



**FINANCIAL STATEMENTS**  
(Un-audited)

FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2023

## **Directors' Review for the Quarter Ended September 30, 2023**

On behalf of the Board of Directors, we are pleased to present the financial statements of SME Bank Limited for the nine months period ended September 30, 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.

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, 95.84% of allocated funds have been paid to the depositors till September 30, 2023. Moreover, Borrowings under repurchase agreements with SBP have been adjusted with Banks investment in Federal Government Securities.

The Second Phase to close SME branches and SAM Offices is in progress, eight SME branches and one SAM office has been closed till September 30, 2023. The closure plan for rest of SME Branches and SAM Offices is in progress to save operational cost.



In light of the External Auditor's opinion on the audited Financial Statements for the year ended December 31, 2022 and their review report on the Financial Statements for the period half year ended June 30, 2023 and related to winding down process of the Bank, following adjustments have also been incorporated in these Financial Statements for the quarter ended September 30, 2023

- Impairment recorded against investment in SME Leasing limited
- Forced sale value benefits (FSV) availed while computing Provision against NPLs (Advances) De-recognized
- Derecognizing IFRS 16 regarding Right of use of assets (rented premises) and reclassified the liability as a short term lease.
- Fully Amortization of intangible assets - computer software
- Deferred Taxation assets De-recognized

The highlights of the financial results of the Bank for the quarter ended on September 30, 2023 are presented as follows:-

The deposits have decreased by Rs 5,824 million from Rs 8,472 million as on December 31, 2022, to Rs 2,648 million as on September 30, 2023. Investment portfolio of the Bank has reported Rs. 78 million as on September 30, 2023 and Rs. 4,035 million as on December 31, 2022. Non-performing loans (NPLs) were at Rs. 565 million as on September 30, 2023 whereas as on December 31, 2022 were Rs. 180 million. SME loan portfolio was at Rs. 938 million as on September 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)

November 22, 2023

**SME BANK LIMITED**

**Unconsolidated Condensed Interim Statement of Financial Position**

**As at September 30, 2023**

		(Un-audited) September 30, 2023	(Audited) December 31, 2022
	Note	(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks	7	13,463	609,236
Balances with other banks	8	3,099	1,307
Lendings to financial institutions	9	600,000	-
Investments	10	78,010	4,035,290
Advances	11	649,325	1,329,573
Fixed assets	12	10,139	380,310
Intangible assets	13	-	779
Deferred tax assets - net	14	-	1,165,061
Other assets	15	462,654	496,712
		<b>1,816,690</b>	<b>8,018,268</b>
<b>LIABILITIES</b>			
Bills payable	16	42,543	65,390
Borrowings	17	111,148	3,499,355
Deposits and other accounts	18	2,647,565	8,472,488
Liability against assets subject to finance lease		-	-
Sub-ordinated loans		-	-
Deferred tax liabilities		-	-
Other liabilities	19	6,592,015	1,345,866
		<b>9,393,271</b>	<b>13,383,099</b>
<b>NET LIABILITIES</b>		<b>(7,576,581)</b>	<b>(5,364,831)</b>
<b>REPRESENTED BY</b>			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Surplus/(deficit) on revaluation of assets - net of tax	20	3,387	(179)
Unappropriated loss		(10,179,001)	(7,963,685)
		<b>(7,576,581)</b>	<b>(5,364,831)</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	21		

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

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

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

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

**SME BANK LIMITED**
**Unconsolidated Condensed Interim Profit and Loss Account (un-audited)**
**For the nine months ended September 30, 2023**

	Note	Quarter ended		Nine months ended	
		September 30,	September 30,	September 30,	September 30,
		2023	2022	2023	2022
		<b>(Rupees in '000)</b>			
Mark-up/ return/ interest earned	22	98,489	203,931	419,786	556,024
Mark-up/ return/ interest expensed	23	121,775	352,805	653,280	860,588
Net mark-up/ interest loss		(23,286)	(148,874)	(233,494)	(304,564)
<b>NON MARK-UP/ INTEREST INCOME</b>					
Fee and commission income	24	706	2,550	9,198	10,151
Dividend income		-	422	-	1,071
Foreign exchange income		-	-	-	-
Income / (loss) from derivatives		-	-	-	-
Gain/(loss) on securities	25	-	(1,698)	(927)	(2,545)
Other income	26	7,730	-	7,972	-
Total non-markup/ interest income		8,436	1,274	16,243	8,677
Total Income/(loss)		(14,850)	(147,600)	(217,251)	(295,887)
<b>NON MARK-UP/ INTEREST EXPENSES</b>					
Operating expenses	27	229,304	241,731	726,721	706,883
Workers Welfare Fund		-	-	-	-
Other charges	28	(171,147)	16,947	(137,901)	51,035
Total non-markup/ interest expenses		58,157	258,678	588,820	757,918
Loss before provisions		(73,007)	(406,278)	(806,071)	(1,053,805)
Provisions and write offs - net	29	176,670	(6,109)	237,917	(9,503)
<b>LOSS BEFORE TAXATION</b>		(249,677)	(400,169)	(1,043,988)	(1,044,302)
Taxation	30	1,193,042	(65,388)	1,171,328	(86,889)
<b>LOSS AFTER TAXATION</b>		(1,442,719)	(334,781)	(2,215,316)	(957,413)
<b>Basic/diluted (loss) per share (rupees)</b>	31	(6.03)	(1.40)	(9.26)	(4.00)

