	209,027	294,873
With National Bank of Pakistan in :			
Local currency current accounts		45,921	42,080
Prize bonds		141	372
		375,821	443,839

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

	Note	(Un-audited) September 30, 2019	(Audited) December 31, 2018
8. BALANCES WITH OTHER BANKS		(Rupees in '000)	
In Pakistan:			
On current accounts		500	500
On deposit accounts		12,282	25,738
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		2,782	16,238

8.1 Provision for doubtful balance is in respect of deposit of Rs. 10 million with Indus Bank Limited which is under liquidation.

		(Un-audited) September 30, 2019	(Audited) December 31, 2018
9. LENDINGS TO FINANCIAL INSTITUTIONS		(Rupees in '000)	
Call money lendings		300,000	-
		300,000	-
9.1 PARTICULARS OF LENDING			
In local currency	9.1.1	300,000	-
In foreign currencies		-	-
		300,000	-

9.1.1 These lendings carry markup rate @ 13.75% per annum and have maturity period upto 1 month.

10. INVESTMENTS

10.1 Investment by type:

	Note	September 30, 2019 (un-audited)				December 31, 2018 (audited)			
		Cost / Amortized Cost	Provision for diminution	Surplus / (Deficit)	Carrying Value	Cost / Amortized Cost	Provision for diminution	Surplus / (Deficit)	Carrying Value
		Rupees in 000				Rupees in 000			
Available-for-sale securities									
Federal Government Securities	10.1.1	5,695,300	-	(385,722)	5,309,578	6,055,687	-	(437,444)	5,618,243
Shares		42,542	(15,770)	1,747	28,519	62,542	(35,770)	2,472	29,244
Mutual Funds		1,870	-	(427)	1,443	1,870	-	50	1,920
		5,739,712	(15,770)	(384,402)	5,339,540	6,120,099	(35,770)	(434,922)	5,649,407
Held-to-maturity securities									
Non Government Debt Securities									
- Term Deposit Receipts (TDRs) *		35,000		-	35,000	35,000		-	35,000
- Certificates of Investments (COIs)		762	(762)		-	762	(762)	-	-
		35,762	(762)	-	35,000	35,762	(762)	-	35,000
Subsidiary		215,457	(134,709)	-	80,748	215,457	(134,709)		80,748
Total Investment		5,990,931	(151,241)	(384,402)	5,455,288	6,371,318	(171,241)	(434,922)	5,765,155

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

10.1.1 Investment given as collateral

	(Un-audited) September 30, 2019	(Audited) December 31, 2018
	Rupees in 000	
Market Treasury Bills (MTBs)	299,002	199,888
Pakistan Investment Bonds (PIBs)	4,264,410	4,469,910
	4,563,412	4,669,798

		(Un-audited) September 30, 2019	(Audited) December 31, 2018
		Rupees in 000	
10.2	**Provision for diminution in value of investments**		
10.2.1	Opening balance	**171,241**	125,709
	Charge / reversals		
	Charge for the year	-	47,747
	Reversal on disposals	**(20,000)**	(2,215)
		(20,000)	45,532
	Closing balance	**151,241**	171,241

10.2.2 Particulars of provision against debt securities category of classification

	(Un-audited) September 30, 2019		(Audited) December 31, 2018	
	NPI	**Provision**	NPI	Provision
	Rupees in 000			
Domestic				
Other assets especially mentioned				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	**762**	**762**	762	762
	762	**762**	762	762

11. ADVANCES

	Note	Performing		Non Performing		Total	
		(Un-audited) September 30, 2019	(Audited) December 31, 2018	(Un-audited) September 30, 2019	(Audited) December 31, 2018	(Un-audited) September 30, 2019	(Audited) December 31, 2018
		Rupees in '000					
Loans, cash credits, running finances, etc- In Pakistan							
Extended by:							
Defunct RDFC & SBFC	11.2	-	-	4,882,365	4,883,623	4,882,365	4,883,623
SME Bank Ltd		1,645,858	2,020,891	547,215	479,475	2,193,073	2,500,366
Due from employees		80,231	97,020	6,188	6,188	86,419	103,208
		1,726,089	2,117,911	5,435,768	5,369,286	7,161,857	7,487,197
Net investment in finance lease		280	280	973	973	1,253	1,253
Advances - gross		1,726,369	2,118,191	5,436,741	5,370,259	7,163,110	7,488,450
Provision for non-performing advances							
Specific provision		-	-	(5,259,161)	(5,257,662)	(5,259,161)	(5,257,662)
General provision		(10)	(25)	-	-	(10)	(25)
	11.4	(10)	(25)	(5,259,161)	(5,257,662)	(5,259,171)	(5,257,687)
Advances - net of provision		1,726,359	2,118,166	177,580	112,597	1,903,939	2,230,763

