

FINANCIAL STATEMENTS
(Un-Audited)

**FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2021**

Directors' Review on Operational Results for the Quarter Ended September 30, 2021

On behalf of the Board of Directors, we are pleased to present the unconsolidated condensed interim financial statements of SME Bank Limited for the quarter ended 30th September, 2021.

The country is well on its way to economic recovery following the outbreak of the COVID pandemic in Q1'20. The resumption of industrial activity across the country is supporting employment levels driven by a more favourable business environment. Grappling with the fourth COVID-19 wave, the Government, as before, implemented micro-lockdowns that successfully limited the infection spread, while permitting economic activity to continue and thereby mitigating the economic fallout. GDP growth rate was recorded at 3.5% for FY'21 (FY'20: negative 0.5%) a notable achievement in light of the challenges faced during the period. Furthermore, the country is still in the midst of an IMF program which has tough conditions, which are likely to challenge the existing growth oriented policy measures of the government. Controlling inflation levels continues to be a major challenge for the incumbent government. Policy measures require the right balance between monetary stimulus, maintaining fiscal discipline and ensuring that overall price levels remain contained. The Consumer Price Index (CPI) stood at 9% for the month of Sep'21, increased by 2.12 percent over August 2021 and increased by 8.98 percent over corresponding month of the last year i.e. September 2020, while average inflation for FY'21 was measured at 9% versus 10.7% in FY'20. During FY2021, SBP increase of 25 basis points in the benchmark policy rate taking it to 7.25 per cent. The existing stance of monetary policy remained appropriate to support the economic recovery with inflation expectations well-anchored and maintaining financial stability.

Government of Pakistan (GOP) decided in their meeting held on November 19, 2018 to re-launch 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. Drafts of the bidding documents i.e. instruction to Bidders (ITB) and Share Purchase Agreements (SPA) are being finalised.

The highlights of the financial results of the Bank for the quarter ended 30th September, 2021 are presented as follows:

Investment portfolio of the Bank has reported Rs.5,303 million as on September 30, 2021 (December 2020: Rs.5,828 million). Major portion of investment is in government securities. The bank made fresh disbursements of Rs.373.35 million during nine months under review as compared to Rs 130.59 million of corresponding period of last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio. Non-performing loan (NPLs) was at Rs.482 million as on September 30, 2021 whereas NPLs was 499 million at end of corresponding period of last year. SME loan portfolio was at Rs.1,867 million as on September 30, 2021 with reference to position of Rs.1,816 million as on December 31, 2020.

During the period under review cost of funds of the Bank was Rs.521 million as compare to the cost of Rs.819 million for the corresponding period of last year. Operating expenses for nine months 2021 was of Rs.667 million whereas operating expenses for the corresponding period was Rs.661 million.

Limited branch network, low rating of the Bank was remained major impediments to create a wide and economical deposit base. In spite of these hindrances the deposits were at Rs.8,331 million as on September 30, 2021. The Bank reported a net loss of Rs.673 million for nine months 2021, as compared to Rs.821 million during the same period of 2020. The bank's gross income was of Rs.480 million, which comprises of Rs.194 million from SME advances, Rs.274 million from treasury operations and Rs.11.34 million from non-mark-up income.

Paid up capital of the Bank is Rs.2,392 million. The equity stood at Rs.(3,840) million as on September 30,2021.

Bank was assigned a long-term credit rating of CCC and short-term rating of B (Single B) by PACRA credit rating agency on November 22, 2018.

The credit rating company has expressed that the bank's operational performance is significantly under pressure because of delay in capital injection. Thus, continuation of the bank's operations going forward is dependent on fresh capital injection.

Our focus will be on harnessing digital solutions to ensure that customers' banking needs are fully met in a technologically advanced, secure and convenient manner. We aim to regain and grow our market share in deposits, consumer products and SME financing, while expanding our branch network to widen our outreach and serve our customers. Greater emphasis will be placed on increasing penetration in cash management with a focus on SME/commercial clients. To cope with changing business dynamics, we will accelerate digital transformation and focus on business process re-engineering across key segments in the Bank. At the same time, investing in human capital and creating a caring culture, will remain a key priority.

On behalf of the Board, I would like to thank the State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their support and guidance. I would also like to pay my gratitude to our shareholders for their counsel. Most importantly, I am grateful to our valued customers for their continued support. I will also like to acknowledge the dedication and hard work of our employees who continue to contribute to the organization and enable us to perform in a challenging business environment.

For and on Behalf of Board of Directors



Chairman

SME BANK LIMITED

Unconsolidated Condensed Interim Statement of Financial Position

As at September 30, 2021

As at September 30, 2021		(Un-audited) September 30, 2021	(Audited) December 31, 2020
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	660,634	668,727
Balances with other banks	8	2,044	2,123
Lendings to financial institutions	9	100,000	-
Investments	10	5,302,517	5,828,353
Advances	11	1,577,202	1,530,344
Fixed assets	12	427,791	472,184
Intangible assets	13	1,686	1,756
Deferred tax assets - net	14	958,271	874,915
Other assets	15	511,001	562,685
		9,541,146	9,941,087
LIABILITIES			
Bills payable	16	45,093	99,986
Borrowings	17	3,772,269	4,127,613
Deposits and other accounts	18	8,330,746	7,602,262
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	19	1,232,883	1,271,309
		13,380,991	13,101,170
NET LIABILITIES		(3,839,845)	(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	20	(4,187)	2,586
Unappropriated loss		(6,434,691)	(5,761,702)
		(3,839,845)	(3,160,083)
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.


