



**SME BANK LIMITED  
UN CONSOLIDATED FINANCIAL STATEMENT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

## **INDEPENDENT AUDITORS' REVIEW REPORT**

**To the members of SME Bank Limited**

### **Report on review of Unconsolidated Interim Financial Statements**

#### **Introduction**

We have reviewed the accompanying unconsolidated condensed interim statement of financial position of SME Bank Limited (the Bank) as at September 30, 2020 and the related unconsolidated condensed interim profit and loss account, unconsolidated condensed interim statement of comprehensive income, unconsolidated condensed interim statement of changes in equity and unconsolidated condensed interim cash flow statement, and notes to the unconsolidated condensed interim financial statements for the nine-month period then ended (here-in-after referred to as the "unconsolidated condensed interim financial statements"). Management is responsible for the preparation and presentation of this unconsolidated condensed interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these financial statements based on our review.

#### **Scope of Review**

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

#### **Basis for Qualified Conclusion**

- a) The Bank has investment in SME Leasing Limited (SMEL), which is carried in these condensed interim unconsolidated financial statements at Rs. 80.748 million (net of provision) and has an outstanding running finance exposure of Rs. 146.445 million (including markup) at the balance sheet date. SMEL continues to operate on a net loss basis and therefore the recoverability of investment and running finance exposure appears doubtful of recovery. Accordingly, we are unable to determine the extent of impairment that might be necessary to be recorded against the current carrying values of investment and running finance and its possible effect on accumulated losses;
- b) Deferred tax asset of Rs. 861.366 has been recognized on the basis of expected net profits arising from future privatization of the Bank as described in Note 13 to the unconsolidated condensed interim financial statements which we have not been able to verify. Advance income tax (Note 14) includes refunds aggregating to Rs. 232.599 million for tax years 2003 and 2004. These refunds were recorded on the basis of an order of the Appellate Tribunal Inland Revenue dated February 10, 2011 whereby provision for doubtful debts was allowed to be taken as a deductible expense. The issue of allowing provision for doubtful debts as an expense, in the case of another bank, was successfully challenged by tax department in the Islamabad High Court. The high court rules in favor of the tax department through its order dated March 13, 2018 which has also been upheld by the



Supreme Court of Pakistan through its order dated June 05, 2018 due to which the Bank has no legal basis to continue to recognize the receivable as an asset; and

- c) As explained in note 10.2, the loan portfolios of Small Business Finance Corporation (SBFC) and Regional Development Finance Corporation (RDFC) transferred to National Bank of Pakistan together with collection rights under an agreement dated February 23, 2018 continue to appear in the books of the Bank. However, as per the terms of the referred agreement the Bank has no legal rights over these portfolios classified as assets of the Bank.

### **Qualified Conclusion**

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

### **Material uncertainties relating to Going Concern**

We draw attention to note 6.2 to the unconsolidated condensed interim financial statements which describes that during the current period, the Bank incurred a net loss of Rs. 821.013 million (September 30, 2019: Rs. 784.362 million) resulting into accumulated losses of Rs. 5,632.175 million (December 31, 2019: Rs. 4,811.162 million). As of September 30, 2020, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,031.907 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%. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. As stated in note 6.2, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Emphasis of Matter**

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

### **Other Matter**

The figures of the unconsolidated condensed interim statement of profit or loss and the unconsolidated condensed interim statement of comprehensive income for the quarter ended September 30, 2020 have not been reviewed and we do not express a conclusion of them.

The engagement partner on the engagement resulting in this independent auditors' report is Hassaan Riaz.

**GRANT THORNTON ANJUM RAHMAN**

Chartered Accountants

Islamabad

Date:



**SME BANK LIMITED****Unconsolidated Condensed Interim Statement of Financial Position****As at September 30, 2020**

		(Un-audited) September 30, 2020	(Audited) December 31, 2019
	Note	(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks	7	605,953	650,565
Balances with other banks	8	1,989	4,537
Lendings to financial institutions		-	-
Investments	9	5,835,188	5,739,975
Advances	10	1,492,946	1,907,995
Fixed assets	11	489,656	532,112
Intangible assets	12	1,570	1,331
Deferred tax assets - net	13	861,366	752,294
Other assets	14	597,379	563,192
		9,886,047	10,152,001
<b>LIABILITIES</b>			
Bills payable	15	86,197	51,543
Borrowings	16	3,618,550	3,654,771
Deposits and other accounts	17	7,812,699	7,500,708
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,400,508	1,457,424
		12,917,954	12,664,446
<b>NET LIABILITIES</b>			
		(3,031,907)	(2,512,445)
<b>REPRESENTED BY</b>			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Surplus/(deficit) on revaluation of assets - net of tax	19	1,235	(300,316)
Unappropriated loss		(5,632,175)	(4,811,162)
		(3,031,907)	(2,512,445)
<b>CONTINGENCIES AND COMMITMENTS</b>			
	20		

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



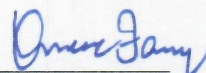
Chief Financial Officer



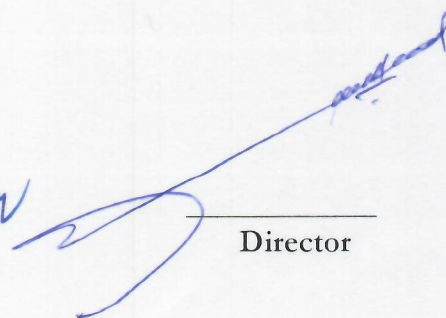
President/CEO



Director



Director



Director



# SME BANK LIMITED

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

For the Nine months ended September 30, 2020

		Quarter ended		Nine months ended	
		September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	Note	(Rupees in '000)			
Mark-up/ return/ interest earned	21	160,562	198,750	583,559	572,599
Mark-up/ return/ interest expensed	22	197,763	316,807	819,007	820,684
Net mark-up/ interest loss		(37,201)	(118,057)	(235,448)	(248,085)
NON MARK-UP/ INTEREST INCOME					
Fee and commission income	23	2,671	2,236	6,999	6,294
Dividend income		37	-	37	-
Foreign exchange income		-	-	-	-
Income / (loss) from derivatives		-	-	-	-
Gain/(loss) on securities	24	365	1	365	3
Other income	25	303	18	414	65
Total non-markup/ interest income		3,376	2,255	7,815	6,362
Total loss		(33,825)	(115,802)	(227,633)	(241,723)
NON MARK-UP/ INTEREST EXPENSES					
Operating expenses	26	218,715	206,875	660,699	656,304
Workers Welfare Fund		-	-	-	-
Other charges	27	17,367	50,136	52,250	52,247
Total non-markup/ interest expenses		236,082	257,011	712,949	708,551
Loss before provisions		(269,907)	(372,813)	(940,582)	(950,274)
Provisions and write offs - net	28	(14,766)	(15,947)	(19,631)	(17,522)
LOSS BEFORE TAXATION		(255,141)	(356,866)	(920,951)	(932,752)
Taxation	29	(41,736)	(59,010)	(99,938)	(148,390)
LOSS AFTER TAXATION		(213,405)	(297,856)	(821,013)	(784,362)
Basic/diluted (loss) per share (rupees)	30	(0.89)	(1.24)	(3.43)	(3.28)

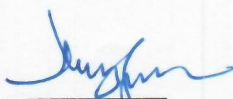
The annexed notes from 1 to 35 form an integral part of these unconsolidated condensed interim financial statements.



