



**SME BANK LIMITED**

**UNCONSOLIDATED CONDENSED INTERIM  
FINANCIAL STATEMENTS (UN-AUDITED)**

**FOR THE PERIOD ENDED  
JUNE 30, 2021**

**BDO Ebrahim & Co. Chartered Accountants**

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## INDEPENDENT AUDITORS REPORT ON REVIEW OF UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS TO THE MEMBERS

### *Introduction*

We have reviewed the accompanying unconsolidated condensed interim statement of financial position of **SME Bank Limited** ("the Bank") as at June 30, 2021 and the related unconsolidated condensed interim profit and loss account, unconsolidated condensed interim statement of comprehensive income, unconsolidated condensed interim cash flow statement, unconsolidated condensed interim statement of changes in equity and notes to the accounts for the half year then ended (herein after referred 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 approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these unconsolidated condensed interim financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standards on Review Engagements 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity." A review of unconsolidated condensed 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.

### *Qualified Conclusion*

Based on our review, except for the effects of the matter described in Basis for Qualified Conclusion section of our report, and to the best of our information and according to the explanations given to us, nothing has come to our attention that causes us to believe that the accompanying unconsolidated condensed interim financial statements as of and for the half year ended June 30, 2021 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

The figures for the quarter ended June 30, 2021 and June 30, 2020 in the condensed interim statement of profit or loss and condensed interim statement of comprehensive income have not been reviewed and we do not express our conclusion as we are required to review only the cumulative figures for the six months period ended June 30, 2021.

### *Basis for Qualified Conclusion*

1. The Bank has Investment in its subsidiary, SME Leasing Limited (SMEL), which is carried in these financial statements at Rs. 80.748 million (net of provision) and has an outstanding running finance exposure of Rs. 145.247 million (including mark-up) 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 of the Bank.
2. We were not able to verify Deferred tax asset of Rs. 929.853 million due to brought forward losses. It has been recognized in the current financial statements as in the opinion of the management there is certainty regarding realisability of the amount from expected net profits arising on the future privatization of the bank.
  3. Advance income tax 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 ruled in favor of the tax department through its order dated March 13, 2018 which was also upheld by the Supreme Court of Pakistan through its order date June 03, 2018, therefore, the Bank has no legal basis to continue to recognize the receivable as an asset.
  4. As explained in Note 10.3, the loan portfolios of Small Business Finance Corporation (SBFC) and Regional Development Finance Corporation (RDFC) were transferred to the National Bank of Pakistan as due to envisaged privatization of the Bank, however, the portfolio continues to appear as an asset in the books of the Bank.

#### ***Material Uncertainties relating to Going Concern***

We draw attention to note 6.2 to the financial statements which describes that during the current period, the Bank incurred a net loss of Rs. 481.512 million (June 30, 2020 Rs.607.608 million) resulting into accumulated losses of Rs. 6,243.214 (December 31, 2020 Rs. 5,761.702 million). As of June 30, 2021 the reporting date, total liabilities of the bank have exceeded its total assets by Rs. 3,641.136 million (December 31, 2020: 3,160.083 million) indicating the negative equity and due to surplus of current demand liabilities over its total unencumbered current liquid assets creating a negative capital of Rs. 3,641.136 million (2020 Rs. 3,160.083) 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. 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.

*Believes*

**Emphasis of Matter**

We draw attention to the following matters:

1. Note 14.3 to the financial statements, which describes in detail the status of possession of the Bank's property located in Lahore.
2. Note 6.1 to the financial statements, which describes in detail the current status of privatization of SME Bank.

Our opinion is not modified in respect of these matters.

**Other Matter**

The financial statements of SME Bank for the year ended December 31, 2020 were audited by another firm of Chartered Accountants, who had expressed qualified opinion vide their report dated March 06, 2021. Further, the condensed interim financial statements of the company for the six months period ended June 30, 2020 were reviewed by same auditor whose report dated September 26, 2020 expressed qualified conclusion thereon on the same issues as reported in basis for qualified conclusion paragraph of this report.

*Believed.*

ISLAMABAD

DATED:

CHARTERED ACCOUNTANTS

Engagement Partner: Abdul Qadeer



**SME BANK LIMITED****Unconsolidated Condensed Interim Statement of Financial Position****As at June 30, 2021**

		(Un-audited) June 30, 2021	(Audited) December 31, 2020
	Note	----- Rupees in '000 -----	
<b>ASSETS</b>			
Cash and balances with treasury banks	7	732,314	668,727
Balances with other banks	8	2,834	2,123
Lendings to financial institutions		-	-
Investments	9	4,756,640	5,828,353
Advances	10	1,595,135	1,530,344
Fixed assets	11	441,907	472,184
Intangible assets	12	1,917	1,756
Deferred tax assets - net	13	929,853	874,915
Other assets	14	511,351	562,685
		8,971,951	9,941,087
<b>LIABILITIES</b>			
Bills payable	15	297,251	99,986
Borrowings	16	2,941,038	4,127,613
Deposits and other accounts	17	8,200,202	7,602,262
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,174,596	1,271,309
		12,613,087	13,101,170
<b>NET LIABILITIES</b>		<b>(3,641,136)</b>	<b>(3,160,083)</b>
<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	3,045	2,586
Unappropriated loss		(6,243,214)	(5,761,702)
		<b>(3,641,136)</b>	<b>(3,160,083)</b>

**CONTINGENCIES AND COMMITMENTS**


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The annexed notes from 1 to 37 form an integral part of these unconsolidated condensed interim financial statements.

