



SME BANK LIMITED

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

**FOR THE PERIOD ENDED
JUNE 30, 2023**

BDO Ebrahim & Co. Chartered Accountants

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

Directors' Review for the Half Year Ended June 30, 2023

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, 2023.

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) where after detailed discussion a committee under the chairmanship of the Finance Minister (FM) and representatives from SBP, SECP, Finance Division and Privatization Division was constituted to evaluate alternative options for proceeding further. Finance Minister observed in the meeting of the Sub-Committee of CCoP held on December 02, 2022 that it could not be privatized due to its worst financial condition. Thus in a meeting of Cabinet Committee on Privatization (CCoP) held on December 26, 2022, decided to delist SME Bank from privatization programme, to enable Finance Division and SBP to proceed further in the matter.

Subsequent to the year end, Cabinet in its meeting held on March 17, 2023 approved Winding down Plan for SME Bank as a way forward. In response to SOS call of the President / CEO, which given vide letter No. SMEB: HO: P&CEO: 23/13 dated March 15, 2023 Government of Pakistan extended support of Rs. 5.557 billion for making payments of customer deposits. Thereafter State Bank of Pakistan vide its letter no. BPRD (R&PD) / SME/2023/2443 dated March 27, 2023, informed SME Bank about the winding down plan and in exercise of the powers conferred under section 41 of the Banking Companies Ordinance 1962, directed SME Bank of stop taking fresh deposits including renewal / rollover of existing deposits and to implement winding down plan for payment of deposits. Further Rs 5.557 billion of funds have been released by SBP to SME Bank for payment of customer deposits, 94% of allocated funds have been paid to the depositors till June 30, 2023. Moreover, Borrowings under repurchase agreements with SBP have been adjusted with Banks investment in Federal Government Securities.

The Second Phase to close of branches is in progress and one branch (SME Rawalpindi) has been closed till June 30, 2023. The closure plan for rest of SME Branches and SAM Offices is in progress to save operational cost gradually.



The highlights of the financial results of the Bank for the Half Year ended 30th June, 2023 are presented as follows:

The deposits have decreased by Rs 5,884 million from Rs 8,472 million as on December 31, 2022, to Rs 2,588 million as on June 30, 2023. Investment portfolio of the Bank has reported Rs. 112 million as on June 30, 2023 and Rs. 4,035 million as on December 31, 2022. Non-performing loans (NPLs) were at Rs. 446 million as on June 30, 2023 whereas as on December 31, 2022 were Rs. 180 million. SME loan portfolio was at Rs. 1,075 million as on June 30, 2023 compared to Rs. 1,398 million as on December 31, 2022.

For and on Behalf of Board of Directors.



Chairman
(of the meeting)

SEPTEMBER 23, 2023

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, 2023 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.

Adverse Conclusion

Based on our review, because of the matter as described in Basis for Adverse Conclusion, the accompanying unconsolidated condensed interim financial statements as of and for the half year ended June 30, 2023 do not give a true and fair view of the financial position of the entity as at June 30, 2023, and of its financial performance and its cash flows for the six-month period then ended in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Basis for Adverse 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. 149.923 million at the reporting date. SMEL recorded a profit of Rs. 1.301 million for the year ended December 31, 2022, however accumulated loss as at Decemebr 31, 2022 was Rs 360.543 million (December 31, 2021 Rs 361.931 milion), 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. 1,190.908 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. As explained in Note 11.2, 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.
4. As explained in the Material Uncertainties relating to Going Concern Assumption section of our report, the going concern assumption of the Bank is no more appropriate. Therefore, as per requirements of International Financial Reporting Standards, all the assets are required to be adjusted to their realizable value and liabilities are required to be disclosed on settlement amount as the Bank may not be able to realize its assets and discharge its liabilities in the normal course of business. However, the Bank has presented these unconsolidated condensed interim financial statements on going concern basis. In the absence of assessment of realizable value of assets and settlement amount of liabilities, we are unable to assess the impact of required adjustments on these financial statements.
5. These financial statements were approved by the Board of Directors on September 23, 2023. The management has incorporated adjustments subsequently with respect to winding down process of the Bank. The impact of these adjustments have not been incorporated in these financial statements.

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. 772.597 million (June 30, 2022 Rs. 622.632 million) resulting into accumulated losses of Rs. 8,736.282 million (December 31, 2022 Rs. 7,963.685 million). As of June 30, 2023 the reporting date, total liabilities of the bank have exceeded its total assets by Rs. 6,135.589 million (December 31, 2022: 5,364.831 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. 6,135.589 million (2022 Rs. 5,364.831) 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 materialise by March 31, 2020. These conditions indicate the existence of material uncertainty that cast significant doubt on the Bank's ability to continue as a going concern. Therefore, it might not have been able to realize its assets and discharge its liabilities in the ordinary course of business. Further, the Bank is in the process of privatization whereby Privatisation 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 modified in respect of this matter.

Emphasis of Matter

We draw attention to the following matters:

1. Note 15.3 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 / way forward of SME Bank.

Our opinion is not modified in respect of these matters.

Other Matter

1. The figures for the three months period ended June 30, 2023 and June 30, 2022 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, 2023.
2. In accordance with the approved Winding Down Plan sanctioned by the Cabinet on March 17, 2023, the bank has commenced its winding down process. As a part of this plan, the Rawalpindi branch has already been closed during the period. Additionally, the bank intends to close nine more branches by the year-end, as outlined in the approved plan.

ISLAMABAD

DATED: 23 JAN 2024
UDIN: RR202310095I5JKE6BmF


CHARTERED ACCOUNTANTS
ENGAGEMENT PARTNER: ABDUL QADEER


SME BANK LIMITED

Unconsolidated Condensed Interim Statement of Financial Position

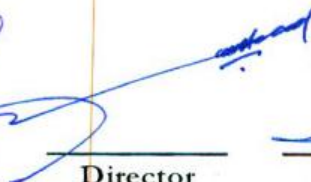
As at June 30, 2023

		(Un-audited) June 30, 2023	(Audited) December 31, 2022
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	21,306	609,236
Balances with other banks	8	4,394	1,307
Lendings to financial institutions	9	700,000	-
Investments	10	111,633	4,035,290
Advances	11	937,065	1,329,573
Fixed assets	12	354,847	380,310
Intangible assets	13	350	779
Deferred tax assets	14	1,190,908	1,165,061
Other assets	15	466,139	496,712
		3,786,642	8,018,268
LIABILITIES			
Bills payable	16	87,266	34,591
Borrowings	17	127,405	3,499,355
Deposits and other accounts	18	2,588,479	8,472,488
Liability against assets subject to finance lease		-	-
Subordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	19	7,119,081	1,376,665
		9,922,231	13,383,099
NET LIABILITIES		(6,135,589)	(5,364,831)
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Surplus/(deficit) on revaluation of assets - net of tax	20	1,660	(179)
Unappropriated loss		(8,736,282)	(7,963,685)
		(6,135,589)	(5,364,831)
CONTINGENCIES AND COMMITMENTS	21		

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


President/CEO


Chief Financial Officer


Director


Director


Director

SME BANK LIMITED
Unconsolidated Condensed Interim Profit and Loss Account (un-audited)
For the half year ended June 30, 2023

