



SME BANK LIMITED

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

**FOR THE PERIOD ENDED
JUNE 30, 2022**

BDO Ebrahim & Co. Chartered Accountants

BDO Ebrahim & Co. is a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and is a part of the international BDO network of independent member firms.

Directors' Review on Operational Results for the Half Year Ended June 30, 2022

On behalf of the Board of Directors, we are pleased to present the unconsolidated condensed interim financial statements of SME Bank Limited for the Half Year ended 30th June, 2022.

The global crisis stemming from COVID 19 and economic disruptions has sharply increased macroeconomic uncertainty in many countries, especially those dependent on imported goods. As a result of supply chain disruptions, economic activity around the world has slowed down. Additionally, rising commodity prices have led to increased inflationary pressures in many economies, leading many central banks to tighten monetary policies.

International economic instability has taken its toll on the country's economy, resulting in rising inflation and widening current account deficit. The government has started taking drastic measures to secure the IMF agreement, which will result in stable reserves, balance of control and sustainable economic growth in the next few quarters.

National CPI reached 21.3% in June 2022, a level last seen during 2008, on the back of continued rise in global food and fuel prices. Inflation is expected to remain elevated over the next few months with the impact of higher energy rates fully reflected in the CPI, before easing in the latter half of FY2022-23.

On the fiscal side, some slippage was observed, and the deficit reached 4.0% of GDP during July-March 2022. This was despite a 28 % increase in tax revenue that was used for higher spending. Returning to fiscal action in line with IMF guidelines, the government has presented the FY 2022-23 budget with a fiscal deficit target of 4.9 % for FY 2023, up from the projected 7 % in FY 2022. Despite the cancellation of various tax exemptions and the imposition of one-time higher super tax, wise use of tax revenue is the key to fiscal discipline.

For sustainable development, fiscal discipline is central and the recently announced Federal Budget FY2023 is a step in this direction. A revival of the IMF program is also likely to help improve market sentiment and FX flows, while maintaining fiscal discipline. The recent downward trend in some commodity prices is also a welcome sign and, if sustained, will significantly improve the country's external account position and provide respite on the fiscal front.

Pakistan's benchmark KSE 100 index fell 7.5% during 4Q FY2022, taking the overall return to negative 12.3 % in FY2022 amid deteriorating global and local macroeconomic indicators.

The government is working hard on economic reforms and improving Pakistan's reputation in the international market, which is still essential. The country needs to reduce both its imports and expenditure and manage the economic situation.

Efforts in this direction are going on and it is hoped that the result will come soon. Short-term measures may help Pakistan, but it is time to look for long-term solutions.

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 issued completed on August 24, 2020 and the final draft of share purchase agreement (SPA) had been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA were deliberated by the Transaction Committee and clarifications to this effect were 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 were clarified and some of them pertaining to license, merger and MCR were forwarded to State Bank of Pakistan for its clarification. Drafts of the bidding documents i.e. instruction to Bidders (ITB) and Share Purchase Agreements (SPA) could not be finalized.

Board of Privatization Commission in its meeting held on November 25, 2021 recommended to delist SME Bank Limited from the list of privatization on recommendation of Financial Adviser (FA) of Privatization Commission, who had asserted that despite all efforts and iterative interactions with the pre-qualified bidders to date, positive feedback from the pre-qualified bidders was not forthcoming and owing to the deteriorating financial position of the Bank, the transaction of privatization of SME Bank was recommended to shelve. The recommendation of the Board of Privatization was presented to Cabinet Committee on Privatization (CCoP) in its meeting held on December 31, 2021.

The CCoP discussed delisting of SME Bank Limited from the active privatization program. The meeting, after a detailed discussion constituted a committee under the chairmanship of the Finance Minister and representatives from SBP, SECP, Finance Division and Privatization Division to evaluate alternative options for proceeding further. Meeting of the said committee was held on March 8, 2022 and on July 04, 2022 therein the Chair inquired about latest position and PC's stance viz-a-viz privatization of SME Bank.

It was informed that the decision for award of 5 digital licenses by SBP was awaited, after which interest of the unsuccessful parties may be solicited with respect to privatization of SME Bank. After PC's briefing, the President SME Bank gave a presentation on their proposed business plan for reform and restructuring of business operations.

At the conclusion of meeting the chair directed to convene a follow-up meeting of the above-mentioned Committee constituted by CCOP, to deliberate on way forward for SME Bank, after Eid holidays, in July 2022. It was further decided that besides Committee members, SME bank may also participate on special invitation. Date of the next meeting is awaited.

The highlights of the financial results of the Bank for the Half Year ended 30th June, 2022 are presented as follows:

Investment portfolio of the Bank has reported Rs.3,800 million as on June 30, 2022 (December 2021: Rs.4,238 million). Major portion of investment is in government securities. The bank made fresh disbursements of Rs.125 million during the period under review as compared to Rs.290 million of corresponding period of last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio. Non-performing loan (NPLs) was at Rs.396 million as on June 30, 2022 whereas NPLs was 473 million at end of corresponding period of last year. SME loan portfolio was at Rs.1,740 million as on June 30, 2022 with reference to position of Rs. 1,880 million as on December 31, 2021.

During the period under review cost of funds of the Bank was Rs.508 million as compare to the cost of Rs.345 million for the corresponding period of last year. Administrative expenses for 1st half 2022 was of Rs.465 million whereas administrative expenses for the corresponding period was Rs.452 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.8,369 million by June 30, 2022. The Bank reported a net loss of Rs.623 million for the 1st half 2022, as compared to Rs.482 million during the same period of 2021. The bank's gross income was of Rs.359 million, which comprises of Rs. 47 million from SME advances, Rs.205 million from treasury operations and Rs.7 million from non-mark-up income. Paid up capital of the Bank is Rs.2,392 million. The equity stood at Rs.(4,877) million as on June 30, 2022.

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.

A handwritten signature in blue ink, consisting of a stylized 'C' followed by a series of loops and a long horizontal stroke.