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

  
**President/CEO**

  
**Chief Financial Officer**

  
**Director**

  
**Director**

  
**Director**

**SME BANK LIMITED**

**Unconsolidated Condensed Interim Statement of Comprehensive Income (un-audited)**

For the nine months ended September 30, 2023

	Quarter ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(Rupees in '000)			
Net loss after taxation	(1,719,214)	(334,781)	(2,215,316)	(957,413)
Other comprehensive income				
Items that may be reclassified to profit and loss account in subsequent periods				
Movement in surplus/(deficit) on revaluation of investment	4,225	3,771	3,566	7,021
Items that will not be reclassified to profit and loss account in subsequent periods				
Remeasurement gain on defined benefit obligations - net	-	-	-	-
<b>Total comprehensive loss</b>	<b>(1,714,989)</b>	<b>(331,010)</b>	<b>(2,211,750)</b>	<b>(950,392)</b>

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

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

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

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

## SME BANK LIMITED

## Unconsolidated Condensed Interim Statement of Changes in Equity (un-audited)

For the nine months ended September 30, 2023

	Share capital	Statutory reserve	Surplus/(deficit) on revaluation of investments	Unappropriated loss	Total
			(Rupees in '000)		
Balance as at January 01, 2022	2,392,507	206,526	(13,679)	(6,846,330)	(4,260,976)
<b>Total comprehensive income for the nine months period ended September 30, 2022</b>					
Net loss after taxation	-	-	-	(957,413)	(957,413)
Other comprehensive income - net of tax	-	-	7,021	-	7,021
Balance as at September 30, 2022 (un-audited)	2,392,507	206,526	(6,658)	(7,803,743)	(5,211,368)
<b>Total comprehensive income for the three months period ended December 31, 2022</b>					
Loss after taxation	-	-	-	(292,463)	(292,463)
Other comprehensive income/ (loss) - net of tax	-	-	6,479	132,521	139,000
Balance as at December 31, 2022 (audited)	2,392,507	206,526	(179)	(7,963,685)	(5,364,831)
<b>Total comprehensive income for the nine months period ended September 30, 2023</b>					
Net loss after taxation	-	-	-	(2,215,316)	(2,215,316)
Other comprehensive income - net of tax	-	-	3,566	-	3,566
Balance as at September 30, 2023 (un-audited)	2,392,507	206,526	3,387	(10,179,001)	(7,576,581)

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

  
President/CEO

  
Chief Financial Officer

  
Director

  
Director

  
Director


**SME BANK LIMITED**

**Unconsolidated Condensed Interim Cash Flow Statement (un-audited)**

For the nine months ended September 30, 2023


	September 30, 2023	September 30, 2022
	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(1,043,988)	(1,044,302)
Less: Dividend income	-	(1,071)
	<u>(1,043,988)</u>	<u>(1,045,373)</u>
<b>Adjustments:</b>		
Depreciation	37,478	43,599
Amortization	779	675
Provision and write-offs	237,917	(9,503)
Loss/(gain) on sale of fixed assets	(7,953)	-
Mark-up expense on leased liability against ROU assets	(137,901)	51,030
	<u>130,320</u>	<u>85,801</u>
	<u>(913,668)</u>	<u>(959,572)</u>
<b>(Increase)/ decrease in operating assets</b>		
Lendings to financial institutions	(600,000)	-
Held-for-trading securities	-	-
Advances	478,796	250,442
Other assets (excluding advance taxation)	34,184	2,702
	<u>(87,020)</u>	<u>253,144</u>
<b>Increase/ (decrease) in operating liabilities</b>		
Bills payable	(22,847)	30,852
Borrowings from financial institutions	(3,388,207)	727,021
Deposits	(5,824,923)	(468,473)
Other liabilities (excluding current taxation)	5,773,005	90,883
	<u>(3,462,972)</u>	<u>380,283</u>
	<u>(4,463,660)</u>	<u>(326,145)</u>
Income tax paid	(2,362)	(2,269)
<b>Net cash flow generated (used in)/ from operating activities</b>	<u>(4,466,022)</u>	<u>(328,414)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investment/disinvestment in available-for-sale securities	3,922,874	39,208
Net investment in held-to-maturity securities	2,600	32,400
Dividend received	-	1,071
Investment in operating fixed assets	(1,884)	(1,327)
Proceeds from sale of fixed assets	9,061	-
<b>Net cash flow generated from investing activities</b>	<u>3,932,651</u>	<u>71,352</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment of lease obligation	(60,610)	(63,416)
<b>Net cash flow (used in) from financing activities</b>	<u>(60,610)</u>	<u>(63,416)</u>
<b>Decrease in cash and cash equivalents</b>	<u>(593,981)</u>	<u>(320,478)</u>
Cash and cash equivalents at beginning of the period	<u>610,543</u>	<u>827,681</u>
<b>Cash and cash equivalents at end of the period</b>	<u><u>16,562</u></u>	<u><u>507,203</u></u>

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

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

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

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director



**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 Winding Down plan of the Bank (Note - 6.2).

**1.2 Amalgamation of defunct RDFC and SBFC**

The Federal Government promulgated the Regional Development Finance Corporation (RDFC) and Small Business Finance Corporation (SBFC) Amalgamation and Conversion Ordinance, 2001 (the Ordinance 2001) setting forth the mechanism of amalgamation of defunct RDFC and SBFC. Both these entities were Development Financial Institutions (DFIs). In pursuance of the Ordinance 2001, Finance Division, Ministry of Finance issued an Order (SRO (1) 2001) dated December 29, 2001 setting forth the scheme of amalgamation of RDFC and SBFC with the Bank effective from January 1, 2002. Pursuant to this scheme entire assets and liabilities of defunct RDFC and SBFC as at December 31, 2001 were transferred to the Bank at fair value. These two institutions stand dissolved and ceased to exist effective January 1, 2002. The Bank allotted its shares to the share holders of defunct RDFC and SBFC in proportion to their shareholding therein based on the fair value of net assets of defunct RDFC and SBFC on December 31, 2001.