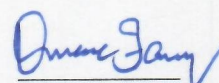
Chief Financial Officer



President/CEO



Director



Director

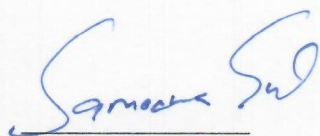
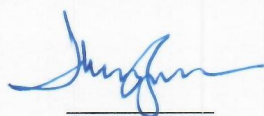
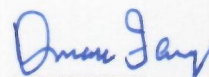
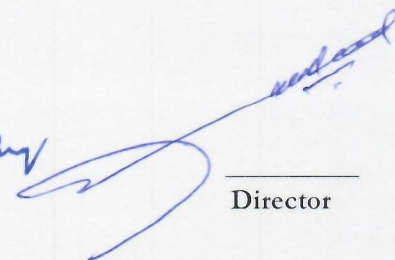


Director

**SME BANK LIMITED****Unconsolidated Condensed Interim Statement of Comprehensive Income (un-audited)****For the Nine months ended September 30, 2020**

	Quarter ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Rupees in '000)			
Net loss after taxation	(213,405)	(297,856)	(821,013)	(784,362)
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequently periods				
Movement in deficit on revaluation of investment - net	(3,266)	81,194	301,551	50,941
Items that will not be reclassified to profit and loss account in subsequently periods	-	-	-	-
Total comprehensive loss	<u>(216,671)</u>	<u>(216,662)</u>	<u>(519,462)</u>	<u>(733,421)</u>

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

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



**SME BANK LIMITED****Unconsolidated Condensed Interim Cash Flow Statement (un-audited)****For the Nine months ended September 30, 2020**

		September 30, 2020	September 30, 2019
Note	(Rupees in '000)		
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
		(920,951)	(932,752)
Loss before taxation		(37)	-
Less: Dividend income		(920,988)	(932,752)
<b>Adjustments:</b>			
		54,858	53,147
Depreciation		1,004	976
Amortization		(19,631)	(17,522)
Provision and write-offs	28	(101)	-
Loss/(gain) on sale of fixed assets		52,120	50,136
Mark-up expense on leased liability against ROU assets		88,250	86,737
		(832,738)	(846,015)
<b>(Increase)/ decrease in operating assets</b>			
		-	-
Lendings to financial institutions		-	-
Held-for-trading securities		435,578	324,116
Advances		(42,512)	(65,344)
Other assets (excluding advance taxation)		393,066	258,772
<b>Increase/ (decrease) in operating liabilities</b>			
		34,654	(71,383)
Bills payable		(36,221)	(114,007)
Borrowings from financial institutions		311,991	464,829
Deposits		(64,538)	196,908
Other liabilities (excluding current taxation)		245,886	476,347
		(193,786)	(110,896)
		(1,703)	(1,714)
		(195,489)	(112,610)
Income tax paid			
<b>Net cash flow generated from/(used in) operating activities</b>			
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
		206,334	380,387
Net investment/disinvestment in available-for-sale securities		-	-
Net investment in held-to-maturity securities		37	-
Dividend received		(2,423)	(689)
Investment in operating fixed assets		404	800
Proceeds from sale of fixed assets		204,352	380,498
<b>Net cash flow (used in)/generated from investing activities</b>			
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
		(56,023)	(49,362)
Payment of lease obligation		(56,023)	(49,362)
<b>Net cash flow (used in)/generated from financing activities</b>			
<b>Decrease in cash and cash equivalents</b>			
		(47,160)	218,526
Cash and cash equivalents at beginning of the period		655,102	460,077
Cash and cash equivalents at end of the period	7 & 8	607,942	678,603

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

*Sameer Gul*

Chief Financial Officer

*[Signature]*

President/CEO

*[Signature]*

Director

*[Signature]*

Director

*[Signature]*

Director



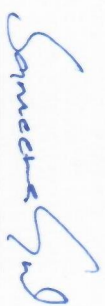
# SME BANK LIMITED

## Unconsolidated Condensed Interim Statement of Change in Equity

For the Nine months ended September 30, 2020

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
			(Rupees in '000)		
Balance as at January 01, 2019 (audited)	2,392,507	206,526	(435,805)	(3,857,090)	(1,693,862)
Total comprehensive income for nine months ended September 30, 2019	-	-	-	(784,362)	(784,362)
Loss after taxation	-	-	50,941	-	50,941
Other comprehensive income/ (loss) - net of tax	-	-	-	-	-
Balance as at September 30, 2019 (un-audited)	2,392,507	206,526	(384,864)	(4,641,452)	(2,427,283)
Total comprehensive income for three months ended December 31, 2019	-	-	-	(287,947)	(287,947)
Loss after taxation	-	-	84,548	118,237	202,785
Other comprehensive income/ (loss) - net of tax	-	-	-	-	-
Balance as at December 31, 2019 (audited)	2,392,507	206,526	(300,316)	(4,811,162)	(2,512,445)
Total comprehensive income for nine months ended September 30, 2020	-	-	-	(821,013)	(821,013)
Loss after taxation	-	-	301,551	-	301,551
Other comprehensive income/ (loss) - net of tax	-	-	-	-	-
Balance as at September 30, 2020 (un-audited)	2,392,507	206,526	1,235	(5,632,175)	(3,031,907)

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



Chief Financial Officer



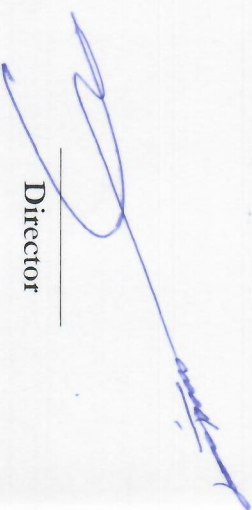
President/CEO



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 has not been updated.