Chairman

[DRAFT]

INDEPENDENT AUDITORS REPORT ON REVIEW OF UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS TO THE MEMBERS OF SME BANK LIMITED

Introduction

We have reviewed the accompanying unconsolidated condensed interim statement of financial position of SME Bank Limited ("the Bank") as at June 30, 2022 and the related unconsolidated condensed interim profit and loss account, unconsolidated condensed interim statement of comprehensive income, unconsolidated condensed interim statement of changes in equity, unconsolidated condensed interim cash flow statement, and notes to the condensed interim financial statements for the six-month period 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, 2022 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

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 of Rs. 134.709 million) and has an outstanding running finance exposure of Rs. 140.224 million at the reporting date. SMEL continues to operate on a net loss basis and therefore the recoverability of Investment and running finance exposure is doubtful. 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. 1,035.098 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 Honourable High Court Islamabad. The High Court ruled in favour of the tax department through its order dated March 13, 2018 which was also upheld by the Honourable Supreme Court of Pakistan through its order dated June 03, 2018, therefore, the Bank has no legal basis to continue to recognize the receivable as an asset.
4. As explained in Note 10.2, 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. 622.632 million (June 30, 2021 Rs. 481.512 million) resulting into accumulated losses of Rs. 7,468,962 million (December 31, 2021 Rs. 6,846.330 million). As of June 30, 2022 the reporting date, total liabilities of the bank have exceeded its total assets by Rs. 4,876.587 million (December 31, 2021: 4,260.976 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. 4,876.587 million (2021 Rs. 4,260.976) 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 for long term. 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. Further, the Bank is in the process of privatization whereby Privatization Commission has referred the case to Cabinet Committee on Privatization (CCoP) on December 31, 2021. The CCoP has constituted a committee to evaluate alternative options for further processing. 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.

Am

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 figures for the three months period ended June 30, 2022 and June 30, 2021 in the condensed interim statement of profit or loss and condensed interim statement of comprehensive income have not been subject to limited review by us and we do not express our conclusion on the same as we are required to review only the cumulative figures for the six month period ended June 30, 2022.

The engagement partner on review resulting in this independent auditors review report is Abdul Qadeer.

ISLAMABAD

DATED:

UDIN:

BDO EBRAHIM & CO

CHARTERED ACCOUNTANTS



SME BANK LIMITED**Unconsolidated Condensed Interim Statement of Financial Position****As at June 30, 2022**

		(Un-audited) June 30, 2022	(Audited) December 31, 2021
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	743,462	824,944
Balances with other banks	8	1,887	2,737
Lendings to financial institutions		-	-
Investments	9	3,799,966	4,237,715
Advances	10	1,462,002	1,596,181
Fixed assets	11	403,158	424,240
Intangible assets	12	1,241	1,455
Deferred tax assets - net	13	1,035,098	1,008,206
Other assets	14	511,097	512,849
		7,957,911	8,608,327
LIABILITIES			
Bills payable	15	31,502	19,071
Borrowings	16	3,012,255	3,206,289
Deposits and other accounts	17	8,369,389	8,248,271
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,421,352	1,395,672
		12,834,498	12,869,303
NET LIABILITIES		(4,876,587)	(4,260,976)
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Surplus/(deficit) on revaluation of assets - net of tax	19	(6,658)	(13,679)
Unappropriated loss		(7,468,962)	(6,846,330)
		(4,876,587)	(4,260,976)
CONTINGENCIES AND COMMITMENTS	20	-	-

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


 President/CEO


 Chief Financial Officer


 Director


 Director


 Director

SME BANK LIMITED

**Unconsolidated Condensed Interim Profit and Loss Account (un-audited)
For the half year ended June 30, 2022**

	Quarter ended		Half year ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Note	(Rupees in '000)			
21	183,123	128,920	352,093	291,393
22	274,208	160,428	507,783	345,135
	(91,085)	(31,508)	(155,690)	(51,742)
23	3,003	3,705	7,601	6,168
	-	-	649	-
	-	-	-	-
24	(890)	31	(847)	912
25	-	125	-	704
	2,113	3,861	7,403	7,984
	(88,972)	(27,647)	(148,287)	(43,758)
26	232,157	217,985	465,152	451,943
	-	-	-	-
27	17,083	17,709	34,088	34,893
	249,240	235,694	499,240	486,836
	(338,212)	(263,341)	(647,527)	(530,594)
28	(3,435)	4,001	(3,394)	1,509
	(334,777)	(267,342)	(644,133)	(532,103)
29	(54,916)	(47,456)	(21,501)	(50,591)
	(279,861)	(219,886)	(622,632)	(481,512)
30	(1.17)	(0.92)	(2.60)	(2.01)

NON MARK-UP/ INTEREST INCOME

Fee and commission income

Dividend income

Foreign exchange income

Income / (loss) from derivatives

Gain/(loss) on securities

Other income

Total non-markup/ interest income

Total Income/(loss)

NON MARK-UP/ INTEREST EXPENSES

Operating expenses

Workers Welfare Fund

Other charges

Total non-markup/ interest expenses

Loss before provisions

Provisions and write offs - net

LOSS BEFORE TAXATION

Taxation

LOSS AFTER TAXATION

Basic/diluted (loss) per share (rupees)

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



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, 2022

	Quarter ended		Half year ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(Rupees in '000)			
Net loss after taxation	(279,861)	(219,886)	(622,632)	(481,512)
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequent periods				
Movement in deficit on revaluation of investment	3,771	2,587	7,021	459
Items that will not be reclassified to profit and loss account in subsequent periods				
Remeasurement gain on defined benefit obligations - net	-	-	-	-
Total comprehensive loss	(276,090)	(217,299)	(615,611)	(481,053)


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


President/CEO


Chief Financial Officer


Director


Director



SME BANK LIMITED

Unconsolidated Condensed Interim Statement of Changes in Equity (un-audited)
For the half year ended June 30, 2022

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
	(Rupees in '000)				
Balance as at January 01, 2021	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)
Total comprehensive income for the six months period ended December 31, 2021					
Loss after taxation	-	-	-	(460,909)	(460,909)
Other comprehensive income/ (loss) - net of tax	-	-	(16,724)	(142,207)	(158,931)
Balance as at December 31, 2021 (audited)	2,392,507	206,526	(13,679)	(6,846,330)	(4,260,976)
Total comprehensive income for the six months period ended June 30, 2022					
Net loss after taxation	-	-	-	(622,632)	(622,632)
Other comprehensive income - net of tax	-	-	7,021	-	7,021
Balance as at June 30, 2022 (un-audited)	2,392,507	206,526	(6,658)	(7,468,962)	(4,876,587)

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



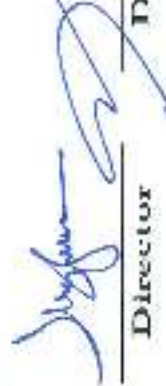
President/CEO



Chief Financial Officer



Director



Director

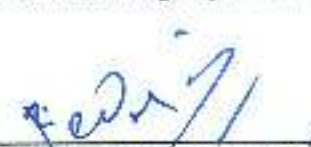
Director

SME BANK LIMITED**Unconsolidated Condensed Interim Cash Flow Statement (un-audited)****For the half year ended June 30, 2022**