 President/CEO


 Chief Financial Officer


 Director


 Director


SME BANK LIMITED

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

For the Nine months ended September 30, 2021

		Quarter ended		Nine months ended	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	Note	(Rupees in '000)			
Mark-up/ return/ interest earned	22	174,921	160,562	468,314	583,559
Mark-up/ return/ interest expensed	23	175,472	197,763	520,607	819,007
Net mark-up/ interest loss		(551)	(37,201)	(52,293)	(235,448)
NON MARK-UP/ INTEREST INCOME					
Fee and commission income	24	2,950	2,671	9,318	6,999
Dividend income		-	37	-	37
Foreign exchange income		-	-	-	-
Income / (loss) from derivatives		-	-	-	-
Gain/(loss) on securities	25	104	365	1,016	365
Other income	26	299	303	1,003	414
Total non-markup/ interest income		3,353	3,376	11,337	7,815
Total Income/(loss)		2,802	(33,825)	(40,956)	(227,633)
NON MARK-UP/ INTEREST EXPENSES					
Operating expenses	27	215,230	218,715	667,173	660,699
Workers Welfare Fund		-	-	-	-
Other charges	28	17,053	17,367	51,946	52,250
Total non-markup/ interest expenses		232,283	236,082	719,119	712,949
Loss before provisions		(229,481)	(269,907)	(760,075)	(940,582)
Provisions and write offs - net	29	(12,792)	(14,766)	(11,283)	(19,631)
LOSS BEFORE TAXATION		(216,689)	(255,141)	(748,792)	(920,951)
Taxation	30	(25,212)	(41,736)	(75,803)	(99,938)
LOSS AFTER TAXATION		(191,477)	(213,405)	(672,989)	(821,013)
Basic/diluted (loss) per share (rupees)	31	(0.80)	(0.89)	(2.81)	(3.43)

The annexed notes from 1 to 37 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 Nine months ended September 30, 2021

	Quarter ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(Rupees in '000)			
Net loss after taxation	(191,477)	(213,405)	(672,989)	(821,013)
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequent periods				
Movement in deficit on revaluation of investment	(7,232)	(3,266)	(6,773)	301,551
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>(198,709)</u>	<u>(216,671)</u>	<u>(679,762)</u>	<u>(519,462)</u>

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


 President/CEO


 Chief Financial Officer



 Director


 Director

SME BANK LIMITED
Unconsolidated Condensed Interim Cash Flow Statement (un-audited)
For the Nine months ended September 30, 2021

	September 30, 2021	September 30, 2020
Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(748,792)	(920,951)
Less: Dividend income	-	(37)
	(748,792)	(920,988)
Adjustments:		
Depreciation	49,105	54,858
Amortization	847	1,004
Provision and write-offs	(11,283)	(19,631)
Loss/(gain) on sale of fixed assets	(967)	(101)
Mark-up expense on leased liability against ROU assets	51,946	52,120
	89,648	88,250
	(659,144)	(832,738)
(Increase)/ decrease in operating assets		
Lendings to financial institutions	-	-
Held-for-trading securities	-	-
Advances	(35,873)	435,578
Other assets (excluding advance taxation)	46,765	(42,512)
	10,892	393,066
Increase/ (decrease) in operating liabilities		
Bills payable	(54,893)	34,654
Borrowings from financial institutions	(355,344)	(36,221)
Deposits	728,484	311,991
Other liabilities (excluding current taxation)	(31,356)	(64,538)
	286,891	245,886
	(361,361)	(193,786)
Income tax paid	(1,748)	(1,703)
Net cash flow generated (used in)/ from operating activities	(363,109)	(195,489)
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment/disinvestment in available-for-sale securities	518,475	206,334
Net investment in held-to-maturity securities	-	-
Dividend received	-	37
Investment in operating fixed assets	(3,771)	(2,423)
Proceeds from sale of fixed assets	994	404
Net cash flow generated from investing activities	515,698	204,352
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligation	(60,761)	(56,023)
Net cash flow (used in) from financing activities	(60,761)	(56,023)
Decrease in cash and cash equivalents	91,828	(47,160)
Cash and cash equivalents at beginning of the period	670,850	655,102
Cash and cash equivalents at end of the period	762,678	607,942

The annexed notes from 1 to 37 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 Nine months ended September 30, 2021

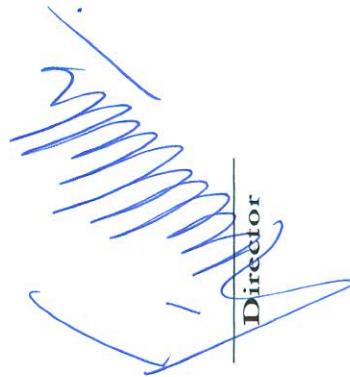
	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
			(Rupees in '000)		
Balance as at January 01, 2020 (audited)	2,392,507	206,526	(300,316)	(4,811,162)	(2,512,445)
Total comprehensive income for the nine months period ended September 30, 2020					
Net loss after taxation	-	-	-	(821,013)	(821,013)
Other comprehensive income - net of tax	-	-	301,551	-	301,551
Balance as at September 30, 2020 (un-audited)	2,392,507	206,526	1,235	(5,632,175)	(3,031,907)
Total comprehensive income for the three months period ended December 31, 2020					
Loss after taxation	-	-	-	(156,151)	(156,151)
Other comprehensive income/ (loss) - net of tax	-	-	1,351	26,624	27,975
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 nine months period ended September 30, 2021					
Net loss after taxation	-	-	-	(672,989)	(672,989)
Other comprehensive income - net of tax	-	-	(6,773)	-	(6,773)
Balance as at September 30, 2021 (un-audited)	2,392,507	206,526	(4,187)	(6,434,691)	(3,839,845)

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


President/CEO


Chief Financial Officer


Director


Director

1. GENERAL INFORMATION

- 1.1** SME Bank Limited (the Bank) is a public limited company incorporated in Pakistan on October 30, 2001 under the repealed Companies Ordinance, 1984 having its registered office at 56-F, Nazim-ud-Din Road, F-6/1, Blue Area Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is a scheduled commercial bank engaged in the business of banking with the primary objective to support and develop Small and Medium Enterprise (SME) sector in Pakistan by providing necessary financial assistance and business support services on sustainable basis. The Bank is operating through a network of 13 commercial banking branches. Based on the latest credit rating report dated November 22, 2018 issued by Pakistan Credit Rating Agency Limited (PACRA), credit rating of the Bank was "CCC" in the long term and "B" (Single B) in the short term. Subsequent to above, the credit rating of Bank has not been updated.