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 said 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 regulatory requirements till June 30, 2020. Thereafter the Bank vide its letter No. SMEBL: HO: CFO&CS: 2020/1433/2617 dated July 09, 2020 requested SBP to allow exemption from MCR till December 31, 2020 or privatization of the Bank whichever is earlier. 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 from 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**

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

The unconsolidated condensed interim financial statements are presented in Pakistani Rupee, which is the Bank's functional currency. Figures have been rounded off to the nearest thousand of rupees, unless otherwise stated.



**3. STATEMENT OF COMPLIANCE**

These unconsolidated 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. As per SBP's BPRD Circular Letter No. 4 dated October 23, 2019, the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 1, 2021.

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.

These unconsolidated condensed interim financial statements have been presented in accordance with the requirements of format prescribed by SBP vide BPRD Circular Letter No. 5 dated March 22, 2019 and International Accounting Standard 34 'Interim Financial Reporting' and do not include all the information and disclosures required in the audited annual unconsolidated financial statements, and should be read in conjunction with the audited annual unconsolidated financial statements for the financial year ended December 31, 2019

**4. BASIS OF MEASUREMENT**

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

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

**5.1 Significant accounting policies, estimates and judgements**

The accounting policies, underlying estimates and judgements and method of computation followed in the preparation of these condensed interim unconsolidated financial statements are same as those applied in preparing the financial statements of the Bank for the year ended December 31, 2019.

**5.2 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.

COVID-19 pandemic and the measures to reduce its spread have significantly impacted the world's economies including Pakistan. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. SBP has also responded to the crisis by reducing the policy rate by 225 basis points to 11% in March 2020, 200 basis points to 9% on April 16, 2020, 100 basis points to 8% on May 15, 2020 and by another 100 basis points to 7% on June 25, 2020. Besides above, other regulatory measures have been announced by the SBP to support business and economic activity which include the following:



## **SME BANK LIMITED**

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

**For the Nine months ended September 30, 2020**

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- Allowing banks to defer borrowers' principal loan payments by one year;
- Relaxing regulatory criteria for restructured/rescheduled loans for borrowers who require relief on account of principal repayment exceeding one year and/or mark-up;
- Relaxing the debt burden ratio for consumer loans from 50% to 60%;
- Reduction in capital conservation buffer by 100 basis points to 1.5%;
- Increasing the regulatory limit on extension of credit to SMEs to Rs.180 million;
- Providing concessionary refinance facilities to Hospitals for financing equipment;
- control unemployment, offered refinance facilities to customers for meeting their salary expense; and
- Besides, various other steps have been announced to dampen the effects of Covid-19.

COVID-19 is likely to impact banks in Pakistan on many fronts including significant increase in overall credit risk and contraction of fee income due to overall slowdown in economic activity. The risk management function of the Bank is regularly conducting assessments to identify borrowers operating in various economic sectors which are most likely to get adversely affected. The Bank has further strengthened its credit review mechanism in the light of COVID-19. Nonetheless, the outbreak is expected to have an impact on the macro-economic environment which in turn affect the repayment behavior of the Bank borrowers in short to medium term. The situation is being closely monitored and due measures are being taken to mitigate the risk of potential defaults. Overall, the COVID-19 situation remains fluid and is rapidly evolving which makes it challenging to reliably determine the impacts. Certain borrowers of the Bank have availed the SBP enabled deferment scheme upto the sum of Rs: 240.8 million which will impact their maturity profile. The management of the Bank is continuously monitoring the liquidity position of the Bank and is confident that the liquidity buffer currently maintained by the Bank is sufficient to cater any adverse movement in cash flow maturity profile.

## **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. Privatization Commission has opened data room for the prospective buyers and the buyers side due diligence is in progress.

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**6.2 Going concern assumption**

During the current period, the Bank incurred a net loss of Rs. 821.013 million (September 30, 2019: Rs. 784.362 million) resulting into accumulated losses of Rs. 5,632.175 million (December 31, 2019: Rs. 4,811.162 million). As of September 30, 2020, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,031.907 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. 13,033.142 million (December 31, 2019: Rs. 12,212.129 million) whereas CAR stood at negative 99.76%. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. These conditions indicate the existence of material uncertainty that may cast a significant doubt on the Bank's ability to continue as going concern and therefore it may not be able to realize its assets and discharge its liabilities in the ordinary course of business. To overcome the 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. 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. Thereafter, the Bank vide its letter No. SMEBL: HO: CFO&CS: 2020/1433/2617 dated July 09, 2020 has requested SBP to allow exemption from MCR till December 31, 2020 or privatization of the Bank whichever is earlier. MoF and management of the Bank are hopeful of a favorable response as SBP has not objected the non-compliance of MCR. The process of privatization is at the advance stage as five prospective investors have submitted their Statement of Qualifications (SOQs), out of that four have been cleared by SBP and the buyers side due diligence is in progress. In view of above the management of the Bank strongly believes that the privatization of the Bank shall be completed soon and will result into injection of fresh equity enabling the Bank to expand and finance its operations while MoF is committed to provide all necessary financial assistance to the Bank to support till successful completion of the privatization of the Bank. In view of above the management of the Bank believes that the use of going concern assumption in preparation of these condensed interim unconsolidated financial statements is appropriate and, therefore, have prepared the same on a going concern basis.



**SME BANK LIMITED**

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

**For the Nine months ended September 30, 2020**

			(Un-audited) September 30, 2020	(Audited) December 31, 2019
			(Rupees in '000)	
<b>7.</b>	<b>CASH AND BALANCES WITH TREASURY BANKS</b>	<b>Note</b>		
	In hand			
	Local currency		177,274	123,638
	In transit - local currency		-	-
	With State Bank of Pakistan (SBP) in:			
	Local currency current accounts	7.1	356,383	468,270
	With National Bank of Pakistan in:			
	Local currency current accounts		72,287	58,486
	Prize bonds		9	171
			<u>605,953</u>	<u>650,565</u>
<b>7.1</b>	Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.			
			(Un-audited) September 30, 2020	(Audited) December 31, 2019
<b>8.</b>	<b>BALANCES WITH OTHER BANKS</b>	<b>Note</b>	(Rupees in '000)	
	In Pakistan:			
	On current accounts		500	500
	On deposit accounts		11,489	14,037
	Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
			<u>1,989</u>	<u>4,537</u>
<b>8.1</b>	Provision for doubtful balance is in respect of deposit of Rs. 10 million with Indus Bank Limited which is under liquidation.			