11.1 Particulars of Advances (Gross)

	(Un-audited) September 30, 2019	(Audited) December 31, 2018
	Rupees in '000	
In local currency	7,163,110	7,488,450
In foreign currencies	-	-
	7,163,110	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:

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.

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. 5,436.741 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 September 30, 2019		Audited December 31, 2018	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	(Rupees in '000)			
Domestic				
Other Assets Especially Mentioned	16,737	89	3,762	-
Substandard	59,077	74	42,490	8
Doubtful	20,772	268	2,454	174
Loss	5,340,155	5,258,730	5,321,553	5,257,480
	5,436,741	5,259,161	5,370,259	5,257,662

11.4 Particulars of provision against advances

	September 30, 2019 (Un-audited)			December 31, 2018 (Audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,257,662	25	5,257,687	5,238,459	81	5,238,540
Charge/(Reversal)						
Charge for the year	21,771		21,771	52,096	15	52,111
Reversal for the year	(19,048)	(15)	(19,063)	(31,881)	(71)	(31,952)
	2,723	(15)	2,708	20,215	(56)	20,159
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(1,224)	-	(1,224)	(1,012)	-	(1,012)
Closing balance	5,259,161	10	5,259,171	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. 31.706 million (net of FSV benefit availed during the period), which has resulted in decrease charge for specific provision for the period ended September 30, 2019 by the same amount. The FSV benefit is not available for cash or stock dividend / bonus to employees. Had the FSV benefit not recognized, loss before and after tax for the period would have been increased by Rs. 31.706 million (Sep 30, 2018: decreased by Rs. 7.755 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 107.825 million (December 31, 2018: Rs. 76.119 million).

SME BANK LIMITED

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

For the Nine months ended September 30, 2019

		Note	(Un-audited) September 30, 2019	(Audited) December 31, 2018
			(Rupees in '000)	
12.	**FIXED ASSETS**			
	Property and equipment	12.1	39,486	55,376
	Right of use asset (ROU)	5.2.2	510,125	-
			549,611	55,376
12.1	**Property and equipment**			
	Net book value at the beginning of the period/year		55,376	63,122
	Additions	12.1.1	463	12,906
	Disposals	12.1.2	(800)	(56)
	Depreciation		(15,553)	(20,596)
	Net book value at the end of ther period/year		39,486	55,376
12.1.1	**Additions to fixed assets**			
	Following additions have been made to fixed assets during the period/year:			
	Property and equipment			
	Leasehold land		-	-
	Leasehold improvements		39	362
	Building on freehold land		-	-
	Furniture and fixture		12	116
	Electrical office and computer equipment		412	12,428
	Vehicles		-	-
			463	12,906
12.1.2	**Disposals of fixed assets**			
	The net book value of fixed assets disposed off during the period/year is as follows:			
	Leasehold land		-	-
	Leasehold improvements		-	-
	Building on freehold land		-	56
	Furniture and fixture		-	-
	Electrical office and computer equipment		-	-
	Vehicles		800	-
			800	56

		(Un-audited) September 30, 2019	(Audited) December 31, 2018
13.	**INTANGIBLE ASSETS**	(Rupees in '000)	
	Computer Software	1,651	2,401
		1,651	2,401
13.1	**Computer Software**		
	Net book value at the beginning of the period/year	2,401	1,129
	Additions	226	2,458
	Disposals	-	-
	Amortizations	(976)	(1,186)
	Net book value at the end of ther period/year	1,651	2,401
	The following additions have been made to intangible assets during the period/year:		
	Directly purchased	226	2,458
		226	2,458

		(Un-audited) September 30, 2019	(Audited) December 31, 2018
14.	DEFERRED TAX ASSET - NET	(Rupees in '000)	
	Deferred tax asset	682,993	526,578
	Deferred tax (liability)	(462)	(883)
		682,531	525,695

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 and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future.