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**President / CEO**

**Chief Financial Officer**

**Director**

**Director**


**Director**

**SME BANK LIMITED**  
**Unconsolidated Condensed Interim Profit and Loss Account (un-audited)**  
**For the half year ended June 30, 2021**

	Note	Quarter ended		Half year ended	
		June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
		Rupees in '000			
Mark-up/ return/ interest earned	21	128,920	190,985	293,393	422,997
Mark-up/ return/ interest expensed	22	160,428	280,686	345,135	621,244
Net mark-up/ interest loss		(31,508)	(89,701)	(51,742)	(198,247)
<b>NON MARK-UP/ INTEREST INCOME</b>					
Fee and commission income	23	3,705	2,033	6,368	4,328
Dividend income		-	-	-	-
Foreign exchange income		-	-	-	-
Income / (loss) from derivatives		-	-	-	-
Gain/(loss) on securities	24	31	-	912	-
Other income	25	125	10	704	111
Total non-markup/ interest income		3,861	2,043	7,984	4,439
Total loss		(27,647)	(87,658)	(43,758)	(193,808)
<b>NON MARK-UP/ INTEREST EXPENSES</b>					
Operating expenses	26	217,985	216,347	451,943	441,984
Workers' Welfare Fund		-	-	-	-
Other charges	27	17,709	17,659	34,893	34,883
Total non-markup/ interest expenses		235,694	234,006	486,836	476,867
Loss before provisions		(263,341)	(321,664)	(530,594)	(670,675)
Provisions and write offs - net	28	4,001	24,028	1,509	(4,865)
<b>LOSS BEFORE TAXATION</b>		(267,342)	(345,692)	(532,103)	(665,810)
Taxation		(47,456)	(57,043)	(50,591)	(58,202)
<b>LOSS AFTER TAXATION</b>		(219,886)	(288,649)	(481,512)	(607,608)
<b>Basic/diluted (loss) per share (rupees)</b>	30	(0.92)	(1.21)	(2.01)	(2.54)

The annexed notes from 1 to 37 form an integral part of these unconsolidated condensed interim financial statements.

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**President / CEO**

  
**Chief Financial Officer**

  
**Director**

  
**Director**

**SME BANK LIMITED**

**Unconsolidated Condensed Interim Statement of Comprehensive Income (un-audited)**  
**For the half year ended June 30, 2021**

	Quarter ended		Half year ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
	----- Rupees in '000-----			
Net loss after taxation	(219,886)	(288,649)	(481,512)	(607,608)
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequent periods				
Movement in surplus on revaluation of investment-net	2,587	153,453	459	304,817
Items that will not be reclassified to profit and loss account in subsequent periods				
Remeasurement gain on defined benefit obligations - net	-	-	-	-
Total comprehensive loss	(217,299)	(135,196)	(481,053)	(302,791)

The annexed notes from 1 to 37 form an integral part of these unconsolidated condensed interim financial statements. *Bl+co.*

  
**President / CEO**

  
**Chief Financial Officer**

  
**Director**

  
**Director**




**SME BANK LIMITED**
**Unconsolidated Condensed Interim Cash Flow Statement (un-audited)**
**For the half year ended June 30, 2021**

	June 30, 2021	June 30, 2020
	----- Rupees in '000 -----	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(532,103)	(665,810)
Less: Dividend income	-	-
	(532,103)	(665,810)
<b>Adjustments:</b>		
Depreciation	33,643	36,654
Amortization	616	675
Provision and write-offs	1,509	(4,865)
Gain on sale of fixed assets	(668)	(101)
Mark-up expense on leased liability against ROU assets	34,893	34,753
	69,993	67,116
	(462,110)	(598,694)
<b>(Increase)/ decrease in operating assets</b>		
Lendings to financial institutions	-	-
Held-for-trading securities	-	-
Advances	(65,911)	322,668
Other assets (excluding advance taxation)	47,675	6,179
	(18,236)	328,847
<b>Increase/ (decrease) in operating liabilities</b>		
Bills payable	197,265	22,220
Borrowings from financial institutions	(1,186,575)	665,768
Deposits	597,940	429,723
Other liabilities (excluding current taxation)	(91,857)	(59,599)
	(483,227)	1,058,112
	(963,573)	788,265
Income tax paid	(1,014)	(965)
<b>Net cash flow (used in) / generated from operating activities</b>	(964,587)	787,300
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investment/disinvestment in available-for-sale securities	1,072,109	(763,718)
Net investment in held-to-maturity securities	-	-
Dividend received	-	-
Investment in operating fixed assets	(2,425)	(1,928)
Proceeds from sale of fixed assets	695	403
<b>Net cash flow generated from / (used from) investing activities</b>	1,070,379	(765,243)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment of lease obligation	(41,494)	(37,831)
<b>Net cash flow used in financing activities</b>	(41,494)	(37,831)
<b>Increase / (decrease) in cash and cash equivalents</b>	64,298	(15,774)
Cash and cash equivalents at beginning of the period	670,850	655,102
<b>Cash and cash equivalents at end of the period</b>	735,148	639,328


The annexed notes from 1 to 37 form an integral part of these unconsolidated condensed interim financial statements.

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President / CEO

  
Chief Financial Officer

  
Director

  
Director

  
Director



**SME BANK LIMITED**

**Unconsolidated Condensed Interim Statement of Change in Equity (un-audited)**  
**For the half year ended June 30, 2021**

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
	Rupees in '000				
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 six months period ended June 30, 2020					
Net loss after taxation	-	-	-	(607,608)	(607,608)
Other comprehensive income - net of tax	-	-	304,817	-	304,817
Balance as at June 30, 2020 (un-audited)	2,392,507	206,526	4,501	(5,418,770)	(2,815,236)
Total comprehensive income for the six months period ended December 31, 2020					
Loss after taxation	-	-	-	(369,556)	(369,556)
Other comprehensive income/ (loss) - net of tax	-	-	(1,915)	26,624	24,709
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 six months period ended June 30, 2021					
Net loss after taxation	-	-	-	(481,512)	(481,512)
Other comprehensive income - net of tax	-	-	459	-	459
Balance as at June 30, 2021 (un-audited)	2,392,507	206,526	3,045	(6,243,214)	(3,641,136)

The annexed notes from 1 to 37 form an integral part of these unconsolidated condensed interim financial statements. *Review*



President / CEO



Chief Financial Officer



Director



Director



Director

## **SME BANK LIMITED**

### **Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2021**

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#### **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 to 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.