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**SME BANK LIMITED**

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

**For the Nine months ended September 30, 2020**

**9. INVESTMENTS**

**9.1 Investment by type**

	Note	Rupees in 000			Rupees in 000				
<b>Available-for-sale securities</b>									
Federal Government Securities	9.1.1	5,688,898	-	149	5,689,047	5,895,232	-	(301,559)	5,593,673
Shares		42,542	(15,770)	1,865	28,637	42,542	(15,770)	1,847	28,619
Mutual Funds		1,870	-	(114)	1,756	1,870	-	65	1,935
		5,733,310	(15,770)	1,900	5,719,440	5,939,644	(15,770)	(299,647)	5,624,227
<b>Held-to-maturity securities</b>									
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
<b>Subsidiary</b>									
		215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
Total Investment		5,984,529	(151,241)	1,900	5,835,188	6,190,863	(151,241)	(299,647)	5,739,975

\* 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)

	Note	(Un-audited) (Audited)	
		September 30, 2020	December 31, 2019
		Rupees in 000	
	9.1.2	299,535	-
	9.1.2	3,209,392	3,560,826
		<b>3,508,927</b>	<b>3,560,826</b>

**9.1.2** These represent market value of securities at reporting date.

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**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**  
**For the Nine months ended September 30, 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

**9.2.2 Particulars of provision against debt securities category of classification**

	(Un-audited) September 30, 2020	(Audited) December 31, 2019
	Rupees in 000	
	151,241	171,241
	-	-
	-	-
	-	(20,000)
	-	(20,000)
	-	-
	-	-
	151,241	151,241

	(un-audited) September 30, 2020	(audited) December 31, 2019
	Rupees in 000	
	Non performing investments	Non performing investments
	Provision	Provision
	-	-
	-	-
	762	762
	762	762

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# SME BANK LIMITED

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

For the Nine months ended September 30, 2020

	Performing		Non Performing		Total	
	(Un-audited) September 30, 2020	(Audited) December 31, 2019	(Un-audited) September 30, 2020	(Audited) December 31, 2019	(Un-audited) September 30, 2020	(Audited) December 31, 2019
<b>10. ADVANCES</b>						
Loans, cash credits, running finances, etc- In Pakistan						
Extended by:						
Defunct RDFC & SBFC	-	-	4,881,747	4,882,321	4,881,747	4,882,321
SME Bank Ltd	1,265,360	1,689,296	498,561	505,657	1,763,921	2,194,953
Due from employees	75,825	80,338	6,188	6,188	82,013	86,526
	1,341,185	1,769,634	5,386,496	5,394,166	6,727,681	7,163,800
Net investment in finance lease	280	280	973	973	1,253	1,253
	1,341,465	1,769,914	5,387,469	5,395,139	6,728,934	7,165,053
Advances - gross						
Provision for non-performing advances						
Specific provision	-	-	(5,232,976)	(5,257,050)	(5,232,976)	(5,257,050)
General provision	(3,012)	(8)	-	-	(3,012)	(8)
	(3,012)	(8)	(5,232,976)	(5,257,050)	(5,235,988)	(5,257,058)
	1,338,453	1,769,906	154,493	138,089	1,492,946	1,907,995
Advances - net of provision						

(Un-audited) (Audited)  
September 30, December 31,  
2020 2019

### 10.1 Particulars of Advances (Gross)

In local currency

In foreign currencies

Rupees in '000	
6,728,934	7,165,053
-	-
6,728,934	7,165,053

### 10.2 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 favor of the acquirer with respect to:

of



## **SME BANK LIMITED**

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

#### **For the Nine months ended September 30, 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 was amount equal to 50% of 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 FCF as the recoveries will no longer be an asset of the Bank.

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**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**
**For the Nine months ended September 30, 2020**

In line with the steps proposed by the legal advisor the board of directors of the Bank in its meeting held on December 31, 2017 has approved the transfer of fully non-performing loan portfolios of defunct SBFC & RDFC to MoF and NBP via a tri party novation agreement between SME, NBP and GoP through MoF at a value of Rs.100 as a sale consideration. Thereafter, the shareholders of the Bank in their meeting held on January 22, 2018 through their special resolution have also authorized the transfer of the portfolios as approved by the board of directors of the Bank, however, the Allied Bank Limited carrying 0.33% holding in the Bank has opposed the resolution and required the sale of the portfolio at a fair market value (FMV). According to above majority decision of the shareholders both the portfolios have been transferred to the FCF and NBP against an aggregate sale consideration of Rs. 100 under a tri-party agreement (the Agreement) executed on February 23, 2018 between the Bank, NBP and FCF. As of the date of the tri-party Agreement the Bank has transferred and surrendered all the recoveries, rights, obligation, claims and liabilities of the referred loan portfolios in favor of the FCF.

The management of the Bank continues to show these loan portfolios in its book of accounts pending confirmation of recording by NBP in its books of accounts to ensure that the above loans are duly accounted by NBP in compliance to the terms of the agreement dated February 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. 5,387.469 million (December 31, 2019: Rs. 5,395.139 million) which have been placed under non-performing status as detailed below:**

Category of Classification	Note	(Un-audited) September 30, 2020		(Audited) December 31, 2019	
		Non Performing Loans	Provision	Non Performing Loans	Provision
		(Rupees in '000)			
Domestic					
Other Assets Especially Mentioned		8,130	5	6,613	2
Substandard		35,092	385	10,763	36
Doubtful		8,172	752	43,808	326
Loss		5,336,075	5,231,834	5,333,955	5,256,686
	10.3.1	5,387,469	5,232,976	5,395,139	5,257,050

- 10.3.1** This include non performing loans and provision of Rs: 498.561 million and Rs: 344.137 million respectively (December 31, 2019: 505.657 million & 367.670 million) relating to SME portfolio.

**10.4 Particulars of provision against advances**

	September 30, 2020 (un-audited)			December 31, 2019 (audited)		
	Specific Note (10.4.2)	General Note (10.4.1)	Total	Specific Note (10.4.2)	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 period/year	19,140	3,006	22,146	24,874	-	24,874
Reversal for the period/year	(42,673)	(2)	(42,675)	(24,229)	(17)	(24,246)
	(23,533)	3,004	(20,529)	645	(17)	628
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(541)	-	(541)	(1,257)	-	(1,257)
Closing balance	5,232,976	3,012	5,235,988	5,257,050	8	5,257,058

- 10.4.1** This represents the provision as a buffer against the effect of COVID-19.

- 10.4.2** The FSV benefit availed in last years has been increased by Rs. 14.610 million (net of FSV benefit availed), which has resulted decrease in charge for specific provision for the nine months ended September 30, 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. 14.610 million (September 30, 2019: increased by Rs. 31.706 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 116.773 million (December 31, 2019: Rs. 102.163 million).