			(Un-audited) September 30, 2019	(Audited) December 31, 2018
15.	OTHER ASSETS		(Rupees in '000)	
	Income/ mark-up accrued in local currency - net of provision	15.1	248,062	162,453
	Advances, deposits, advance rent and other prepayments		32,034	58,967
	Advance Taxation		210,635	216,946
	Non banking asset acquired in satisfaction of claims		147,066	147,066
	Due from benevolent fund- unsecured		5,495	5,642
	Receivable from NBP		1,495	981
	Receivable from subsidiary company		1,843	1,300
	Trading right entitlement certificate		21,560	21,560
	Receivable from Speedway Fondmetall Pakistan Limited		19,640	19,640
	Receivable against factorized portfolio		5,148	5,148
	Others		75,422	76,421
			768,400	716,124
	Less: Provision held against other assets		116,865	117,095
	Other assets (net of provision)		651,535	599,029

15.1 This balance has been arrived at after adjusting interest in suspense of Rs. 4,065.456 million (2018: Rs. 4,048.422 million).

		(Un-audited) September 30, 2019	(Audited) December 31, 2018
15.2	**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	43,217	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
		116,865	117,095
15.2.1	**Movement in provision held against other assets**		
	Opening balance	117,095	117,991
	Charge for the year	2,186	3,486
	Reversals	(2,416)	(4,381)
		(230)	(895)
	Transferred to NBP	-	(1)
	Closing balance	116,865	117,095

	Note	(Un-audited) September 30, 2019	(Audited) December 31, 2018
16. BILLS PAYABLE		(Rupees in '000)	
In Pakistan		47,405	118,788
Outside Pakistan		-	-
		47,405	118,788

	Note	(Un-audited) September 30, 2019	(Audited) December 31, 2018
17. BORROWINGS		(Rupees in '000)	
Secured			
Repurchase agreement borrowings			
State Bank of Pakistan	17.1	1,116,569	1,003,155
Financial Institutions	17.1	3,460,593	3,713,195
		4,577,162	4,716,350
Unsecured			
Borrowing from State Bank of Pakistan			
Financing facility for storage of agri produce	17.2	48,726	23,545
		4,625,888	4,739,895

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 13.36% to 13.75% (Dec 31, 20187: 10.20% to 10.50%) per annum for period upto three months (Dec 31, 2018: upto two months). 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

	September 30, 2019 (Un-audited)			December 31, 2018 (Audited)		
	In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total
	(Rupees in '000)					
Customers						
Current accounts	545,425	-	545,425	503,208	-	503,208
Savings deposits	2,379,407	-	2,379,407	2,042,659	-	2,042,659
Term deposits	2,665,407	-	2,665,407	2,565,542	-	2,565,542
Margin accounts	86,237	-	86,237	56,983	-	56,983
	5,676,476	-	5,676,476	5,168,392	-	5,168,392
Financial Institutions						
Current accounts	398	-	398	1,562	-	1,562
Savings deposits	455,786	-	455,786	417,877	-	417,877
Term deposits	53,177	-	53,177	133,177	-	133,177
Margin accounts	-	-	-	-	-	-
	509,361	-	509,361	552,616	-	552,616
	6,185,837	-	6,185,837	5,721,008	-	5,721,008

		Note	(Un-audited) September 30, 2019	(Audited) December 31, 2018
19.	OTHER LIABILITIES		(Rupees in '000)	
	Mark-up/ return/ interest payable in local currency		156,408	102,093
	Unearned commission on guarantees		2,108	692
	Accrued expenses		16,201	14,741
	Income tax payable		-	-
	Sundry creditors	19.1	173,451	120,266
	Branch adjustment account		581	912
	Payable against employees' benefit plans			
	Defined benefit pension		456,860	388,974
	Defined benefit funded gratuity scheme		16,385	10,730
	Unfunded compensated absences		91,594	80,304
	Security deposits against lease		280	280
	Leased liability against right of use asset		541,736	-
	Employees' VSS payments withheld		13,051	13,341
	Payable to Equity Participation Fund - unsecured		519	794
	Income tax withheld payable		20,452	17,780
	Others		1,685	1,760
			1,491,311	752,667

19.1 This include Rs. 90.6 million (Dec 2018: Rs. 90.6 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of stale Bills payable Rs. 71.222 million (Dec 2018: Rs. 15.604 million).

