

FINANCIAL STATEMENTS
(Un-Audited)

FOR THE QUATER ENDED
MARCH 31, 2021

SME BANK LIMITED
Unconsolidated Condensed Interim Statement of Financial Position
As at March 31, 2021

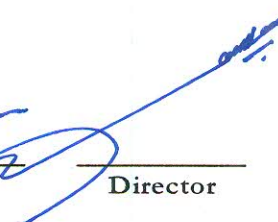
| | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|---|------|--------------------------------|--------------------------------|
| | Note | (Rupees in '000) | |
| ASSETS | | | |
| Cash and balances with treasury banks | 7 | 511,866 | 668,727 |
| Balances with other banks | 8 | 2,640 | 2,123 |
| Lendings to financial institutions | | - | - |
| Investments | 9 | 5,974,049 | 5,828,353 |
| Advances | 10 | 1,502,394 | 1,530,344 |
| Fixed assets | 11 | 456,376 | 472,184 |
| Intangible assets | 12 | 2,148 | 1,756 |
| Deferred tax assets - net | 13 | 880,669 | 874,915 |
| Other assets | 14 | 559,247 | 562,685 |
| | | 9,889,389 | 9,941,087 |
| LIABILITIES | | | |
| Bills payable | 15 | 93,716 | 99,986 |
| Borrowings | 16 | 4,780,571 | 4,127,613 |
| Deposits and other accounts | 17 | 7,199,885 | 7,602,262 |
| Liability against assets subject to finance lease | | - | - |
| Sub-ordinated loans | | - | - |
| Deferred tax liabilities | | - | - |
| Other liabilities | 18 | 1,239,054 | 1,271,309 |
| | | 13,313,226 | 13,101,170 |
| NET LIABILITIES | | (3,423,837) | (3,160,083) |
| REPRESENTED BY | | | |
| Share capital | | 2,392,507 | 2,392,507 |
| Reserves | | 206,526 | 206,526 |
| Surplus/(deficit) on revaluation of assets - net of tax | 19 | 458 | 2,586 |
| Unappropriated loss | | (6,023,328) | (5,761,702) |
| | | (3,423,837) | (3,160,083) |
| CONTINGENCIES AND COMMITMENTS | | | |
| | 20 | | |

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


President/CEO

Chief Financial Officer

Director

Director

Director

SME BANK LIMITED
Unconsolidated Condensed Interim Profit and Loss Account (Un-audited)
For the quarter ended March 31, 2021

| | | March 31, 2021 | March 31, 2020 |
|---|------|------------------|----------------|
| | Note | (Rupees in '000) | |
| Mark-up/ return/ interest earned | 21 | 164,473 | 232,012 |
| Mark-up/ return/ interest expensed | 22 | 184,707 | 340,558 |
| Net mark-up/ interest loss | | (20,234) | (108,546) |
| NON MARK-UP/ INTEREST INCOME | | | |
| Fee and commission income | 23 | 2,663 | 2,295 |
| Dividend income | | - | - |
| Foreign exchange income | | - | - |
| Income / (loss) from derivatives | | - | - |
| Gain/(loss) on securities | 24 | 881 | - |
| Other income | 25 | 579 | 101 |
| Total non-markup/ interest income | | 4,123 | 2,396 |
| Total loss | | (16,111) | (106,150) |
| NON MARK-UP/ INTEREST EXPENSES | | | |
| Operating expenses | 26 | 233,958 | 225,637 |
| Workers Welfare Fund | | - | - |
| Other charges | 27 | 17,184 | 17,224 |
| Total non-markup/ interest expenses | | 251,142 | 242,861 |
| Loss before provisions | | (267,253) | (349,011) |
| Provisions and write offs - net | 28 | (2,492) | (28,893) |
| LOSS BEFORE TAXATION | | (264,761) | (320,118) |
| Taxation | 29 | (3,135) | (1,159) |
| LOSS AFTER TAXATION | | (261,626) | (318,959) |
| Basic/diluted (loss) per share (rupees) | 30 | (1.09) | (1.33) |

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




President/CEO



Chief Financial Officer



Director



Director



Director

SME BANK LIMITED**Unconsolidated Condensed Interim Statement of Comprehensive Income (Un-audited)**

For the quarter ended March 31, 2021

| | March 31, 2021 | March 31, 2020 |
|--|------------------|------------------|
| | (Rupees in '000) | |
| Net loss after taxation | (261,626) | (318,959) |
| Other comprehensive income | | |
| Items that may be reclassified to profit and loss account in subsequent periods | | |
| Movement in deficit on revaluation of investment | (2,128) | 151,364 |
| Items that will not be reclassified to profit and loss account in subsequent periods | | |
| Remeasurement gain on defined benefit obligations - net | - | - |
| Total comprehensive loss | <u>(263,754)</u> | <u>(167,595)</u> |

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



President/CEO



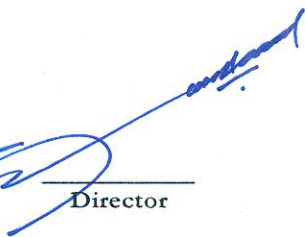
Chief Financial Officer



Director



Director



Director


SME BANK LIMITED
Unconsolidated Condensed Interim Cash Flow Statement (Un-audited)
For the quarter ended March 31, 2021

| | March 31, 2021 | March 31, 2020 |
|---|------------------|------------------|
| Note | (Rupees in '000) | |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Loss before taxation | (264,761) | (320,118) |
| Less: Dividend income | - | - |
| | (264,761) | (320,118) |
| Adjustments: | | |
| Depreciation | 16,829 | 17,516 |
| Amortization | 385 | 320 |
| Provision and write-offs | (2,492) | (28,893) |
| Loss/(gain) on sale of fixed assets | (563) | (101) |
| Mark-up expense on leased liability against ROU assets | 17,184 | 17,124 |
| | 31,343 | 5,966 |
| | (233,418) | (314,152) |
| (Increase)/ decrease in operating assets | | |
| Lendings to financial institutions | - | - |
| Held-for-trading securities | - | - |
| Advances | 30,862 | 247,150 |
| Other assets (excluding advance taxation) | 1,222 | (82,928) |
| | 32,084 | 164,222 |
| Increase/ (decrease) in operating liabilities | | |
| Bills payable | (6,270) | (3,220) |
| Borrowings from financial institutions | 652,958 | 807,067 |
| Deposits | (402,377) | (790,156) |
| Other liabilities (excluding current taxation) | (30,189) | 66,214 |
| | 214,122 | 79,905 |
| Income tax paid | 12,788 | (70,025) |
| | (476) | (500) |
| Net cash flow generated (used in)/ from operating activities | 12,312 | (70,525) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Net investment/disinvestment in available-for-sale securities | (148,171) | (199,003) |
| Net investment in held-to-maturity securities | - | - |
| Dividend received | - | - |
| Investment in operating fixed assets | (1,825) | (455) |
| Proceeds from sale of fixed assets | 590 | 403 |
| Net cash flow generated from investing activities | (149,406) | (199,055) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Payment of lease obligation | (19,250) | (17,127) |
| Net cash flow (used in) from financing activities | (19,250) | (17,127) |
| Decrease in cash and cash equivalents | (156,344) | (286,707) |
| Cash and cash equivalents at beginning of the period | 670,850 | 655,102 |
| Cash and cash equivalents at end of the period | 514,506 | 368,395 |