	Quarter ended		Half year ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(Rupees in '000)			
Mark-up/ return/ interest earned	85,404	183,123	321,297	352,093
Mark-up/ return/ interest expensed	115,158	274,208	531,505	507,783
Net mark-up/ interest loss	(29,754)	(91,085)	(210,208)	(155,690)
NON MARK-UP/ INTEREST INCOME	24	24	24	24
Fee and commission income	5,432	3,003	8,492	7,601
Dividend income	-	-	-	649
Foreign exchange income	-	-	-	-
Income / (loss) from derivatives	-	-	-	-
Gain/(loss) on securities	-	(890)	(927)	(847)
Other income	1	-	242	-
Total non-markup/ interest income	5,433	2,113	7,807	7,403
Total Income/(loss)	(24,321)	(88,972)	(202,401)	(148,287)
NON MARK-UP/ INTEREST EXPENSES	27	27	27	27
Operating expenses	238,259	232,157	497,417	465,152
Workers Welfare Fund	-	-	-	-
Other charges	16,551	17,083	33,246	34,088
Total non-markup/ interest expenses	254,810	249,240	530,663	499,240
Loss before provisions	(279,131)	(338,212)	(733,064)	(647,527)
Provisions and write offs - net	53,304	(3,435)	61,247	(3,394)
LOSS BEFORE TAXATION	(332,435)	(334,777)	(794,311)	(644,133)
Taxation	30	30	30	30
LOSS AFTER TAXATION	(55,940)	(54,916)	(21,714)	(21,501)
	(276,495)	(279,861)	(772,597)	(622,632)
Basic/diluted (loss) per share (rupees)	31	31	31	31
	(1.16)	(1.17)	(3.23)	(2.60)

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

President/CEO

Chief Financial Officer

Director

Director

Director

SME BANK LIMITED
Unconsolidated Condensed Interim Statement of Comprehensive Income (un-audited)
For the half year ended June 30, 2023

	Quarter ended		Half year ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(Rupees in '000)			
Net loss after taxation	(276,495)	(279,861)	(772,597)	(622,632)
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequent periods				
Movement in deficit on revaluation of investment	2,498	3,771	1,839	7,021
Items that will not be reclassified to profit and loss account in subsequent periods				
Remeasurement gain on defined benefit obligations - net	-	-	-	-
Total Comprehensive Income	(273,997)	(276,090)	(770,758)	(615,611)

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

 _____ President/CEO	 _____ Chief Financial Officer	 _____ Director	 _____ Director	 _____ Director
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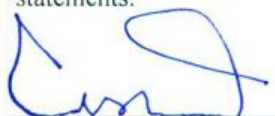
SME BANK LIMITED

Unconsolidated Condensed Interim Cash Flow Statement (un-audited)

For the half year ended June 30, 2023

Note	June 30, 2023	June 30, 2022
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(794,311)	(644,133)
Less: Dividend income	-	(649)
	<u>(794,311)</u>	<u>(644,782)</u>
Adjustments:		
Depreciation	27,347	29,068
Amortization	429	444
Provision and write-offs	61,247	(3,394)
Loss on sale of fixed assets	(225)	-
Mark-up expense on leased liability against ROU assets	33,246	34,083
	<u>122,044</u>	<u>60,201</u>
	<u>(672,267)</u>	<u>(584,581)</u>
(Increase)/ decrease in operating assets		
Lendings to financial institutions	(700,000)	-
Held-for-trading securities	-	-
Advances	333,527	135,678
Other assets (excluding advance taxation)	25,407	(494)
	<u>(341,066)</u>	<u>135,184</u>
Increase/ (decrease) in operating liabilities		
Bills payable	52,675	12,431
Borrowings from financial institutions	(3,371,950)	(194,034)
Deposits	(5,884,009)	121,118
Other liabilities (excluding current taxation)	5,753,090	27,231
	<u>(3,450,194)</u>	<u>(33,254)</u>
	<u>(4,463,527)</u>	<u>(482,651)</u>
Income tax paid	(1,211)	(1,275)
Net cash flow used in operating activities	<u>(4,464,738)</u>	<u>(483,926)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment/disinvestment in available-for-sale securities	3,922,874	412,395
Net investment in held-to-maturity securities	2,600	32,400
Dividend received	-	649
Investment in operating fixed assets	(1,884)	(1,114)
Proceeds from sale of fixed assets	225	-
Net cash flow generated from investing activities	<u>3,923,815</u>	<u>444,330</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligation	(43,920)	(42,736)
Net cash flow used in from financing activities	<u>(43,920)</u>	<u>(42,736)</u>
Decrease in cash and cash equivalents	<u>(584,843)</u>	<u>(82,332)</u>
Cash and cash equivalents at beginning of the period	610,543	827,681
Cash and cash equivalents at end of the period	<u>32</u> <u>25,700</u>	<u>745,349</u>

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


President/CEO


Chief Financial Officer


Director


Director

SME BANK LIMITED

Unconsolidated Condensed Interim Statement of Changes in Equity (un-audited)
For the half year ended June 30, 2023

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
Balance as at January 01, 2022	2,392,507	206,526	(Rupees in '000) (13,679)	(6,846,330)	(4,260,976)
Total comprehensive income for the six months period ended June 30, 2022	-	-	-	(622,632)	(622,632)
Net loss after taxation	-	-	7,021	-	7,021
Other comprehensive income - net of tax	-	-	-	-	-
Balance as at June 30, 2022 (un-audited)	2,392,507	206,526	(6,658)	(7,468,962)	(4,876,587)
Total comprehensive income for the six months period ended December 31, 2022	-	-	-	(627,244)	(627,244)
Loss after taxation	-	-	6,479	132,521	139,000
Other comprehensive income/ (loss) - net of tax	-	-	-	-	-
Balance as at December 31, 2022 (audited)	2,392,507	206,526	(179)	(7,963,685)	(5,364,831)
Total comprehensive income for the six months period ended June 30, 2023	-	-	-	(772,597)	(772,597)
Net loss after taxation	-	-	1,839	-	1,839
Other comprehensive income - net of tax	-	-	-	-	-
Balance as at June 30, 2023 (un-audited)	2,392,507	206,526	1,660	(8,736,282)	(6,135,589)

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


 President/CEO


 Chief Financial Officer


 Director


 Director


 Director

SME BANK LIMITED

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

For the half year ended June 30, 2023

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.



SME BANK LIMITED

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

For the half year ended June 30, 2023

2. BASIS OF PRESENTATION

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

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

3. STATEMENT OF COMPLIANCE

These unconsolidated condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017;
- Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Companies Act, 2017; and
- Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

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

The SBP has deferred the applicability of International Accounting Standard 40, "Investment Property" (IAS 40), for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, according to the notification of SECP dated April 28, 2008, the International Financial Reporting Standard 7, "Financial Instruments: Disclosure", 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, IFRS 9 'Financial Instruments' 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

SME BANK LIMITED

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

For the half year ended June 30, 2023

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, 2022.

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, 2022.

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, 2023 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, 2022.

SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited) For the half year ended June 30, 2023

6. FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION

6.1 Privatization / Way Forward of the Bank

Government of Pakistan (GoP) in their meeting held on November 19, 2018, decided 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. 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 31, 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 final draft of share purchase agreement (SPA) had been shared with three 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 (FM) and representatives from SBP, SECP, Finance Division and Privatization Division to evaluate alternative options for proceeding further. Meetings of the Sub-Committee of CCoP were held on March 08, 2022, on July 04, 2022 and on December 02, 2022 on Restructuring and Way Forward for SME Bank Limited. FM observed in the meeting held on December 02, 2022 that it could not be privatized when its financial condition was not that poor and now with its negative equity and other adverse indicators, there would be no potential buyer. It was decided that meeting of CCoP may also be held next week to delist SME from Privatization Programme list. The Cabinet Committee on Privatization (CCoP) meeting was held on December 26, 2022, wherein summary dated December 24, 2022 submitted by the Ministry of Privatization regarding delisting of SME Bank from privatization programme was approved, to enable Finance Division and SBP to proceed further in the matter. Subsequent to the year end, Cabinet in its meeting held on March 17, 2023 approved Winding Down Plan for SME Bank as a way forward. In response to SOS call of the President / CEO, which given vide letter No. SMEB: HO: P&CEO: 23/13 dated March 15, 2023 Government of Pakistan extended support of Rs. 5.557 billion for making payments of customer deposits. As at reporting date, 94% of allocated funds has been paid to the depositors. Moreover, Borrowings under repurchase agreements with SBP have been adjusted with Banks investment in Federal Government Securities.