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## **SME BANK LIMITED**

### **Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2021**

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#### **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.

#### **3. STATEMENT OF COMPLIANCE**

3.1 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.

3.2 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 SBP has deferred the applicability of IFRS 9 till January 2022.

**SME BANK LIMITED**

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

**For the half year ended June 30, 2021**

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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. 24 dated July 5, 2021 has notified the implementation date of IFRS 9, 'Financial instruments' as January 1, 2022.

**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.

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## **SME BANK LIMITED**

### **Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2021**

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#### **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 29, 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. Drafts of the bidding documents i.e. instruction to Bidders (ITB) and Share Purchase Agreements (SPA) are being finalised.

##### **6.2 Going concern assumption**

During the current period the Bank incurred a net loss of Rs. 481.512 million (June 30, 2020: Rs. 607.608 million) resulting into accumulated losses of Rs. 6,243.214 million (December 31, 2020: Rs. 5,761.702 million). As of June 30, 2021, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,641.136 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.



**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2021**

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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. Drafts of the bidding documents i.e. instruction to Bidders (ITB) and Share Purchase Agreements (SPA) are being finalized. 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 support to 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.

*Baloch*



**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

		(Un-audited) June 30, 2021	(Audited) December 31, 2020
	Note	----- Rupees in '000 -----	
<b>7. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		181,471	175,571
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in:			
Local currency current accounts	7.1	465,321	419,782
With National Bank of Pakistan in:			
Local currency current accounts		85,473	73,334
Prize bonds		49	40
		<u>732,314</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) June 30, 2021	(Audited) December 31, 2020
	Note	----- Rupees in '000 -----	
<b>8. BALANCES WITH OTHER BANKS</b>			
In Pakistan:			
On current accounts		500	500
On deposit accounts		12,334	11,623
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>2,834</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.

*Below*

**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**  
**For the half year ended June 30, 2021**

**9. INVESTMENTS**

**9.1 Investment by type**

	June 30, 2021 (un-audited)			December 31, 2020 (audited)		
	Cost / Amortized	Provision for diminution	Surplus / (Deficit)	Carrying value	Cost / Amortized	Provision for diminution
	Rupees in '000 -----			Rupees in '000 -----		
<b>Note</b>						
<b>Available-for-sale securities</b>						
9.1.1 Federal Government Securities	4,607,876	-	195	4,608,071	5,679,985	-
Shares	42,542	(15,863)	4,308	30,987	42,542	(15,770)
Mutual Funds	1,870	(218)	182	1,834	1,870	-
	4,652,288	(16,081)	4,685	4,640,892	5,724,397	(15,770)
<b>Held-to-maturity securities</b>						
Non Government Debt Securities						
9.1.2 - Term Deposit Receipts (TDRs)	35,000	-	-	35,000	35,000	-
- Certificates of Investments (COIs)	762	(762)	-	-	762	(762)
	35,762	(762)	-	35,000	35,762	(762)
<b>Subsidiary</b>						
Total Investment	215,457	(134,709)	-	80,748	215,457	(134,709)
	4,903,507	(151,552)	4,685	4,756,640	5,975,616	(151,241)

(Un-audited) (Audited)  
June 30, December 31,  
2021 2020  
----- Rupees in '000 -----

**9.1.1 Investment given as collateral**

Market Treasury Bills (MTBs)  
Pakistan Investment Bonds (PIBs)

2,425,317	1,560,528
404,421	2,456,991
<u>2,829,738</u>	<u>4,017,519</u>

9.1.2 TDR of 35 million (December 31, 2020 35 million) was under lien at period / year end.



**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**  
**For the half year ended June 30, 2021**

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
	----- Rupees in '000 -----	

**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

	151,241	151,241
	311	-
	-	-
	-	-
	311	-
	-	-
	-	-
	151,552	151,241

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

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
Non performing investments	Provision	Provision
	performing investments	performing investments
-----Rupees in '000 -----		
Domestic	-	-
Other assets especially mentioned	-	-
Substandard	-	-
Doubtful	762	762
Loss	762	762
	762	762

*Adew.*

**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**  
**For the half year ended June 30, 2021**

	Performing		Non Performing		Total	
	(Un-audited) June 30, 2021	(Audited) December 31, 2020	(Un-audited) June 30, 2021	(Audited) December 31, 2020	(Un-audited) June 30, 2021	(Audited) December 31, 2020
----- Rupees in '000 -----						

Note

**10. ADVANCES**

Loans, cash credits, running finances, etc- In Pakistan

Extended by:

Defunct RDFC & SBFC  
SME Bank Ltd  
Due from employees

10.2

-	-	4,881,260	4,881,305	4,881,260	4,881,305
1,417,886	1,331,056	473,590	484,794	1,891,476	1,815,850
57,519	67,066	6,043	6,188	63,562	73,254
1,475,405	1,398,122	5,360,893	5,372,287	6,836,298	6,770,409
280	280	973	973	1,253	1,253
1,475,685	1,398,402	5,361,866	5,373,260	6,837,551	6,771,662

Net investment in finance lease

10.1 & 10.3

Advances - gross

Provision for non-performing advances

Specific provision  
General provision

-	-	(5,241,441)	(5,232,725)	(5,241,441)	(5,232,725)
(975)	(8,593)	-	-	(975)	(8,593)
(975)	(8,593)	(5,241,441)	(5,232,725)	(5,242,416)	(5,241,318)
1,474,710	1,389,809	120,425	140,535	1,595,135	1,530,344

Advances - net of provision

(Un-audited) (Audited)  
June 30, December 31,  
2021 2020  
----- Rupees in '000 -----

**10.1 Particulars of advances (Gross)**

In local currency

In foreign currency

6,837,551 6,771,662  
-  
6,837,551 6,771,662

*Review*



**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

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

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

- 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.