	Note	June 30, 2022	June 30, 2021
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(644,133)	(532,103)
Less: Dividend income		(649)	-
		(644,782)	(532,103)
Adjustments:			
Depreciation		29,068	33,643
Amortization		444	616
Provision and write-offs		(3,394)	1,509
Loss/(gain) on sale of fixed assets		-	(668)
Mark-up expense on leased liability against ROU assets		34,083	34,893
		60,201	69,993
		(584,581)	(462,110)
(Increase)/ decrease in operating assets			
Lendings to financial institutions		-	-
Held-for-trading securities		-	-
Advances		135,678	(65,911)
Other assets (excluding advance taxation)		(494)	47,675
		135,184	(18,236)
Increase/ (decrease) in operating liabilities			
Bills payable		12,431	197,265
Borrowings from financial institutions		(194,034)	(1,186,575)
Deposits		121,118	597,940
Other liabilities (excluding current taxation)		27,231	(91,857)
		(33,254)	(483,227)
		(482,651)	(963,573)
Income tax paid		(1,275)	(1,014)
Net cash flow generated (used in)/ from operating activities		(483,926)	(964,587)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment/disinvestment in available-for-sale securities		412,395	1,072,109
Net investment in held-to-maturity securities		32,400	-
Dividend received		649	-
Investment in operating fixed assets		(1,114)	(2,425)
Proceeds from sale of fixed assets		-	695
Net cash flow generated from investing activities		444,330	1,070,379
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of lease obligation		(42,736)	(41,494)
Net cash flow (used in)/ from financing activities		(42,736)	(41,494)
Decrease in cash and cash equivalents		(82,332)	64,298
Cash and cash equivalents at beginning of the period		827,681	670,850
Cash and cash equivalents at end of the period	31	745,349	735,148

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


 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, 2022

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.

SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2022

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

- 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 01, 2024 vide SBP BPRD Circular Letter no. 03 dated July 05, 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, 2021.

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, 2021.

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, 2022 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.

Effective date of IFRS 9 'Financial Instruments' has extended by SBP to annual periods beginning on or after January 01, 2024 vide SBP BPRD Circular Letter no. 03 dated July 05, 2022 for banks having asset size less than 500 billion. IFRS 9 replaces the existing guidance in IAS 39, Financial Instruments: Classification and Measurement, addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'expected credit losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL approach has an impact on assets of the Bank which are exposed to credit risk. The impact on the Bank's financial statements is being assessed as per implementation guidelines.

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, 2021.

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Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2022

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 issued completed on August 24, 2020 and the final draft of share purchase agreement (SPA) had been shared with three pre-qualified bidders. Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA were deliberated by the Transaction Committee and clarifications to this effect were 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 were clarified and some of them pertaining to license, merger and MCR were forwarded to State Bank of Pakistan for its clarification. Drafts of the bidding documents i.e. instruction to Bidders (ITB) and Share Purchase Agreements (SPA) could not be finalized. Board of Privatization Commission in its meeting held on November 25, 2021 recommended to delist SME Bank Limited from the list of privatization on recommendation of Financial Adviser (FA) of Privatization Commission, who had asserted that despite all efforts and iterative interactions with the pre-qualified bidders to date, positive feedback from the pre-qualified bidders was not forthcoming and owing to the deteriorating financial position of the Bank, the transaction of privatization of SME Bank was recommended to shelve. The recommendation of the Board of Privatization was presented to Cabinet Committee on Privatization (CCoP) in its meeting held on December 31, 2021. The CCoP discussed delisting of SME Bank Limited from the active privatization program. The meeting, after a detailed discussion constituted a committee under the chairmanship of the Finance Minister and representatives from SBP, SECP, Finance Division and Privatization Division to evaluate alternative options for proceeding further. Meeting of the said committee was held on March 8, 2022 and on July 04, 2022 therein the Chair inquired about latest position and PC's stance viz-a-viz privatization of SME Bank. It was informed that the decision for award of 5 digital licenses by SBP was awaited, after which interest of the unsuccessful parties may be solicited with respect to privatization of SME Bank. After PC's briefing, the President SME Bank gave a presentation on their proposed business plan for reform and restructuring of business operations. At the conclusion of meeting the chair directed to convene a follow-up meeting of the above-mentioned Committee constituted by CCOP, to deliberate on way forward for SME Bank, after Eid holidays, in July 2022. It was further decided that besides Committee members, SME bank may also participate on special invitation. Date of the next meeting is awaited.

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

For the half year ended June 30, 2022

6.2 Going concern assumption and minimum capital requirement

During the current period the Bank incurred a net loss of Rs. 622.632 million (June 30, 2021: Rs. 481.512 million) resulting into accumulated losses of Rs. 7,468.962 million (December 31, 2021: Rs. 6,846.330 million). As of June 30, 2022, the reporting date, the total liabilities of the Bank have exceeded its total assets by Rs. 4,876.587 million (December 31, 2021: Rs. 4,260.976) 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)II/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: 02:2022/1818/1106 dated February 15, 2022 has requested SBP to allow exemption from MCR till June 30, 2022 or till 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 has been described in Note 6.1 above. Based upon the options being considered in CCoP and support from MoF, 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.

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SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

		(Un-audited) June 30, 2022	(Audited) December 31, 2021
	Note	(Rupees in '000)	
7. CASH AND BALANCES WITH TREASURY			
In hand			
Local currency		172,036	146,066
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in:			
Local currency current accounts	7.1	538,099	584,093
With National Bank of Pakistan in:			
Local currency current accounts		33,262	94,767
Local currency deposit account		-	-
Prize bonds		65	18
		<u>743,462</u>	<u>824,944</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, 2022	(Audited) December 31, 2021
	Note	(Rupees in '000)	
8. BALANCES WITH OTHER BANKS			
In Pakistan:			
On current accounts		500	500
On deposit accounts		11,387	12,237
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>1,887</u>	<u>2,737</u>

8.1 Particulars of provision for doubtful placement with a bank

Opening balance	(10,000)	(10,000)
Charge for the year	-	-
Reversals	-	-
	<u>-</u>	<u>-</u>
Closing balance	<u>(10,000)</u>	<u>(10,000)</u>

Provision for doubtful balance is in respect of deposit of Rs. 10 million (December 31, 2021: Rs. 10 million) with Indus Bank Limited which is under liquidation.