**2. BASIS OF PRESENTATION**

These unconsolidated condensed interim financial statements have been prepared following the accrual basis of accounting except for the cash flow information. The Bank is under the phase of implementation of Winding Down plan. Hence liquidation basis of accounting will be based on liquidation plan as and when approved

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:

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

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

<sup>3</sup> - Directives issued by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP).

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

The SBP has deferred the applicability of International Accounting Standard 40, "Investment Property" (IAS 40), for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, according to the notification of SECP dated April 28, 2008, the International Financial Reporting Standard 7, "Financial Instruments: Disclosure" (IFRS 7), has not been made applicable for banks in Pakistan. Accordingly, the requirements of these standards have not been considered in the preparation of these interim unconsolidated financial statements. Accordingly, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars. Further, IFRS 9 'Financial Instrument' has not been adopted as SBP has deferred the applicability of IFRS 9 till January 01, 2024 vide SBP BPRD Circular Letter no. 03 dated July 05, 2022 (Note - 5.1).

These unconsolidated condensed interim financial statements have been presented in accordance with the requirements of format prescribed by SBP vide BPRD Circular Letter No. 5 dated March 22, 2019 and International Accounting Standard 34 'Interim Financial Reporting' and do not include all the information and disclosures required in the audited annual unconsolidated financial statements, and should be read in conjunction with the audited annual unconsolidated financial statements for the financial year ended December 31, 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 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. For the purpose of assessing and submission the impact on the Financial Statements, SBP allow exemption henceforth.

**Bank as a lessee (IFRS 16) - De-recognize**

Since winding down plan of the SME Bank Ltd is in process, therefore the management foresees amortization as per IFRS 16 regarding Right of Use of assets (Rented Premises) might not be possible. In lieu thereof the Management decided to derecognize the impact of lease liabilities and right of use of assets under IFRS 16 and reclassified the liability as a short term lease. Recognized rent expense as per rent agreement of the rented premises.

**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.

**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.

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, 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, 95.84% 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. Furthermore, 08 SME branches and 01 SAM office has been closed.

**6.2 Going concern assumption**

During the current period, the Bank had incurred a net loss of Rs. 2.215 billion (September 30, 2022: Rs. 0.957 billion), resulting in the accumulated losses of Rs. 10.179 billion (December 31, 2022: Rs. 7.964 billion). As at reporting date, the total liabilities of the Bank had exceeded its total assets by Rs. 7.577 billion (December 31, 2022: Rs. 5.365 billion), indicating the continue 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. 10.00 billion 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 favourable 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. 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 Cabinet in its meeting held on March 17, 2023 approved Winding Down Plan for SME Bank as a Way Forward. Based upon being public sector bank, which more than 93.88% shares are owned by Government of Pakistan and support from MoF for making payments of Customer deposits, 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. The appropriate assumption preparation of the unconsolidated Financial Statements for the year ending on December 31, 2023 shall be considered accordingly.

## SME BANK LIMITED

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

For the nine months ended September 30, 2023

		(Un-audited) September 30, 2023	(Audited) December 31, 2022
	Note	(Rupees in '000)	
<b>7. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		1,735	157,277
In transit - local currency		-	-
With State Bank of Pakistan (SBP) in:			
Local currency current accounts		10,356	429,842
With National Bank of Pakistan in:			
Local currency current accounts		1,372	21,839
Prize bonds		-	278
		<u>13,463</u>	<u>609,236</u>
<b>8. BALANCES WITH OTHER BANKS</b>			
In Pakistan:			
On current accounts		500	500
On deposit accounts		12,599	10,807
Provision for doubtful balance with a bank	8.1	(10,000)	(10,000)
		<u>3,099</u>	<u>1,307</u>
<b>8.1 Particulars of provision for doubtful placement with a bank</b>			
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.			
		(Un-audited) September 30, 2023	(Audited) December 31, 2022
<b>9. LENDINGS TO FINANCIAL INSTITUTIONS</b>		(Rupees in '000)	
Call money lendings		-	-
Repurchase agreement lendings (Reverse repo)		600,000	-
		<u>600,000</u>	<u>-</u>
<b>9.1 PARTICULARS OF LENDING</b>			
In local currency	9.1.1	600,000	-
		<u>600,000</u>	<u>-</u>
<b>9.1.1</b>	This Reverse Repo lending with SBP carrying markup rate @ 21.00% (December 31, 2022: Nil) per annum and has maturity period 01 day (December 31, 2022: Nil).		