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



President/CEO




Chief Financial Officer



Director



Director



Director

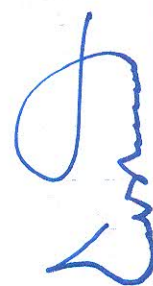
SME BANK LIMITED

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

For the quarter ended March 31, 2021

| | Share capital | Statutory reserve | Surplus/(deficit) on revaluation of investments (Rupees in '000) | Unappropriated loss | Total |
|--|---------------|-------------------|---|---------------------|-------------|
| Balance as at January 01, 2020 (audited) | 2,392,507 | 206,526 | (300,316) | (4,811,162) | (2,512,445) |
| Total comprehensive income for the three months period ended March 31, 2020 | | | | | |
| Net loss after taxation | - | - | - | (318,959) | (318,959) |
| Other comprehensive income - net of tax | - | - | 151,364 | - | 151,364 |
| Balance as at March 31, 2020 (un-audited) | 2,392,507 | 206,526 | (148,952) | (5,130,121) | (2,680,040) |
| Total comprehensive income for the nine months period ended December 31, 2020 | | | | | |
| Loss after taxation | - | - | - | (658,205) | (658,205) |
| Other comprehensive income/ (loss) - net of tax | - | - | 151,538 | 26,624 | 178,162 |
| Balance as at December 31, 2020 (audited) | 2,392,507 | 206,526 | 2,586 | (5,761,702) | (3,160,083) |
| Total comprehensive income for the three months period ended March 31, 2021 | | | | | |
| Net loss after taxation | - | - | - | (261,626) | (261,626) |
| Other comprehensive income - net of tax | - | - | (2,128) | - | (2,128) |
| Balance as at March 31, 2021 (un-audited) | 2,392,507 | 206,526 | 458 | (6,023,328) | (3,423,837) |

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



President/CEO



Chief Financial Officer



Director



Director

SME BANK LIMITED

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

For the quarter ended March 31, 2021

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. Although further relaxation of MCR has not been granted but SBP has not objected the non-compliance of MCR as it is fully aware about the progress of the privatization of the Bank.

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:

¹- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;

²- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and

³- 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.

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the quarter ended March 31, 2021**

The SBP has deferred the applicability of International Accounting Standard 40, "Investment Property" (IAS 40), for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 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. Further, SBP has deferred the applicability International Accounting Standard 39 (IAS 39), Financial Instruments: Recognition and Measurement; IFRS 9 'Financial Instrument' has not been adopted as the Banking industry awaits guidelines from SBP.

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, 2020

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, 2020.

There are certain new and amended standards, issued by International Accounting Standards Board (IASB), interpretations and amendments that are mandatory for the Bank's accounting periods beginning on or after January 1, 2021 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in these unconsolidated condensed interim financial statements.

The SBP vide its BPRD Circular No. 04 dated October 23, 2019 has notified the implementation date of IFRS 9, 'Financial instruments' as January 1, 2021. Awaiting detailed application guidelines, the Bank has not adopted IFRS 9 in these unconsolidated condensed interim financial statements.

5.2 Financial Risk Management

The Bank's Financial Risk Management objectives and policies adopted by the Bank are consistent with those disclosed in the unconsolidated financial statements for the year ended December 31, 2020.

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 to divest the 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 newspapers 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. The buyers side due diligence is completed on August 24, 2020 and the final draft of share purchase agreement (SPA) has been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA have been deliberated by the Transaction Committee and clarifications to this effect have been given to pre-qualified bidders. A joint meeting of the Transaction Committee, SBP and pre-qualified bidders held on December 29th, 2020 and December 30th, 2020 with reference to "Pre-Bid Conference" and "Valuation Model" wherein the queries of pre-qualified potential bidders have been clarified and some of them pertaining to license, merger and MCR have been forwarded to SBP for its clarification whose response is awaited.

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the quarter ended March 31, 2021**

6.2 Going concern assumption

During the current year the Bank incurred a net loss of Rs. 261.626 million (March 31, 2020: Rs. 318.959 million) resulting into accumulated losses of Rs. 6,023.328 million (December 31, 2020: Rs. 5,761.702 million). As of December 31, 2020, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,423.837 million (December 31, 2020: Rs. 3,160.083) indicating the complete erosion of the Bank's equity, which indicates the Bank's inadequate capacity to ensure the timely repayments. Due to cash inadequacy the Bank was unable to meet the statutory solvency requirements of minimum capital (MCR) of Rs. 10,000 million and the Capital Adequacy Ratio (CAR) of 10%. Due to continued stressed financial conditions the Bank's credit rating fell from B negative (single B-) to CCC. Based on the operational results SBP granted exemption from meeting the MCR and CAR up to December 31, 2019 or restructuring/privatization, whichever is earlier, subject to submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds in the Bank, if its privatization does not materialize by March 31, 2020. These conditions indicate the existence of material uncertainty that may cast a significant doubt on the Bank's ability to continue as going concern and therefore it may not be able to realize its assets and discharge its liabilities in the ordinary course of business. To overcome the same, the Government of Pakistan (GoP) being the majority shareholder with 93.88% shareholding in the Bank has initiated the process of privatization of the Bank. The MoF through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020 has informed SBP that the privatization process is likely to be completed within the period of three to four months and requested SBP for extension of relaxation of regulatory requirements till June 30, 2021. Thereafter, the Bank also vide its latest letter No. SMEBL: HO: CFO&CS: 01:2021/1609/430 dated January 18, 2021 has requested SBP to allow exemption from MCR till June 30, 2021 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. Moreover, the process of privatization of the Bank is at the advance stage as five prospective investors have submitted their Statement of Qualifications (SOQs), out of which four have been cleared by SBP. The buyers side due diligence is completed on August 24, 2020 and the final draft of share purchase agreement (SPA) has been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA have been deliberated by the Transaction Committee and clarifications to this effect have been given to pre-qualified bidders. A joint meeting of the Transaction Committee, SBP and pre-qualified bidders held on December 29 & 30 2020 and December 30, 2020 with reference to "Pre-Bid Conference" and "Valuation Model" wherein the queries of pre-qualified potential bidders have been clarified and some of them pertaining to license, merger and MCR have been forwarded to SBP for its clarification whose response is awaited. Considering the current stage of the privatization process the management of the Bank strongly believes that the privatization of the Bank shall be completed soon and will result into injection of fresh equity enabling the Bank to expand and finance its operations while MoF is committed to provide all necessary financial assistance to the Bank to support its operations till the privatization. In view of above the management of the Bank believes that the use of going concern assumption in preparation of these unconsolidated financial statements is appropriate and, therefore, have prepared the same on a going concern basis.