			(Un-audited) September 30, 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	(385,722)	(437,444)
	- Listed companies/mutual funds		1,320	2,522
			(384,402)	(434,922)
	Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities			
	- Listed companies/mutual funds		(462)	(883)
			(384,864)	(435,805)

			(Un-audited) September 30, 2019	(Audited) December 31, 2018
21.	CONTINGENCIES AND COMMITMENTS		(Rupees in '000)	
	- Guarantees	21.1	249,039	143,409
	- Commitments	21.2	4,943,398	4,962,001
	- Other ccontingent liabilities	21.3	1,164,309	1,074,888
			6,356,746	6,180,298
21.1	**Guarantees:**			
	Financial guarantees		-	-
	Performance guarantees	21.1.1	249,039	143,409
	Other guarantees		-	-
			249,039	143,409

21.1.1 This includes expired Letter of guarantees/performance aggregating to Rs. 58.484 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	4,563,412	4,669,798
	- forward lending	21.2.2	377,164	290,484
	Commitments for acquisition of:			
	- operating fixed assets		987	1,493
	- intangible assets		1,243	226
	Other commitments	21.2.3	592	-
			4,943,398	4,962,001
21.2.1	**Commitments in repect of forward government securities transactions**			
	Sale and repurchase agreements		4,563,412	4,669,798
			4,563,412	4,669,798
21.2.2	**Commitments in respect of forward lending**			
	Undrawn facilities		257,564	173,684
	Commitments to extend credit		119,600	116,800
			377,164	290,484
21.2.3	**Other commitments**			
	Bills for collection			
	Payable in Pakistan		592	-
			592	-
21.3	**Other Contingent liabilities**		1,164,309	1,074,888
	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

		(Un-audited) September 30, 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)	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 our plea in the case and remanded it back to DCIR for verification of evidences and opportunity of hearing the client 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. An appeal is pending before Appellate Tribunal Inland Revenue along with stay order to keep the recovery proceedings in abeyance.	**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, fresh proceeding have not initiated yet.	**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 2002-2003 vide order dated May 27, 2004 of Rs. 426.104 million and a tax demand of Rs. 146.661 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 tha Tax Department has filed Income Tax Reference with the Islamabad High Court having # I.T.R. 48 of 2007.	**146,661**	-
j)	Back benefits and claims of staff/employees under litigation.	**31,930**	89,170

		Note	September 30, 2019	September 30, 2018
			(Rupees in '000)	
22.	**MARK-UP/ RETURN/ INTEREST EARNED**			
	On loans and advances to Customers			
	Extended by:			
	Defunct RDFC & SBFC		-	-
	SME Bank Limited		212,828	182,170
			212,828	182,170
	Employees		3,002	3,915
	Financial Institution - SME Leasing Limited - a subsidiary company		14,184	10,615
			230,014	196,700
	On investments in			
	Held for trading securities		-	6,817
	Available for sale securities		337,915	339,194
	Held to maturity securities		2,696	13,748
			340,611	359,759
	On deposits with financial institutions		314	269
	On securities purchased under resale agreements		91	65
	On call money lending		1,569	4,016
			572,599	560,809
23.	**MARK-UP/ RETURN/ INTEREST EXPENSED**			
	On deposits		399,652	252,794
	On securities sold under repurchase agreements		419,456	261,496
	On SBP Refinance Scheme		527	315
	Brokerage and commission		863	2,667
	Bank charges		186	194
			820,684	517,466
24.	**FEE & COMMISSION INCOME**			
	Branch Banking customer fees		1,513	1,453
	Card related fees		209	121
	Credit related fees		1,969	2,998
	Commission on guarantees		2,538	2,549
	Commission on remittances		57	101
	Others		8	10
			6,294	7,232
25.	**GAIN / (LOSS) ON SECURITIES**			
	Realised	25.1	3	1,003
	Unrealised - held for trading		-	-
			3	1,003
25.1	Realised gain on:			
	Federal Government Securities - net		3	1,627
	Shares		-	(624)
			3	1,003
26.	**OTHER INCOME**			
	Gain on sale of operating fixed assets - net		-	-
	Fee on fund managed by the Bank -EPF		-	480
	Others		65	34
			65	514