**SME BANK LIMITED**

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

**For the nine months ended September 30, 2023**

**10. INVESTMENTS**

10.1 Investment by type	September 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)							
<b>Available-for-sale securities</b>								
Federal Government Securities	-	-	-	-	3,922,874	-	(1,881)	3,920,993
Shares	42,542	(15,890)	3,387	30,039	42,542	(15,863)	3,219	29,898
Mutual Funds	1,870	(709)	-	1,161	1,870	(218)	(601)	1,051
	<b>44,412</b>	<b>(16,599)</b>	<b>3,387</b>	<b>31,200</b>	<b>3,967,286</b>	<b>(16,081)</b>	<b>737</b>	<b>3,951,942</b>
<b>Held-to-maturity securities</b>								
Non Government Debt Securities								
- Term Deposit Receipts (TDRs)	-	-	-	-	2,600	-	-	2,600
- Certificates of Investments (COIs)	762	(762)	-	-	762	(762)	-	-
	<b>762</b>	<b>(762)</b>	<b>-</b>	<b>-</b>	<b>3,362</b>	<b>(762)</b>	<b>-</b>	<b>2,600</b>
<b>Subsidiary</b>								
Total Investment	<b>215,457</b>	<b>(168,647)</b>	<b>-</b>	<b>46,810</b>	<b>215,457</b>	<b>(134,709)</b>	<b>-</b>	<b>80,748</b>
	<b>260,631</b>	<b>(186,008)</b>	<b>3,387</b>	<b>78,010</b>	<b>4,186,105</b>	<b>(151,552)</b>	<b>737</b>	<b>4,035,290</b>

(Un-audited) (Audited)

September 30, December 31,

2023 2022

**10.1.1 Investment given as collateral**

	(Rupees in '000)	
	2023	2022
Market Treasury Bills (MTBs)	10.1.2	3,382,447
Pakistan Investment Bonds (PIBs)	10.1.2	-
		<b>3,382,447</b>

**10.1.2** These represent market value of securities at reporting date.

**SME BANK LIMITED**

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

**For the nine months ended September 30, 2023**

**10.2 Provision for diminution in value of investments**

(Un-audited) (Audited)  
September 30, December 31,  
2023 2022

**Rupees in 000**

<b>10.2.1</b>	Opening balance	151,552	151,552
	Charge / reversals		
	Charge for the period/year	34,456	-
	Reversal for the period/year	-	-
	Reversal on disposals	-	-
		34,456	-
	Transfers - net	-	-
	Amount written off	-	-
	Closing balance	186,008	151,552

**10.2.1.1** These include impairment of Rs. 33.94 million on investment in SME Leasing Ltd.(SMEL), the market share value of SMEL declining significantly and steadily over time. External Auditors' of the Company had shown significant doubt about the SME Leasing's ability to continue as a going concern and furthermore considering the winding down plan of the SME Bank Ltd., the calculation of impairment is based on market price.

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

(Un-audited)		(Audited)	
September 30, 2023		December 31, 2022	
Non performing investments	Provision	Non performing investments	Provision

**Rupees in 000**

<b>Domestic</b>			
Other assets especially mentioned	-	-	-
Substandard	-	-	-
Doubtful	762	762	762
Loss	762	762	762

**SME BANK LIMITED**

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

**For the nine months ended September 30, 2023**

	Performing		Non Performing		Total	
	(Un-audited) September 30, 2023	(Audited) December 31, 2022	(Un-audited) September 30, 2023	(Audited) December 31, 2022	(Un-audited) September 30, 2023	(Audited) December 31, 2022
<b>11. ADVANCES</b>	(Rupees in '000)					
Loans, cash credits, running finances, etc- In Pakistan						
Extended by:						
Defunct RDFC & SBFC	-	-	4,876,647	4,877,191	4,876,647	4,877,191
SME-Bank Ltd	372,976	1,217,911	564,830	179,762	937,806	1,397,673
Due from employees	22,422	41,351	5,966	5,966	28,388	47,317
Net investment in finance lease	395,398	1,259,262	5,447,443	5,062,919	5,842,841	6,322,181
Advances - gross	280	280	973	973	1,253	1,253
Provision for non-performing advances	395,678	1,259,542	5,448,416	5,063,892	5,844,094	6,323,434
Specific provision	-	-	(5,194,751)	(4,993,832)	(5,194,751)	(4,993,832)
General provision	(18)	(29)	-	-	(18)	(29)
	(18)	(29)	(5,194,751)	(4,993,832)	(5,194,769)	(4,993,861)
Advances - net of provision	395,660	1,259,513	253,665	70,060	649,325	1,329,573

	(Un-audited) September 30, 2023	(Audited) December 31, 2022
<b>11.1 Particulars of advances (Gross)</b>		
In local currency	5,844,094	6,323,434
In foreign currencies	-	-
	<b>5,844,094</b>	<b>6,323,434</b>

**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:

- the non-performing loans, collateral and the debtors;
  - 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;
  - 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.

## SME BANK LIMITED

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

#### For the nine months ended September 30, 2023

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

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

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

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

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

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

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

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. The management of the Bank is actively following up to resolve the matter through MoF.



- 11.3 Advances include Rs. 5,448.416 million (December 31, 2022: Rs. 5,063.892 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	(Un-audited) September 30, 2023		(Audited) December 31, 2022	
		Non Performing Loans	Provision	Non Performing Loans	Provision
(Rupees in '000)					
Domestic					
Other Assets Especially Mentioned		44,440	4,444	3,190	-
Substandard		127,026	31,757	2,477	128
Doubtful		236,803	118,401	10,944	-
Loss		5,040,147	5,040,149	5,047,281	4,993,704
	10.4.1	<b>5,448,416</b>	<b>5,194,751</b>	<b>5,063,892</b>	<b>4,993,832</b>

- 10.4.1 This include non performing loans and provision of Rs: 564.830 million and Rs: 311.163 million respectively (December 31, 2022: Rs. 179.762 million & Rs. 109.700 million) relating to SME portfolio.