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

| | | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|--|---|--|--------------------------------|-----------------------------------|
| | Note | | (Rupees in '000) | |
| 7. CASH AND BALANCES WITH TREASURY BANKS | | | | |
| In hand | | | | |
| Local currency | | | 118,815 | 175,571 |
| In transit - local currency | | | - | - |
| With State Bank of Pakistan (SBP) in: | | | | |
| Local currency current accounts | 7.1 | | 325,225 | 419,782 |
| With National Bank of Pakistan in: | | | | |
| Local currency current accounts | | | 67,781 | 73,334 |
| Prize bonds | | | 45 | 40 |
| | | | <u>511,866</u> | <u>668,727</u> |
| 7.1 | Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time. | | | |
| | | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
| 8. BALANCES WITH OTHER BANKS | Note | | (Rupees in '000) | |
| In Pakistan: | | | | |
| On current accounts | | | 500 | 500 |
| On deposit accounts | | | 12,140 | 11,623 |
| Provision for doubtful balance with a bank | 8.1 | | (10,000) | (10,000) |
| | | | <u>2,640</u> | <u>2,123</u> |
| 8.1 Particulars of provision for doubtful placement with a bank | | | | |
| Opening balance | | | (10,000) | (10,000) |
| Charge for the year | | | - | - |
| Reversals | | | - | - |
| | | | - | - |
| Closing balance | | | <u>(10,000)</u> | <u>(10,000)</u> |
| Provision for doubtful balance is in respect of deposit of Rs. 10 million (Dec 31, 2020: Rs. 10 million) with Indus Bank Limited which is under liquidation. | | | | |

SME BANK LIMITED

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

For the quarter ended March 31, 2021

9. INVESTMENTS

9.1 Investment by type

Note

Available-for-sale securities

Federal Government Securities

Shares

Mutual Funds

9.1.1

Held-to-maturity securities

Non Government Debt Securities

- Term Deposit Receipts (TDRs) *

- Certificates of Investments (COIs)

Subsidiary

Total Investment

| March 31, 2021 (un-audited) | | | | December 31, 2020 (audited) | | | |
|-----------------------------|-----------------------------|------------------------|-------------------|-----------------------------|-----------------------------|------------------------|----------------|
| Cost / Amortized cost | Provision for diminution | Surplus / (Deficit) | Carrying value | Cost / Amortized cost | Provision for diminution | Surplus / (Deficit) | Carrying value |
| (Rupees in '000) | | | | | | | |
| 5,828,156 | - | (2,060) | 5,826,096 | 5,679,985 | - | 750 | 5,680,735 |
| 42,542 | (15,863) | 3,766 | 30,445 | 42,542 | (15,770) | 3,370 | 30,142 |
| 1,870 | (218) | 108 | 1,760 | 1,870 | - | (142) | 1,728 |
| 5,872,568 | (16,081) | 1,814 | 5,858,301 | 5,724,397 | (15,770) | 3,978 | 5,712,605 |
| | | | | | | | |
| 35,000 | - | - | 35,000 | 35,000 | - | - | 35,000 |
| 762 | (762) | - | - | 762 | (762) | - | - |
| 35,762 | (762) | - | 35,000 | 35,762 | (762) | - | 35,000 |
| 215,457 | (134,709) | - | 80,748 | 215,457 | (134,709) | - | 80,748 |
| 6,123,787 | (151,552) | 1,814 | 5,974,049 | 5,975,616 | (151,241) | 3,978 | 5,828,353 |

For the quarter ended March 31, 2021

| | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|--|-----------------------------------|-----------------------------------|
| | Rupees in 000 | |
| 9.2 Provision for diminution in value of investments | 151,241 | 151,241 |

9.2.2 Particulars of provision against debt securities category of classification

| Particulars of provision against debt securities category of classification | Un-audited March 31, 2021 | | Audited December 31, 2020 | |
|---|----------------------------------|-----------|----------------------------------|-----------|
| | Non performing investments | Provision | Non performing investments | Provision |
| Domestic | | | | |
| Other assets especially mentioned | - | - | - | - |
| Substandard | - | - | - | - |
| Doubtful | 762 | 762 | 762 | 762 |
| Loss | 762 | 762 | 762 | 762 |

SME BANK LIMITED

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

For the quarter ended March 31, 2021

| | Performing | | Non Performing | | Total | |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
| 10. ADVANCES | (Rupees in '000) | | | | | |
| Loans, cash credits, running finances, etc- In Pakistan | Note | | | | | |
| Extended by: | | | | | | |
| Defunct RDFC & SBFC | - | - | 4,881,282 | 4,881,305 | 4,881,282 | 4,881,305 |
| SME Bank Ltd | 1,301,793 | 1,331,056 | 491,044 | 484,794 | 1,792,837 | 1,815,850 |
| Due from employees | 59,229 | 67,066 | 6,188 | 6,188 | 65,417 | 73,254 |
| | 1,361,022 | 1,398,122 | 5,378,514 | 5,372,287 | 6,739,536 | 6,770,409 |
| Net investment in finance lease | 280 | 280 | 973 | 973 | 1,253 | 1,253 |
| Advances - gross | 1,361,302 | 1,398,402 | 5,379,487 | 5,373,260 | 6,740,789 | 6,771,662 |
| Provision for non-performing advances | | | | | | |
| Specific provision | - | - | (5,229,802) | (5,232,725) | (5,229,802) | (5,232,725) |
| General provision | (8,593) | (8,593) | - | - | (8,593) | (8,593) |
| | (8,593) | (8,593) | (5,229,802) | (5,232,725) | (5,238,395) | (5,241,318) |
| Advances - net of provision | 1,352,709 | 1,389,809 | 149,685 | 140,535 | 1,502,394 | 1,530,344 |
| 10.1 Particulars of advances (Gross) | (Un-audited) (Audited) | | | | | |
| In local currency | | | | | March 31, 2021 | December 31, 2020 |
| In foreign currencies | | | | | (Rupees in '000) | |
| | | | | | 6,740,789 | 6,771,662 |
| | | | | | - | - |
| | | | | | 6,740,789 | 6,771,662 |

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

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

SME BANK LIMITED

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

For the quarter ended March 31, 2021

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 (CCCP) in its meeting held on January 21, 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.