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

For the half year ended June 30, 2023

6.2 Going concern assumption

During the current period, the Bank had incurred a net loss of Rs. 772.597 million (June 30, 2022: Rs. 622.632 million), resulting in the accumulated losses of Rs. 8,736.282 million (December 31, 2022: Rs. 7,963.685 million). As of December 31, 2022; the reporting date, the total liabilities of the Bank had exceeded its total assets by Rs. 6,135.589 million (2022: Rs. 5,364.831 million), indicating the complete erosion of the Bank's equity. This indicated the Bank's inadequate capacity to ensure timely repayments. Due to cash inadequacy, the Bank was unable to meet the statutory solvency requirements of a minimum capital (MCR) of Rs. 10,000 million and a Capital Adequacy Ratio (CAR) of 10%. As a result of continued stressed financial conditions, the Bank's credit rating had fallen from B negative (single B-) to CCC. Based on the operational results, the State Bank of Pakistan (SBP) had granted exemption from meeting the MCR and CAR up to December 31, 2019, or restructuring/privatization, whichever came earlier. This exemption was subject to the submission of a concrete plan from the Ministry of Finance (MoF) to provide a firm commitment to inject the required amount of capital funds into the Bank if privatization did not materialize by March 31, 2020. These conditions indicated the existence of material uncertainty that cast significant doubt on the Bank's ability to continue as a going concern. Therefore, it might not have been able to realize its assets and discharge its liabilities in the ordinary course of business. To address this situation, the Government of Pakistan (GoP), being the majority shareholder with 93.88% shareholding in the Bank, initiated the process of privatization. The MoF, through its letter No. F.3(27)IF-III/2005-185 dated February 26, 2020, informed SBP that the privatization process was likely to be completed within three to four months and requested an extension of the relaxation of regulatory requirements until June 30, 2020. Subsequently, the Bank, in its latest letter No. SMEBL: HO: CFO & CS: 09:2022/1940/5762 dated September 30, 2022, requested SBP to allow exemption from MCR until June 30, 2023, or until the privatization of the Bank, whichever came earlier. The MoF and the management of the Bank were hopeful of a favorable response as SBP had not objected to the non-compliance of MCR. Furthermore, the process of privatization of the Bank had been described in Note 6.1 above. However, based on the support from the MoF, the management of the Bank believed that the use of the going concern assumption in the preparation of these unconsolidated financial statements was appropriate. Therefore, they prepared the financial statements on a going concern basis. Subsequent to year end, in response to SOS call of the President / CEO, which given vide letter No. SMEB: HO: P&CEO: 23/13 dated March 15, 2023 Government of Pakistan extended supports of 5.557 billion for making payments of customer deposits. On March 27, 2023 the SBP vide letter No. BPRD (R & PD)/ SME/ 2023/ 2443 informed that the funds amounting of Rs. 5.557 billion approved by Government of Pakistan had been credited into bank account of SME Bank Limited maintained with SBP. The CCoP in its meeting held on December 26, 2022 approved delisting of SME Bank from Privatization List and subsequent to year end, Cabinet in its meeting held on March 17, 2023 approved Winding Down Plan for SME Bank as a Way Forward. Under the Plan after tax loss of the bank has dropped down to Rs. 276.495 million in 2nd quarter from loss of Rs. 496.102 million that was in first quarter of 2023. Based upon being public sector bank, which more than 93% shares are owned by Government of Pakistan 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 the same have been prepared on a going concern basis.

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

For the half year ended June 30, 2023

		(Un-audited) June 30, 2023	(Audited) December 31. 2022
	Note	(Rupees in '000)	
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		3,441	157,277
With State Bank of Pakistan (SBP) in:			
Local currency current accounts	7.1	16,551	429,842
With National Bank of Pakistan in:			
Local currency current accounts		1,314	21,839
Prize bonds		-	278
		<u>21,306</u>	<u>609,236</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, 2023	(Audited) December 31. 2022
	Note	(Rupees in '000)	
8. BALANCES WITH OTHER BANKS			
In Pakistan:			
On current accounts		500	500
On deposit accounts		13,894	10,807
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>4,394</u>	<u>1,307</u>

8.1 Particulars of provision for doubtful placement with a bank

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

Provision for doubtful balance is in respect of deposit of Rs. 10 million (December 31, 2022: Rs. 10 million) with Indus Bank Limited which is under liquidation.

9. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings
Repurchase agreement lendings (Reverse repo)

(Un-audited)	(Audited)
June 30,	December
2023	31, 2022
(Rupees in '000)	

-	-
<u>700,000</u>	<u>-</u>
<u>700,000</u>	<u>-</u>

9.1 PARTICULARS OF LENDING

In local currency

9.1.1	<u>700,000</u>	<u>-</u>
	<u>700,000</u>	<u>-</u>

9.1.1 This Reverse Repo lending with SBP carry markup rate @ 21.00% per annum (December 31, 2022: Nil) and has maturity period upto 7 days (December 31, 2022: Nil).

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SME BANK LIMITED

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

For the half year ended June 30, 2023

10. INVESTMENTS

10.1 Investment by type

	June 30, 2023 (un-audited)				December 31, 2022 (audited)			
	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value	Cost / Amortized cost	Provision for diminution	Surplus / (Deficit)	Carrying value
	(Rupees in '000)				(Rupees in '000)			

Available-for-sale securities

Federal Government Securities

Shares

Mutual Funds

	10.1.1	-	-	-	-	3,922,874	-	(1,881)	3,920,993
		42,542	(15,863)	3,158	29,837	42,542	(15,863)	3,219	29,898
		1,870	(218)	(604)	1,048	1,870	(218)	(601)	1,051
		44,412	(16,081)	2,554	30,885	3,967,286	(16,081)	737	3,951,942

Held-to-maturity securities

Non Government Debt Securities

- Term Deposit Receipts (TDRs)

- Certificates of Investments (COIs)

		-	-	-	-	2,600	-	-	2,600
		762	(762)	-	-	762	(762)	-	-

Subsidiary

Total Investment

		215,457	(134,709)	-	80,748	215,457	(134,709)	-	80,748
		260,631	(151,552)	2,554	111,633	4,186,105	(151,552)	737	4,035,290

10.1.1 Investment given as collateral

Market Treasury Bills (MTBs)

	(Un-audited)	(Audited)
	June 30, 2023	December 31, 2022
	(Rupees in '000)	(Rupees in '000)
10.1.2	-	3,920,993
	-	3,920,993

10.1.2 These represent market value of securities at reporting date.

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Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2023

	(Un-audited)		(Audited)	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
10.2 Provision for diminution in value of investments				
10.2.1 Opening balance	151,552	151,552		

Charge / (reversals)	-	-	-	-
Charge for the period/year	-	-	-	-
Reversal for the period/year	-	-	-	-
Reversal on disposals	-	-	-	-
Transfers - net	-	-	-	-
Amount written off	-	-	-	-
Closing balance	151,552	151,552		

10.2.2 Particulars of provision against debt securities category of classification

	June 30, 2023 (un-audited)		December 31, 2022 (audited)	
	Non performing investments	Provision	Non performing investments	Provision
Domestic				
Other assets especially mentioned	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	762	762	762	762
	762	762	762	762

(Rupees in '000)