- 11.4 Particulars of provision against advances

	September 30, 2023 (un-audited)			December 31, 2022 (audited)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	4,993,832	29	4,993,861	5,221,619	884	5,222,503
Charge/(Reversal)						
Charge for the period/year	210,228	2	210,230	14,613	25	14,638
Reversal for the period/year	(8,765)	(13)	(8,778)	(55,140)	(880)	(56,020)
	201,463	(11)	201,452	(40,527)	(855)	(41,382)
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(544)	-	(544)	(3,567)	-	(3,567)
Amounts charged off	-	-	-	(183,693)	-	(183,693)
Closing balance	<b>5,194,751</b>	<b>18</b>	<b>5,194,769</b>	<b>4,993,832</b>	<b>29</b>	<b>4,993,861</b>

- 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 mean cessation of the Bank's right to recover its money from borrowers through litigation or any other way.

- 11.4.3 Since the SME Bank Ltd. under the Phase of winding down process approved by Federal Cabinet in its meeting held on March 17, 2023, in order to represent realistic position of provision against bad & doubtful debts the accumulated impact of FSV benefit of Rs. 63,896 as at June 30, 2023 million availed has been derecognised. As of the current reporting date the effect of FSV benefit taken against provision is aggregated to Nil (December 31, 2022: Rs. 59.861 million).

11.4.4 Particulars of provisions against advances	September 30, 2023 (un-audited)			December 31, 2022 (audited)		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	5,194,751	18	5,194,769	4,993,832	29	4,993,861
In foreign currencies	-	-	-	-	-	-
	<b>5,194,751</b>	<b>18</b>	<b>5,194,769</b>	<b>4,993,832</b>	<b>29</b>	<b>4,993,861</b>

SME BANK LIMITED

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

For the nine months ended September 30, 2023

		(Un-audited) September 30, 2023	(Audited) December 31, 2022
	Note	(Rupees in '000)	
<b>12. FIXED ASSETS</b>			
Property and equipment	12.1	10,139	14,334
Right of use assets	12.2	-	365,976
		<u>10,139</u>	<u>380,310</u>
<b>12.1 Property and equipment</b>			
Net book value at the beginning of the period/year		14,334	11,556
Additions		1,884	7,257
Disposals		(1,108)	-
Depreciation		(4,971)	(4,479)
Net book value at the end of the period/year		<u>10,139</u>	<u>14,334</u>
<b>12.1.1 Additions to fixed assets</b>			
Following additions have been made to fixed assets during the period/year:			
<b>Property and equipment</b>			
Leasehold improvements		1,884	200
Furniture and fixture		-	117
Electrical office and computer equipment		-	6,940
		<u>1,884</u>	<u>7,257</u>
<b>12.1.2 Disposals of fixed assets</b>			
The net book value of fixed assets disposed off during the period/year is as follows:			
Leasehold improvements		-	-
Building on freehold land		-	-
Furniture and fixture		(13)	-
Electrical office and computer equipment		(1,095)	-
Vehicles		-	-
		<u>(1,108)</u>	<u>-</u>
<b>12.2 Right of use assets</b>			
Opening net book value		365,976	412,684
Additions/adjustment		(333,469)	7,102
Depreciation		(32,507)	(53,810)
Closing net book value		<u>-</u>	<u>365,976</u>
<b>12.2.1</b>			
Since winding down plan of the SME Bank Ltd is in process, therefore the management foresees amortization as per IFRS 16 regarding Right of Use of assets (Rented Premises) might not be possible. In lieu thereof the Management decided to derecognize the impact of lease liabilities and right of use of assets under IFRS 16 and reclassified the liability as a short term lease. Recognized rent expense as per rent agreement of the rented premises.			
<b>13. INTANGIBLE ASSETS</b>			
Computer Software	13.1	-	779
<b>13.1 Computer Software</b>			
Net book value at the beginning of the period/year		779	1,455
Additions		-	230
Disposals		-	-
Amortizations		(779)	(906)
Net book value at the end of the period/year		<u>-</u>	<u>779</u>
<b>13.1.1</b>			
Since the process of winding down has already been started, therefore, the Management has decided to fully amortize intangible assets amounting to Rs. 0.223 Million in the financial statements.			
<b>14. DEFERRED TAX ASSETS - NET</b>			
<b>Deferred tax asset</b>		-	1,165,977
<b>Deferred tax (liability)</b>		-	(916)
		<u>-</u>	<u>1,165,061</u>
<b>14.1</b>			
The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. Since the winding down process has already been started, it is unlikely that the deferred tax asset could be realized. Therefore, Deferred Tax Assets is derecognized in these Financial Statements.			

## SME BANK LIMITED

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

For the nine months ended September 30, 2023

		(Un-audited) September 30, 2023	(Audited) December 31, 2022
		(Rupees in '000)	
15. OTHER ASSETS	Note		
Income/mark-up accrued in local currency - net of provision	15.1	54,346	70,019
Advances, deposits, advance rent and other prepayments		11,266	19,569
Advance taxation - net	15.2	228,222	231,211
Advance tax against Sales Tax & FED		5,665	5,665
Non banking asset acquired in satisfaction of claims	15.3	147,066	147,066
Due from benevolent fund- unsecured		8,580	8,487
Receivable from NBP		6,130	4,986
Receivable from subsidiary company		119	6,548
Branch adjustment account		376	-
Receivable from Equity Participation Fund		4,146	4,146
Trading right entitlement certificate	15.5	-	21,560
Receivable from Speedway Fondmetall Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		5,148	5,148
Others		36,182	36,482
		<u>526,886</u>	<u>580,527</u>
Less: Provision held against other assets	15.4	64,232	83,815
Other assets (net of provision)		<u>462,654</u>	<u>496,712</u>
<b>15.1</b>	The balance has been arrived at after adjusting interest in suspense of Rs. 3,926.500 million (December 31, 2022: Rs. 3,876.985 million) which includes Rs: 132.844 million (December 31, 2022: Rs. 83.253 million) relating to SME portfolio.		
<b>15.2</b>	This includes the effect of refunds aggregating to Rs. 232.599 million (2021: Rs. 232.599 million) due from FBR. 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, the Islamabad High Court has decided in the favour of Bank through its judgement dated March 28, 2023.		
<b>15.3</b>	This include Rs. 138.6 million (December 31, 2021: Rs. 138.6 million) being the successful bid made by SME Bank for acquiring Bungalow No. 45, Block-C/3, Gulberg III, Lahore (the Property) mortgaged with the Bank as a security in a defaulted loan and Rs. 8.47 million pertaining stamps/stamps duties for registration of sale certificate issued by the High Court to SME Bank (Auction Purchaser) of the Property. The auction was carried out on 30 June 2015 and subsequently the Honorable Lahore High Court through its decision dated 14 July 2015 allowed the 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-party 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. The next date of hearing in banking court is November 03, 2023.		