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 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, obligations, claims and liabilities of the referred loan portfolios in favor of the FCF.

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

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. 5,379.487 million (Dec 31 2020: Rs. 5,373.260 million) which have been placed under non-performing status as detailed below:**

| Category of Classification | Note | (Un-audited) March 31, 2021 | | (Audited) December 31, 2020 | |
|-----------------------------------|--------|--------------------------------|-----------|--------------------------------|-----------|
| | | Non Performing Loans | Provision | Non Performing Loans | Provision |
| | | (Rupees in '000) | | | |
| Domestic | | | | | |
| Other Assets Especially Mentioned | | 6,389 | 44 | 1,397 | 41 |
| Substandard | | 6,693 | 539 | 21,498 | 91 |
| Doubtful | | 36,142 | 1,213 | 15,333 | 1,258 |
| Loss | | 5,330,263 | 5,228,006 | 5,335,032 | 5,231,335 |
| | 10.4.1 | 5,379,487 | 5,229,802 | 5,373,260 | 5,232,725 |

- 10.4.1** This include non performing loans and provision of Rs: 491.044 million and Rs: 341.405 million respectively (Dec 31 2020: Rs. 484.794 million & Rs. 344.317 million) relating to SME portfolio.

10.4 Particulars of provision against advances

| | March 31, 2021 (un-audited) | | | December 31, 2020 (audited) | | |
|--|-----------------------------|---------|-----------|-----------------------------|---------|-----------|
| | Specific | General | Total | Specific | General | Total |
| (Rupees in '000) | | | | | | |
| Opening balance | 5,232,725 | 8,593 | 5,241,318 | 5,257,050 | 8 | 5,257,058 |
| Charge/(Reversal) | | | | | | |
| Charge for the year | 5,598 | - | 5,598 | 22,631 | 8,587 | 31,218 |
| Reversal for the year | (8,510) | - | (8,510) | (45,984) | (2) | (45,986) |
| | (2,912) | - | (2,912) | (23,353) | 8,585 | (14,768) |
| Amounts written off | - | - | - | - | - | - |
| Reversal of provision of transferred portfolio | (11) | - | (11) | (972) | - | (972) |
| Closing balance | 5,229,802 | 8,593 | 5,238,395 | 5,232,725 | 8,593 | 5,241,318 |

- 10.4.1** General provision has been recorded at the rate of 1% (Dec 31 2020: 1%) of unsecured performing small enterprises portfolio plus a buffer which approximates to 4.5% of covid affected borrowers who availed SBP enabled deferment as at Dec 31, 2020.

- 10.4.2** The FSV benefit availed in last years has been increased by Rs. 5.356 million, which has resulted decrease in charge for specific provision for the year 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. 5.356 million (March 31, 2020: increased by Rs. 14.072 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 120.846 million (Dec 31, 2020: Rs. 115.490 million).

| 10.4.3 Particulars of provisions against advances | March 31, 2021 (un-audited) | | | December 31, 2020 (audited) | | |
|---|-----------------------------|---------|-----------|-----------------------------|---------|-----------|
| | Specific | General | Total | Specific | General | Total |
| (Rupees in '000) | | | | | | |
| In local currency | 5,229,802 | 8,593 | 5,238,395 | 5,232,725 | 8,593 | 5,241,318 |
| In foreign currencies | - | - | - | - | - | - |
| | 5,229,802 | 8,593 | 5,238,395 | 5,232,725 | 8,593 | 5,241,318 |

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

| | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|---|------|-----------------------------------|-----------------------------------|
| | Note | (Rupees in '000) | |
| 11. FIXED ASSETS | | | |
| Property and equipment | 11.1 | 14,600 | 16,940 |
| Right of use assets | 11.2 | 441,776 | 455,244 |
| | | <u>456,376</u> | <u>472,184</u> |
| 11.1 Property and equipment | | | |
| Net book value at the beginning of the period/year | | 16,940 | 34,519 |
| Additions | | 1,048 | 1,294 |
| Disposals | | (27) | (302) |
| Depreciation | | (3,361) | (18,571) |
| Net book value at the end of the period/year | | <u>14,600</u> | <u>16,940</u> |
| 11.1.1 Additions to fixed assets | | | |
| Following additions have been made to fixed assets during the period/year: | | | |
| Property and equipment | | | |
| Leasehold land | | - | - |
| Leasehold improvements | | - | 56 |
| Building on freehold land | | - | - |
| Furniture and fixture | | - | - |
| Electrical office and computer equipment | | 1,048 | 1,238 |
| Vehicles | | - | - |
| | | <u>1,048</u> | <u>1,294</u> |
| 11.1.2 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 | | - | - |
| Furniture and fixture | | - | - |
| Electrical office and computer equipment | | - | - |
| Vehicles | | (27) | (302) |
| | | <u>(27)</u> | <u>(302)</u> |
| 11.2 Right of use assets | | | |
| Opening net book value | | 455,244 | 497,593 |
| Additions | | - | 11,525 |
| Depreciation | | (13,468) | (53,874) |
| Closing net book value | | <u>441,776</u> | <u>455,244</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.

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

| | | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|-------------|---|-------------|-----------------------------------|-----------------------------------|
| | | | (Rupees in '000) | |
| 12. | INTANGIBLE ASSETS | Note | | |
| | Computer Software | 12.1 | <u>2,148</u> | <u>1,756</u> |
| 12.1 | Computer Software | | | |
| | Net book value at the beginning of the period/year | | 1,756 | 1,331 |
| | Additions | | 777 | 1,771 |
| | Disposals | | - | - |
| | Amortizations | | <u>(385)</u> | <u>(1,346)</u> |
| | Net book value at the end of the period/year | | <u>2,148</u> | <u>1,756</u> |
| 13. | DEFERRED TAX ASSET - NET | | | |
| | Deferred tax asset | | 896,361 | 890,643 |
| | Deferred tax (liability) | | <u>(15,692)</u> | <u>(15,728)</u> |
| | | | <u>880,669</u> | <u>874,915</u> |
| 13.1 | The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition of deferred tax asset is the expected privatization of the Bank which would result in fresh equity injection from the new strategic shareholder of the Bank and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future. | | | |