*Adheres*



## **SME BANK LIMITED**

### **Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2021**

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.

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, obligation, claims and liabilities of the referred loan portfolios in favour of the FCF. *Advised*



# SME BANK LIMITED

## Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 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 Feb 23, 2018. The Bank has requested with various intervals to share the details of the road map prepared by NBP for smooth transfer of accounting record related to the legacy loan portfolio from books of the Bank to books of NBP.

**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:

(Un-audited) June 30, 2021		(Audited) December 31, 2020	
Non Performing Loans	Provision	Non Performing Loans	Provision

Note

----- Rupees in '000 -----

### Category of Classification

#### Domestic

Other Assets Especially Mentioned

Substandard

Doubtful

Loss

5,454	350	1,397	41
3,276	-	21,498	91
18,015	240	15,333	1,258
5,335,121	5,240,849	5,335,032	5,231,335
5,361,866	5,241,439	5,373,260	5,232,725

10.3.1

**10.3.1** This include non performing loans and provision of Rs: 473.590 million and Rs: 353.200 million respectively (Dec 31 2020: Rs. 484.794 million & Rs. 344.317 million) relating to SME portfolio. *Rs. 484.794*

**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**  
**For the half year ended June 30, 2021**

**10.4 Particulars of provision against advances**

	June 30, 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 for the year	19,039	-	19,039	22,631	8,587	31,218
Reversal for the year	(10,301)	(7,618)	(17,919)	(45,984)	(2)	(45,986)
	8,738	(7,618)	1,120	(23,353)	8,585	(14,768)
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(22)	-	(22)	(972)	-	(972)
Closing balance	5,241,441	975	5,242,416	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 December 31. 2020. However, subsequently the provision was only kept for those borrowers whose loan payment was delayed by 60 days and all the remaining provision was reversed.

10.4.2 The FSV benefit availed in last years has been decreased by Rs. 11.436 million, which has resulted increase in charge for specific provision for the period 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 decreased by Rs. 11.436 million (June 30, 2020: increased by Rs. 0.289 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 104.054 million (Dec 31, 2020: Rs. 115.490 million).

**10.4.3 Particulars of provisions against advances**

	June 30, 2021 (un-audited)			December 31, 2020 (audited)		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
In local currency	5,241,441	975	5,242,416	5,232,725	8,593	5,241,318
In foreign currencies	-	-	-	-	-	-
	5,241,441	975	5,242,416	5,232,725	8,593	5,241,318



**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

		(Un-audited) June 30, 2021	(Audited) December 31, 2020
	Note	----- Rupees in '000 -----	
<b>11. FIXED ASSETS</b>			
Property and equipment	11.1	12,773	16,940
Right of use assets	11.2	429,134	455,244
		<u>441,907</u>	<u>472,184</u>
<b>11.1 Property and equipment</b>			
Net book value at the beginning of the period		16,940	34,519
Additions		1,648	1,294
Disposals		(27)	(302)
Depreciation		(5,788)	(18,571)
Net book value at the end of the period		<u>12,773</u>	<u>16,940</u>
<b>11.1.1 Additions to fixed assets</b>			
Following additions have been made to fixed assets during the period:			
Leasehold improvements		-	56
Electrical office and computer equipment		1,648	1,238
		<u>1,648</u>	<u>1,294</u>
<b>11.1.2 Disposals of fixed assets</b>			
The net book value of fixed assets disposed off during the period is as follows:			
Vehicles		(27)	(302)
<b>11.2 Right of use assets</b>			
Opening net book value		455,244	497,593
Additions / adjustment		1,745	11,525
Depreciation		(27,855)	(53,874)
Closing net book value		<u>429,134</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 half year ended June 30, 2021**

	Note	(Un-audited) June 30, 2021 ----- Rupees in '000 -----	(Audited) December 31, 2020
<b>12. INTANGIBLE ASSETS</b>			
Computer Software	12.1	<u>1,917</u>	<u>1,756</u>
<b>12.1 Computer Software</b>			
Net book value at the beginning of the period/year		1,756	1,331
Additions		777	1,771
Disposals		-	-
Amortizations		<u>(616)</u>	<u>(1,346)</u>
Net book value at the end of the period/year		<u>1,917</u>	<u>1,756</u>
<b>13. DEFERRED TAX ASSET - NET</b>			
Deferred tax asset		945,829	890,643
Deferred tax (liability)		<u>(15,976)</u>	<u>(15,728)</u>
		<u>929,853</u>	<u>874,915</u>
<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.		

*Below.*



**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

		(Un-audited) June 30, 2021	(Audited) December 31, 2020
	Note	----- Rupees in '000 -----	
<b>14. OTHER ASSETS</b>			
Income/mark-up accrued in local currency - net of provision	14.1	84,905	130,491
Advances, deposits, advance rent and other prepayments		19,863	21,891
Advance taxation - net	14.2	239,496	243,077
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured		5,584	5,552
Receivable from NBP		3,455	2,966
Receivable from subsidiary company		4,247	4,157
Receivable from Equity Participation Fund		1,887	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		75,932	76,731
		<u>628,783</u>	<u>680,039</u>
Less: Provision held against other assets	14.4	117,432	117,354
Other assets (net of provision)		<u>511,351</u>	<u>562,685</u>

**14.1** The balance has been arrived at after adjusting interest in suspense of Rs. 4,058.330 million (Dec 31, 2020: Rs. 4,053.680 million) which includes Rs: 265.720 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.