		September 30, 2019	September 30, 2018
27.	**OPERATING EXPENSES**	(Rupees in '000)	
	Total compensation expense	499,599	484,630
	Property expense		
	Rent & taxes	5,257	51,675
	Insurance	987	1,048
	Utilities cost	15,819	13,516
	Security	11,447	11,679
	Repair & maintenance (including janitorial charges)	4,368	4,472
	Depreciation	38,179	585
	Others	-	-
		76,057	82,975
	Information technology expenses		
	Software maintenance	3,386	2,458
	Hardware maintenance	1,687	818
	Depreciation	3,850	2,663
	Amortisation	976	873
	Network charges	10,619	4,220
	Others	703	801
		21,221	11,833
	Other operating expenses		
	Directors' fees, allowances and other expenses	-	677
	Legal and professional charges	2,371	5,287
	Outsourced services costs	19,838	18,085
	Travelling and conveyance	3,900	1,490
	NIFT clearing charges	1,302	1,434
	Depreciation	11,118	11,936
	Training & development	1,199	700
	Postage & courier charges	655	676
	Communications	3,524	3,391
	Stationery and printing	3,420	4,527
	Marketing, advertisement & publicity	847	1,394
	Donations	-	-
	Auditors' remuneration	675	675
	Recruitment expenses	23	8
	Vehicle running and maintenance expenses	3,411	4,851
	Entertainment	1,731	2,068
	Subscription, books and newspapers	2,331	2,538
	Deposits premium expense	2,713	-
	Loss on sale of operating fixed assets - net	32	55
	Others	337	265
		59,427	60,057
		656,304	639,495

			September 30, 2019	September 30, 2018
			(Rupees in '000)	
28.	**OTHER CHARGES**			
	Penalties imposed by the State Bank of Pakistan		**2,111**	1,549
	Right of use assets - unwinding of PV		**50,136**	-
			52,247	1,549
29.	**PROVISIONS & WRITE OFFS - NET**			
	Provisions for diminution in value of investment	10.2	**(20,000)**	45,533
	Provisions against loans & advances	11.4	**2,708**	(3,218)
	Other provisions / written off directly		**-**	-
	against other assets	15.2.1	**(230)**	(998)
	Bad debts written off directly		**-**	-
			(17,522)	41,317
30.	**TAXATION**			
	Current		**8,025**	7,385
	Prior years		**-**	-
	Deferred		**(156,415)**	(81,438)
			(148,390)	(74,053)
31.	**BASIC/ DILUTED LOSS PER SHARE**			
	Net loss after tax for the year		**(784,362)**	(556,215)
			Number of shares	
	Weighted average number of ordinary shares		**239,250,700**	239,250,700
			Rupees	
	Basic/ diluted loss per share		**(3.28)**	(2.32)

32 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 relaibility 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.

32.1 On balance sheet financial instruments

	Note	September 30, 2019 (un-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)		-	5,309,578	-	-	5,309,578
Ordinary shares of listed companies/Mutual funds		3,492	-	-	-	3,492
Ordinary shares of unlisted companies		-		-	26,470	26,470
Financial assets not measured at fair value						
- Bank balances with treasury banks	32.2	-	-	-	255,089	255,089
- Balances with other banks	32.2	-	-	-	2,782	2,782
- Lending to financial institutions	32.2	-	-	-	300,000	300,000
- Advances	32.2	-	-	-	1,903,939	1,903,939
- Other assets	32.2	-	-	-	254,528	254,528
-Other Investment (COI/TDR)	32.2				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 heirarchy 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).

32.2 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.

32.3 The bank's policy is to recognise transfer into and out of the different fair value heirarchy 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.