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SME BANK LIMITED

Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2023

11. ADVANCES

	Performing	Non Performing	Total
(Un-audited)	(Audited)	(Un-audited)	(Un-audited)
June 30, 2023	December 31, 2022	June 30, 2023	June 30, 2023
			(Audited)
			December 31, 2022

Note

(Rupees in '000)

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

11.2	-	-	4,876,908	4,877,191	4,876,908	4,877,191
	629,543	1,217,911	445,759	179,762	1,075,302	1,397,673
	30,195	41,351	5,966	5,966	36,161	47,317
11.2	659,738	1,259,262	5,328,633	5,062,919	5,988,371	6,322,181
	280	280	973	973	1,253	1,253
	660,018	1,259,542	5,329,606	5,063,892	5,989,624	6,323,434
11.4	-	-	(5,052,540)	(4,993,832)	(5,052,540)	(4,993,832)
	(19)	(29)	-	-	(19)	(29)
	659,999	1,259,513	277,066	70,060	937,065	1,329,573

11.1 Particulars of advances (Gross)

In local currency
In foreign currencies

	(Un-audited)	(Audited)
	June 30, 2023	December 31, 2022
	(Rupees in '000)	(Rupees in '000)
	5,989,624	6,323,434
	-	-
	<u>5,989,624</u>	<u>6,323,434</u>

SME BANK LIMITED

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

For the half year ended June 30, 2023

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

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

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

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

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

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

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

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

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For the half year ended June 30, 2023

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 verdict of the Board of Directors given on the issue in 75th Meeting of Board of Directors held on March 04, 2013.

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

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

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

The management of the Bank continues to show these loan portfolios in its book of accounts pending confirmation of recording by NBP in its books of accounts to ensure that the above loans are duly accounted by NBP in compliance to the terms of the agreement dated 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.

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Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2023

11.3 Advances include Rs. 5,329.606 million (December 31, 2022: Rs. 5,063.892 million) which have been placed under non-performing status as detailed below:

Category of Classification	(Un-audited) June 30, 2023		(Audited) December 31, 2022	
	Non * Performing Loans	Provision	Non Performing Loans	Provision
Domestic				
Other Assets Especially Mentioned	29,673	395	3,190	-
Substandard	239,746	38,750	2,477	128
Doubtful	13,315	5,666	10,944	-
Loss	5,046,872	5,007,729	5,047,281	4,993,704
Total	5,329,606	5,052,540	5,063,892	4,993,832

11.3.1 This include non performing loans and provision of Rs: 445.759 million and Rs: 168.691 million respectively (December 31, 2022: Rs. 179.762 million & Rs. 123.286 million) relating to SME portfolio.

11.4 Particulars of provision against advances

Particulars of provision against advances	June 30, 2023 (un-audited)		December 31, 2022 (audited)	
	Specific	General	Specific	General
Opening balance	4,993,832	29	4,993,861	5,221,619
Charge/(Reversal)	62,497	2	62,499	14,613
Charge for the period/year	(3,506)	(12)	(3,518)	(55,140)
Reversal for the period/year	58,991	(10)	58,981	(40,527)
Amounts written off	-	-	-	-
Reversal of provision of transferred portfolio	(283)	-	(283)	(3,567)
Amounts charged off	-	-	-	(183,693)
Closing balance	5,052,540	19	5,052,559	4,993,832

11.4.1 General provision has been recorded at the rate of 1% (December 31, 2022: 1%) of unsecured performing small enterprises portfolio.

11.4.2 This represent charged off SME portfolio in default for the last 10 years & above had 100% provision, BoD approved in its 116th meeting held on March 05, 2022. Charged off these loans does not means cessation of the Bank's right to recover its money from borrowers through litigation or any other way. As at reporting date amount of charged off principal amount is Rs. 170,892 million (December 31, 2022: Rs. 180.489 million).

11.4.3 The FSV benefit availed in last years has been increased by Rs. 4.035 million, which has resulted decrease 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 this FSV benefit not recognized, loss before and after tax for the period would have been increased by Rs. 4.035 million (December 31 2022: decreased by Rs. 29.089 million). As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Rs. 63.896 million (December 31, 2022: Rs. 59.861 million).

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

For the half year ended June 30, 2023

		(Un-audited) June 30, 2023	(Audited) December 31, 2022
	Note	(Rupees in '000)	
12. FIXED ASSETS			
Property and equipment	12.1	12,827	14,334
Right of use assets	12.2	342,020	365,976
		<u>354,847</u>	<u>380,310</u>
12.1 Property and equipment			
Net book value at the beginning of the period/year		14,334	11,556
Additions	12.1.1	1,884	7,257
Disposals	12.1.2	-	-
Depreciation		(3,391)	(4,479)
Net book value at the end of the period/year		<u>12,827</u>	<u>14,334</u>
12.1.1 Additions to fixed assets			
Following additions have been made to fixed assets during the period/year:			
Property and equipment			
Leasehold improvements		1,884	200
Furniture and fixture		-	117
Electrical office and computer equipment		-	6,940
		<u>1,884</u>	<u>7,257</u>
12.1.2 Disposals of fixed assets			
The net book value of fixed assets disposed off during the period/year is as follows:		-	-
12.2 Right of use assets			
Opening net book value		365,976	412,684
Additions/adjustment		-	7,102
Depreciation		(23,956)	(53,810)
Closing net book value		<u>342,020</u>	<u>365,976</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, 2023**

		(Un-audited) June 30, 2023	(Audited) December 31, 2022
	Note	(Rupees in '000)	
13. INTANGIBLE ASSETS			
Computer Software	13.1	<u>350</u>	<u>779</u>
13.1 Computer Software			
Net book value at the beginning of the period/year		779	1,455
Additions		-	230
Disposals		-	-
Amortizations		<u>(429)</u>	<u>(906)</u>
Net book value at the end of the period/year		<u>350</u>	<u>779</u>
14. DEFERRED TAX ASSET - NET			
Deductible temporary differences		1,191,802	1,165,977
• Taxable temporary differences		<u>(894)</u>	<u>(916)</u>
		<u>1,190,908</u>	<u>1,165,061</u>

- 14.1 The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition deferred tax asset due to expected net profits in the future resulting from future outcome of the Bank's way forward either through privatization or Ministry of Finance (MoF) support and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future.



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

For the half year ended June 30, 2023

	Note	(Un-audited)	(Audited)
		June 30, 2023	December 31, 2022
		(Rupees in '000)	
15. OTHER ASSETS			
Income/mark-up accrued in local currency - net of provision	15.1	60,735	70,019
Advances, deposits, advance rent and other prepayments		8,101	19,569
Advance taxation - net	15.2	228,311	231,211
Non banking asset acquired in satisfaction of claims	15.3	147,066	147,066
Due from benevolent fund- unsecured		8,576	8,487
Receivable from NBP		5,955	4,986
Receivable from subsidiary company		179	6,548
Receivable from Equity Participation Fund		4,146	4,146
Trading right entitlement certificate		21,560	21,560
Receivable from Speedway Fondmetall Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		5,148	5,148
Others		42,771	42,147
		552,188	580,527
Less: Provision held against other assets	15.4	86,049	83,815
Other assets (net of provision)		466,139	496,712

15.1 The balance has been arrived at after adjusting interest in suspense of Rs. 3,900.639 million (December 31, 2022: Rs. 3,876.982 million) which includes Rs: 107.007 million (December 31, 2022: Rs. 83.253 million) relating to SME portfolio.

15.2 This includes the effect of refunds aggregating to Rs. 232.599 million (December 31, 2022: 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. However, subsequent to year end, the Islamabad High Court has decided in the favour of Bank through its judgement dated March 28, 2023.