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**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**
**For the Nine months ended September 30, 2020**

			(Un-audited) September 30, 2020	(Audited) December 31, 2019
	Note		(Rupees in '000)	
<b>11. FIXED ASSETS</b>				
Property and equipment	11.1		20,943	34,519
Right of use assets	11.2		468,713	497,593
			<u>489,656</u>	<u>532,112</u>
<b>11.1 Property and equipment</b>				
Net book value at the beginning of the period/year			34,519	55,376
Additions			1,180	505
Disposals			(303)	(800)
Depreciation			(14,453)	(20,562)
Net book value at the end of the period/year			<u>20,943</u>	<u>34,519</u>
<b>11.1.1 Additions to fixed assets</b>				
Following additions have been made to fixed assets during the period/year:				
<b>Property and equipment</b>				
Leasehold land			-	-
Leasehold improvements			56	39
Building on freehold land			-	-
Furniture and fixture			-	12
Electrical office and computer equipment			1,124	454
Vehicles			-	-
			<u>1,180</u>	<u>505</u>
<b>11.1.2 Disposals of fixed assets</b>				
The net book value of fixed assets disposed off during the period/year is as follows:				
Leasehold land			-	-
Leasehold improvements			-	-
Building on freehold land			-	-
Furniture and fixture			-	-
Electrical office and computer equipment			-	-
Vehicles			(303)	(800)
			<u>(303)</u>	<u>(800)</u>
<b>11.2 Right of use assets</b>				
Opening net book value			497,593	547,718
Additions			11,525	-
Depreciation			(40,405)	(50,125)
Closing net book value			<u>468,713</u>	<u>497,593</u>

The right-of-use assets (rented premises) are recognised on the present value of future cash flows, discounted using the incremental borrowing rate at the date of initial application.

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**SME BANK LIMITED**

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

**For the Nine months ended September 30, 2020**

		(Un-audited) September 30, 2020	(Audited) December 31, 2019
	Note	(Rupees in '000)	
<b>12. INTANGIBLE ASSETS</b>			
Computer Software	12.1	1,570	1,331
<b>12.1 Computer Software</b>			
Net book value at the beginning of the period/year		1,331	2,401
Additions		1,243	226
Disposals		-	-
Amortizations		(1,004)	(1,296)
Net book value at the end of the period/year		1,570	1,331
<b>13. DEFERRED TAX ASSET - NET</b>			
Deferred tax asset		862,031	752,963
Deferred tax (liability)		(665)	(669)
		861,366	752,294
<b>13.1</b>	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.		

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		(Un-audited) September 30, 2020	(Audited) December 31, 2019
14. OTHER ASSETS	Note	(Rupees in '000)	
Income/mark-up accrued in local currency - net of provision	14.1	198,418	168,490
Advances, deposits, advance rent and other prepayments		33,228	24,279
Advance taxation - net	14.2	200,861	208,288
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured		5,412	5,412
Receivable from NBP		2,692	1,853
Receivable from subsidiary company		4,329	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		76,419	75,742
		<b>715,384</b>	<b>680,301</b>
Less: Provision held against other assets	14.4	118,005	117,109
Other assets (net of provision)		<b>597,379</b>	<b>563,192</b>

**14.1** The balance has been arrived at after adjusting interest in suspense of Rs. 4,054.068 million (December 31, 2019: Rs. 4,066.115 million) which includes Rs: 261.538 million (December 31, 2019: Rs. 273.869 million) relating to SME

**14.2** This includes the effect of refunds aggregating to Rs. 232.599 million ( December 31, 2019: 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 ( December 31, 2019: 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 the 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. 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 19 October 2020. As per latest valuation report dated December 31, 2019, the market value of the Property was Rs. 224.368 million.

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	(Un-audited) September 30, 2020	(Audited) December 31, 2019
<b>14.4 Provision held against other assets</b>		
	(Rupees in '000)	
Advances, deposits, advance rent & other prepayments	2,705	2,706
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	5,148	5,148
Other receivables - SME Portfolio	44,360	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
	<b>118,005</b>	<b>117,109</b>
<b>14.4.1 Movement in provision held against other assets</b>		
Opening balance	117,109	117,095
Charge for the period/year	2,302	3,054
Reversals for the period/year	(1,404)	(3,040)
	898	14
Transferred to NBP	(2)	-
Closing balance	<b>118,005</b>	<b>117,109</b>





**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**
**For the Nine months ended September 30, 2020**

			(Un-audited) September 30, 2020	Audited December 31, 2019
<b>15. BILLS PAYABLE</b>	<b>Note</b>		(Rupees in '000)	
In Pakistan			86,197	51,543
Outside Pakistan			-	-
			<u>86,197</u>	<u>51,543</u>
<b>16. BORROWINGS</b>				
<b>Secured</b>				
Repurchase agreement borrowings				
State Bank of Pakistan	16.1		3,208,877	1,137,846
Financial Institutions	16.1		299,532	2,442,609
			<u>3,508,409</u>	<u>3,580,455</u>
<b>Unsecured</b>				
Borrowing from State Bank of Pakistan				
Financing facility for storage of agricultural produce	16.2		110,141	74,316
			<u>3,618,550</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 7.07% to 7.95% (December 31, 2019: 13.38% to 13.75%) per annum for period upto one months (December 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**

September 30, 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	737,395	-	737,395	499,200	-	499,200
Savings deposits	3,927,063	-	3,927,063	3,153,652	-	3,153,652
Term deposits	2,510,364	-	2,510,364	3,207,339	-	3,207,339
Margin accounts	88,368	-	88,368	112,398	-	112,398
	<u>7,263,190</u>	<u>-</u>	<u>7,263,190</u>	<u>6,972,589</u>	<u>-</u>	<u>6,972,589</u>

**Financial Institutions**

Current accounts	24	-	24	24	-	24
Savings deposits	493,085	-	493,085	471,695	-	471,695
Term deposits	56,400	-	56,400	56,400	-	56,400
Margin accounts	-	-	-	-	-	-
	<u>549,509</u>	<u>-</u>	<u>549,509</u>	<u>528,119</u>	<u>-</u>	<u>528,119</u>
	<u>7,812,699</u>	<u>-</u>	<u>7,812,699</u>	<u>7,500,708</u>	<u>-</u>	<u>7,500,708</u>

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**SME Bank Limited**

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

**For the Nine months ended September 30, 2020**

		(Un-audited) September 30, 2020	(Audited) December 31, 2019
18. OTHER LIABILITIES	Note	(Rupees in '000)	
Mark-up/ return/ interest payable in local currency		139,438	218,915
Unearned commission on guarantees		3,377	1,875
Accrued expenses		19,817	11,819
Sundry creditors	18.1	166,701	172,039
Branch adjustment account		301	586
Payable against employees' benefit plans			
Defined benefit pension		370,155	370,155
Defined benefit funded gratuity scheme		14,172	14,172
Unfunded compensated absences		105,986	95,297
Security deposits against lease		280	280
Leased liability against right of use assets	18.2	546,378	538,756
Employees' VSS payments withheld		12,603	12,603
Income tax withheld payable		19,680	19,311
Others		1,620	1,616
		<u>1,400,508</u>	<u>1,457,424</u>

**18.1** This include Rs. 90.6 million (December 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. 63.079 million (December 31, 2019: Rs. 72.847 million).