In terms of Bank's License No. BL-05 dated September 13, 2004 issued under section 27 of the Banking Companies Ordinance 1962, the Bank is required to hold minimum paid-up-capital (net of losses) of Rs. 1.0 billion at the time of issuance of said license, and at all times thereafter during which the above capital is required to be raised to Rs. 1.5 billion by December 31, 2004 and to Rs. 2.0 billion by December 31, 2005 or any other amount prescribed by State Bank of Pakistan (SBP) from time to time. SBP granted exemption vide its letter No. BPRD/BA&CPD/646/332/2020 dated January 06, 2020 from meeting the minimum capital requirement (MCR) till December 31, 2019 or completion of restructuring/privatization of the Bank, whichever is earlier. 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:

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

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

'- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

Whenever the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 or the directives issued by the SBP and the SECP differ with the requirements of IAS 34, the requirements of the Banking Companies Ordinance, 1962, the Companies Act, 2017 and the said directives, shall prevail.

The SBP 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.

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.

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. 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. 672.989 million (September 30, 2020: Rs. 821.013 million) resulting into accumulated losses of Rs. 6,434.691 million (December 31, 2020: Rs. 5,761.702 million). As of September 30, 2021, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 3,839.845 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, 2020. Thereafter, the Bank also vide its latest letter No. SMEBL: HO: CFO&CS: 07:2021/1712/4306 dated July 07, 2021 has requested SBP to allow exemption from MCR till December 31, 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.

		(Un-audited) September 30, 2021	(Audited) December 31, 2020
	Note	(Rupees in '000)	
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		210,137	175,571
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in:			
Local currency current accounts	7.1	430,099	419,782
With National Bank of Pakistan in:			
Local currency current accounts		20,009	73,334
Prize bonds		389	40
		<u>660,634</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) September 30, 2021	(Audited) December 31, 2020
		(Rupees in '000)	
8. BALANCES WITH OTHER BANKS	Note		
In Pakistan:			
On current accounts		500	500
On deposit accounts		11,544	11,623
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>2,044</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.			
		(Un-audited) September 30, 2021	(Audited) December 31, 2020
		(Rupees in '000)	
9. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		100,000	-
		<u>100,000</u>	<u>-</u>
9.1 PARTICULARS OF LENDING			
In local currency	9.1.1	100,000	-
		<u>100,000</u>	<u>-</u>
9.1.1 This Call lending carry markup rate @ 8.15% (Dec 31, 2020: nil) per annum and has maturity period upto 7 days (Dec 31, 2020: nil).			

SME BANK LIMITED

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

For the Nine months ended September 30, 2021

10. INVESTMENTS

10.1 Investment by type

	September 30, 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)
	(Rupees in '000)				(Rupees in '000)		
Available-for-sale securities							
10.1.1 Federal Government Securities	5,161,510	-	(6,257)	5,155,253	5,679,985	-	750
Shares	42,542	(15,863)	3,221	29,900	42,542	(15,770)	3,370
Mutual Funds	1,870	(218)	(36)	1,616	1,870	-	(142)
	5,205,922	(16,081)	(3,072)	5,186,769	5,724,397	(15,770)	3,978
Held-to-maturity securities							
Non Government Debt Securities							
10.1.2 - 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)	-
Subsidiary	215,457	(134,709)	-	80,748	215,457	(134,709)	-
Total Investment	5,457,141	(151,552)	(3,072)	5,302,517	5,975,616	(151,241)	3,978

(Un-audited) (Audited)
September 30, 2021 December 31, 2020

(Rupees in '000)

3,276,295	1,560,528
401,195	2,456,991
3,677,490	4,017,519

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

SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the Nine months ended September 30, 2021

10.2 Provision for diminution in value of investments

10.2.1 Opening balance

Charge / reversals

Charge for the period/year

Reversal for the period/year

Reversal on disposals

Transfers - net

Amount written off

Closing balance

10.2.2 Particulars of provision against debt securities category of classification

	(Un-audited) September 30, 2021	(Audited) December 31, 2020
	Rupees in 000	
	151,241	151,241
	311	-
	-	-
	-	-
	311	-
	-	-
	-	-
	151,552	151,241

Domestic

Other assets especially mentioned

Substandard

Doubtful

Loss

	(Un-audited) September 30, 2021	(Audited) December 31, 2020
	Rupees in 000	
	Non performing investments	Non performing investments
	Provision	Provision
	-	-
	-	-
	762	762
	762	762