*Advised.*

**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

**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 June 30, 2015 and subsequently the Honorable Lahore High Court through its decision dated July 14, 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 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 September 08, 2021. As per latest valuation report dated January 20, 2021, the market value of the Property was Rs. 232.573 million.

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
	----- Rupees in '000 -----	
<b>14.4 Provision held against other assets</b>		
Advances, deposits, advance rent & other prepayments	4,477	4,510
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	5,148	5,148
Other receivables - SME Portfolio	43,839	43,709
Legal charges recoverable from borrowers - SBFC & RDFC	22,659	22,659
Trading right entitlement certificate - TREC	21,560	21,560
Others	109	128
	<u>117,432</u>	<u>117,354</u>

**14.4.1 Movement in provision held against other assets**

Opening balance	117,354	117,109
Charge for the year	1,843	2,929
Reversals for the year	(1,765)	(2,682)
	78	247
Transferred to NBP	-	(2)
Closing balance	<u>117,432</u>	<u>117,354</u>

*Revised*



**SME BANK LIMITED****Notes To The Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

	Note	(Un-audited) June 30, 2021 ----- Rupees in '000 -----	(Audited) December 31, 2020
<b>15. BILLS PAYABLE</b>			
In Pakistan		297,251	99,986
Outside Pakistan		-	-
		<u>297,251</u>	<u>99,986</u>
<b>16. BORROWINGS</b>			
<b>Secured</b>			
Repurchase agreement borrowings			
State Bank of Pakistan	16.2	2,835,415	3,941,151
Financial Institutions	16.2	-	74,596
		<u>2,835,415</u>	<u>4,015,747</u>
<b>Unsecured</b>			
Borrowing from State Bank of Pakistan			
Financing facility for storage of agricultural produce	16.3	105,623	111,866
		<u>2,941,038</u>	<u>4,127,613</u>
<b>16.1 Particulars of borrowings with respect to Currencies</b>			
In local currency		2,941,038	4,127,613
In foreign currency		-	-
		<u>2,941,038</u>	<u>4,127,613</u>

16.2 These represent transactions with financial institutions for sale of Government Securities under repurchase agreement (REPO) in the inter bank money market at mark-up rate 7.09% (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 installments.

*Review.*

**SME BANK LIMITED****Notes To The Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021****17. DEPOSITS AND OTHER ACCOUNTS**

	June 30, 2021 (un-audited)			December 31, 2020 (audited)		
	In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total
----- Rupees in '000 -----						
<b>Customers</b>						
Current deposits	1,190,873	-	1,190,873	1,195,828	-	1,195,828
Savings deposits	3,736,312	-	3,736,312	3,357,871	-	3,357,871
Term deposits	2,364,586	-	2,364,586	2,405,940	-	2,405,940
Others	323,620	-	323,620	80,594	-	80,594
	7,615,391	-	7,615,391	7,040,233	-	7,040,233
<b>Financial Institutions</b>						
Current deposits	25	-	25	24	-	24
Savings deposits	524,786	-	524,786	502,005	-	502,005
Term deposits	60,000	-	60,000	60,000	-	60,000
	584,811	-	584,811	562,029	-	562,029
	8,200,202	-	8,200,202	7,602,262	-	7,602,262

*Balwani.*



**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

		(Un-audited) June 30, 2021	(Audited) December 31, 2020
	Note	----- Rupees in '000 -----	
<b>18. OTHER LIABILITIES</b>			
Mark-up/ return/ interest payable in local currency		64,579	108,779
Unearned commission on guarantees		3,651	2,799
Accrued expenses		11,891	10,077
Sundry creditors	18.1	124,320	161,757
Branch adjustment account		1,663	1,386
Payable against employees' benefit plans			
Defined benefit pension		327,020	337,993
Defined benefit funded gratuity scheme		770	4,833
Unfunded compensated absences		72,407	68,328
Security deposits against lease		280	280
Leased liability against right of use assets	18.2	536,222	541,078
Employees' VSS payments withheld		12,076	12,603
Income tax withheld payable		17,842	19,603
Others		1,875	1,793
		<u>1,174,596</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. 23.687 million (Dec 31, 2020: Rs. 59.287 million).

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
	----- Rupees in '000 -----	
<b>18.2</b> This represents lease liability under IFRS 16 :		
Opening net book value	541,078	538,756
- Additions / adjustment	1,745	11,525
- Interest	34,893	69,451
- Payment	(41,494)	(78,654)
Closing net book value	<u>536,222</u>	<u>541,078</u>

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

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

- Federal Government securities
- Listed companies/mutual funds

195	750
4,490	3,228
<u>4,685</u>	<u>3,978</u>

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

- Federal Government securities
- Listed companies/mutual funds

(68)	(263)
(1,572)	(1,129)
<u>3,045</u>	<u>2,586</u>

*Review*

**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

		(Un-audited) June 30, 2021	(Audited) December 31, 2020
	Note	----- Rupees in '000 -----	
<b>20. CONTINGENCIES AND COMMITMENTS</b>			
- Guarantees	20.1	306,336	229,498
- Commitments	20.2	3,048,972	4,278,596
- Other contingent liabilities	20.3	1,195,876	1,192,987
		<u>4,551,184</u>	<u>5,701,081</u>

**20.1 Guarantees**

Financial guarantees		-	-
Performance guarantees	20.1.1	306,336	229,498
Other guarantees		-	-
		<u>306,336</u>	<u>229,498</u>

**20.1.1** This include expired letter of guarantees/performance aggregating to Rs. 52.840 million (Dec 31, 2020: Rs. 69.690 million) for which formalities for return of original documents are in process.