32.4 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).

33. SEGMENT INFORMATION

33.1 Segment details with respect to Business Activities

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

	September 30, 2019 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	342,271	230,328	572,599
Inter segment revenue - net	-	140,086	140,086
Non mark-up/return/interest income	3	6,359	6,362
Total income	342,274	376,773	719,047
Segment direct expenses	435,276	1,093,959	1,529,235
Inter segment expenses allocation	140,086	-	140,086
Total expenses	575,362	1,093,959	1,669,321
Provisions	(20,000)	2,478	(17,522)
Loss before tax	(213,088)	(719,664)	(932,752)

	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Balance Sheet			
Cash & Bank balances	171,535	207,068	378,603
Investments	5,455,288	-	5,455,288
Net inter segment lending		2,000,293	2,000,293
Lending to financial institutions	300,000	-	300,000
Advances - Performing	-	1,726,359	1,726,359
- Non-performing	-	177,580	177,580
Others	712,262	1,173,066	1,885,328
Total Assets	6,639,085	5,284,366	11,923,451
Borrowings	4,577,162	48,726	4,625,888
Deposits & other accounts	-	6,185,837	6,185,837
Net inter segment borrowing	2,000,293	-	2,000,293
Others	462,939	1,075,777	1,538,716
Total Liabilities	7,040,394	7,310,340	14,350,734
Equity	(401,309)	(2,025,974)	(2,427,283)
Total Equity & liabilities	6,639,085	5,284,366	11,923,451
Contingencies & Commitments	4,563,412	1,793,334	6,356,746

	September 30, 2018 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	363,844	196,965	560,809
Inter segment revenue - net	-	106,751	106,751
Non mark-up/return/interest income	1,004	7,746	8,750
Total income	364,848	311,462	676,310
Segment direct expenses	277,404	880,108	1,157,512
Inter segment expenses allocation	106,751	-	106,751
Total expenses	384,155	880,108	1,264,263
Provisions	45,533	(3,218)	42,315
Loss before tax	(64,840)	(565,428)	(630,268)

	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 5.87% (December 31, 2018: 5.16%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 6.13% (December 31, 2018: 5.45%) of the gross liabilities have been allocated to segments based on their respective incomes.

33.2 Segment details with respect to geographical locations

Presently the Bank does not deal outside Pakistan

34. 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:

	September 30, 2019 (un-audited)						December 31, 2018 (Audited)					
	Subsidiary SMEL	Key Management Personnel	Directors	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Subsidiary SMEL	Key Management Personnel	Directors	Equity Participation Fund	Employees benefit plans	Employees Provident Trust
	Rupees in '000						Rupees in '000					
Investments												
Opening balance	215,457	-	-	-	-	-	215,457	-	-	-	-	-
Investment made during the period/year	-	-	-	-	-	-	-	-	-	-	-	-
Investment redeemed / disposed off during the period/year	-	-	-	-	-	-	-	-	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	215,457	-	-	-	-	-	215,457	-	-	-	-	-
Provision for diminution in value of investments	134,709	-	-	-	-	-	134,709	-	-	-	-	-
Advances												
Opening balance	141,556	15,252	-	-	-	-	110,352	18,241	-	-	-	-
Addition (total debits) during the period/year	59,395	7,511		-	-	-	97,150	17,238		-	-	-
Repaid (total credits) during the period/year	(54,638)	(11,471)		-	-	-	(65,946)	(20,227)		-	-	-
Transfer in / (out) - net	-	-		-	-	-	-	-		-	-	-
Closing balance	146,313	11,292					141,556	15,252				
Provision held against advances	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets												
Interest / mark-up accrued	1,843	6,682	-	-		-	1,300	5,655	-	-	-	-
Receivable from staff retirement fund	-	-		-	5,495	-	-	-		-	5,642	-
Other receivable	-	-		-	-	-	-	-		-	-	
Deposits and other accounts												
Opening balance	1,562	4,702	-	412,774	811,006	12,769	56	9,917	-	394,236	603,787	52,518
Received during the year	16,996	74,786		28,996	334,944	23,986	23,434	87,748		18,956	224,275	28,401
Withdrawn during the year	-	(67,553)		-	(5,782)	(25,927)	-	(93,066)		(418)	(17,056)	(68,150)
Transfer in / (out) - net	(18,184)	171		-	-	-	(21,928)	103		-	-	-
Closing balance	374	12,106		441,770	1,140,168	10,828	1,562	4,702		412,774	811,006	12,769
Other Liabilities												
Interest / mark-up payable	-	107	-	4,085	52,442	85	-	39	-	2,771	25,269	75
Payable to staff retirement fund	-	-		-	564,839	-	-	-	-	-	480,008	-
Others liabilities	-	-		519	-	-	-	-	-	794	-	-
Contingencies and Commitments	-	-		-	-	-	-	-		-	-	-