SME BANK LIMITED

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

For the Nine months ended September 30, 2021

		Note	(Rupees in '000)			
			Performing		Non Performing	
			(Un-audited) September 30, 2021	(Audited) December 31, 2020	(Un-audited) September 30, 2021	(Audited) December 31, 2020
11. ADVANCES	Loans, cash credits, running finances, etc- In Pakistan					
	Extended by:					
	Defunct RDFC & SBFC	11.2	-	-	4,881,094	4,881,305
	SME Bank Ltd		1,385,522	1,331,056	481,757	484,794
	Due from employees		51,689	67,066	6,043	6,188
			1,437,211	1,398,122	5,368,894	5,372,287
	Net investment in finance lease	11.1 & 11.3	280	280	973	973
	Advances - gross		1,437,491	1,398,402	5,369,867	5,373,260
	Provision for non-performing advances					
	Specific provision		-	-	(5,228,331)	(5,232,725)
	General provision	11.4	(1,825)	(8,593)	-	(1,825)
			(1,825)	(8,593)	(5,228,331)	(5,232,725)
	Advances - net of provision		1,435,666	1,389,809	141,536	140,535
					1,577,202	1,530,344
11.1 Particulars of advances (Gross)						
	In local currency				(Un-audited) September 30, 2021	(Audited) December 31, 2020
	In foreign currencies				(Rupees in '000)	
					6,807,358	6,771,662
					-	-
					6,807,358	6,771,662

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

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

SME BANK LIMITED

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

For the Nine months ended September 30, 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 (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 SMF, 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 SMF, NBP and GoP through MoF at a value of Rs.100 as a sale consideration. Thereafter, the shareholders of the Bank in their meeting held on January 22, 2018 through their special resolution have also authorized the transfer of the portfolios as approved by the board of directors of the Bank, however, the Allied Bank Limited carrying 0.33% holding in the Bank has opposed the resolution and required the sale of the portfolio at a fair market value (FMV). According to above majority decision of the shareholders both the portfolios have been transferred to the FCF and NBP against an aggregate sale consideration of Rs. 100 under a tri-party agreement (the Agreement) executed on February 23, 2018 between the Bank, NBP and FCF. As of the date of the tri-party Agreement the Bank has transferred and surrendered all the recoveries, rights, obligation, claims and liabilities of the referred loan portfolios in favor of the FCF.

The management of the Bank continues to show these loan portfolios in its book of accounts pending confirmation of recording by NBP in its books of accounts to ensure that the above loans are duly accounted by NBP in compliance to the terms of the agreement dated February 23, 2018. The Bank has requested with various intervals to share the details of the road map prepared by NBP for smooth transfer of accounting record related to the legacy loan portfolio from books of the Bank to books of NBP.

- 11.3 Advances include Rs. 5,369.867 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) September 30, 2021		(Audited) December 31, 2020	
		Non Performing Loans	Provision	Non Performing Loans	Provision
(Rupees in '000)					
Domestic					
Other Assets Especially Mentioned		6,376	229	1,397	41
Substandard		28,961	490	21,498	91
Doubtful		6,456	229	15,333	1,258
Loss		5,328,074	5,227,383	5,335,032	5,231,335
	11.3.1	5,369,867	5,228,331	5,373,260	5,232,725

- 11.3.1 This include non performing loans and provision of Rs. 481.757 million and Rs. 340.245 million respectively (Dec 31 2020: Rs. 484.794 million & Rs. 344.317 million) relating to SME portfolio.

- 11.4 Particulars of provision against advances

	September 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/(Reversal)						
Charge for the period/year	23,463	17	23,480	22,631	8,587	31,218
Reversal for the period/year	(27,680)	(6,785)	(34,465)	(45,984)	(2)	(45,986)
	(4,217)	(6,768)	(10,985)	(23,353)	8,585	(14,768)
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(177)	-	(177)	(972)	-	(972)
Closing balance	5,228,331	1,825	5,230,156	5,232,725	8,593	5,241,318

- 11.4.1 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. However, subsequently general provision have still been kept only for those borrowers whose payments of loan is delayed by more than 60 days and all the remaining provision has reversed.

- 11.4.2 The FSV benefit availed in last years has been decreased by Rs. 4.639 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. 4.639 million (Sep 30, 2020: increased by Rs. 14.610 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 110.851 million (Dec 31, 2020: Rs. 115.490 million).

Particulars of provisions against advances	September 30, 2021 (un-audited)			December 31, 2020 (audited)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	5,228,331	1,825	5,230,156	5,232,725	8,593	5,241,318
In foreign currencies	-	-	-	-	-	-
	5,228,331	1,825	5,230,156	5,232,725	8,593	5,241,318

			(Un-audited) September 30, 2021	(Audited) December 31, 2020
			(Rupees in '000)	
	Note			
12. FIXED ASSETS				
Property and equipment	12.1		11,951	16,940
Right of use assets	12.2		415,840	455,244
			<u>427,791</u>	<u>472,184</u>
12.1 Property and equipment				
Net book value at the beginning of the period/year			16,940	34,519
Additions			2,994	1,294
Disposals			(27)	(302)
Depreciation			(7,956)	(18,571)
Net book value at the end of the period/year			<u>11,951</u>	<u>16,940</u>
12.1.1 Additions to fixed assets				
Following additions have been made to fixed assets during the period/year:				
Property and equipment				
Leasehold improvements			125	56
Furniture and fixture			31	-
Electrical office and computer equipment			2,838	1,238
			<u>2,994</u>	<u>1,294</u>
12.1.2 Disposals of fixed assets				
The net book value of fixed assets disposed off during the period/year				
Vehicles			(27)	(302)
			<u>(27)</u>	<u>(302)</u>
12.2 Right of use assets				
Opening net book value			455,244	497,593
Additions / adjustment			1,745	11,525
Depreciation			(41,149)	(53,874)
Closing net book value			<u>415,840</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.				
13. INTANGIBLE ASSETS				
Computer Software	13.1		<u>1,686</u>	<u>1,756</u>
13.1 Computer Software				
Net book value at the beginning of the period/year			1,756	1,331
Additions			777	1,771
Disposals			-	-
Amortizations			(847)	(1,346)
Net book value at the end of the period/year			<u>1,686</u>	<u>1,756</u>
14. DEFERRED TAX ASSET - NET				
Deferred tax asset			973,722	890,643
Deferred tax (liability)			(15,451)	(15,728)
			<u>958,271</u>	<u>874,915</u>
14.1				
The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition of deferred tax asset is the expected privatization of the Bank which would result in fresh equity injection from the new strategic shareholder of the Bank and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future.				