**18.2** This represents lease liability under IFRS 16 :

	(Un-audited) September 30, 2020	(Audited) December 31, 2019
	(Rupees in '000)	
Opening net book value	538,756	540,961
- Additions	11,525	-
- Interest	52,120	67,337
- Payment	(56,023)	(69,542)
Closing net book value	<u>546,378</u>	<u>538,756</u>

**19. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS**

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

- Federal Government securities	149	(301,559)
- Listed companies/mutual funds	1,751	1,912
	<u>1,900</u>	<u>(299,647)</u>

Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities

- Federal Government securities	(52)	-
- Listed companies/mutual funds	(613)	(669)
	<u>1,235</u>	<u>(300,316)</u>

qf



**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**
**For the Nine months ended September 30, 2020**

			(Un-audited) September 30, 2020	(Audited) December 31, 2019
			(Rupees in '000)	
<b>20.</b>	<b>CONTINGENCIES AND COMMITMENTS</b>	<b>Note</b>		
	- Guarantees	20.1	268,678	261,582
	- Commitments	20.2	3,859,506	3,842,670
	- Other contingent liabilities	20.3	1,195,741	1,157,401
			<u>5,323,925</u>	<u>5,261,653</u>
<b>20.1</b>	<b>Guarantees</b>			
	Financial guarantees		-	-
	Performance guarantees	20.1.1	268,678	261,582
	Other guarantees		-	-
			<u>268,678</u>	<u>261,582</u>
<b>20.1.1</b>	This include expired letter of guarantees/performance aggregating to Rs. 93.945 million (December 31, 2019: Rs. 34.142 million) for which formalities for return of original documents are in process.			
			(Un-audited) September 30, 2020	(Audited) December 31, 2019
			(Rupees in '000)	
		<b>Note</b>		
<b>20.2</b>	<b>Commitments</b>			
	Commitments in respect of:			
	- forward government securities transactions	20.2.1	3,508,927	3,560,826
	- forward lending	20.2.2	349,592	280,608
	Commitments for acquisition of:			
	- operating fixed assets		987	987
	- intangible assets		-	249
	Other commitments	20.2.3	-	-
			<u>3,859,506</u>	<u>3,842,670</u>
<b>20.2.1</b>	<b>Commitments in respect of forward government securities transactions</b>			
	Sale and repurchase agreements		<u>3,508,927</u>	<u>3,560,826</u>
<b>20.2.2</b>	<b>Commitments in respect of forward lending</b>			
	Undrawn facilities		288,782	174,708
	Commitments to extend credit		60,810	105,900
			<u>349,592</u>	<u>280,608</u>
<b>20.2.3</b>	<b>Other commitments</b>			
	<b>Bills for collection</b>			
	Payable in Pakistan		-	-
<b>20.3</b>	<b>Other contingent liabilities</b>			
	a) Claims not acknowledged as debt from various borrowers of defunct RDFC.		53,686	53,686
	b) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) which has been decided in favor of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals) which is pending adjudication. The management of the Bank strongly believes and expects favorable outcome and therefore no provision has been made for these effect in the unconsolidated condensed interim financial statements.		612,707	612,707



**SME BANK LIMITED**

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

**For the Nine months ended September 30, 2020**

	(Un-audited) September 30, 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 unconsolidated condensed interim 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 issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response.	18,663	18,663
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation. Without prejudice, the tax department has been requested to adjust the tax demand with the available income tax refunds.	38,723	38,723



**SME BANK LIMITED**

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

**For the Nine months ended September 30, 2020**

	(Un-audited) September 30, 2020	(Audited) December 31, 2019
	(Rupees in '000)	
i) The Officer Inland Revenue, LTU, Islamabad made an assessment for the year 2001-2002 vide order dated June 20, 2005 of Rs. 590.667 million and a tax demand of Rs. 118.721 million which was contested in ATIR which ordered the appeal in Bank's favor vide Order no. ITA No.857/IB/2006 dated April 05, 2007. Now tax department has filed income tax reference with the Islamabad High Court having no. I.T.R. 48 of 2007.	118,721	118,721
j) Back benefits and claims of staff/employees under litigation.	70,660	32,320
k) Sales Demands of Rs. 0.791 million and Rs. 17.098 million were created for the year 2008 & 2010 respectively during proceedings of sales audit. Against the said demands advance payments of Rs. 0.299 million and Rs. 3.743 million respectively were made to avail stay against recovery of entire amount. Appellate Tribunal Inland Revenue has remanded both cases back to the Commissioner for fresh proceedings, which have not been initiated yet. Furthermore, sales demands amounting Rs. 1.708 million & Rs. 1.045 million were created for the year 2009 and 2012 respectively during proceedings of sales audit. Against the said demands advance payments of Rs. 0.577 million & Rs.1.045 million respectively were made to avail stay against recovery of entire amount. Both appeals are pending before Appellate Tribunal Inland Revenue for fixation of hearing. The management strongly believes for favorable outcome in the said cases.	20,642	20,642