15.3 This include Rs. 138.6 million (December 31, 2022: 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, 2023**

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.

On 24 June 2019 the sponsor of the case died and thereafter on 20 August 2019 the legal heirs of the judgement debtor submitted an objection petition for release of the Property which was turned down by the court. Meanwhile, the Legal heirs also approached High Court and submitted a Civil Miscellaneous application (CMA) for restoration of RFA 635/13 which had been already decided ex-parte in favor of the Bank. The same was also dismissed by the Hon'ble Lahore High Court, Lahore vide Order dated 28.02.2022. Consequently, the main file returned back from the Hon'ble Lahore High Court, Lahore to Banking Court whereby execution proceedings restored on 12.03.2022. The learned Judge Banking court while giving equal opportunities to the opponent counsel adjourned the matter for arguments many times and finally after hearing arguments advanced by the Counsel of the Bank apropos to compliance of warrant of possession passed Order dated 14.09.2022 with the direction to concerned authorities to get the possession and handover the property in question to decree holder Bank under intimation to the Court. However, due to non-availability of Police force to the bailiff, the possession of the said Property could not be handed over to the Bank so far. As per latest valuation report dated November 11, 2022 the market value of the Property was Rs. 296.113 million.

	(Un-audited) June 30, * 2023	(Audited) December 31, 2022
	(Rupees in '000)	
15.4 Provision held against other assets		
Advances, deposits, advance rent & other prepayments	4,477	4,477
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	5,148	5,148
Other receivables - SME Portfolio	12,494	10,228
Legal charges recoverable from borrowers - SBFC & RDFC	22,621	22,653
Trading right entitlement certificate - TREC	21,560	21,560
Others	109	109
	<u>86,049</u>	<u>83,815</u>

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

	(Un-audited) June 30, 2023	(Audited) December 31, 2022
15.4.1 Movement in provision held against other assets		
	(Rupees in '000)	
Opening balance	83,815	117,919
Charge for the period	2,877	2,746
Reversals for the period	(611)	(8,051)
Net Charge	2,266	(5,305)
Transferred to NBP	(32)	(5)
Amount charged off	-	(28,794)
Closing balance	86,049	83,815

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SME BANK LIMITED

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

For the half year ended June 30, 2023

		(Un-audited) June 30, 2023	(Audited) December 31, 2022
		(Rupees in '000)	
16. BILLS PAYABLE	Note		
In Pakistan		87,266	34,591
Outside Pakistan		-	-
		<u>87,266</u>	<u>34,591</u>
17. BORROWINGS			
Secured			
Borrowing from State Bank of Pakistan			
Under Financing facility for storage of agricultural produce	17.2	97,165	97,810
Under Modernisation of small and medium enterprises	17.2	30,240	33,831
		<u>127,405</u>	<u>131,641</u>
Repurchase agreement borrowings			
State Bank of Pakistan	17.3	-	3,367,714
Financial Institutions	17.3	-	-
		<u>-</u>	<u>3,367,714</u>
		<u>127,405</u>	<u>3,499,355</u>
17.1 Particulars of borrowings with respect to currencies			
In local currency		127,405	3,499,355
In foreign currencies		-	-
		<u>127,405</u>	<u>3,499,355</u>

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

17.3 These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from nil (December 31, 2022: 16.24% to 17.00%) per annum maturity period nil (December 31, 2022: for period upto three months). REPO transactions are secured against investment of the Bank in Government securities.

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SME BANK LIMITED

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

For the half year ended June 30, 2023

18. DEPOSITS AND OTHER ACCOUNTS

	June 30, 2023 (un-audited)			December 31, 2022 (audited)		
	In Local Currency	In Foreign Currency	Total	In Local Currency	In Foreign Currency	Total
	(Rupees in '000)					
Customers						
Current deposits	55,489	-	55,489	1,212,304	-	1,212,304
Savings deposits	1,295,785	-	1,295,785	3,707,884	-	3,707,884
Term deposits	579,815	-	579,815	2,768,090	-	2,768,090
Others	30,702	-	30,702	80,941	-	80,941
	1,961,791	-	1,961,791	7,769,219	-	7,769,219
Financial Institutions						
Current deposits	-	-	-	19	-	19
Savings deposits	626,688	-	626,688	635,950	-	635,950
Term deposits	-	-	-	67,300	-	67,300
Others	-	-	-	-	-	-
	626,688	-	626,688	703,269	-	703,269
	2,588,479	-	2,588,479	8,472,488	-	8,472,488

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SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

	Note	(Un-audited)	(Audited)
		June 30, 2023	December 31, 2022
19. OTHER LIABILITIES			
(Rupees in '000)			
Mark-up/ return/ interest payable in local currency		80,599	207,044
Unearned commission on guarantees		608	6,203
Accrued expenses		69,393	16,754
Sundry creditors	19.1	119,181	131,783
Branch adjustment account		390	2,054
Payable against employees' benefit plans			
Defined benefit pension		356,991	358,708
Defined benefit funded gratuity scheme		12,167	11,866
Unfunded compensated absences		88,982	82,186
Security deposits against lease		280	280
Employees' VSS payments withheld		12,076	12,076
Income tax withheld payable		34,250	19,098
FMGP funds - GoP	19.2	5,557,213	-
DPC - reimbursements of protected deposits	19.3	269,242	-
Leased liability against right of use assets	19.4	516,182	526,856
Others		1,527	1,757
		7,119,081	1,376,665

19.1 This include Rs. 90.615 million (December 31, 2022: Rs. 90.615 million) payable to SBP/MoF representing the leftover funds after settlement of VSS-2009 payments and amount of stale bills payable Rs. 19.560 million (December 31, 2022: Rs. 30.799 million).

19.2 In response to SOS call of the President/CEO of Bank, which given vide letter No. SMEB: HO: P&CEO: 23/13 dated March 15, 2023, Government of Pakistan (MoF) extended support of Rs. 5.557 billion for making payments of deposits.

19.3 Reimbursement made by Deposit Protection Corporation (DPC) to SME Bank shall be recorded as liabilities towards Deposit Protection Corporation (DPC) in accordance with section 21(8) of the Deposit Protection Act, 2016.

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

	(Un-audited) June 30, 2023	(Audited) December 31, 2022
19.4 This represents lease liability under IFRS 16 :		
	(Rupees in '000)	
Opening net book value	526,856	537,165
- Additions/adjustment	-	7,102
- Interest	33,246	67,851
- Payment	(43,920)	(85,262)
Closing net book value	<u>516,182</u>	<u>526,856</u>

	(Un-audited) June 30, 2023	(Audited) December 31, 2022
20. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS		
	(Rupees in '000)	

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

• - Federal Government securities	-	(1,881)
- Listed companies/mutual funds	2,554	2,618
	<u>2,554</u>	<u>737</u>

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

- Federal Government securities	-	-
- Listed companies/mutual funds	(894)	(916)
	<u>1,660</u>	<u>(179)</u>

SME BANK LIMITED

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

For the half year ended June 30, 2023

		(Un-audited) June 30, 2023	(Audited) December 31, 2022
		(Rupees in '000)	
21.	CONTINGENCIES AND COMMITMENTS	Note	
	- Guarantees	21.1	87,883 260,245
	- Commitments	21.2	- 3,557,269
	- Other contingent liabilities	21.3	1,138,724 1,180,924
			<u>1,226,607</u> <u>4,998,438</u>
21.1	Guarantees		
	Financial guarantees		-
	Performance guarantees	21.1.1	87,883 260,245
	Other guarantees		-
			<u>87,883</u> <u>260,245</u>
21.1.1	This include expired letter of guarantees/performance aggregating to Rs. 3.320 million (December 31, 2022: Rs. 60.558 million) for which formalities for return of original documents are in process.		
21.2	Commitments		
	Commitments in respect of:		
	- forward government securities transactions	21.2.1	- 3,382,447
	- forward lending	21.2.2	- 157,292
	Commitments for acquisition of:		
	- operating fixed assets		- 17,435
	- intangible assets		- -
	Other commitments	21.2.3	- 95
			<u>-</u> <u>3,557,269</u>
21.2.1	Commitments in respect of forward government securities transactions		
	Sale and repurchase agreements		<u>-</u> <u>3,382,447</u>
21.2.2	Commitments in respect of forward lending		
	Undrawn facilities		- 140,292
	Commitments to extend credit		- 17,000
			<u>-</u> <u>157,292</u>