SME BANK LIMITED

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

For the quarter ended March 31, 2021

| | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|---|--|--------------------------------|--------------------------------|
| | | (Rupees in '000) | |
| 14. OTHER ASSETS | Note | | |
| Income/mark-up accrued in local currency - net of provision | 14.1 | 137,793 | 130,491 |
| Advances, deposits, advance rent and other prepayments | | 14,267 | 21,891 |
| Advance taxation - net | 14.2 | 240,970 | 243,077 |
| Non banking asset acquired in satisfaction of claims | 14.3 | 147,066 | 147,066 |
| Due from benevolent fund- unsecured | | 5,552 | 5,552 |
| Receivable from NBP | | 3,220 | 2,966 |
| Receivable from subsidiary company | | 4,229 | 4,157 |
| Receivable from Equity Participation Fund | | 1,800 | 1,760 |
| 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 | | 75,465 | 76,731 |
| | | <u>676,710</u> | <u>680,039</u> |
| Less: Provision held against other assets | 14.4 | 117,463 | 117,354 |
| Other assets (net of provision) | | <u>559,247</u> | <u>562,685</u> |
| 14.1 | The balance has been arrived at after adjusting interest in suspense of Rs. 4,059.414 million (Dec 31, 2020: Rs. 4,053.680 million) which includes Rs: 266.786 million (Dec 31, 2020: Rs. 261.192 million) relating to SME portfolio. | | |
| 14.2 | This includes the effect of refunds aggregating to Rs. 232.599 million (Dec 31, 2020: 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 (Dec 31, 2020: 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 May 27, 2021. As per latest valuation report dated January 20, 2021, the market value of the Property was Rs. 232.573 million. | | |

SME BANK LIMITED

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

For the quarter ended March 31, 2021

| | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|---|--------------------------------|--------------------------------|
| 14.4 Provision held against other assets | (Rupees in '000) | |
| Advances, deposits, advance rent & other prepayments | 2,705 | 2,705 |
| Receivable from Speedway Fondmetall Pakistan Limited | 19,640 | 19,640 |
| Receivable against factorized portfolio | 5,148 | 5,148 |
| Other receivables - SME Portfolio | 43,817 | 43,709 |
| Legal charges recoverable from borrowers - SBFC & RDFC | 22,659 | 22,659 |
| Trading right entitlement certificate - TREC | 21,560 | 21,560 |
| Others | 1,933 | 1,933 |
| | 117,462 | 117,354 |
| 14.4.1 Movement in provision held against other assets | | |
| Opening balance | 117,354 | 117,109 |
| Charge for the year | 1,020 | 2,929 |
| Reversals for the year | (911) | (2,682) |
| | 109 | 247 |
| Transferred to NBP | - | (2) |
| Closing balance | 117,463 | 117,354 |

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

| | | (Un-audited) March 31, 2021 | | (Audited) December 31, 2020 | |
|------|--|--------------------------------|------------------|-----------------------------------|------------------|
| | | (Rupees in '000) | | | |
| 15. | BILLS PAYABLE | Note | | | |
| | In Pakistan | | 93,716 | | 99,986 |
| | Outside Pakistan | | - | | - |
| | | | <u>93,716</u> | | <u>99,986</u> |
| 16. | BORROWINGS | | | | |
| | Secured | | | | |
| | Repurchase agreement borrowings | | | | |
| | State Bank of Pakistan | 16.2 | 4,624,519 | | 3,941,151 |
| | Financial Institutions | 16.2 | 49,783 | | 74,596 |
| | | | <u>4,674,302</u> | | <u>4,015,747</u> |
| | Unsecured | | | | |
| | Borrowing from State Bank of Pakistan | | | | |
| | Financing facility for storage of agricultural produce | 16.3 | 106,269 | | 111,866 |
| | | | <u>4,780,571</u> | | <u>4,127,613</u> |
| 16.1 | Particulars of borrowings with respect to Currencies | | | | |
| | In local currency | | 4,780,571 | | 4,127,613 |
| | In foreign currencies | | - | | - |
| | | | <u>4,780,571</u> | | <u>4,127,613</u> |
| 16.2 | 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 7.10% to 7.95% (Dec 31, 2020: 7.18% to 7.40%) per annum for period upto seven days (Dec 31, 2020: for period upto seven days). REPO transactions are secured against investment of the Bank in Government securities. | | | | |
| 16.3 | This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agri Produce (FFSAP). These carry mark up rate's ranging from 2.0% to 3.25% per annum and is repayable in quarterly instalments. | | | | |
| 17. | DEPOSITS AND OTHER ACCOUNTS | | | | |

| March 31, 2021 (un-audited) | | | December 31, 2020 (audited) | | |
|-----------------------------|------------------------|-------|-----------------------------|------------------------|-------|
| In Local Currency | In Foreign Currency | Total | In Local Currency | In Foreign Currency | Total |

(Rupees in '000)

Customers

| | | | | | | |
|------------------|------------------|----------|------------------|------------------|----------|------------------|
| Current accounts | 842,850 | - | 842,850 | 1,195,828 | - | 1,195,828 |
| Savings deposits | 3,495,893 | - | 3,495,893 | 3,357,871 | - | 3,357,871 |
| Term deposits | 2,211,902 | - | 2,211,902 | 2,405,940 | - | 2,405,940 |
| Margin accounts | 78,064 | - | 78,064 | 80,594 | - | 80,594 |
| | <u>6,628,709</u> | <u>-</u> | <u>6,628,709</u> | <u>7,040,233</u> | <u>-</u> | <u>7,040,233</u> |

Financial Institutions

| | | | | | | |
|------------------|------------------|----------|------------------|------------------|----------|------------------|
| Current accounts | 24 | - | 24 | 24 | - | 24 |
| Savings deposits | 511,152 | - | 511,152 | 502,005 | - | 502,005 |
| Term deposits | 60,000 | - | 60,000 | 60,000 | - | 60,000 |
| Margin accounts | - | - | - | - | - | - |
| | <u>571,176</u> | <u>-</u> | <u>571,176</u> | <u>562,029</u> | <u>-</u> | <u>562,029</u> |
| | <u>7,199,885</u> | <u>-</u> | <u>7,199,885</u> | <u>7,602,262</u> | <u>-</u> | <u>7,602,262</u> |