		(Un-audited) September 30, 2021	(Audited) December 31, 2020
		(Rupees in '000)	
15. OTHER ASSETS	Note		
Income/mark-up accrued in local currency - net of provision	15.1	75,503	130,491
Advances, deposits, advance rent and other prepayments		30,418	21,891
Advance taxation - net	15.2	237,549	243,077
Non banking asset acquired in satisfaction of claims	15.3	147,066	147,066
Due from benevolent fund- unsecured		5,552	5,552
Receivable from NBP		3,695	2,966
Receivable from subsidiary company		4,415	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		75,313	76,731
		<u>627,746</u>	<u>680,039</u>
Less: Provision held against other assets	15.4	116,745	117,354
Other assets (net of provision)		<u>511,001</u>	<u>562,685</u>
15.1	The balance has been arrived at after adjusting interest in suspense of Rs. 4,038.027 million (Dec 31, 2020: Rs. 4,053.680 million) which includes Rs: 245.316 million (Dec 31, 2020: Rs. 261.192 million) relating to SME portfolio.		
15.2	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.		
15.3	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 (COF). Meanwhile, the Legal heirs also approached High Court and submitted a Civil Miscellaneous application (CMA) for restoration of RFA 635/13 which has been already decided ex-parte in favor of the bank, arguments on CMA are in process in High Court. Our Counsel has argued that decision of DB High Court is now time barred. There was no proceedings on last hearing i.e. October 05, 2021, now date is in office. However on last hearing of October 16, 2021 in Banking Court V the judge asked for fresh statement of COF which will be provided to court on next date of hearing i.e. October 26, 2021. As per latest valuation report dated January 20, 2021, the market value of the Property was Rs. 232.573 million.		

15.4	Provision held against other assets	Note	(Un-audited) September 30, 2021	(Audited) December 31, 2020
			(Rupees in '000)	
	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		43,152	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>116,745</u>	<u>117,354</u>
15.4.1 Movement in provision held against other assets				
	Opening balance		117,354	117,109
	Charge for the period/year		2,314	2,929
	Reversals for the period/year		(2,923)	(2,682)
			(609)	247
	Transferred to NBP		-	(2)
	Closing balance		<u>116,745</u>	<u>117,354</u>

			(Un-audited) September 30, 2021	(Audited) December 31, 2020
16.	BILLS PAYABLE	Note	(Rupees in '000)	
	In Pakistan		45,093	99,986
	Outside Pakistan		-	-
			<u>45,093</u>	<u>99,986</u>
17.	BORROWINGS			
	Secured			
	Borrowing from State Bank of Pakistan			
	Under Financing facility for storage of agricultural produce	17.2	72,650	86,317
	Under Modernisation of small and medium enterprises	17.2	26,832	25,549
			99,482	111,866
	Repurchase agreement borrowings			
	State Bank of Pakistan	17.3	3,672,787	3,941,151
	Financial Institutions	17.3	-	74,596
			3,672,787	4,015,747
			<u>3,772,269</u>	<u>4,127,613</u>
17.1	Particulars of borrowings with respect to Currencies			
	In local currency		3,772,269	4,127,613
	In foreign currencies		-	-
			<u>3,772,269</u>	<u>4,127,613</u>

17.2 These are secured against demand promissory note and carry mark up rate of 2.0% per annum payable on quarterly basis and having maturity period upto 7 years.

17.3 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 rate 7.42% (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.

18. DEPOSITS AND OTHER ACCOUNTS

	September 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)					
Customers						
Current deposits	919,397	-	919,397	1,195,828	-	1,195,828
Savings deposits	4,420,265	-	4,420,265	3,357,871	-	3,357,871
Term deposits	2,200,176	-	2,200,176	2,405,940	-	2,405,940
Others	164,122	-	164,122	80,594	-	80,594
	<u>7,703,960</u>	<u>-</u>	<u>7,703,960</u>	<u>7,040,233</u>	<u>-</u>	<u>7,040,233</u>
Financial Institutions						
Current deposits	261	-	261	24	-	24
Savings deposits	562,525	-	562,525	502,005	-	502,005
Term deposits	64,000	-	64,000	60,000	-	60,000
Others	-	-	-	-	-	-
	<u>626,786</u>	<u>-</u>	<u>626,786</u>	<u>562,029</u>	<u>-</u>	<u>562,029</u>
	<u>8,330,746</u>	<u>-</u>	<u>8,330,746</u>	<u>7,602,262</u>	<u>-</u>	<u>7,602,262</u>

		(Un-audited) September 30, 2021	(Audited) December 31, 2020
19. OTHER LIABILITIES	Note	(Rupees in '000)	
Mark-up/ return/ interest payable in local currency		97,871	108,779
Unearned commission on guarantees		3,664	2,799
Accrued expenses		14,658	10,077
Sundry creditors	19.1	133,404	161,757
Branch adjustment account		916	1,386
Payable against employees' benefit plans			
Defined benefit pension		337,993	337,993
Defined benefit funded gratuity scheme		3,518	4,833
Unfunded compensated absences		73,728	68,328
Security deposits against lease		280	280
Leased liability against right of use assets	19.2	534,008	541,078
Employees' VSS payments withheld		12,076	12,603
Income tax withheld payable		19,057	19,603
Others		1,710	1,793
		<u>1,232,883</u>	<u>1,271,309</u>

19.1 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. 30.142 million (Dec 31, 2020: Rs. 59.287 million).