SME BANK LIMITED

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

For the Nine months ended September 30, 2019

	September 30, 2019 (un-audited)						September 30, 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						Rupees in '000					
Income												
Mark-up / return / interest earned	**14,184**	**368**	-	-	-	-	10,615	421	-	-	-	-
Fee and commission income	-	-		-	-	-	-	-		480	-	-
Expense												
Mark-up / return / interest paid	-	**635**	-	**26,775**	**72,312**	**768**	-	279	-	13,252	31,709	574
Fees and other expenses	-		-	-	-	-	-		677	-	-	-
Remuneration and allowances		**53,798**						57,286				
Charge for the period relating to employees benefit plans	-	-	-	-	**104,797**	-	-	-	-	-	82,443	-

	Description	**Interest rate**
Principal terms of loan facility to SMEL	Running finance facility upto Rs. 150 million	6 months Kibor + 4.0%
Principal terms of deposit to Equity Participation Fund	Remunerative deposits	8.0% to 11.25%
Principal terms of deposit to Employee Benefit Plans	Remunerative deposits	6.80% to 12.50%
Principal terms of deposit to Employee Provident Trust	Remunerative deposits	8.0% to 11.50%

35. 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) September 30, 2019	(Audited) December 31, 2018
Regulatory capital base		**(Rupees in '000)**	
Tier I capital			
Shareholders capital/assigned capital		**2,392,507**	2,392,507
Reserves		**206,526**	206,526
Unappropriated/unremitted profits (net of losses)		**(4,641,452)**	(3,857,090)
		(2,042,419)	(1,258,057)
Less: Adjustments			
Goodwill/intangible Assets		**1,651**	2,401
Investment in equity of subsidiary		**80,748**	80,748
Deficit on revaluation of available for sale investments		**384,864**	435,805
		467,263	518,954
Total tier I capital		**(2,509,682)**	(1,777,011)
Tier II capital		**10**	25
Eligible tier III capital		**-**	-
Total regulatory capital	(a)	**(2,509,672)**	(1,776,986)

Risk-weighted exposures		**September 30, 2019**		December 31, 2018	
		Book Value	**Risk Adjusted Value**	Book Value	Risk Adjusted Value
Credit risk		**(Rupees '000)**			
Balance sheet items:					
Cash and other liquid assets		**378,603**	**60,556**	460,077	3,248
Investments/ lending to financial institutions		**5,755,288**	**64,962**	5,765,155	66,164
Loans and advances		**1,903,939**	**1,151,381**	2,230,763	1,355,327
Fixed assets		**549,611**	**549,611**	57,777	55,376
Deferred tax assets		**682,531**	**682,531**	525,695	525,695
Other assets		**651,535**	**282,838**	599,029	305,334
		9,921,507	**2,791,879**	9,638,496	2,311,144
Off balance sheet items					
Weighted Non-funded exposures		**193,776**	**96,888**	112,676	56,338
		193,776	**96,888**	112,676	56,338
Credit risk-weighted exposures	(b)	**10,115,283**	**2,888,767**	9,751,172	2,367,482
Market risk			**729,887**		1,037,278
Market risk-weighted exposures		**-**	**729,887**	-	1,037,278
Total risk-weighted exposures	(c)		**3,618,654**		3,404,760
Capital adequacy ratio credit risk [(a) / (b) x 100]			**-86.88%**		-75.06%
Total Capital adequacy ratio [(a) / (c) x 100]			**-69.35%**		-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.

36. 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