		(Un-audited) June 30, 2021	(Audited) December 31, 2020
		----- Rupees in '000 -----	

**20.2 Commitments**

Commitments in respect of:			
- forward government securities transactions	20.2.1	2,829,738	4,017,519
- forward lending	20.2.2	217,565	259,813
Commitments for acquisition of:			
- operating fixed assets		1,669	1,264
- intangible assets		-	-
Other commitments	20.2.3	-	-
		<u>3,048,972</u>	<u>4,278,596</u>

**20.2.1 Commitments in respect of forward government securities transactions**

Sale and repurchase agreements	<u>2,829,738</u>	<u>4,017,519</u>
--------------------------------	------------------	------------------

*Balance*



**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

	(Un-audited) June 30, 2021 ----- Rupees in '000 -----	(Audited) December 31, 2020
<b>20.2.2 Commitments in respect of forward lending</b>		
Undrawn facilities	152,495	202,613
Commitments to extend credit	65,070	57,200
	<u>217,565</u>	<u>259,813</u>
<b>20.2.3 Other commitments</b>		
<b>Bills for collection</b>		
Payable in Pakistan	-	-
<b>20.3 Other contingent liabilities</b>	<u>1,195,876</u>	<u>1,192,987</u>
a) Claims not acknowledged as debt from various borrowers of defunct RDFC.	53,686	53,686
b) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) which has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals) 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
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

*Review.*

**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

	(Un-audited) June 30, 2021 ----- Rupees in '000 -----	(Audited) December 31, 2020
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. <i>Below.</i>	21,171	21,171



**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

	(Un-audited) June 30, 2021	(Audited) December 31, 2020
	----- Rupees in '000 -----	
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
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.	70,630	67,550

*Relaxo.*

**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	<u>----- Rupees in '000 -----</u>	
<b>21. MARK-UP/ RETURN/ INTEREST EARNED</b>		
On loans and advances to Customers		
Extended by:		
Defunct RDFC & SBFC	-	-
SME Bank Limited	<u>103,619</u>	<u>150,843</u>
	<u>103,619</u>	<u>150,843</u>
Employees	1,527	1,804
Financial Institution - SME Leasing Limited - a subsidiary company	<u>8,295</u>	<u>11,072</u>
	<u>113,441</u>	<u>163,719</u>
On investments in		
Available for sale securities	<u>177,841</u>	<u>256,358</u>
Held to maturity securities	<u>1,560</u>	<u>2,132</u>
	<u>179,401</u>	<u>258,490</u>
On deposits with financial institutions	50	192
Lendings to financial institutions	<u>501</u>	<u>596</u>
	<u>293,393</u>	<u>422,997</u>
<b>22. MARK-UP/ RETURN/ INTEREST EXPENSED</b>		
On deposits	218,334	372,823
On securities sold under repurchase agreements	124,623	246,791
On SBP Refinance Scheme	1,162	843
Brokerage and commission	931	696
Bank charges	85	91
	<u>345,135</u>	<u>621,244</u>
<b>23. FEE &amp; COMMISSION INCOME</b>		
Branch banking customer fees	1,524	1,333
Card related fees	103	97
Credit related fees	1,507	948
Commission on guarantees	3,182	1,895
Commission on remittances	47	42
Others	5	13
	<u>6,368</u>	<u>4,328</u>

Pdr/CO



**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	<u>----- Rupees in '000 -----</u>	
<b>24. GAIN / (LOSS) ON SECURITIES</b>		
Realised	912	-
Unrealised - held for trading	-	-
	<u>912</u>	<u>-</u>
24.1 Federal Government Securities	912	-
Shares	-	-
	<u>912</u>	<u>-</u>
<b>25. OTHER INCOME</b>		
Gain on sale of operating fixed assets - net	668	101
Others	36	10
	<u>704</u>	<u>111</u>

*Review.*

**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2021**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	----- Rupees in '000 -----	
<b>26. OPERATING EXPENSES</b>		
<b>Total compensation expense</b>	<b>344,353</b>	<b>345,037</b>
<b>Property expense</b>		
Rent & taxes	2,340	2,242
Insurance	2,345	470
Utilities cost	10,020	8,257
Security (including guards)	7,919	7,828
Repair & maintenance	3,594	3,208
Depreciation	28,245	27,327
Others	-	-
	<b>54,463</b>	<b>49,332</b>
<b>Information technology expenses</b>		
Software maintenance	3,730	2,424
Hardware maintenance	1,066	718
Depreciation	1,534	2,545
Amortization	616	675
Network charges	7,146	6,724
Others	100	139
	<b>14,192</b>	<b>13,225</b>
<b>Other operating expenses</b>		
Directors' fees, allowances and other expenses	2,475	-
Legal and professional charges	3,882	2,057
Outsourced services costs	11,403	11,501
Travelling and conveyance	1,141	787
NIFT clearing charges	1,112	943
Depreciation	3,864	6,782
Training & development	441	390
Postage & courier charges	386	378
Communications	2,200	2,191
Stationery and printing	2,785	2,245
Marketing, advertisement & publicity	943	340
Donations	-	-
Auditors' remuneration	522	522
Separations cost	1,389	-
Vehicle running and maintenance	2,027	1,526
Entertainment	1,019	1,033
Subscription, books and newspapers	1,368	1,732
Deposits premium	1,792	1,808
Loss on sale of operating fixed assets - net	-	-
Others	186	155
	<b>38,935</b>	<b>34,390</b>
	<b>451,943</b>	<b>441,984</b>