	(Un-audited) September 30, 2021	(Audited) December 31, 2020
19.2 This represents lease liability under IFRS 16 :	(Rupees in '000)	
Opening net book value	541,078	538,756
- Additions/adjustment	1,745	11,525
- Interest	51,946	69,451
- Payment	(60,761)	(78,654)
Closing net book value	<u>534,008</u>	<u>541,078</u>

20. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

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

- Federal Government securities	(6,257)	750
- Listed companies/mutual funds	3,185	3,228
	<u>(3,072)</u>	<u>3,978</u>

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

- Federal Government securities	-	(263)
- Listed companies/mutual funds	(1,115)	(1,129)
	<u>(4,187)</u>	<u>2,586</u>

			(Un-audited) September 30, 2021	(Audited) December 31, 2020
			(Rupees in '000)	
21. CONTINGENCIES AND COMMITMENTS	Note			
- Guarantees	21.1		340,661	229,498
- Commitments	21.2		3,970,690	4,278,596
- Other contingent liabilities	21.3		1,190,476	1,192,987
			<u>5,501,827</u>	<u>5,701,081</u>
21.1 Guarantees				
Financial guarantees			-	-
Performance guarantees	21.1.1		340,661	229,498
Other guarantees			-	-
			<u>340,661</u>	<u>229,498</u>
21.1.1	This include expired letter of guarantees/performance aggregating to Rs. 80.536 million (Dec 31, 2020: Rs. 69.690 million) for which formalities for return of original documents are in process.			
21.2 Commitments				
Commitments in respect of:				
- forward government securities transactions	21.2.1		3,677,490	4,017,519
- forward lending	21.2.2		231,504	259,813
Commitments for acquisition of:				
- operating fixed assets			1,669	1,264
- intangible assets			-	-
Other commitments	21.2.3		60,027	-
			<u>3,970,690</u>	<u>4,278,596</u>
21.2.1 Commitments in respect of forward government securities transactions				
Sale and repurchase agreements			<u>3,677,490</u>	<u>4,017,519</u>
21.2.2 Commitments in respect of forward lending				
Undrawn facilities			156,404	202,613
Commitments to extend credit			75,100	57,200
			<u>231,504</u>	<u>259,813</u>
21.2.3 Other commitments				
Bills for collection				
Payable in Pakistan			<u>60,027</u>	<u>-</u>
21.3 Other contingent liabilities			<u>1,190,476</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 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

	(Un-audited) September 30, 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

	(Un-audited) September 30, 2021	(Audited) December 31, 2020
	(Rupees in '000)	
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.	65,230	67,550

SME BANK LIMITED

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

For the Nine months ended September 30, 2021

		September 30, 2021	September 30, 2020
	Note	(Rupees in '000)	
22. MARK-UP/ RETURN/ INTEREST EARNED			
On loans and advances to Customers			
Extended by:			
Defunct RDFC & SBFC		-	-
SME Bank Limited		179,538	202,892
		<u>179,538</u>	<u>202,892</u>
Employees		2,128	2,717
Financial Institution - SME Leasing Limited - a subsidiary company		12,663	15,353
		<u>194,329</u>	<u>220,962</u>
On investments in			
Available for sale securities		270,512	358,226
Held to maturity securities		2,354	3,213
		<u>272,866</u>	<u>361,439</u>
On deposits with financial institutions		95	260
Lendings to financial institutions		1,024	898
		<u>468,314</u>	<u>583,559</u>
23. MARK-UP/ RETURN/ INTEREST EXPENSED			
On deposits		332,597	510,129
On securities sold under repurchase agreements		184,986	306,138
On SBP Refinance Scheme		1,610	1,446
Brokerage and commission		1,312	1,147
Bank charges		102	147
		<u>520,607</u>	<u>819,007</u>
24. FEE & COMMISSION INCOME			
Branch banking customer fees		2,203	2,239
Card related fees		179	298
Credit related fees		1,934	1,373
Commission on guarantees		4,936	3,024
Commission on remittances		59	50
Others		7	15
		<u>9,318</u>	<u>6,999</u>
25. GAIN / (LOSS) ON SECURITIES			
Realised	25.1	1,016	365
Unrealised - held for trading		-	-
		<u>1,016</u>	<u>365</u>
25.1 Federal Government Securities - net		1,016	365
Shares		-	-
		<u>1,016</u>	<u>365</u>
26. OTHER INCOME			
Gain on sale of operating fixed assets - net		967	101
Claim against stolen vehicle		-	300
Others		36	13
		<u>1,003</u>	<u>414</u>

		September 30, 2021	September 30, 2020
27. OPERATING EXPENSES	Note	(Rupees in '000)	
Total compensation expense		506,334	507,694
Property expense			
Rent & taxes		4,051	3,441
Insurance		2,933	787
Utilities cost		17,128	14,694
Security (including guards)		12,707	11,924
Repair & maintenance		5,215	4,945
Depreciation		41,734	40,990
Others		-	-
		83,768	76,781
Information technology expenses			
Software maintenance		5,042	3,492
Hardware maintenance		1,606	1,320
Depreciation		2,521	3,819
Amortization		847	1,004
Network charges		10,398	10,076
Others		126	162
		20,540	19,873
Other operating expenses			
Directors' fees, allowances and other expenses		3,054	1,153
Legal and professional charges		4,938	2,880
Outsourced services costs		17,947	20,863
Travelling and conveyance		2,269	1,246
NIFT clearing charges		1,707	1,437
Depreciation		4,850	10,049
Training & development		657	682
Postage & courier charges		525	549
Communications		3,315	3,307
Stationery and printing		3,831	3,290
Marketing, advertisement & publicity		1,093	877
Donations		-	-
Auditors' remuneration		783	783
Separations Cost		1,389	-
Vehicle running and maintenance		3,106	2,512
Entertainment		1,553	1,502
Subscription, books and newspapers		2,461	2,320
Deposits premium		2,788	2,713
Others		265	188
		56,531	56,351
		667,173	660,699