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

| | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|--|-------------|-----------------------------------|-----------------------------------|
| 18. OTHER LIABILITIES | Note | (Rupees in '000) | |
| Mark-up/ return/ interest payable in local currency | | 106,527 | 108,779 |
| Unearned commission on guarantees | | 3,457 | 2,799 |
| Accrued expenses | | 10,880 | 10,077 |
| Sundry creditors | 18.1 | 135,667 | 161,757 |
| Branch adjustment account | | 1,305 | 1,386 |
| Payable against employees' benefit plans | | | |
| Defined benefit pension | | 337,993 | 337,993 |
| Defined benefit funded gratuity scheme | | 856 | 4,833 |
| Unfunded compensated absences | | 69,655 | 68,328 |
| Security deposits against lease | | 280 | 280 |
| Leased liability against right of use assets | 18.2 | 539,012 | 541,078 |
| Employees' VSS payments withheld | | 12,076 | 12,603 |
| Income tax withheld payable | | 19,779 | 19,603 |
| Others | | 1,567 | 1,793 |
| | | <u>1,239,054</u> | <u>1,271,309</u> |
| 18.1 This include Rs. 90.615 million (Dec 31, 2020: Rs. 90.615 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of stale bills payable Rs. 32.591 million (Dec 31, 2020: Rs. 59.287 million). | | | |
| | | | |
| | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
| 18.2 This represents lease liability under IFRS 16 : | | (Rupees in '000) | |
| Opening net book value | | 541,078 | 538,756 |
| - Additions | | - | 11,525 |
| - Interest | | 17,184 | 69,451 |
| - Payment | | (19,250) | (78,654) |
| Closing net book value | | <u>539,012</u> | <u>541,078</u> |
| 19. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS | | | |
| Surplus/(deficit) on revaluation of available-for-sale securities | | | |
| - Federal Government securities | | (2,060) | 750 |
| - Listed companies/mutual funds | | 3,874 | 3,228 |
| | | <u>1,814</u> | <u>3,978</u> |
| Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities | | | |
| - Federal Government securities | | - | (263.00) |
| - Listed companies/mutual funds | | (1,356) | (1,129) |
| | | <u>458</u> | <u>2,586</u> |

SME BANK LIMITED

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

For the quarter ended March 31, 2021

| | | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|---------------|---|-------------|--------------------------------|-----------------------------------|
| | | | (Rupees in '000) | |
| 20. | CONTINGENCIES AND COMMITMENTS | Note | | |
| | - Guarantees | 20.1 | 245,751 | 229,498 |
| | - Commitments | 20.2 | 4,998,728 | 4,278,596 |
| | - Other contingent liabilities | 20.3 | 1,195,296 | 1,192,987 |
| | | | 6,439,775 | 5,701,081 |
| 20.1 | Guarantees | | | |
| | Financial guarantees | | - | - |
| | Performance guarantees | 20.1.1 | 245,751 | 229,498 |
| | Other guarantees | | - | - |
| | | | 245,751 | 229,498 |
| 20.1.1 | This include expired letter of guarantees/performance aggregating to Rs. 25.419 million (Dec 31, 2020: Rs. 69.690 million) for which formalities for return of original documents are in process. | | | |
| 20.2 | Commitments | | | |
| | Commitments in respect of: | | | |
| | - forward government securities transactions | 20.2.1 | 4,679,393 | 4,017,519 |
| | - forward lending | 20.2.2 | 317,781 | 259,813 |
| | Commitments for acquisition of: | | | |
| | - operating fixed assets | | 987 | 1,264 |
| | - intangible assets | | - | - |
| | Other commitments | 20.2.3 | 567 | - |
| | | | 4,998,728 | 4,278,596 |
| 20.2.1 | Commitments in respect of forward government securities transactions | | | |
| | Sale and repurchase agreements | | 4,679,393 | 4,017,519 |
| 20.2.2 | Commitments in respect of forward lending | | | |
| | Undrawn facilities | | 161,281 | 202,613 |
| | Commitments to extend credit | | 156,500 | 57,200 |
| | | | 317,781 | 259,813 |
| 20.2.3 | Other commitments | | | |
| | Bills for collection | | | |
| | Payable in Pakistan | | 567 | - |
| 20.3 | Other contingent liabilities | | 1,195,296 | 1,192,987 |
| | 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 financial statements. | | 612,707 | 612,707 |

SME BANK LIMITED

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

For the quarter ended March 31, 2021

| | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|---|--------------------------------|-----------------------------------|
| | (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 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 and therefore no provision in this respect has been recorded in these unconsolidated financial statements. | 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 quarter ended March 31, 2021

| | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 |
|--|--------------------------------|-----------------------------------|
| | (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. 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) 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. | 20,807 | 20,998 |
| k) Back benefits and claims of staff/employees under litigation. | 70,050 | 67,550 |

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

| | | March 31, 2021 | March 31, 2020 |
|--|-------------|------------------|----------------|
| | | (Rupees in '000) | |
| 21. MARK-UP/ RETURN/ INTEREST EARNED | Note | | |
| On loans and advances to Customers | | | |
| Extended by: | | | |
| Defunct RDFC & SBFC | | - | - |
| SME Bank Limited | | 57,578 | 90,314 |
| | | <u>57,578</u> | <u>90,314</u> |
| Employees | | 705 | 912 |
| Financial Institution - SME Leasing Limited - a subsidiary company | | 4,092 | 6,188 |
| | | <u>62,375</u> | <u>97,414</u> |
| On investments in | | | |
| Available for sale securities | | 100,850 | 133,218 |
| Held to maturity securities | | 774 | 1,063 |
| | | <u>101,624</u> | <u>134,281</u> |
| On deposits with financial institutions | | 31 | 143 |
| Lendings to financial institutions | | 443 | 174 |
| | | <u>164,473</u> | <u>232,012</u> |
| 22. MARK-UP/ RETURN/ INTEREST EXPENSED | | | |
| On deposits | | 112,673 | 202,591 |
| On securities sold under repurchase agreements | | 71,156 | 137,076 |
| On SBP Refinance Scheme | | 558 | 500 |
| Brokerage and commission | | 269 | 337 |
| Bank charges | | 51 | 54 |
| | | <u>184,707</u> | <u>340,558</u> |
| 23. FEE & COMMISSION INCOME | | | |
| Branch banking customer fees | | 827 | 764 |
| Card related fees | | 56 | 39 |
| Credit related fees | | 586 | 435 |
| Commission on guarantees | | 1,181 | 1,027 |
| Commission on remittances | | 11 | 24 |
| Others | | 2 | 6 |
| | | <u>2,663</u> | <u>2,295</u> |
| 24. GAIN / (LOSS) ON SECURITIES | | | |
| Realised | 24.1 | 881 | - |
| Unrealised - held for trading | | - | - |
| | | <u>881</u> | <u>-</u> |
| 24.1 Federal Government Securities - net | | 881 | - |
| Shares | | - | - |
| | | <u>881</u> | <u>-</u> |
| 25. OTHER INCOME | | | |
| Gain on sale of operating fixed assets - net | | 563 | 101 |
| Others | | 16 | - |
| | | <u>579</u> | <u>101</u> |