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SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

	(Un-audited) June 30, 2023	(Audited) December 31, 2022
	(Rupees in '000)	
21.2.3 Other commitments		
Bills for collection		
Payable in Pakistan	-	95
21.3 Other contingent liabilities	1,138,724	1,180,924
a) Claims not acknowledged as debt from various borrowers of defunct RDFC.	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
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 million (payable amounting Rs. 6.463 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 million 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

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

	(Un-audited) June 30, 2023	(Audited) December 31, 2022
	(Rupees in '000)	
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 22-05-2013 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 07-01-2014. Parallel to that Bank has filed 2nd appeal in ATIR on 27-02-2014 and rectification application was also submitted with CIRA on 24-02-2014 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 07-03-2014. Based on the facts revealed by the consultants vide letter # IT/1156/2015 dated March 03, 2015, the management strongly believes for favorable outcome in the case and therefore no provision in this respect has been recorded in these unconsolidated financial statements.	198,529	198,529
e) The taxation officer created aggregate demand of Rs. 53.674 million for withheld amount of Rs.17.598 million from VSS payment of employees for the Tax Years 2003-2004 -2005-2006-2008-2009-2010-2011-2013 which was not deposited upon advice of the legal advisor due to stay order of Supreme Court of Pakistan. The case is pending before Appellate Tribunal Inland Revenue and the provision of default surcharge Rs. 36.076 million was not made ipso facto.	36,076	36,076
f) The Officer Inland Revenue, LTU Islamabad created demand for Rs. 21.171 million for tax year 2016 under section 161/205 of the Income Tax Ordinance, 2001. After rejection of the first appeal by CIRA the Bank has submitted second appeal before Appellate Tribunal Inland Revenue along with stay application to keep the recovery proceedings in abeyance. The referred second appeal has not yet been fixed for hearing.	21,171	21,171

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

	(Un-audited) June 30, 2023	(Audited) December 31, 2022
	(Rupees in '000)	
g) The Officer Inland Revenue, LTU Islamabad issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response.	18,663	18,663
h) The Officer Inland Revenue, LTU Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation. Without prejudice, the tax department has been requested to adjust the tax demand with the available income tax refunds.	38,723	38,723
i) The Officer Inland Revenue, LTU Islamabad made an assessment for the year 2001-2002 vide order dated June 20, 2005 of Rs. 590.667 million and a tax demand of Rs. 118.721 million which was contested in ATIR which ordered the appeal in Bank's favor vide Order no. ITA No.857/IB/2006 dated April 05, 2007. Tax department has filed income tax reference with the Islamabad High Court having I.T.R. no. 48 of 2007.	118,721	118,721
j) Sales Demands of Rs. 0.791 million and Rs. 17.098 million were created for the year 2008 & 2010 respectively during proceedings of sales audit. Against the said demands, advance payments of Rs. 0.299 million and Rs. 3.743 million respectively were made to avail stay against recovery of entire amount. Appellate Tribunal Inland Revenue has remanded both cases back to the Commissioner for fresh proceedings, which have not been initiated yet. Furthermore, sales demands amounting Rs. 1.708 million & Rs. 1.045 million were created for the year 2009 and 2012 respectively during proceedings of sales audit. Against the said demands advance payments of Rs. 0.577 million & Rs. 1.045 million respectively were made to avail stay against recovery of entire amount. Both appeals are pending before Appellate Tribunal Inland Revenue for fixation of hearing. The management strongly believes for favorable outcome in the said cases.	20,452	20,452

*Not included
in Total*

SME BANK LIMITED

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

For the half year ended June 30, 2023

	(Un-audited) June 30, 2023	(Audited) December 31, 2022
	(Rupees in '000)	
k) The Officer Inland Revenue, LTU Islamabad demand 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	16,939
l) Back benefits and claims of staff/employees under litigation.	18,720	60,920

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SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

	(Un-audited) June 30, 2023	(Audited) June 30, 2022
22. MARK-UP/ RETURN/ INTEREST EARNED	(Rupees in '000)	
On loans and advances to Customers		
Extended by:		
Defunct RDFC & SBFC	-	-
SME Bank Limited	119,185	135,762
	<u>119,185</u>	<u>135,762</u>
Employees	771	1,150
Financial Institution - SME Leasing Limited - a subsidiary company	-	9,704
	<u>119,956</u>	<u>146,616</u>
On investments in		
Available for sale securities	156,654	204,294
Held to maturity securities	173	678
	<u>156,827</u>	<u>204,972</u>
On deposits with financial institutions	140	104
Lendings to financial institutions	44,374	401
	<u>321,297</u>	<u>352,093</u>
23. MARK-UP/ RETURN/ INTEREST EXPENSED		
On deposits	378,782	313,000
On securities sold under repurchase agreements	151,150	193,070
On SBP Refinance Scheme	1,304	872
Brokerage and commission	129	768
Bank charges	140	73
	<u>531,505</u>	<u>507,783</u>
24. FEE & COMMISSION INCOME		
Branch banking customer fees	1,005	1,405
Card related fees	177	201
Credit related fees	434	732
Commission on guarantees	6,848	5,233
Commission on remittances	11	16
Others	17	14
	<u>8,492</u>	<u>7,601</u>

SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

		(Un-audited) June 30, 2023	(Audited) June 30, 2022
	Note	(Rupees in '000)	
25. GAIN / (LOSS) ON SECURITIES			
Realised	25.1	(927)	(847)
Unrealised - held for trading		-	-
		<u>(927)</u>	<u>(847)</u>
25.1 Federal Government Securities - net Shares		(927)	(847)
		-	-
		<u>(927)</u>	<u>(847)</u>
26. OTHER INCOME			
Gain on sale of operating fixed assets - net		225	-
Fee on fund managed by the Bank -EPF		-	-
• Others		17	-
		<u>242</u>	<u>-</u>

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SME BANK LIMITED**Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)****For the half year ended June 30, 2023**

	(Un-audited) June 30, 2023	(Audited) June 30, 2022
	(Rupees in '000)	
27. OPERATING EXPENSES		
Total compensation expense	385,027	351,669
Property expense		
Rent & taxes	6,745	3,865
Insurance	609	1,719
Utilities cost	13,496	13,490
Security (including guards)	11,825	11,274
Repair & maintenance	2,647	4,285
Depreciation	24,346	27,328
	59,668	61,961
Information technology expenses		
Software maintenance	3,616	2,824
Hardware maintenance	866	929
Depreciation	1,470	501
Amortization	429	444
Network charges	6,247	8,402
Others	121	272
	12,749	13,372
Other operating expenses		
Directors' fees, allowances and other expenses	3,155	1,291
Legal and professional charges	1,760	3,745
Outsourced services costs	15,846	13,644
Travelling and conveyance	1,105	870
NIFT clearing charges	1,108	1,390
Depreciation	1,531	1,239
Training & development	14	479
Postage & courier charges	467	334
Communications	2,090	2,170
Stationery and printing	2,371	2,863
Marketing, advertisement & publicity	281	796
Auditors' remuneration	546	522
Vehicle running and maintenance	3,662	2,775
Entertainment	1,168	1,061
Subscription, books and newspapers	2,219	2,103
Deposits premium	2,222	2,632
Others	428	236
	39,973	38,150
	497,417	465,152