The title of said property is under the process of transfer in the name of SME Bank Ltd. in the records of LDA, in this regard the Bank has filed the documents as desired by the LDA including the certified copy of previous Sale Deed in the Bank's favour on October 07, 2023 for further processing/verification. As per latest valuation report dated November 11, 2022 the market value of the Property was Rs. 296.113 million.

	(Un-audited) September 30, 2023	(Audited) December 31, 2022
<b>15.4 Provision held against other assets</b>	<b>(Rupees in '000)</b>	
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	12,238	10,228
Legal charges recoverable from borrowers - SBFC & RDFC	22,621	22,653
Trading right entitlement certificate - TREC	-	21,560
Others	108	109
	<u>64,232</u>	<u>83,815</u>
<b>14.4.1 Movement in provision held against other assets</b>		
Opening balance	83,815	117,919
Charge for the period	3,052	2,746
Reversals for the period	(1,043)	(8,051)
	2,009	(5,305)
Transferred to NBP	(32)	(5)
Amount written off/charged off	(21,560)	(28,794)
Closing balance	<u>64,232</u>	<u>83,815</u>
<b>15.5 Trading right entitlement certificate -TREC</b>		

With reference to Trading Right Entitlement Certificate (TREC), SBP inspection report dated June 30, 2017 stated that;

“SME Bank acquired membership cards of Islamabad and Lahore Stock Exchanges (ISE and LSE) as a result of settlement with borrowers in the year 2011. In accordance with the requirement of Stock Exchange (Corporatization, Demutualization and Integration) Act 2012 during the year 2012, the bank received equity shares and one Trading Entitlement Certificate (TREC) each in lieu of its membership cards in Lahore Stock Exchange and Islamabad Stock Exchange. The value of these TRECs recorded in books of accounts of the bank amounted to Rs. 21.560 million in other assets. As per requirement of the stock exchange the bank has to establish a brokerage company for trading purposes till August 26, 2014 to avail the benefits if these TRECs. However, bank was unable to fulfill the requirements of establishment of Brokerage Company till the cutoff date. Pursuant to provisions of the Act, the Bank's trading rights in LSE and ISE have lapsed on August 26, 2014. As per bank they were perusing the concerned authorities for the re-instatement of these rights and had put the same in sub-standard category. However, neither any breakthrough had been achieved nor these rights were sold or materialized in cash. Resultantly, SBP transferred it to loss category.” Accordingly, SME Bank Ltd booked 100% provision against TREC in the Financial Statements for the year ended December 31, 2017.

In light of the above and winding down process of SME bank Ltd, Trading Rights Entitlement Certificates (TRECs) for Rs. 21.560 Million have been written off in the financial statements.

SME BANK LIMITED

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

For the nine months ended September 30, 2023

		(Un-audited) September 30, 2023	(Audited) December 31, 2022
<b>16. BILLS PAYABLE</b>	<b>Note</b>	<b>(Rupees in '000)</b>	
In Pakistan	16.1	42,543	65,390
Outside Pakistan		-	-
		<u>42,543</u>	<u>65,390</u>
<b>16.1</b>	This includes amount of stale bills payable Rs. 21.528 million (December 31, 2022: Rs. 30.799 million).		
<b>17. BORROWINGS</b>			
<b>Secured</b>			
Borrowing from State Bank of Pakistan			
Under Financing facility for storage of agricultural produce	17.2	83,528	97,810
Under Modernisation of small and medium enterprises	17.2	27,620	33,831
		<u>111,148</u>	<u>131,641</u>
Repurchase agreement borrowings			
State Bank of Pakistan	17.3	-	3,367,714
Financial Institutions	17.3	-	-
		-	3,367,714
		<u>111,148</u>	<u>3,499,355</u>
<b>17.1 Particulars of borrowings with respect to Currencies</b>			
In local currency		111,148	3,499,355
In foreign currencies		-	-
		<u>111,148</u>	<u>3,499,355</u>
<b>17.2</b>	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.		
<b>17.3</b>	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.		
<b>18. DEPOSITS AND OTHER ACCOUNTS</b>			
		<b>September 30, 2023 (un-audited)</b>	<b>December 31, 2022 (audited)</b>
		<b>In Local Currency</b>	<b>In Local Currency</b>
		<b>In Foreign Currency</b>	<b>In Foreign Currency</b>
		<b>Total</b>	<b>Total</b>
		<b>(Rupees in '000)</b>	
<b>Customers</b>			
Current deposits		50,027	1,212,304
Savings deposits		1,349,221	3,707,884
Term deposits		578,885	2,768,090
Others		10,386	80,941
		<u>1,988,519</u>	<u>7,769,219</u>
<b>Financial Institutions</b>			
Current deposits		-	19
Savings deposits		659,046	635,950
Term deposits		-	67,300
Others		-	-
		<u>659,046</u>	<u>703,269</u>
		<u>2,647,565</u>	<u>8,472,488</u>

**18.1** Government of Pakistan - MoF extended liquidity support of Rs. 5.557 billion for making payments of customer deposits. As at reporting date, 95.84% of allocated funds has been paid to the Customers depositor.