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## SME Bank Limited

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

For the Nine months ended September 30, 2020

		(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
	Note	(Rupees in '000)	
<b>21. MARK-UP/ RETURN/ INTEREST EARNED</b>			
On loans and advances to Customers			
Extended by:			
Defunct RDFC & SBFC		-	-
SME Bank Limited		202,892	212,828
		<u>202,892</u>	<u>212,828</u>
Employees		2,717	3,002
Financial Institution - SME Leasing Limited - a subsidiary company		15,353	14,184
		<u>220,962</u>	<u>230,014</u>
On investments in			
Available for sale securities		358,226	337,915
Held to maturity securities		3,213	2,696
		<u>361,439</u>	<u>340,611</u>
On deposits with financial institutions		260	314
On securities purchased under resale agreements		-	91
On clean lending		322	-
On call money lending		576	1,569
		<u>583,559</u>	<u>572,599</u>
<b>22. MARK-UP/ RETURN/ INTEREST EXPENSED</b>			
On deposits		510,129	399,652
On securities sold under repurchase agreements		306,138	419,456
On SBP Refinance Scheme		1,446	527
Brokerage and commission		1,147	863
Bank charges		147	186
		<u>819,007</u>	<u>820,684</u>
<b>23. FEE &amp; COMMISSION INCOME</b>			
Branch banking customer fees		2,239	1,513
Card related fees		298	209
Credit related fees		1,373	1,969
Commission on guarantees		3,024	2,538
Commission on remittances		50	57
Others		15	8
		<u>6,999</u>	<u>6,294</u>
<b>24. GAIN / (LOSS) ON SECURITIES</b>			
Realised	24.1	365	3
Unrealised - held for trading		-	-
		<u>365</u>	<u>3</u>
24.1 Federal Government Securities - net		365	3
Shares		-	-
		<u>365</u>	<u>3</u>
<b>25. OTHER INCOME</b>			
Gain on sale of operating fixed assets - net		101	-
Claim against stolen vehicle		300	-
Others		13	65
		<u>414</u>	<u>65</u>



	(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
<b>26. OPERATING EXPENSES</b>	<b>(Rupees in '000)</b>	
<b>Total compensation expense</b>	<b>507,694</b>	<b>499,599</b>
<b>Property expense</b>		
Rent & taxes	3,441	5,257
Insurance	787	987
Utilities cost	14,694	15,819
Security (including guards)	11,924	11,447
Repair & maintenance	4,945	4,368
Depreciation	40,990	38,179
Others	-	-
	<b>76,781</b>	<b>76,057</b>
<b>Information technology expenses</b>		
Software maintenance	3,492	3,386
Hardware maintenance	1,320	1,687
Depreciation	3,819	3,850
Amortization	1,004	976
Network charges	10,076	10,619
Others	162	703
	<b>19,873</b>	<b>21,221</b>
<b>Other operating expenses</b>		
Directors' fees, allowances and other expenses	1,153	-
Legal and professional charges	2,880	2,371
Outsourced services costs	20,863	19,838
Travelling and conveyance	1,246	3,900
NIFT clearing charges	1,437	1,302
Depreciation	10,049	11,118
Training & development	682	1,199
Postage & courier charges	549	655
Communications	3,307	3,524
Stationery and printing	3,290	3,420
Marketing, advertisement & publicity	877	847
Donations	-	-
Auditors' remuneration	783	675
Vehicle running and maintenance	2,512	3,411
Entertainment	1,502	1,731
Subscription, books and newspapers	2,320	2,331
Deposits premium	2,713	2,713
Loss on sale of operating fixed assets - net	-	32
Others	188	360
	<b>56,351</b>	<b>59,427</b>
	<b>660,699</b>	<b>656,304</b>

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## SME Bank Limited

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

For the Nine months ended September 30, 2020

	(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
<b>27. OTHER CHARGES</b>	<b>(Rupees in '000)</b>	
Penalties imposed by the State Bank of Pakistan	130	2,111
Right of use assets - unwinding of present value	52,120	50,136
	<u>52,250</u>	<u>52,247</u>
<b>28. PROVISIONS &amp; WRITE OFFS - NET</b>	(Un-audited) September 30, 2020	(Un-audited) September 30, 2019
	<b>(Rupees in '000)</b>	
Provisions against lending to financial institutions	-	-
Provisions for diminution in value of investment	-	(20,000)
Provisions against loans & advances	(20,529)	2,708
Other provisions / written off directly against other assets	898	(230)
Bad debts written off directly	-	-
	<u>(19,631)</u>	<u>(17,522)</u>
<b>29. TAXATION</b>		
Current	9,130	8,025
Prior years	-	-
Deferred	(109,068)	(156,415)
	<u>(99,938)</u>	<u>(148,390)</u>
<b>30. BASIC/ DILUTED LOSS PER SHARE</b>		
Net loss after tax for the year	<u>(821,013)</u>	<u>(784,362)</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares	<u>239,250,700</u>	<u>239,250,700</u>
	<b>Rupees</b>	
Basic/ diluted loss per share	<u>(3.43)</u>	<u>(3.28)</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.

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.

September 30, 2020 (un-audited)

FAIR VALUE				
Level 1	Level 2	Level 3	carrying / notional value	Total

**31.1 On balance sheet financial instruments**

Note

(Rupees in '000)

Financial assets measured at fair value

- Investments

Government Securities (T bills and PIBs)

- 5,689,047 - - 5,689,047

Ordinary shares of listed companies/Mutual funds

3,923 - - - 3,923

Ordinary shares of unlisted companies

- - 26,470 26,470

Financial assets not measured at fair value

- Bank balances with treasury banks

31.2 - - - 428,679 428,679

- Balances with other banks

31.2 - - - 1,989 1,989

- Lending to financial institutions

31.2 - - - - -

- Advances

31.2 - - - 1,492,946 1,492,946

- Other assets

31.2 - - - 208,401 208,401

-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

Note

(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

31.2 - - - 526,927 526,927

- Balances with other banks

31.2 - - - 4,537 4,537

- Lending to financial institutions

31.2 - - - - -

- Advances

31.2 - - - 1,907,995 1,907,995

- Other assets

31.2 - - - 176,185 176,185

-Other Investment (COI/TDR)

31.2 - - - 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. Therefore their carrying amounts are reasonable approximation of fair value.

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

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

Fully paid-up ordinary shares

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

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

Pakistan Investment Bonds / Market Treasury Bills

Fair values of Pakistan Investment Bonds and Treasury Bills are derived using the PKRV rates (Reuters page).