SME BANK LIMITED

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

For the half year ended June 30, 2023

		(Un-audited) June 30, 2023	(Audited) June 30, 2022
		(Rupees in '000)	
28. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		-	5
Right of use assets - unwinding of present value		33,246	34,083
		<u>33,246</u>	<u>34,088</u>
29. PROVISIONS & WRITE OFFS - NET			
Provisions/(reversals) for diminution in value of investment		-	-
Provisions/(reversals) against loans & advances		58,981	(1,499)
Provisions/(reversals) against other assets		2,266	(1,895)
Bad debts written off directly		-	-
		<u>61,247</u>	<u>(3,394)</u>
30. TAXATION			
Current		4,111	5,416
Prior periods		-	-
Deferred		(25,825)	(26,917)
		<u>(21,714)</u>	<u>(21,501)</u>
31. BASIC/ DILUTED LOSS PER SHARE			
Net loss after tax for the period		<u>(772,597)</u>	<u>(622,632)</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>(3.23)</u>	<u>(2.60)</u>
There is no dilutive effect on the basic earning per share of the Bank.			
		(Un-audited) June 30, 2023	(Audited) December 31, 2022
32. CASH AND CASH EQUIVALENTS	Note	(Rupees in '000)	
Cash and balances with treasury banks	7	21,306	609,236
Balances with other banks	8	4,394	1,307
		<u>25,700</u>	<u>610,543</u>

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2023

33 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.

33.1 On balance sheet financial instruments

Note

(Rupees in '000)

June 30, 2023 (un-audited)				
FAIR VALUE				
Level 1	Level 2	Level 3	carrying / notional value	Total

Financial assets measured at fair value

- Investments
- 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
- Subsidiary
- SME Leasing Limited

4,415	-	-	-	4,415
-	-	-	26,470	26,470
-	-	-	17,865	17,865
-	-	-	4,394	4,394
-	-	-	700,000	700,000
-	-	-	937,065	937,065
-	-	-	71,554	71,554
-	-	-	80,748	80,748

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2023

		December 31, 2022 (audited)				
		FAIR VALUE			carrying / notional value	Total
		Level 1	Level 2	Level 3		
		(Rupees in '000)				
On balance sheet financial instruments						
Financial assets measured at fair value						
- Investments						
Government Securities (T bills and PIBs)		-	3,920,993	-	-	3,920,993
Ordinary shares of listed companies/Mutual funds		4,479	-	-	-	4,479
Ordinary shares of unlisted companies		-	-	-	26,470	26,470
Financial assets not measured at fair value						
- Bank balances with treasury banks		33.2	-	-	451,681	451,681
- Balances with other banks		33.2	-	-	1,307	1,307
- Advances		33.2	-	-	1,329,573	1,329,573
- Other assets		33.2	-	-	87,948	87,948
- Other Investment (COI/TDR)		33.2	-	-	2,600	2,600
Subsidiary- SME Leasing Limited		-	-	-	80,748	80,748

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

Level 1: Fair value measurement using quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

SME BANK LIMITED
Notes to the Unconsolidated Condensed Interim Financial Statements (un-audited)
For the half year ended June 30, 2023

Level 3: Fair value measurements using inputs for the assets and liabilities that are not based on observable market data (i.e. unobservable inputs).

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

33.3 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.

33.4 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

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, 2023****34. SEGMENT INFORMATION****34.1 Segment details with respect to business activities**

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

	June 30, 2023 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	201,201	120,096	321,297
Inter segment revenue - net	-	66,209	66,209
Non mark-up/return/interest income	(927)	8,734	7,807
Total income	200,274	195,039	395,313
Segment direct expenses	163,874	898,294	1,062,168
Inter segment expenses allocation	66,209	-	66,209
Total expenses	230,083	898,294	1,128,377
Provisions	-	61,247	61,247
Loss before tax	(29,809)	(764,502)	(794,311)
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Balance Sheet			
Cash & bank balances	17,142	8,558	25,700
Investments	111,633	-	111,633
Net inter segment lending	-	746,142	746,142
Lending to financial institutions	700,000	-	700,000
Advances - Performing	-	659,999	659,999
- Non-performing	-	277,066	277,066
Others	874,290	1,137,954	2,012,244
Total Assets	1,703,065	2,829,719	4,532,784
Borrowings	-	127,405	127,405
Deposits & other accounts	-	2,588,479	2,588,479
Net inter segment borrowing	746,142	-	746,142
Others	(2,986,915)	10,193,262	7,206,347
Total Liabilities	(2,240,773)	12,909,146	10,668,373
Equity	3,943,838	(10,079,427)	(6,135,589)
Total Equity & liabilities	1,703,065	2,829,719	4,532,784
Contingencies & Commitments	-	1,226,607	1,226,607

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

For the half year ended June 30, 2023

	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)
December 31, 2022 (audited)			
	Trading & Sales	Commercial Banking	Total
(Rupees in '000)			
Balance Sheet			
Cash & Bank balances	429,864	180,679	610,543
Investments	4,035,290	-	4,035,290
Net inter segment lending	-	2,861,829	2,861,829
Lending to financial institutions	-	-	-
Advances - Performing	-	1,259,513	1,259,513
- Non-performing	-	70,060	70,060
Others	838,428	1,204,434	2,042,862
Total Assets	5,303,582	5,576,515	10,880,097
Borrowings	3,367,714	131,641	3,499,355
Deposits & other accounts	-	8,472,488	8,472,488
Net inter segment borrowing	2,861,829	-	2,861,829
Others	369,889	1,041,367	1,411,256
Total Liabilities	6,599,432	9,645,496	16,244,928
Equity	(1,295,850)	(4,068,981)	(5,364,831)
Total Equity & liabilities	5,303,582	5,576,515	10,880,097
Contingencies & Commitments	3,382,447	1,615,991	4,998,438

SME BANK LIMITED

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

For the half year ended June 30, 2023

Assumptions used:

- Unallocatable assets representing 15.81% (December 31, 2022: 10.74%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 21.03% (December 31, 2022: 4.52%) of the gross liabilities have been allocated to segments based on their respective incomes.

34.2 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, 2023

35. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its majority shareholder (Government of Pakistan) subsidiary, directors/CEO, key management personnel, EPF and staff retirement benefit plans. Details of balances outstanding at year end and transactions with related parties are as follows:

	June 30, 2023 (un-audited)							December 31, 2022 (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	215,457	-	-	-	-	-	215,457	-	-	-	-	-		
Closing balance	134,709	-	-	-	-	-	134,709	-	-	-	-	-		
Provision for diminution in value of investments														
Advances														
Opening balance	139,158	5,725	-	-	-	-	134,689	6,620	-	-	-	-		
Addition (total debits) during the period	13,152	209	-	-	-	-	52,517	6,822	-	-	-	-		
Repaid (total credits) during the period	(2,387)	(2,584)	-	-	-	-	(48,048)	(7,717)	-	-	-	-		
Transfer in / (out) - net	149,923	3,350	-	-	-	-	139,158	5,725	-	-	-	-		
Closing balance	37,481	-	-	-	-	-	-	-	-	-	-	-		
Provision held against advances														
Other Assets														
Interest / mark-up accrued	10,804	6,140	-	-	-	-	6,548	5,708	-	-	-	-		
Receivable from staff retirement fund	-	-	-	-	-	-	-	-	-	-	8,487	-		
Other receivable	179	-	-	4,146	-	-	-	-	-	4,146	-	-		
Deposits and other accounts														
Opening balance	-	10,049	7,754	579,578	1,646,365	11,072	422	15,197	16,373	520,507	1,461,658	7,227		
Received during the period	888	26,664	11,678	47,105	176,386	10,072	9,127	159,445	17,464	59,071	189,647	48,385		
Withdrawn during the period	-	(36,648)	(19,422)	-	-	(21,144)	-	(164,297)	(26,083)	-	(4,940)	(44,540)		
Transfer in / (out) - net	(888)	(2)	-	-	(136)	-	(9,549)	(296)	-	-	-	-		
Closing balance	-	63	10	626,683	1,822,615	-	-	10,049	7,754	579,578	1,646,365	11,072		
Provision/Income suspended against other assets	10,804	-	-	-	-	-	-	-	-	-	-	-		
Other Liabilities														
Interest / mark-up payable	-	1	-	10,044	57,805	-	-	96	174	7,138	110,712	65		
Payable to staff retirement funds	-	-	-	-	458,140	-	-	-	-	-	452,760	-		
Others liabilities	-	-	-	-	-	-	-	-	-	-	-	-		
Contingencies and Commitments														

SME BANK LIMITED

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

For the half year ended June 30, 2023

	June 30, 2023 (un-audited)						June 30, 2022 (un-audited)																																																																																																																																																																														
	Subsidiary	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Subsidiary SMEEL Management Personnel	Key Management Personnel	Directors/ CEO	Equity Participation Fund	Employees benefit plans	Employees Provident Trust																																																																																																																																																																									
	Rupees in '000																																																																																																																																																																																				
Income													Mark-up / return / interest earned	-	-	92	-	-	-	9,704	128	-	-	-	-	Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-	Expense													Mark-up / return / interest expense	-	260	243	50,011	111,242	139	-	494	670	24,729	65,478	146	Fees and other expenses	-	-	3,155	-	-	-	-	-	1,291	-	-	-	Remuneration and allowances	-	51,006	6,475	-	-	-	-	41,475	5,377	-	-	-	Charge for the period relating to employees benefit plans	-	-	-	-	67,630	-	-	-	-	-	70,774	-														Description													Principal terms of loan facility to SMEEL	Running finance facility upto Rs. 150 million						6 months K.ibor + 4.0%						Principal terms of deposit to Equity Participation Fund	Remunerative deposits						19.50%						Principal terms of deposit to Employee Benefit Plans	Remunerative deposits						15.35% to 19.50%						Principal terms of deposit to Directors/CEO	Remunerative deposits						19.50% A					
Mark-up / return / interest earned	-	-	92	-	-	-	9,704	128	-	-	-	-	Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-	Expense													Mark-up / return / interest expense	-	260	243	50,011	111,242	139	-	494	670	24,729	65,478	146	Fees and other expenses	-	-	3,155	-	-	-	-	-	1,291	-	-	-	Remuneration and allowances	-	51,006	6,475	-	-	-	-	41,475	5,377	-	-	-	Charge for the period relating to employees benefit plans	-	-	-	-	67,630	-	-	-	-	-	70,774	-														Description													Principal terms of loan facility to SMEEL	Running finance facility upto Rs. 150 million						6 months K.ibor + 4.0%						Principal terms of deposit to Equity Participation Fund	Remunerative deposits						19.50%						Principal terms of deposit to Employee Benefit Plans	Remunerative deposits						15.35% to 19.50%						Principal terms of deposit to Directors/CEO	Remunerative deposits						19.50% A																		
Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-	Expense													Mark-up / return / interest expense	-	260	243	50,011	111,242	139	-	494	670	24,729	65,478	146	Fees and other expenses	-	-	3,155	-	-	-	-	-	1,291	-	-	-	Remuneration and allowances	-	51,006	6,475	-	-	-	-	41,475	5,377	-	-	-	Charge for the period relating to employees benefit plans	-	-	-	-	67,630	-	-	-	-	-	70,774	-														Description													Principal terms of loan facility to SMEEL	Running finance facility upto Rs. 150 million						6 months K.ibor + 4.0%						Principal terms of deposit to Equity Participation Fund	Remunerative deposits						19.50%						Principal terms of deposit to Employee Benefit Plans	Remunerative deposits						15.35% to 19.50%						Principal terms of deposit to Directors/CEO	Remunerative deposits						19.50% A																															
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Fees and other expenses	-	-	3,155	-	-	-	-	-	1,291	-	-	-	Remuneration and allowances	-	51,006	6,475	-	-	-	-	41,475	5,377	-	-	-	Charge for the period relating to employees benefit plans	-	-	-	-	67,630	-	-	-	-	-	70,774	-														Description													Principal terms of loan facility to SMEEL	Running finance facility upto Rs. 150 million						6 months K.ibor + 4.0%						Principal terms of deposit to Equity Participation Fund	Remunerative deposits						19.50%						Principal terms of deposit to Employee Benefit Plans	Remunerative deposits						15.35% to 19.50%						Principal terms of deposit to Directors/CEO	Remunerative deposits						19.50% A																																																																						
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Charge for the period relating to employees benefit plans	-	-	-	-	67,630	-	-	-	-	-	70,774	-														Description													Principal terms of loan facility to SMEEL	Running finance facility upto Rs. 150 million						6 months K.ibor + 4.0%						Principal terms of deposit to Equity Participation Fund	Remunerative deposits						19.50%						Principal terms of deposit to Employee Benefit Plans	Remunerative deposits						15.35% to 19.50%						Principal terms of deposit to Directors/CEO	Remunerative deposits						19.50% A																																																																																																
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SME BANK LIMITED

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

For the half year ended June 30, 2023

36. 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, 2023	(Audited) December 31, 2022
	(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)	(8,736,282)	(7,963,685)
	(6,137,249)	(5,364,652)
Less: Adjustments		
Goodwill/intangible Assets	350	779
Investment in equity of subsidiary	80,748	80,748
Deficit on revaluation of available for sale investments	-	179
	81,098	81,706
<i>Total tier I capital</i>	(6,218,347)	(5,446,358)
<i>Tier II capital</i>	19	29
<i>Eligible tier III capital</i>	-	-
• Total regulatory capital (a)	(6,218,328)	(5,446,329)

	June 30, 2023 (un-audited)		December 31, 2022 (audited)	
	Book value	Risk adjusted value	Book value	Risk adjusted value
	(Rupees in '000)		(Rupees in '000)	
Risk-weighted exposures				
Balance sheet items:				
Cash and other liquid assets	25,700	879	610,543	261
Investments/ lending to financial institutions	811,633	140,000	4,035,290	33,548
Loans and advances	937,065	621,139	1,329,573	811,546
Fixed assets	355,197	354,847	381,089	380,310
Deferred tax assets	1,190,908	1,190,908	1,165,061	1,165,061
Other assets	466,139	237,828	496,712	265,501
	3,786,642	2,545,601	8,018,268	2,656,227
Off balance sheet items				
Weighted Non-funded exposures	64,043	32,022	208,638	104,319
	64,043	32,022	208,638	104,319
Credit risk-weighted exposures (b)	3,850,685	2,577,623	8,226,906	2,760,546
Market risk		61,696		182,034
Market risk-weighted exposures	-	61,696	-	182,034
Total risk-weighted exposures (c)		2,639,319		2,942,580
Capital adequacy ratio credit risk [(a) / (b) x 100]		-241.24%		-197.29%
Total capital adequacy ratio [(a) / (c) x 100]		-235.60%		-185.09%

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For the half year ended June 30, 2023

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.

37. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on 23 SEP 2023



President/CEO



Chief Financial Officer



Director



Director



Director