	Note	(Un-audited) September 30, 2023	(Audited) December 31, 2022
<b>19. OTHER LIABILITIES</b>			
(Rupees in '000)			
Mark-up/ return/ interest payable in local currency		109,195	207,044
Unearned commission on guarantees		116	6,203
Accrued expenses		34,772	16,754
Sundry creditors	19.1	101,195	100,984
Branch adjustment account		-	2,054
Payable against employees' benefit plans			
Defined benefit pension		377,954	358,708
Defined benefit funded gratuity scheme		10,176	11,866
Unfunded compensated absences		86,538	82,186
Security deposits against lease		280	280
Leased liability against right of use assets	19.4	-	526,856
Employees' VSS payments withheld		12,076	12,076
Income tax withheld payable		20,767	19,098
FMGP funds - GoP	19.2	5,557,213	-
DPC - reimbursements of protected deposits	19.3	280,206	-
Others		1,527	1,757
		<u>6,592,015</u>	<u>1,345,866</u>

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.

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

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

19.4 The winding down plan of SME Bank Ltd. is in process, due to this management foresee that the amortization as per IFRS 16 regarding Right of use of assets (rented premises) might not be possible. Therefore, Management decided to de-recognized the impact of lease liabilities and right of use of assets and recognized rent expense as per rent agreement of the rented premises.

	(Un-audited) September 30, 2023	(Audited) December 31, 2022
<b>20. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS</b>		
(Rupees in '000)		
Surplus/(deficit) on revaluation of available-for-sale securities		
- Federal Government securities	-	(1,881)
- Listed companies/mutual funds	3,387	2,618
	3,387	737
Deferred tax on surplus/(deficit) on revaluation of available-for-sale securities		
- Federal Government securities	-	-
- Listed companies/mutual funds	-	(916)
	<u>3,387</u>	<u>(179)</u>

		(Un-audited) September 30, 2023	(Audited) December 31, 2022
		(Rupees in '000)	
<b>21.</b>	<b>CONTINGENCIES AND COMMITMENTS</b>	<b>Note</b>	
	- Guarantees	21.1	14,576
	- Commitments	21.2	-
	- Other contingent liabilities	21.3	1,094,439
			<u>1,109,015</u>
<b>21.1</b>	<b>Guarantees</b>		
	Financial guarantees		-
	Performance guarantees	21.1.1	14,576
	Other guarantees		-
			<u>14,576</u>
<b>21.1.1</b>	This include expired letter of guarantees/performance aggregating to Rs. Nil million).		(December 31, 2022: Rs. 60.558 million).
<b>21.2</b>	<b>Commitments</b>		
	Commitments in respect of:		
	- forward government securities transactions	21.2.1	-
	- forward lending	21.2.2	-
	Commitments for acquisition of:		
	- operating fixed assets		-
	- intangible assets		-
	Other commitments	21.2.3	-
			<u>95</u>
			<u>3,557,269</u>
<b>21.2.1</b>	<b>Commitments in respect of forward government securities transactions</b>		
	Sale and repurchase agreements		-
<b>21.2.2</b>	<b>Commitments in respect of forward lending</b>		
	Undrawn facilities		-
	Commitments to extend credit		-
			<u>140,292</u>
			<u>17,000</u>
			<u>157,292</u>
<b>21.2.3</b>	<b>Other commitments</b>		
	<b>Bills for collection</b>		
	Payable in Pakistan		-
			<u>95</u>
<b>21.3</b>	<b>Other contingent liabilities</b>		
	a) Claims not acknowledged as debt from various borrowers of defunct RDFC.		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
			<u>31,860</u>
			<u>612,707</u>
			<u>1,180,924</u>

	(Un-audited) September 30, 2023	(Audited) December 31, 2022
	(Rupees in '000)	
c) The Bank and the income tax department have filed cross appeals against the appellate order of the Commissioner (Appeals), who had partly set aside the order of the taxation officer, resulting in taxable income of Rs. 151.234 million and tax liability of Rs. 52.932 (payable amounting Rs. 6.163 million after adjustment of credit for taxes paid/ suffered at source amounting Rs. 46.768 million) against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4.249 million for the tax year 2008. Without prejudice to the appeal, the Bank has offered adjustment of said demand against refunds available for tax year 2009. Application with the CIR has been submitted to adjust the tax demand against refund of the tax year 2009.	-	6,163
d) DCIR raised tax demand for the tax year 2010 for Rs. 211.716 million which was again amended to Rs.198, 528,541/- vide Order # 11/40 dated 22-May-2013 u/s 221, stay against from Islamabad High Court was obtained and also appeal was filed with CIRA-II who partly accepted the Bank's plea in the case and remanded it back to DCIR for verification of evidences and opportunity of hearing the Bank for certain issues vide his order in Appeal # 968/2013 dated 07-Jan-2014. Parallel to that Bank has filed 2nd appeal in ATIR on 27-Feb-2014 and rectification application was also submitted with CIRA on 24-Feb-2014 no decision has been made yet. The tax department has also filed an appeal with the ATIR through Commissioner (Legal) vide their letter # 249 dated 7-Mar-2014. Based on the facts revealed by the consultants vide letter # IT/1156/2015 dated March 03, 2015, the management strongly believes for favorable outcome in the case and therefore no provision in this respect has been recorded in these unconsolidated financial statements.	198,529	198,529
e) The taxation officer created aggregate demand of Rs.53.674 million for withheld amount of Rs.17.598 million from VSS payment of employees for the Tax Years 2003-2004 -2005-2006-2008-2009-2010-2011-2013 which was not deposited upon advice of the legal advisor due to stay order of Supreme Court of Pakistan. The case is pending before Appellate Tribunal Inland Revenue and the provision of default surcharge Rs. 36.076 million was not made ipso facto.	36,076	36,076
f) The Officer Inland Revenue, LTU, Islamabad created demand for Rs. 21.171 million for tax year 2016 under section 161/205 of the Income Tax Ordinance, 2001. After rejection of the first appeal by CIRA the Bank has submitted second appeal before Appellate Tribunal Inland Revenue along with stay application to keep the recovery proceedings in abeyance. The referred second appeal has not yet been fixed for hearing.	21,171	21,171
g) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2013. The Bank filed an appeal before the Commissioner (Appeals), who has remanded the case back to assessing officer, notice to fresh proceeding have been replied no further action on the response. The appeal effect proceeding u/s 124 of the ITO, 2001 has now become time barred.	-	18,663