*Person*



**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	<u>----- Rupees in '000 -----</u>	
<b>27. OTHER CHARGES</b>		
Penalties imposed by the State Bank of Pakistan	-	130
Right of use assets - unwinding of present value	<u>34,893</u>	<u>34,753</u>
	<u>34,893</u>	<u>34,883</u>
<b>28. PROVISIONS &amp; WRITE OFFS - NET</b>		
Provision against lending to financial institutions	-	-
Provisions/(reversal of provision) for diminution in value of investment	<u>311</u>	-
Provisions/(reversal of provision) against loans & advances	<u>1,120</u>	<u>(5,664)</u>
Other provisions / written off directly:		
- against other assets	<u>78</u>	<u>799</u>
Bad debts written off directly	<u>-</u>	<u>-</u>
	<u>1,509</u>	<u>(4,865)</u>
<b>29. TAXATION</b>		
Current	<u>4,595</u>	<u>6,613</u>
Prior period	-	-
Deferred	<u>(55,186)</u>	<u>(64,815)</u>
	<u>(50,591)</u>	<u>(58,202)</u>
<b>30. BASIC/ DILUTED LOSS PER SHARE</b>		
Net loss after tax for the period	<u>(481,512)</u>	<u>(607,608)</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>(2.01)</u>	<u>(2.54)</u>

There is no dilutive effect on the basic earning per share of the Bank.

*Balance*

**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 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.

June 30, 2021 (un-audited)				
FAIR VALUE				
Level 1	Level 2	Level 3	carrying / notional value	Total

**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

-	4,608,071	-	-	4,608,071
6,351	-	-	-	6,351
-	-	-	26,470.00	26,470

Note

----- Rupees in '000 -----

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)

31.2	-	-	550,794	550,794
31.2	-	-	2,834	2,834
31.2	-	-	-	-
31.2	-	-	1,595,135	1,595,135
31.2	-	-	96,973	96,973
31.2	-	-	35,000	35,000

- Subsidiary

SME Leasing Limited

*Adesio*

80,748



**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

**On balance sheet financial instruments**

June 30, 2021 (un-audited)				
FAIR VALUE				
Level 1	Level 2	Level 3	carrying / notional value	Total
----- Rupees in '000 -----				

Note

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	-	-	26,470.00	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

Subsidiary- SME Leasing Limited

-	-	-	80,748	80,748
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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). *Refer.*

**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021**

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).

*Address*



**SME BANK LIMITED****Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021****32. SEGMENT INFORMATION****32.1 Segment details with respect to business activities**

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

	June 30, 2021 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	----- Rupees in '000 -----		
<b>Profit &amp; Loss</b>			
Net mark-up/return/profit	179,903	113,490	293,393
Inter segment revenue - net	-	69,638	69,638
Non mark-up/return/interest income	912	7,072	7,984
Total income	180,815	190,200	371,015
Segment direct expenses	135,736	696,235	831,971
Inter segment expenses allocation	69,638	-	69,638
Total expenses	205,374	696,235	901,609
Provisions	311	1,198	1,509
Loss before tax	(24,870)	(507,233)	(532,103)
	Trading & Sales	Commercial Banking	Total
	----- Rupees in '000 -----		
<b>Balance Sheet</b>			
Cash & bank balances	465,321	269,827	735,148
Investments	4,756,640	-	4,756,640
Net inter segment lending	-	2,304,146	2,304,146
Lending to financial institutions	-	-	-
Advances - Performing	-	1,474,710	1,474,710
- Non-performing	-	120,425	120,425
Others	728,904	1,156,124	1,885,028
<b>Total Assets</b>	<b>5,950,865</b>	<b>5,325,232</b>	<b>11,276,097</b>
Borrowings	2,835,415	105,623	2,941,038
Deposits & other accounts	-	8,200,202	8,200,202
Net inter segment borrowing	2,304,146	-	2,304,146
Others	327,421	1,144,426	1,471,847
Total Liabilities	5,466,982	9,450,251	14,917,233
Equity	483,883	(4,125,019)	(3,641,136)
Total Equity & liabilities	5,950,865	5,325,232	11,276,097
Contingencies & Commitments	2,829,738	1,721,446	4,551,184

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**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**  
**For the half year ended June 30, 2021**

	June 30, 2020 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	----- Rupees in '000 -----		
<b>Profit &amp; Loss</b>			
Net mark-up/return/profit	259,086	163,911	422,997
Inter segment revenue - net	-	151,487	151,487
Non mark-up/return/interest income	-	4,439	4,439
Total income	259,086	319,837	578,923
Segment direct expenses	257,416	840,695	1,098,111
Inter segment expenses allocation	151,487	-	151,487
Total expenses	408,903	840,695	1,249,598
Provisions	-	(4,865)	(4,865)
Loss before tax	(149,817)	(515,993)	(665,810)
	December 31, 2020 (audited)		
	Trading & Sales	Commercial Banking	Total
	----- Rupees in '000 -----		
<b>Balance Sheet</b>			
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
<b>Total Assets</b>	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

*Advised*



## **SME BANK LIMITED**

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

**For the half year ended June 30, 2021**

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Assumptions used:

- Unallocatable assets representing 8.25% (December 31, 2020: 7.41%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 4.28% (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

Unallocatable administrative expenses have been allocated to segments based on their respective incomes except for the depreciation expense which has been allocated on the annual basis of net book value of segment operating fixed assets.

*Refer*

**SME BANK LIMITED**

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021

**33. RELATED PARTY TRANSACTIONS**

The Bank has related party relationship with its majority shareholder (Government of Pakistan) subsidiary, directors, key management personnel, EPF and staff retirement benefit plans.