SME BANK LIMITED

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

For the half year ended June 30, 2022

9. INVESTMENTS

9.1 Investment by type

Investment by type	June 30, 2022 (un-audited)				December 31, 2021 (audited)			
	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value
(Rupees in '000)								
Note								
Available-for-sale securities								
9.1.2	3,693,927	-	(8,549)	3,685,378	4,106,322	-	(15,522)	4,090,800
Federal Government Securities	42,542	(15,863)	3,396	30,075	42,542	(15,863)	2,941	29,620
Shares	1,870	(218)	(487)	1,165	1,870	(218)	(105)	1,547
Mutual Funds	3,738,339	(16,081)	(5,640)	3,716,618	4,150,734	(16,081)	(12,686)	4,121,967
Held-to-maturity securities								
Non Government Debt Securities								
9.1.1	2,600	-	-	2,600	35,000	-	-	35,000
- Term Deposit Receipts (TDRs)	762	(762)	-	-	762	(762)	-	-
- Certificates of Investments (COIs)	3,362	(762)	-	2,600	35,762	(762)	-	35,000
Subsidiary								
	215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
Total Investment	3,957,158	(151,552)	(5,640)	3,799,966	4,401,953	(151,552)	(12,686)	4,237,715

9.1.1 TDR of Rs. 2.6 million (December 31, 2021: Rs. 35 million) was under lien at period end.

9.1.2 Investment given as collateral

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

(Un-audited) (Audited)		(Rupees in '000)	
June 30, 2022	December 31, 2021	Note	
2,547,772	2,705,670	9.1.3	
394,970	393,588	9.1.3	
2,942,742	3,099,258		

9.1.3 These represent market value of securities at reporting date.

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SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2022

	(Un-audited) June 30, 2022	(Audited) December 31, 2021
	Rupees in 000	
9.2 Provision for diminution in value of investments	151,552	151,241
9.2.1 Opening balance		
Charge / reversals	-	311
Charge for the period/year	-	-
Reversal for the period/year	-	-
Reversal on disposals	-	311
Transfers - net	-	-
Amount written off	-	-
Closing balance	151,552	151,552

9.2.2 Particulars of provision against debt securities category of classification

	June 30, 2022 (un-audited)	December 31, 2021 (audited)
	(Rupees in 000)	
Domestic		
Other assets especially mentioned	-	-
Substandard	-	-
Doubtful	762	762
Loss	762	762

SME BANK LIMITED

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

For the half year ended June 30, 2022

10. ADVANCES

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

Extended by:

Defunct RDFC & SBFC

SME Bank Ltd

Due from employees

Net investment in finance lease

Advances - gross

Provision for non-performing advances

Specific provision

General provision

Advances - net of provision

Note

10.2

10.2

10.4

	Performing		Non Performing		Total	
	(Un-audited) June 30, 2022	(Audited) December 31, 2021	(Un-audited) June 30, 2022	(Audited) December 31, 2021	(Un-audited) June 30, 2022	(Audited) December 31, 2021
	-	-	4,877,756	4,880,773	4,877,756	4,880,773
	1,344,411	1,441,446	395,655	438,245	1,740,066	1,879,691
	53,002	49,040	7,927	7,927	60,929	56,967
	1,397,413	1,490,486	5,281,338	5,326,945	6,678,751	6,817,431
	280	280	973	973	1,253	1,253
	1,397,693	1,490,766	5,282,311	5,327,918	6,680,004	6,818,684
	-	-	(5,217,487)	(5,221,619)	(5,217,487)	(5,221,619)
	(515)	(884)	-	-	(515)	(884)
	(515)	(884)	(5,217,487)	(5,221,619)	(5,218,002)	(5,222,503)
	1,397,178	1,489,882	64,824	106,299	1,462,002	1,596,181

10.1 Particulars of advances (Gross)

In local currency

In foreign currencies

(Un-audited) June 30, 2022	(Audited) December 31, 2021
6,680,004	6,818,684
6,680,004	6,818,684

(Rupees in '000)

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/23 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 (SMF) 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:

a) the non-performing loans, collateral and the debtors;

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

For the half year ended June 30, 2022

- b) all agreements, deeds, instruments and other documents relating to the non-performing loans, debtors and collateral and to which the transferor is, or legally deemed to be, a party or a beneficiary;
- c) all legal proceedings by and against the transferor with respect to the non-performing loans, the debtors and collateral, which may be pending before any court, tribunal, arbitrator or authority, without being subject to any liabilities of the transferor to any person.

The agreed transfer price was amount equal to 50% of net recoveries.

Under the above referred arrangements, portfolio of defunct SBFC & RDFC outstanding as on June 30, 2010 (Except outstanding loans of RDFC where facility of Equity Participation Fund had also been extended) were transferred to NBP.

On request of the Bank's management the decision to transfer and assignment of the portfolio was revisited by the BoD in its 65th meeting held on July 13, 2011 and resolved that the agreement of assignment of the old portfolio to NBP should be cancelled and Board's pronouncement for revocation of agreement to Ministry of Finance to arrange retrieval/restoration of old portfolio to the Bank in the interest of recovery of public funds.

In the meeting held on March 04, 2013 the Board of Directors reconsidered the position taken earlier on this matter on grounds of related cost of recovery and infrastructure on request of then management and decided that since the Bank is still on the privatization list, BoD would be able to decide on portfolio after Bank's delisting from privatization.

The incumbent management has again reviewed the situation and noted that no comparative analysis/study pertaining to transfer of portfolio was conducted which could justify the decision of assigning old portfolio to NBP.

In view of the above, foregoing Board was requested in its 83rd meeting, held on August 30, 2014 and the management of the Bank was allowed to proceed further in pursuance of resolution / direction passed regarding the subject matter in 64th and 65th Meeting of the Board of Directors held on May 16, 2011 and July 13, 2011 respectively by overruling to verdict of the Board of Directors given on the issue in 75th Meeting of Board of Directors held on March 04, 2013.

Cabinet Committee on Privatization (CCOP) in its meeting held on January 27, 2017 has approved the transaction structure of the Bank's privatization. The transaction structure has excluded the above portfolios from the privatization transaction and the CCOP in above referred meeting has directed the Bank to transfer the said portfolios to NBP and that all recoveries made by NBP from the loan portfolio shall be deposited in the Federal Consolidated Fund (FCF), a related party as being managed by Ministry of Finance (MoF).

Pursuant to above, being directed by MoF the management of the Bank has obtained an independent legal advice for defining the legal procedures for the implementation of the requirement of MoF. The legal advice proposed that the Bank may via a tri party novation agreement between SME, NBP and GoP through MoF, transfer and surrender any rights, obligations and liabilities on the remaining receivable assets in the loan portfolio to FCF against any consideration amount. The Novation agreement will further allow for any recoveries made by NBP in relation to the loan portfolio to be deposited directly in FCF as the recoveries will no longer be an asset of the Bank.

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For the half year ended June 30, 2022

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 & RDC 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 FCI 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 FCI. 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 FCI.

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. 5,282,311 million (December 31, 2021: Rs. 5,327,918 million) which have been placed under non-performing status as detailed below:

Category of Classification	(Un-audited) June 30, 2022		(Audited) December 31, 2021	
	Non Performing Loans	Provision	Non Performing Loans	Provision
(Rupees in '000)				
Domestic				
Other Assets Especially Mentioned	2,017	-	5,674	-
Substandard	14,248	313	7,595	-
Doubtful	2,248	-	13,097	14
Loss	5,263,798	5,217,174	5,301,554	5,221,605
	5,282,311	5,217,487	5,327,918	5,221,619
	10.3.1			

Note

10.3.1 This include non performing loans and provision of Rs: 395,655 million and Rs: 330,829 million respectively (December 31, 2021: Rs. 438,245 million & Rs. 331,959 million) relating to SME portfolio.