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**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the Nine months ended September 30, 2020****32. SEGMENT INFORMATION****32.1 Segment details with respect to Business Activities**

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

	September 30, 2020 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
<b>Profit &amp; Loss</b>			
Net mark-up/return/profit	362,337	221,222	583,559
Inter segment revenue - net	-	205,161	205,161
Non mark-up/return/interest income	402	7,413	7,815
Total income	362,739	433,796	796,535
Segment direct expenses	322,539	1,209,417	1,531,956
Inter segment expenses allocation	205,161	-	205,161
Total expenses	527,700	1,209,417	1,737,117
Provisions	-	(19,631)	(19,631)
Loss before tax	(164,961)	(755,990)	(920,951)
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
<b>Balance Sheet</b>			
Cash & Bank balances	301,598	306,344	607,942
Investments	5,835,188	-	5,835,188
Net inter segment lending		2,792,454	2,792,454
Lending to financial institutions	-	-	-
Advances - Performing	-	1,338,453	1,338,453
- Non-performing	-	154,493	154,493
Others	791,464	1,158,507	1,949,971
<b>Total Assets</b>	6,928,250	5,750,251	12,678,501
Borrowings	3,508,409	110,141	3,618,550
Deposits & other accounts	-	7,812,699	7,812,699
Net inter segment borrowing	2,792,454	-	2,792,454
Others	420,308	1,066,397	1,486,705
Total Liabilities	6,721,171	8,989,237	15,710,408
Equity	207,079	(3,238,986)	(3,031,907)
Total Equity & liabilities	6,928,250	5,750,251	12,678,501
Contingencies & Commitments	3,508,927	1,814,998	5,323,925

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**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**
**For the Nine months ended September 30, 2020**

	September 30, 2019 (un-audited)		
	Trading &	Commercial	Total
	Sales	Banking	
	(Rupees in '000)		
<b>Profit &amp; Loss</b>			
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)

	December 31, 2019 (Audited)		
	Trading &	Commercial	Total
	Sales	Banking	
	(Rupees in '000)		
<b>Balance Sheet</b>			
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
<b>Total Assets</b>	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	1,700,827	5,261,653
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Assumptions used:

- Unallocatable assets representing 7.15% (December 31, 2019: 6.19%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.26% (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.

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**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**  
**For the Nine months ended September 30, 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:

	September 30, 2020 (un-audited)						December 31, 2019 (Audited)					
	Subsidiary	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
	SMEL	Management										
	Rupees in '000						Rupees in '000					
<b>Investments</b>												
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	-	-	-	-	-
<b>Advances</b>												
Opening balance	142,156	10,301	-	-	-	-	141,556	15,252	-	-	-	-
Addition (total debits) during the year	30,835	5,501	-	-	-	-	72,471	8,789	-	-	-	-
Repaid (total credits) during the year	(30,875)	(5,746)	-	-	-	-	(71,871)	(13,740)	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	142,116	10,056	-	-	-	-	142,156	10,301	-	-	-	-
Provision held against advances	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other Assets</b>												
Interest / mark-up accrued	4,329	6,851	-	611	-	-	2,212	6,652	-	611	-	-
Receivable from staff retirement fund	-	-	-	-	5,412	-	-	-	-	-	5,412	-
Other receivable	-	-	-	-	-	-	-	-	-	-	-	-
<b>Deposits and other accounts</b>												
Opening balance	-	11,181	-	454,276	1,155,429	5,000	1,562	4,702	-	412,774	811,006	12,769
Received during the year	12,475	91,449	-	31,541	156,274	27,053	22,456	104,916	-	41,502	350,205	33,890
Withdrawn during the year	-	(90,607)	-	-	(80)	(24,722)	-	(98,603)	-	-	(5,782)	(41,659)
Transfer in / (out) - net	(12,475)	116	-	-	-	-	(24,018)	166	-	-	-	-
Closing balance	-	12,139	-	485,817	1,311,623	7,331	-	11,181	-	454,276	1,155,429	5,000
<b>Other Liabilities</b>												
Interest / mark-up payable	-	69	-	2,196	60,429	22	-	106	-	4,341	72,000	52
Payable to staff retirement fund	-	-	-	-	490,313	-	-	-	-	-	479,624	-
Others liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Contingencies and Commitments	-	-	-	-	-	-	-	-	-	-	-	-



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

For the Nine months ended September 30, 2020

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**34. CAPITAL ADEQUACY**

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

	(Un-audited) September 30, 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)	(5,632,175)		(4,811,162)	
	(3,033,142)		(2,212,129)	
Less: Adjustments				
Goodwill/intangible Assets	1,570		1,331	
Investment in equity of subsidiary	80,748		80,748	
Deficit on revaluation of available for sale investments	-		300,316	
	82,318		382,395	
<i>Total tier I capital</i>	(3,115,460)		(2,594,524)	
<i>Tier II capital</i>	3,012		8	
<i>Eligible tier III capital</i>	-		-	
Total regulatory capital	(3,112,448)		(2,594,516)	
	(Un-audited) September 30, 2020		(Audited) December 31, 2019	
Risk-weighted exposures	Book value	Risk adjusted value	Book value	Risk adjusted value
	(Rupees in '000)		(Rupees in '000)	
<i>Credit risk</i>				
Balance sheet items:				
Cash and other liquid assets	607,942	398	655,102	907
Investments/ lending to financial institutions	5,835,188	65,393	5,739,975	65,554
Loans and advances	1,492,946	915,206	1,907,995	1,150,542
Fixed assets	489,656	489,656	532,112	532,112
Deferred tax assets	861,366	861,366	752,294	752,294
Other assets	597,379	284,037	563,192	278,432
	9,884,477	2,616,056	10,150,670	2,779,841
Off balance sheet items	219,501	109,751	206,700	103,350
Weighted Non-funded exposures	219,501	109,751	206,700	103,350
Credit risk-weighted exposures	10,103,978	2,725,807	10,357,370	2,883,191
Market risk		394,261		728,771
Market risk-weighted exposures	-	394,261	-	728,771
Total risk-weighted exposures		3,120,068		3,611,962
<i>Capital adequacy ratio credit risk</i> [ (a) / (b) x 100 ]		-114.18%		-89.99%
<i>Total Capital adequacy ratio</i> [ (a) / (c) x 100 ]		-99.76%		-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 Unconsolidated Condensed Interim Financial Statements (un-audited)

For the Nine months ended September 30, 2020

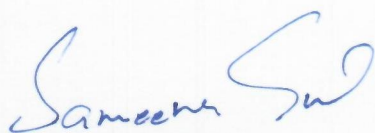
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35. DATE OF AUTHORIZATION

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

OCTOBER 28

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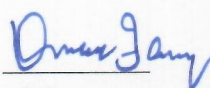
Chief Financial Officer



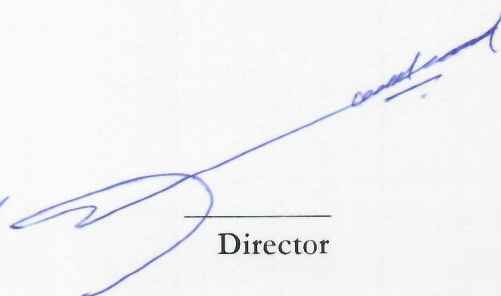
President/CEO



Director



Director



Director