SME BANK LIMITED

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

For the quarter ended March 31, 2021

| | | March 31, 2021 | March 31, 2020 |
|--|-------------|-------------------------|--------------------|
| | | (Rupees in '000) | |
| 26. OPERATING EXPENSES | Note | | |
| Total compensation expense | | 177,565 | 175,559 |
| Property expense | | | |
| Rent & taxes | | 2,261 | 2,356 |
| Insurance | | 2,047 | 262 |
| Utilities cost | | 4,592 | 4,406 |
| Security (including guards) | | 3,526 | 3,938 |
| Repair & maintenance | | 2,010 | 1,517 |
| Depreciation | | 13,663 | 12,801 |
| Others | | - | - |
| | | 28,099 | 25,280 |
| Information technology expenses | | | |
| Software maintenance | | 1,628 | 1,333 |
| Hardware maintenance | | 414 | 421 |
| Depreciation | | 989 | 1,277 |
| Amortization | | 385 | 320 |
| Network charges | | 4,046 | 3,667 |
| Others | | 38 | 37 |
| | | 7,500 | 7,055 |
| Other operating expenses | | | |
| Directors' fees, allowances and other expenses | | 1,306 | - |
| Legal and professional charges | | 2,483 | 750 |
| Outsourced services costs | | 5,525 | 6,286 |
| Travelling and conveyance | | 634 | 574 |
| NIFT clearing charges | | 521 | 454 |
| Depreciation | | 2,177 | 3,438 |
| Training & development | | 254 | 223 |
| Postage & courier charges | | 212 | 193 |
| Communications | | 1,097 | 1,118 |
| Stationery and printing | | 1,169 | 927 |
| Marketing, advertisement & publicity | | 590 | 108 |
| Donations | | - | - |
| Auditors' remuneration | | 261 | 261 |
| Vehicle running and maintenance | | 981 | 940 |
| Entertainment | | 557 | 597 |
| Subscription, books and newspapers | | 826 | 885 |
| Deposits premium | | 740 | 904 |
| Loss on sale of operating fixed assets - net | | - | - |
| Others | | 72 | 85 |
| | | 20,794 | 17,743 |
| | | 233,958 | 225,637 |
| 27. OTHER CHARGES | | | |
| Penalties imposed by the State Bank of Pakistan | | - | 100 |
| Right of use assets - unwinding of present value | | 17,184 | 17,124 |
| | | 17,184 | 17,224 |
| 28. PROVISIONS & WRITE OFFS - NET | | | |
| Provisions against lending to financial institutions | | - | - |
| Provisions/(reversal of provision) for diminution in value of investment | | 311 | - |
| Provisions/(reversal of provision) against loans & advances | | (2,912) | (29,466) |
| Other provisions / written off directly: | | | |
| - against other assets | | 109 | 573 |
| Bad debts written off directly | | - | - |
| | | (2,492) | (28,893) |
| 29. TAXATION | | | |
| Current | | 2,583 | 3,624 |
| Prior years | | - | - |
| Deferred | | (5,718) | (4,783) |
| | | (3,135) | (1,159) |
| 30. BASIC/ DILUTED LOSS PER SHARE | | | |
| Net loss after tax for the year | | (261,626) | (318,959) |
| | | Number of shares | |
| Weighted average number of ordinary shares | | 239,250,700 | 239,250,700 |
| | | Rupees | |
| Basic/ diluted loss per share | | (1.09) | (1.33) |
| There is no dilutive effect on the basic earning per share of the Bank. | | | |

SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

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 are carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of break-up value of these investments as per their latest available audited financial statements.

The fair value of fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

March 31, 2021 (un-audited)

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

Note

31.1 On balance sheet financial instruments

Financial assets measured at fair value

- Investments

Government securities (T bills and PIBs)

Ordinary shares of listed companies/Mutual funds

Ordinary shares of unlisted companies

| | | | | |
|-------|-----------|---|--------|-----------|
| - | 5,826,096 | - | - | 5,826,096 |
| 5,735 | - | - | - | 5,735 |
| - | - | - | 26,470 | 26,470 |

Financial assets not measured at fair value

- Bank balances with treasury banks

- Balances with other banks

- Lending to financial institutions

- Advances

- Other assets

- Other Investment (COI/TDR)

- Subsidiary

SME Leasing Limited

| | | | | | |
|------|---|---|---|-----------|-----------|
| 31.2 | - | - | - | 393,051 | 393,051 |
| 31.2 | - | - | - | 2,640 | 2,640 |
| 31.2 | - | - | - | - | - |
| 31.2 | - | - | - | 1,502,394 | 1,502,394 |
| 31.2 | - | - | - | 149,001 | 149,001 |
| 31.2 | - | - | - | 35,000 | 35,000 |
| | - | - | - | 80,748 | 80,748 |

On balance sheet financial instruments (continued)

SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the quarter ended March 31, 2021

| December 31, 2020 (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) | - | 5,680,735 | - | - | 5,680,735 |
| Ordinary shares of listed companies/Mutual funds | 5,400 | - | - | - | 5,400 |
| Ordinary shares of unlisted companies | - | - | - | 26,470 | 26,470 |
| Financial assets not measured at fair value | | | | | |
| - Bank balances with treasury banks | 31.2 | - | - | 493,156 | 493,156 |
| - Balances with other banks | 31.2 | - | - | 2,123 | 2,123 |
| - Lending to financial institutions | 31.2 | - | - | - | - |
| - Advances | 31.2 | - | - | 1,530,344 | 1,530,344 |
| - Other assets | 31.2 | - | - | 142,648 | 142,648 |
| -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).