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Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2022

10.4 Particulars of provision against advances

	June 30, 2022 (un-audited)			December 31, 2021 (audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,221,619	884	5,222,503	5,232,725	8,593	5,241,318
Charge/(Reversal)						
Charge for the period/year	18,718	-	18,718	23,582	22	23,604
Reversal for the period/year	(19,848)	(369)	(20,217)	(34,201)	(7,731)	(41,932)
	(1,130)	(369)	(1,499)	(10,619)	(7,709)	(18,328)
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(3,002)	-	(3,002)	(487)	-	(487)
Closing balance	5,217,487	515	5,218,002	5,221,619	884	5,222,503

10.4.1 General provision has been recorded at the rate of 1% (December 31, 2021: 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 the 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.

10.4.2 The FSV benefit availed in last years has been decreased by Rs. 37,749 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. 37,749 million (June 30, 2021: decreased by Rs. 11,436 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 51,201 million (December 31, 2021: Rs. 88,950 million).

	June 30, 2022 (un-audited)			December 31, 2021 (audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
10.4.3 Particulars of provisions against advances						
In local currency	5,217,487	515	5,218,002	5,221,619	884	5,222,503
In foreign currencies	-	-	-	-	-	-
	5,217,487	515	5,218,002	5,221,619	884	5,222,503

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

		(Un-audited) June 30, 2022	(Audited) December 31, 2021
	Note	(Rupees in '000)	
11. FIXED ASSETS			
Property and equipment	11.1	10,310	11,556
Right of use assets	11.2	392,848	412,684
		<u>403,158</u>	<u>424,240</u>
11.1 Property and equipment			
Net book value at the beginning of the period/year		11,556	16,940
Additions		884	3,782
Disposals		-	(27)
Depreciation		(2,130)	(9,139)
Net book value at the end of the period/year		<u>10,310</u>	<u>11,556</u>
11.1.1 Additions to fixed assets			
Following additions have been made to fixed assets during the period/year:			
Property and equipment			
Leasehold improvements		-	125
Furniture and fixture		117	31
Electrical office and computer equipment		767	3,626
		<u>884</u>	<u>3,782</u>
11.1.2 Disposals of fixed assets			
The net book value of fixed assets disposed off during the period/year is as follows:			
Vehicles		-	(27)
		<u>-</u>	<u>(27)</u>
11.2 Right of use assets			
Opening net book value		412,684	455,244
Additions/adjustment		7,102	12,805
Depreciation		(26,938)	(55,365)
Closing net book value		<u>392,848</u>	<u>412,684</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, 2022**

		(Un-audited) June 30, 2022 (Rupees in '000)	(Audited) December 31, 2021
12. INTANGIBLE ASSETS	Note		
Computer Software	12.1	<u>1,241</u>	<u>1,455</u>
12.1 Computer Software			
Net book value at the beginning of the period/year		1,455	1,756
Additions		230	777
Disposals		-	-
Amortizations		(444)	(1,078)
Net book value at the end of the period/year		<u>1,241</u>	<u>1,455</u>
13. DEFERRED TAX ASSET - NET			
Deferred tax asset		1,036,116	1,009,199
Deferred tax (liability)		(1,018)	(993)
		<u>1,035,098</u>	<u>1,008,206</u>
13.1	The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition of deferred tax asset is the expected privatization of the Bank which would result in fresh equity injection from the new strategic shareholder of the Bank and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future.		



SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

14. OTHER ASSETS	Note	(Un-audited) June 30, 2022	(Audited) December 31, 2021
		(Rupees in '000)	
Income/mark-up accrued in local currency - net of provision	14.1	80,617	84,185
Advances, deposits, advance rent and other prepayments		23,687	20,295
Advance taxation - net	14.2	232,152	236,293
Non banking asset acquired in satisfaction of claims	14.3	147,066	147,066
Due from benevolent fund- unsecured		8,685	8,685
Receivable from NBP		4,461	3,971
Receivable from subsidiary company		5,833	4,252
Receivable from Equity Participation Fund		3,017	3,017
Trading right entitlement certificate		21,560	21,560
Receivable from Speedway Fondmetal Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		5,148	5,148
Others		75,255	76,656
		<u>627,121</u>	<u>630,768</u>
Less: Provision held against other assets	14.4	116,024	117,919
Other assets (net of provision)		<u>511,097</u>	<u>512,849</u>

14.1 The balance has been arrived at after adjusting interest in suspense of Rs. 4,031.839 million (December 31, 2021: Rs. 4,041.059 million) which includes Rs: 238.372 million (December 31, 2021: Rs. 247.449 million) relating to SME portfolio.

14.2 This includes the effect of refunds aggregating to Rs. 232.599 million (December 31, 2021: 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 was fixed on January 11, 2021 and next hearing is pending adjudication to date. The management of the Bank is of the firm view that the Bank will be successful in the said references.

14.3 This include Rs. 138.6 million (December 31, 2021: 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

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

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. 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. The same was provided to court. However, there was no further proceeding on hearing on 04.12.2021, 11.12.2021, 18.12.2021, 23.12.2021, 04.01.2022, 08.01.2022, 15.01.2022, 22.01.2022 and 29.01.2022 as the the original case file was retained with Lahore High Court for decision of CM in RFA-635-2013. Next date of hearing is 09.02.2022. Whereas, the RFA-635-13 was fixed for hearing on 24-01-2022 in High Court with Division Bench (DB) of Justice Ayesha A. Malik. The DB was cancelled due to her elevation as Justice from Honorable High Court to Justice of Honorable Supreme Court of Pakistan. Still waiting for relisting the referred RFA. The C.M.No.1-C of 2021 moved by plaintiffs for restoration of Application No.1 of 2016 for restoration of RFA No.635/2013 was dismissed by the Honourable Lahore High Court, Lahore vide Order dated February 28, 2022 in favour of the Bank and against the plaintiffs. Consequently, the main file returned back from the Honourable Lahore High Court, Lahore to Banking Court whereby execution proceedings have been restored on March 12, 2022. On March 25, 2022, the learned Judge Banking Court after hearing the arguments advanced by the Counsel of the Bank for compliance of warrant of possession with full force, adjourned the case to April 05, 2022 and thereafter for April 04, 2022 for arguments of the plaintiffs. Since neither the plaintiffs nor their counsel appeared before the Court, the learned Judge was pleased to close the right of plaintiffs for arguments and adjourned the matter to April 21, 2022 for orders. No orders were made on the dates given by the court. Last hearing date was June 26, 2022. No next date has been given by the court yet.

As per latest valuation report dated March 14, 2022, the market value of the Property was Rs. 240,368 million.



SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

		(Un-audited) June 30, 2022	(Audited) December 31, 2021
	Note	(Rupees in '000)	
14.4 Provision held against other assets			
Advances, deposits, advance rent & other prepayments		4,477	4,477
Receivable from Speedway Fondmetal Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		5,148	5,148
Other receivables - SME Portfolio		42,432	44,326
Legal charges recoverable from borrowers - SBFC & RDPC		22,658	22,659
Trading right entitlement certificate - TREC		21,560	21,560
Others		109	109
		<u>116,024</u>	<u>117,919</u>
14.4.1 Movement in provision held against other assets			
Opening balance		117,919	117,354
Charge for the period/year		1,979	3,891
Reversals for the period/year		(3,874)	(3,326)
		(1,895)	565
Transferred to NBP		-	-
Closing balance		<u>116,024</u>	<u>117,919</u>
15. BILLS PAYABLE			
In Pakistan		31,502	19,071
Outside Pakistan		-	-
		<u>31,502</u>	<u>19,071</u>
16. BORROWINGS			
Secured			
Borrowing from State Bank of Pakistan			
Under Financing facility for storage of agricultural produce	16.2	58,499	67,981
Under Modernisation of small and medium enterprises	16.2	34,971	39,310
		93,470	107,291
Repurchase agreement borrowings			
State Bank of Pakistan	16.3	2,819,827	3,098,998
Financial Institutions	16.3	98,958	-
		2,918,785	3,098,998
		<u>3,012,255</u>	<u>3,206,289</u>

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

	(Un-audited) June 30, 2022	(Audited) December 31, 2021
16.1 Particulars of borrowings with respect to Currencies	(Rupees in '000)	
In local currency	3,012,255	3,206,289
In foreign currencies	-	-
	<u>3,012,255</u>	<u>3,206,289</u>
16.2	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.	
16.3	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 rates ranging from 13.95% to 14.10% (December 31, 2021: 10.00% to 10.15%) per annum for period upto three months (December 31, 2021: for period upto three months). REPO transactions are secured against investment of the Bank in Government securities.	

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022****17. DEPOSITS AND OTHER ACCOUNTS**

	June 30, 2022 (un-audited)			December 31, 2021 (audited)		
	In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total
(Rupees in '000)						
Customers						
Current deposits	1,454,368	-	1,454,368	1,394,107	-	1,394,107
Savings deposits	3,058,839	-	3,058,839	3,911,666	-	3,911,666
Term deposits	2,566,543	-	2,566,543	2,163,357	-	2,163,357
Others	630,250	-	630,250	141,070	-	141,070
	7,710,000	-	7,710,000	7,610,200	-	7,610,200
Financial Institutions						
Current deposits	20	-	20	441	-	441
Savings deposits	592,069	-	592,069	570,330	-	570,330
Term deposits	67,300	-	67,300	67,300	-	67,300
Others	-	-	-	-	-	-
	659,389	-	659,389	638,071	-	638,071
	8,369,389	-	8,369,389	8,248,271	-	8,248,271

18. OTHER LIABILITIES

	Note	(Un-audited) June 30, 2022	(Audited) December 31, 2021
(Rupees in '000)			
Mark-up/ return/ interest payable in local currency		120,598	98,484
Unearned commission on guarantees		2,440	3,840
Accrued expenses		12,541	14,513
Sundry creditors	18.1	134,270	132,585
Branch adjustment account		1,876	1,548
Payable against employees' benefit plans			
Defined benefit pension		500,705	500,705
Defined benefit funded gratuity scheme		7,362	7,362
Unfunded compensated absences		73,756	67,410
Security deposits against lease		280	280
Leased liability against right of use assets	18.2	535,614	537,165
Employees' VSS payments withheld		12,076	12,076
Income tax withheld payable		18,107	18,049
Others		1,727	1,655
		1,421,352	1,395,672

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

18.1 This include Rs. 90.615 million (December 31, 2021: Rs. 90.615 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of state bills payable Rs. 32.210 million (December 31, 2021: Rs. 31.027 million).

		(Un-audited) June 30, 2022	(Audited) December 31, 2021
18.2 This represents lease liability under IFRS 16 :	Note	(Rupees in '000)	
Opening net book value		537,165	541,078
- Additions/adjustment		7,102	12,805
- Interest		34,083	69,183
- Payment		(42,736)	(85,901)
Closing net book value		535,614	537,165

19. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS

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

- Federal Government securities	(8,549)	(15,522)
- Listed companies/mutual funds	2,909	2,836
	(5,640)	(12,686)

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

- Federal Government securities	-	-
- Listed companies/mutual funds	(1,018)	(993)
	(6,658)	(13,679)

20. CONTINGENCIES AND COMMITMENTS

- Guarantees	20.1	294,875	338,308
- Commitments	20.2	3,101,593	3,316,589
- Other contingent liabilities	20.3	1,181,279	1,170,700
		4,577,747	4,825,597

20.1 Guarantees

Financial guarantees		-	-
Performance guarantees	20.1.1	294,875	338,308
Other guarantees		-	-
		294,875	338,308

20.1.1 This include expired letter of guarantees/performance aggregating to Rs. 86.365 million (December 31, 2021: Rs. 92.941 million) for which formalities for return of original documents are in process.

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

		(Un-audited) June 30, 2022	(Audited) December 31, 2021
	Note	(Rupees in '000)	
20.2 Commitments			
Commitments in respect of:			
- forward government securities transactions	20.2.1	2,942,742	3,099,258
- forward lending	20.2.2	158,851	215,662
Commitments for acquisition of:			
- operating fixed assets		-	1,669
- intangible assets		-	-
Other commitments	20.2.3	-	-
		<u>3,101,593</u>	<u>3,316,589</u>
20.2.1 Commitments in respect of forward government securities transactions			
Sale and repurchase agreements		<u>2,942,742</u>	<u>3,099,258</u>
20.2.2 Commitments in respect of forward lending			
Undrawn facilities		128,874	142,562
Commitments to extend credit		29,977	73,100
		<u>158,851</u>	<u>215,662</u>
20.2.3 Other commitments			
Bills for collection			
Payable in Pakistan		-	-
20.3 Other contingent liabilities		<u>1,181,279</u>	<u>1,170,700</u>
a) Claims not acknowledged as debt from various borrowers of defunct RDFS.		31,860	31,860
b) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) which has been decided in favor of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals) which is pending adjudication. The management of the Bank strongly believes and expects favorable outcome and therefore no provision has been made for these effect in the unconsolidated financial statements.		612,707	612,707

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

	(Un-audited) June 30, 2022	(Audited) December 31, 2021
	(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-		

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

	(Un-audited) June 30, 2022	(Audited) December 31, 2021
	(Rupees in '000)	
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 CITRA the Bank has submitted second appeal before Appellate Tribunal Inland Revenue along with stay application to keep the recovery proceedings in abeyance. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response.	18,663	18,663
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation. Without prejudice, the tax department has been requested to adjust the tax demand with the available income tax refunds.	38,723	38,723
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