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

	June 30, 2021 (un-audited)						December 31, 2020 (audited)					
Subsidiary SMEL	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Subsidiary SMEL	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	
Rupees in '000						Rupees in '000						
<b>Investments</b>												
Opening balance	-	-	-	-	-	215,457	-	-	-	-	-	
Investment made during the year	-	-	-	-	-	-	-	-	-	-	-	
Investment redeemed / disposed off during the 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	144,747	7,869	-	-	-	142,156	10,301	-	-	-	-	
Addition (total debits) during the year	21,066	2,765	-	-	-	50,510	5,862	-	-	-	-	
Repaid (total credits) during the year	(20,566)	(3,408)	-	-	-	(47,919)	(8,294)	-	-	-	-	
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-	-	
Closing balance	145,247	7,226	-	-	-	144,747	7,869	-	-	-	-	
Provision held against advances	-	-	-	-	-	-	-	-	-	-	-	
<b>Other Assets</b>												
Interest / mark-up accrued	4,247	6,824	-	-	-	4,157	6,875	-	-	-	-	
Receivable from staff retirement fund	-	-	-	5,584	-	-	-	-	-	5,552	-	
Other receivable	-	-	1,887	-	-	-	-	-	1,760	-	-	
<b>Deposits and other accounts</b>												
Opening balance	-	9,107	21,770	492,509	1,360,263	5,356	11,181	4,805	454,276	1,155,429	5,000	
Received during the year	7,065	70,341	15,339	13,662	87,387	36,137	111,282	35,534	38,233	205,546	36,073	
Withdrawn during the year	-	(66,830)	(18,047)	-	(1,969)	(33,438)	(113,472)	(18,569)	-	(712)	(35,717)	
Transfer in / (out) - net	(7,065)	(2,825)	-	-	-	(15,770)	116	-	-	-	-	
Closing balance	-	9,793	19,062	506,171	1,445,681	8,055	9,107	21,770	492,509	1,360,263	5,356	
<b>Other Liabilities</b>												
Interest / mark-up payable	-	46	203	2,288	23,256	32	32	1,190	2,301	58,593	23	
Payable to staff retirement fund	-	-	-	-	400,197	-	-	-	-	411,154	-	
Others liabilities	-	-	-	-	-	-	-	-	-	-	-	
Contingencies and Commitments	-	-	-	-	-	-	-	-	-	-	-	

As per



Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 2021

Balsam.

**SME BANK LIMITED**
**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)  
For the half year ended June 30, 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:

		(Un-audited) June 30, 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)		(6,243,214)	(5,761,702)
		(3,644,181)	(3,162,669)
Less: Adjustments			
Goodwill/intangible Assets		1,917	1,756
Investment in equity of subsidiary		80,748	80,748
		82,665	82,504
<i>Total tier I capital</i>		(3,726,846)	(3,245,173)
<i>Tier II capital</i>		975	8,593
<i>Eligible tier III capital</i>		-	-
Total regulatory capital	(a)	(3,725,871)	(3,236,580)
Risk-weighted exposures		June 30, 2021 (un-audited)	December 31, 2020 (audited)
		Book value	Book value
		Risk adjusted value	Risk adjusted value
		----- Rupees in '000 -----	---- Rupees in '000 ----
<i>Credit risk</i>			
Balance sheet items:			
Cash and other liquid assets		735,148	670,850
Investments/ lending to financial institutions		4,756,640	5,828,353
Loans and advances		1,595,135	1,530,344
Fixed assets		443,824	472,184
Deferred tax assets		929,853	874,915
Other assets		511,351	562,685
		8,971,951	9,939,331
Off balance sheet items		2,648,277	2,592,328
Weighted Non-funded exposures		248,027	191,773
		248,027	95,887
Credit risk-weighted exposures	(b)	9,219,978	10,131,104
		2,772,291	2,688,215
Market risk		306,455	310,065
Market risk-weighted exposures		-	310,065
Total risk-weighted exposures	(c)	3,078,746	2,998,280
<i>Capital adequacy ratio credit risk</i> [ (a) / (b) x 100 ]		-134.40%	-120.40%
<i>Total capital adequacy ratio</i> [ (a) / (c) x 100 ]		-121.02%	-107.95%

*Revised*



## SME BANK LIMITED

### Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2021

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 has requested SBP to allow further extension which is pending.

#### 35. IMPACT OF COVID-19

The outbreak of corona virus has severely affected national and global economies. Various businesses are facing different issues with a certain degree of losses. Particularly, businesses are facing problems such as decrease in demand, supply chain disruptions, raw material shortage, and transportation disruptions, among others. Regulators and government across the globe have introduced fiscal and economic stimulus measures to mitigate Covid-19 impact.

The State Bank of Pakistan (SBP) has responded to the crises by cutting the policy rate as well as by introducing regulatory measures to maintain banking system soundness and to sustain economic activity. COVID-19 has also impacted the banks in Pakistan from various facets which include increase in credit risk pertaining to loans and advances portfolio, reduced fee income due to slowdown in economic activity, operational issues such as operations of branches and managing investment banking activities including arrangement of syndicate loans, debt and capital advisory services etc.

As the current economic crisis unfolds against the backdrop of a public health emergency, the disruption to economic activity put strain on the solvency of customers and certain distressed customers sought help for financial hardships. Around 95 Covid affected borrowers of the Bank have availed the SBP enabled deferment/restructuring and rescheduling relief. During the current period bank has reversed the general provision in respect of borrowers who have availed the SBP enabled packages amounting to Rs. 7.617 million considering the recovery of economic conditions. However, General provision @ 4.5% have still been kept for those borrowers whose payments of loan is delayed by more than 60 days. Decreased policy rates (KIBOR) by State Bank of Pakistan in comparison to prior period have resulted in decreased interest income, however, the effect have been neutralized by comparatively less interest expense. The full potential effect of the economic stress is difficult to predict given the uncertain economic environment, however, the management of the Bank is closely monitoring the performance of its borrowers.

*Beeco.*

**SME BANK LIMITED**

**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**  
**For the half year ended June 30, 2021**

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**36. DATE OF AUTHORIZATION**

These unconsolidated condensed interim financial statements were authorized for issue on AUGUST 28, 2021 by the Board of Directors of the Bank.

**37. GENERAL**


The figures in the unconsolidated condensed interim financial statements are rounded off to the nearest thousand rupees.

*Below.*

  
\_\_\_\_\_  
President / CEO

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director