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the Nine months ended September 30, 2021

		September 30, 2021	September 30, 2020
	Note	(Rupees in '000)	
28. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		-	130
Right of use assets - unwinding of present value		51,946	52,120
		<u>51,946</u>	<u>52,250</u>
29. PROVISIONS & WRITE OFFS - NET			
Provisions/(reversals) for diminution in value of investment	10.2.1	311	-
Provisions/(reversals) against loans & advances	11.4	(10,985)	(20,529)
Provisions/(reversals) against other assets	15.4.1	(609)	898
Bad debts written off directly		-	-
		<u>(11,283)</u>	<u>(19,631)</u>
30. TAXATION			
Current		7,276	9,130
Prior periods		-	-
Deferred		(83,079)	(109,068)
		<u>(75,803)</u>	<u>(99,938)</u>
31. BASIC/ DILUTED LOSS PER SHARE			
Net loss after tax for the period		<u>(672,989)</u>	<u>(821,013)</u>
		Number of shares	
Weighted average number of ordinary shares		<u>239,250,700</u>	<u>239,250,700</u>
		Rupees	
Basic/ diluted loss per share		<u>(2.81)</u>	<u>(3.43)</u>
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 Nine months ended September 30, 2021

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity 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.

September 30, 2021 (un-audited)

32.1 On balance sheet financial instruments				
Financial assets measured at fair value				
- Investments				
Government securities (T bills and PIBs)				
-	5,155,253	-	-	5,155,253
Ordinary shares of listed companies/Mutual funds				
5,046	-	-	-	5,046
Ordinary shares of unlisted companies				
-	-	-	26,470	26,470
Financial assets not measured at fair value				
32.2	-	-	450,108	450,108
32.2	-	-	2,044	2,044
32.2	-	-	100,000	100,000
32.2	-	-	1,577,202	1,577,202
32.2	-	-	87,939	87,939
32.2	-	-	35,000	35,000
- Subsidiary				
-	-	-	80,748	80,748
SME Leasing Limited				

SME BANK LIMITED

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

For the Nine months ended September 30, 2021

	December 31, 2020 (audited)			
	FAIR VALUE			
	Level 1	Level 2	Level 3	carrying / notional value
On balance sheet financial instruments				
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
Financial assets not measured at fair value				
- Bank balances with treasury banks	-	-	-	493,156
- Balances with other banks	-	-	-	2,123
- Lending to financial institutions	-	-	-	-
- Advances	-	-	-	1,530,344
- Other assets	-	-	-	142,648
- Other Investment (COI/TDR)	-	-	-	35,000
Subsidiary- SME Leasing Limited	-	-	-	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).

32.2 The Bank has not disclosed the fair value for these financial assets and liabilities, as these are for short term and or re-priced over short term. Therefore their carrying amounts are reasonable approximation of fair value.

32.3 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.

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

Fully paid-up ordinary shares

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

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

Pakistan Investment Bonds / Market Treasury Bills

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

33. SEGMENT INFORMATION

33.1 Segment details with respect to business activities

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

	September 30, 2021 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	273,891	194,423	468,314
Inter segment revenue - net	-	110,915	110,915
Non mark-up/return/interest income	1,016	10,321	11,337
Total income	274,907	315,659	590,566
Segment direct expenses	201,675	1,038,051	1,239,726
Inter segment expenses allocation	110,915	-	110,915
Total expenses	312,590	1,038,051	1,350,641
Provisions	311	(11,594)	(11,283)
Loss before tax	(37,994)	(710,798)	(748,792)
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Balance Sheet			
Cash & bank balances	430,099	232,579	662,678
Investments	5,302,517	-	5,302,517
Net inter segment lending		2,088,831	2,088,831
Lending to financial institutions	100,000	-	100,000
Advances - Performing	-	1,435,666	1,435,666
- Non-performing	-	141,536	141,536
Others	709,744	1,189,005	1,898,749
Total Assets	6,542,360	5,087,617	11,629,977
Borrowings	3,672,787	99,482	3,772,269
Deposits & other accounts	-	8,330,746	8,330,746
Net inter segment borrowing	2,088,831	-	2,088,831
Others	329,741	948,235	1,277,976
Total Liabilities	6,091,359	9,378,463	15,469,822
Equity	451,001	(4,290,846)	(3,839,845)
Total Equity & liabilities	6,542,360	5,087,617	11,629,977
Contingencies & Commitments	3,677,490	1,824,337	5,501,827

	September 30, 2020 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	362,337	221,222	583,559
Inter segment revenue - net	-	205,161	205,161
Non mark-up/return/interest income	402	7,413	7,815
Total income	362,739	433,796	796,535
Segment direct expenses	322,539	1,209,417	1,531,956
Inter segment expenses allocation	205,161	-	205,161
Total expenses	527,700	1,209,417	1,737,117
Provisions	-	(19,631)	(19,631)
Loss before tax	(164,961)	(755,990)	(920,951)
	December 31, 2020 (audited)		
	Trading & Sales	Commercial Banking	Total
	(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 8.18% (December 31, 2020: 7.41%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 4.23% (December 31, 2020: 4.48%) of the gross liabilities have been allocated to segments based on their respective incomes.