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

	(Un-audited) June 30, 2022	(Audited) December 31, 2021
	(Rupees in '000)	
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	20,807
k) The Officer Inland Revenue, LTU, Islamabad demand of Rs. 16.939 million for the tax year 2016 under section 122(5A) of the Income tax Ordinance, 2001. An appeal is pending before Commissioner (Appeals). Meanwhile stay is also granted in the instant case to keep the recovery proceedings in abeyance.	16,939	-
l) Back benefits and claims of staff/employees under litigation.	60,920	67,280

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

	June 30, 2022	June 30, 2021
	(Rupees in '000)	
21. MARK-UP/ RETURN/ INTEREST EARNED		
On loans and advances to Customers		
Extended by:		
Defunct RDFC & SBFC	-	-
SME Bank Limited	135,762	103,619
	135,762	103,619
Employees	1,150	1,527
Financial Institution - SME Leasing Limited - a subsidiary company	9,704	8,295
	146,616	113,441
On investments in		
Available for sale securities	204,294	177,841
Held to maturity securities	678	1,560
	204,972	179,401
On deposits with financial institutions	104	50
Lendings to financial institutions	401	501
	352,093	293,393
22. MARK-UP/ RETURN/ INTEREST EXPENSED		
On deposits	313,000	218,334
On securities sold under repurchase agreements	193,070	124,623
On SBP Refinance Scheme	872	1,162
Brokerage and commission	768	931
Bank charges	73	85
	507,783	345,135
23. FEE & COMMISSION INCOME		
Branch banking customer fees	1,405	1,524
Card related fees	201	103
Credit related fees	732	1,507
Commission on guarantees	5,233	3,182
Commission on remittances	16	47
Others	14	5
	7,601	6,368

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SME BANK LIMITED

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

For the half year ended June 30, 2022

	Note	June 30, 2022	June 30, 2021
		(Rupees in '000)	
24. GAIN / (LOSS) ON SECURITIES			
Realised	24.1	(847)	912
Unrealised - held for trading		-	-
		<u>(847)</u>	<u>912</u>
24.1 Federal Government Securities - net Shares		(847)	912
		<u>-</u>	<u>-</u>
		<u>(847)</u>	<u>912</u>
25. OTHER INCOME			
Gain on sale of operating fixed assets - net		-	668
Others		-	36
		<u>-</u>	<u>704</u>

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

	June 30, 2022	June 30, 2021
	(Rupees in '000)	
26. OPERATING EXPENSES		
Total compensation expense	351,669	344,353
Property expense		
Rent & taxes	3,865	2,340
Insurance	1,719	2,345
Utilities cost	13,490	10,020
Security (including guards)	11,274	7,919
Repair & maintenance	4,285	3,594
Depreciation	27,328	28,245
Others	-	-
	61,961	54,463
Information technology expenses		
Software maintenance	2,824	3,730
Hardware maintenance	929	1,066
Depreciation	501	1,534
Amortization	444	616
Network charges	8,402	7,146
Others	272	100
	13,372	14,192
Other operating expenses		
Directors' fees, allowances and other expenses	1,291	2,475
Legal and professional charges	3,745	3,882
Outsourced services costs	13,644	11,403
Travelling and conveyance	870	1,141
NIFT clearing charges	1,390	1,112
Depreciation	1,239	3,864
Training & development	479	441
Postage & courier charges	334	386
Communications	2,170	2,200
Stationery and printing	2,863	2,785
Marketing, advertisement & publicity	796	943
Donations	-	-
Auditors' remuneration	522	522
Separations Cost	-	1,389
Vehicle running and maintenance	2,775	2,027
Entertainment	1,061	1,019
Subscription, books and newspapers	2,103	1,368
Deposits premium	2,632	1,792
Others	236	186
	38,150	38,935
	465,152	451,943

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)**
For the half year ended June 30, 2022

	June 30, 2022	June 30, 2021
	(Rupees in '000)	
27. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	5	-
Right of use assets - unwinding of present value	34,083	34,893
	<u>34,088</u>	<u>34,893</u>
28. PROVISIONS & WRITE OFFS - NET		
Provisions/(reversals) for diminution in value of investments	-	311
Provisions/(reversals) against loans & advances	(1,499)	1,120
Provisions/(reversals) against other assets	(1,895)	78
Bad debts written off directly	-	-
	<u>(3,394)</u>	<u>1,509</u>
29. TAXATION		
Current	5,416	4,595
Prior periods	-	-
Deferred	(26,917)	(55,186)
	<u>(21,501)</u>	<u>(50,591)</u>
30. BASIC/ DILUTED LOSS PER SHARE		
Net loss after tax for the period	<u>(622,632)</u>	<u>(481,512)</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>(2.60)</u>	<u>(2.01)</u>
There is no dilutive effect on the basic earning per share of the Bank.		
	(Un-audited)	(Audited)
	June 30,	December 31,
	2022	2021
31. CASH AND CASH EQUIVALENTS	(Rupees in '000)	
Cash and balances with treasury banks	743,462	824,944
Balances with other banks	1,887	2,737
	<u>745,349</u>	<u>827,681</u>

SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2022

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.

June 30, 2022 (un-audited)

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

Note

(Rupees in '000)

32.1 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

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 (COITDR)

- Subsidiary

SME Leasing Limited

-	3,685,378	-	-	3,685,378
4,770	-	-	-	4,770
-	-	-	26,470	26,470

32.2	-	-	-	571,361	571,361
32.2	-	-	-	1,887	1,887
32.2	-	-	-	-	-
32.2	-	-	-	1,462,002	1,462,002
32.2	-	-	-	96,161	96,161
32.2	-	-	-	2,600	2,600

SME BANK LIMITED

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

For the half year ended June 30, 2022

	December 31, 2021 (audited)			
	FAIR VALUE			
	Level 1	Level 2	Level 3	carrying / notional value
	(Rupees in '000)			
On balance sheet financial instruments				
Financial assets measured at fair value				
- Investments				
Government Securities (T bills and PIBs)	-	4,090,800	-	4,090,800
Ordinary shares of listed companies/Mutual funds	4,697	-	-	4,697
Ordinary shares of unlisted companies	-	-	-	26,470
Financial assets not measured at fair value				
- Bank balances with treasury banks	32.2	-	-	678,860
- Balances with other banks	32.2	-	-	2,737
- Lending to financial institutions	32.2	-	-	-
- Advances	32.2	-	-	1,596,181
- Other assets	32.2	-	-	98,077
- Other Investment (COI/TDR)	32.2	-	-	35,000
- Subsidiary				
SME Leasing Limited	-	-	-	80,748
				80,748

The bank measures fair values using the following fair values hierarchy that reflects the significance of the inputs used in making the

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).

SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2022

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

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

Pakistan Investment Bonds / Market Treasury Bills

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

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SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022****33. SEGMENT INFORMATION****33.1 Segment details with respect to business activities**

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

	June 30, 2022 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	205,374	146,719	352,093
Inter segment revenue - net	-	53,240	53,240
Non mark-up/return/interest income	(198)	7,601	7,403
Total income	205,176	207,560	412,736
Segment direct expenses	204,597	802,426	1,007,023
Inter segment expenses allocation	53,240	-	53,240
Total expenses	257,837	802,426	1,060,263
Provisions	-	(3,394)	(3,394)
Loss before tax	(52,661)	(591,472)	(644,133)
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Balance Sheet			
Cash & bank balances	538,120	207,229	745,349
Investments	3,799,966	-	3,799,966
Net inter segment lending	-	1,354,662	1,354,662
Lending to financial institutions	-	-	-
Advances - Performing	-	1,397,178	1,397,178
- Non-performing	-	64,824	64,824
Others	752,155	1,198,439	1,950,594
Total Assets	5,090,241	4,222,332	9,312,573
Borrowings	2,918,785	93,470	3,012,255
Deposits & other accounts	-	8,369,389	8,369,389
Net inter segment borrowing	1,354,662	-	1,354,662
Others	443,409	1,009,445	1,452,854
Total Liabilities	4,716,856	9,472,304	14,189,160
Equity	373,385	(5,249,972)	(4,876,587)
Total Equity & liabilities	5,090,241	4,222,332	9,312,573
Contingencies & Commitments	2,942,742	1,635,005	4,577,747

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

	June 30, 2021 (un-audited)		
	Trading &	Commercial	Total
	Sales	Banking	
	(Rupees in '000)		
Profit & Loss			
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)

	December 31, 2021 (audited)		
	Trading &	Commercial	Total
	Sales	Banking	
	(Rupees in '000)		

Balance Sheet

Cash & Bank balances	584,101	243,580	827,681
Investments	4,237,715	-	4,237,715
Net inter segment lending	-	2,088,831	2,088,831
Lending to financial institutions	-	-	-
Advances - Performing	-	1,489,882	1,489,882
- Non-performing	-	106,299	106,299
Others	754,044	1,192,706	1,946,750
Total Assets	5,575,860	5,121,298	10,697,158
Borrowings	3,098,998	107,291	3,206,289
Deposits & other accounts	-	8,248,271	8,248,271
Net inter segment borrowing	2,088,831	-	2,088,831
Others	425,361	989,382	1,414,743
Total Liabilities	5,613,190	9,344,944	14,958,134
Equity	(37,330)	(4,223,646)	(4,260,976)
Total Equity & liabilities	5,575,860	5,121,298	10,697,158
Contingencies & Commitments	3,099,258	1,726,339	4,825,597

SME BANK LIMITED

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

For the half year ended June 30, 2022

Assumptions used:

- Unallocatable assets representing 9.66% (December 31, 2021: 9.02%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.71% (December 31, 2021: 5.64%) 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.

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SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2022

34. RELATED PARTY TRANSACTIONS

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

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

	June 30, 2022 (un-audited)						December 31, 2021 (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)					
Investments												
Opening balance	215,457	-	-	-	-	-	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												
Opening balance	134,709	-	-	-	-	-	134,709	-	-	-	-	-
Advances												
Opening balance	134,689	6,620	-	-	-	-	144,747	7,869	-	-	-	-
Addition (total credits) during the period	35,920	3,056	-	-	-	-	37,583	6,075	-	-	-	-
Repaid (total credits) during the period	(30,385)	(3,013)	-	-	-	-	(47,640)	(7,324)	-	-	-	-
Transfer in / (out) - net	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	140,224	6,663	-	-	-	-	134,689	6,620	-	-	-	-
Provision held against advances												
Opening balance	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets												
Interest / mark-up accrued	5,833	6,530	-	-	-	-	4,252	6,769	-	-	-	-
Receivable from staff retirement fund	-	-	-	-	8,685	-	-	-	-	-	8,685	-
Other receivable	-	-	-	3,017	-	-	-	-	-	3,017	-	-
Deposits and other accounts												
Opening balance	422	15,197	16,373	520,507	1,461,658	7,227	-	9,107	21,770	492,509	1,360,263	5,356
Received during the period	5,963	87,874	8,120	22,467	129,467	18,547	15,963	153,119	32,809	27,998	111,865	53,347
Withdrawn during the period	-	(90,379)	(10,717)	-	(1,338)	(24,335)	-	(144,259)	(38,296)	-	(13,470)	(51,276)
Transfer in / (out) - net	(6,385)	1	-	-	-	-	(15,541)	(3,793)	-	-	-	-
Closing balance	-	12,693	13,776	542,974	1,589,787	1,439	4,22	15,197	16,373	520,507	1,461,658	7,227

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2022
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) June 30, 2022	(Audited) December 31, 2021
		(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)		(7,468,962)	(6,846,330)
		(4,869,929)	(4,247,297)
Less: Adjustments			
Goodwill/intangible Assets		1,241	1,455
Investment in equity of subsidiary		80,748	80,748
Deficit on revaluation of available for sale investments		6,658	13,679
		88,647	95,882
<i>Total tier I capital</i>		(4,958,576)	(4,343,179)
<i>Tier II capital</i>		515	884
<i>Eligible tier III capital</i>		-	-
Total regulatory capital	(a)	(4,958,061)	(4,342,295)
		June 30, 2022 (un-audited)	December 31, 2021 (audited)
		Book value	Book value
		Risk adjusted value	Risk adjusted value
		(Rupees in '000)	(Rupees in '000)
Risk-weighted exposures			
Balance sheet items:			
Cash and other liquid assets		745,349	827,681
Investments/ lending to financial institutions		377	547
Loans and advances		3,799,966	4,237,715
Fixed assets		33,841	66,167
Deferred tax assets		1,462,002	1,596,181
Other assets		881,995	959,171
		404,399	425,695
		403,158	424,240
		1,035,098	1,008,206
		1,035,098	1,008,206
		511,097	512,849
		268,687	266,213
		7,957,911	8,608,327
		2,623,156	2,724,544
Off balance sheet items			
Weighted Non-funded exposures		240,287	281,430
		120,144	140,715
		240,287	281,430
		120,144	140,715
Credit risk-weighted exposures	(b)	8,198,198	8,889,757
Market risk		2,743,300	2,865,259
Market risk-weighted exposures		181,757	163,072
		-	-
		181,757	163,072
Total risk-weighted exposures	(c)	2,925,057	3,028,331
Capital adequacy ratio credit risk [(a) / (b) x 100]		-180.73%	-151.55%
Total capital adequacy ratio [(a) / (c) x 100]		-169.50%	-143.39%

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2022**

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. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on August 27, 2022.


President/CEO


Chief Financial Officer


Director


Director


Director