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021
32. SEGMENT INFORMATION
32.1 Segment details with respect to business activities

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

| | March 31, 2021 (un-audited) | | |
|------------------------------------|-----------------------------|-----------------------|-------------------|
| | Trading & Sales | Commercial Banking | Total |
| | (Rupees in '000) | | |
| Profit & Loss | | | |
| Net mark-up/return/profit | 102,067 | 62,406 | 164,473 |
| Inter segment revenue - net | - | 38,288 | 38,288 |
| Non mark-up/return/interest income | 881 | 3,242 | 4,123 |
| Total income | 102,948 | 103,936 | 206,884 |
| Segment direct expenses | 76,614 | 359,235 | 435,849 |
| Inter segment expenses allocation | 38,288 | - | 38,288 |
| Total expenses | 114,902 | 359,235 | 474,137 |
| Provisions | 311 | (2,803) | (2,492) |
| Loss before tax | (12,265) | (252,496) | (264,761) |
| | Trading & Sales | Commercial Banking | Total |
| | (Rupees in '000) | | |
| Balance Sheet | | | |
| Cash & bank balances | 271,595 | 242,911 | 514,506 |
| Investments | 5,974,049 | - | 5,974,049 |
| Net inter segment lending | | 1,532,325 | 1,532,325 |
| Lending to financial institutions | - | - | - |
| Advances - Performing | - | 1,352,709 | 1,352,709 |
| - Non-performing | - | 149,685 | 149,685 |
| Others | 763,017 | 1,135,423 | 1,898,440 |
| Total Assets | 7,008,661 | 4,413,053 | 11,421,714 |
| Borrowings | 4,674,302 | 106,269 | 4,780,571 |
| Deposits & other accounts | - | 7,199,885 | 7,199,885 |
| Net inter segment borrowing | 1,532,325 | - | 1,532,325 |
| Others | 346,260 | 986,510 | 1,332,770 |
| Total Liabilities | 6,552,887 | 8,292,664 | 14,845,551 |
| Equity | 455,774 | (3,879,611) | (3,423,837) |
| Total Equity & liabilities | 7,008,661 | 4,413,053 | 11,421,714 |
| Contingencies & Commitments | 4,679,393 | 1,760,382 | 6,439,775 |

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the quarter ended March 31, 2021

| | March 31, 2020 (un-audited) | | |
|------------------------------------|-----------------------------|-------------|-------------|
| | Trading & | Commercial | Total |
| | Sales | Banking | |
| | (Rupees in '000) | | |
| Profit & Loss | | | |
| Net mark-up/return/profit | 134,455 | 97,557 | 232,012 |
| Inter segment revenue - net | - | 83,999 | 83,999 |
| Non mark-up/return/interest income | - | 2,396 | 2,396 |
| Total income | 134,455 | 183,952 | 318,407 |
| Segment direct expenses | 142,588 | 440,831 | 583,419 |
| Inter segment expenses allocation | 83,999 | - | 83,999 |
| Total expenses | 226,587 | 440,831 | 667,418 |
| Provisions | - | (28,893) | (28,893) |
| Loss before tax | (92,132) | (227,986) | (320,118) |
| | | | |
| | December 31, 2020 (audited) | | |
| | Trading & | Commercial | Total |
| | Sales | Banking | |
| | (Rupees in '000) | | |
| Balance Sheet | | | |
| Cash & Bank balances | 378,678 | 292,172 | 670,850 |
| Investments | 5,828,353 | - | 5,828,353 |
| Net inter segment lending | | 2,307,691 | 2,307,691 |
| Lending to financial institutions | - | - | - |
| Advances - Performing | - | 1,389,809 | 1,389,809 |
| - Non-performing | - | 140,535 | 140,535 |
| Others | 764,707 | 1,146,833 | 1,911,540 |
| Total Assets | 6,971,738 | 5,277,040 | 12,248,778 |
| | | | |
| Borrowings | 4,015,747 | 111,866 | 4,127,613 |
| Deposits & other accounts | - | 7,602,262 | 7,602,262 |
| Net inter segment borrowing | 2,307,691 | - | 2,307,691 |
| Others | 367,719 | 1,003,576 | 1,371,295 |
| Total Liabilities | 6,691,157 | 8,717,704 | 15,408,861 |
| Equity | 280,581 | (3,440,664) | (3,160,083) |
| Total Equity & liabilities | 6,971,738 | 5,277,040 | 12,248,778 |
| | | | |
| Contingencies & Commitments | 4,017,519 | 1,683,562 | 5,701,081 |

Assumptions used:

- Unallocatable assets representing 7.41% (December 31, 2020: 7.41%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 4.19% (December 31, 2020: 4.48%) 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

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

33. RELATED PARTY TRANSACTIONS

Details of balances outstanding at year end and transactions with related parties are as follows:

[illegible]

For the quarter ended March 31, 2021

[illegible]

SME BANK LIMITED

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

For the quarter ended March 31, 2021

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:

follows:

| | | (Un-audited) March 31, 2021 | (Audited) December 31, 2020 | | |
|---|-----|-----------------------------------|-----------------------------------|------------------|---------------------|
| | | (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) | | (6,023,328) | (5,761,702) | | |
| | | (3,424,295) | (3,162,669) | | |
| Less: Adjustments | | | | | |
| Goodwill/intangible Assets | | 2,148 | 1,756 | | |
| Investment in equity of subsidiary | | 80,748 | 80,748 | | |
| Deficit on revaluation of available for sale investments | | - | - | | |
| | | 82,896 | 82,504 | | |
| | | (3,507,191) | (3,245,173) | | |
| <i>Total tier I capital</i> | | 8,593 | 8,593 | | |
| <i>Tier II capital</i> | | - | - | | |
| <i>Eligible tier III capital</i> | | (3,498,598) | (3,236,580) | | |
| Total regulatory capital | (a) | | | | |
| Risk-weighted exposures | | March 31, 2021 (un-audited) | December 31, 2020 (audited) | | |
| | | 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 | | 514,506 | 528 | 670,850 | 425 |
| Investments/ lending to financial institutions | | 5,974,049 | 67,205 | 5,828,353 | 66,870 |
| Loans and advances | | 1,530,344 | 867,579 | 1,530,344 | 906,226 |
| Fixed assets | | 456,376 | 456,376 | 472,184 | 472,184 |
| Deferred tax assets | | 880,669 | 880,669 | 874,915 | 874,915 |
| Other assets | | 559,247 | 253,282 | 562,685 | 271,708 |
| | | 9,915,191 | 2,525,639 | 9,939,331 | 2,592,328 |
| Off balance sheet items | | | | | |
| Weighted Non-funded exposures | | 204,511 | 101,565 | 191,773 | 95,887 |
| | | 204,511 | 101,565 | 191,773 | 95,887 |
| Credit risk-weighted exposures | (b) | 10,119,702 | 2,627,204 | 10,131,104 | 2,688,215 |
| Market risk | | | 172,672 | | 310,065 |
| Market risk-weighted exposures | | - | 172,672 | - | 310,065 |
| Total risk-weighted exposures | (c) | | 2,799,876 | | 2,998,280 |
| <i>Capital adequacy ratio credit risk</i> [(a) / (b) x 100] | | | -133.17% | | -120.40% |
| <i>Total capital adequacy ratio</i> [(a) / (c) x 100] | | | -124.96% | | -107.95% |

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 quarter ended March 31, 2021

35. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on April 30, 2021.



President/CEO



Chief Financial Officer



Director

Director



Director