33.2 Segment details with respect to geographical locations

Presently the Bank does not deal outside Pakistan

	Subsidiary SMEL	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	(Rupees in '000)
							(Rupees in '000)
Investments							
Opening balance	215,457	-	-	-	-	-	
Investment made during the year	-	-	-	-	-	-	
Investment redeemed / disposed off during the year	-	-	-	-	-	-	
Transfer in / (out) - net	-	-	-	-	-	-	
Closing balance	215,457	-	-	-	-	-	
Provision for diminution in value of investments							
	134,709	-	-	-	-	-	
Advances							
Opening balance	144,747	7,869	-	-	-	-	
Addition (total debits) during the year	26,506	5,260	-	-	-	-	
Repaid (total credits) during the year	(25,234)	(5,553)	-	-	-	-	
Transfer in / (out) - net	-	-	-	-	-	-	
Closing balance	146,019	7,576	-	-	-	-	
Provision held against advances							
	-	-	-	-	-	-	
Other Assets							
Interest / mark-up accrued	4,415	6,737	-	-	-	-	
Receivable from staff retirement fund	-	-	-	-	5,552	-	
Other receivable	-	-	-	1,887	-	-	
Deposits and other accounts							
Opening balance	-	9,107	21,770	492,509	1,360,263	5,356	
Received during the year	10,933	112,945	19,988	20,712	87,578	44,629	
Withdrawn during the year	-	(106,545)	(23,158)	-	(13,468)	(45,095)	
Transfer in / (out) - net	(10,697)	(2,826)	-	-	-	-	
Closing balance	236	12,681	18,600	513,221	1,434,373	4,890	
Other Liabilities							
Interest / mark-up payable	-	55	388	2,320	50,288	17	
Payable to staff retirement fund	-	-	-	-	415,239	-	
Others liabilities	-	-	-	-	-	-	
Contingencies and Commitments							
	-	-	-	-	-	-	

SME BANK LIMITED

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

For the Nine months ended September 30, 2021

		September 30, 2021 (un-audited)		September 30, 2020 (un-audited)	
		Rupees in '000		Rupees in '000	
Income					
Mark-up / return / interest earned	12,663	229	-	-	-
Fee and commission income	-	-	-	15,353	349
Expense					
Mark-up / return / interest expense	-	427	997	79,362	216
Fees and other expenses	-	-	3,054	-	-
Remuneration and allowances	-	51,638	8,293	-	53,376
Charge for the period relating to employees benefit plans	-	-	-	86,792	-
					97,320
		Description		Interest rate	
Principal terms of loan facility to SMEL		Running finance facility upto Rs. 150 million		6 months Kibor + 4.0%	
Principal terms of deposit to Equity Participation Fund		Remunerative deposits		5.50%	
Principal terms of deposit to Employee Benefit Plans		Remunerative deposits		5.50% to 7.70%	
Principal terms of deposit to Employee Provident Trust		Remunerative deposits		5.50% to 7.00%	

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the Nine months ended September 30, 2021
35. CAPITAL ADEQUACY

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

	(Un-audited) September 30, 2021	(Audited) December 31, 2020
Regulatory capital base	(Rupees in '000)	
<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)	(6,434,691)	(5,761,702)
	(3,835,658)	(3,162,669)
Less: Adjustments		
Goodwill/intangible Assets	1,686	1,756
Investment in equity of subsidiary	80,748	80,748
Deficit on revaluation of available for sale investments	4,187	-
	86,621	82,504
<i>Total tier I capital</i>	(3,922,279)	(3,245,173)
<i>Tier II capital</i>	1,825	8,593
<i>Eligible tier III capital</i>	-	-
Total regulatory capital	(3,920,454)	(3,236,580)

	(Un-audited) September 30, 2021		(Audited) December 31, 2020	
	Book value	Risk adjusted value	Book value	Risk adjusted value
	(Rupees in '000)		(Rupees in '000)	
Risk-weighted exposures				
Balance sheet items:				
Cash and other liquid assets	662,678	20,409	670,850	425
Investments/ lending to financial institutions	5,402,517	66,516	5,828,353	66,870
Loans and advances	1,577,202	964,901	1,530,344	906,226
Fixed assets	429,477	427,791	472,184	472,184
Deferred tax assets	958,271	958,271	874,915	874,915
Other assets	511,001	272,268	562,685	271,708
	9,541,146	2,710,156	9,939,331	2,592,328
Off balance sheet items				
Weighted Non-funded exposures	282,930	141,465	191,773	95,887
	282,930	141,465	191,773	95,887
Credit risk-weighted exposures	9,824,076	2,851,621	10,131,104	2,688,215
Market risk		269,432		310,065
Market risk-weighted exposures	-	269,432	-	310,065
Total risk-weighted exposures		3,121,053		2,998,280
<i>Capital adequacy ratio credit risk</i> [(a) / (b) x 100]		-137.48%		-120.40%
<i>Total capital adequacy ratio</i> [(a) / (c) x 100]		-125.61%		-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 has requested SBP to allow further extension which is pending.

36. IMPACT OF COVID-19

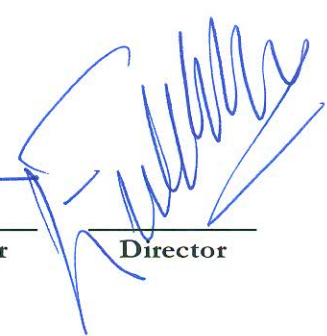
The outbreak of corona virus has severely affected national and global economies. Various businesses are facing different issues with a certain degree of losses. Particularly, businesses are facing problems such as decrease in demand, supply chain disruptions, raw material shortage, and transportation 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 period bank has reversed the general provision in respect of borrowers who have availed the SBP enabled packages amounting to Rs. 6.782 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.

37. DATE OF AUTHORIZATION

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

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