	(Un-audited) September 30, 2023	(Audited) December 31, 2022
	(Rupees in '000)	
h) The Officer Inland Revenue, LTU, Islamabad issued an order u/s 161/205 for the tax year 2017 without serving proper notices. An appeal against this impugned order has been filed before the Commissioner (Appeals), which is pending for fixation. Without prejudice, the tax department has been requested to adjust the tax demand with the available income tax refunds.	38,723	38,723
i) The Officer Inland Revenue, LTU, Islamabad made an assessment for the year 2001-2002 vide order dated June 20, 2005 of Rs. 590.667 million and a tax demand of Rs. 118.721 million which was contested in ATIR which ordered the appeal in Bank's favor vide Order no. ITA No.857/IB/2006 dated April 05, 2007. Tax department has filed income tax reference with the Islamabad High Court having no. I.T.R. 48 of 2007 where the case has been decided in favour of the Bank dated 03-Oct-2023	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 tax amounting Rs. 1.708 million questioned against which Rs. 1.518 million and Rs. 1.045 million were created for the period Jan-Dec 2009 and Jul'2011-Jun'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. ATIR remanded back the case for tax year 2008 & 2010 therefore, no demand exists.	993	20,452
k) The Officer Inland Revenue, LTU, Islamabad demand of Rs. 16.939 million for the tax year 2016 under section 122(5A) of the Income tax Ordinance, 2001. An appeal is pending before Commissioner (Appeals). Meanwhile stay is also granted in the instant case to keep the recovery proceedings in abeyance.	16,939	16,939
l) Back benefits and claims of staff/employees under litigation.	18,720	60,920

## SME BANK LIMITED

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

For the nine months ended September 30, 2023

		September 30, 2023	September 30, 2022
<b>22. MARK-UP/ RETURN/ INTEREST EARNED</b>	<b>Note</b>	<b>(Rupees in '000)</b>	
On loans and advances to Customers			
Extended by:			
Defunct RDFC & SBFC		-	-
SME Bank Limited		<u>183,130</u>	<u>199,649</u>
		<b>183,130</b>	<b>199,649</b>
Employees		<b>1,060</b>	<b>1,729</b>
Financial Institution - SME Leasing Limited - a subsidiary company		<u>-</u>	<u>16,247</u>
		<b>184,190</b>	<b>217,625</b>
On investments in			
Available for sale securities		<u>156,654</u>	<u>337,018</u>
Held to maturity securities		<u>173</u>	<u>763</u>
		<b>156,827</b>	<b>337,781</b>
On deposits with financial institutions		<b>260</b>	<b>217</b>
Lendings to financial institutions		<u>78,509</u>	<u>401</u>
		<u><b>419,786</b></u>	<u><b>556,024</b></u>
<b>23. MARK-UP/ RETURN/ INTEREST EXPENSED</b>			
On deposits		<b>500,237</b>	<b>532,969</b>
On securities sold under repurchase agreements		<b>151,150</b>	<b>324,925</b>
On SBP Refinance Scheme		<b>1,593</b>	<b>1,564</b>
Brokerage and commission		<b>129</b>	<b>1,023</b>
Bank charges		<u>171</u>	<u>107</u>
		<u><b>653,280</b></u>	<u><b>860,588</b></u>
<b>24. FEE &amp; COMMISSION INCOME</b>			
Branch banking customer fees		<b>1,030</b>	<b>2,226</b>
Card related fees		<b>181</b>	<b>322</b>
Credit related fees		<b>620</b>	<b>991</b>
Commission on guarantees		<b>7,339</b>	<b>6,565</b>
Commission on remittances		<b>11</b>	<b>29</b>
Others		<u>17</u>	<u>18</u>
		<u><b>9,198</b></u>	<u><b>10,151</b></u>
<b>25. GAIN / (LOSS) ON SECURITIES</b>			
Realised	25.1	<b>(927)</b>	<b>(2,545)</b>
Unrealised - held for trading		<u>-</u>	<u>-</u>
		<u><b>(927)</b></u>	<u><b>(2,545)</b></u>
<b>25.1 Federal Government Securities - net Shares</b>		<b>(927)</b>	<b>(2,545)</b>
		<u>-</u>	<u>-</u>
		<u><b>(927)</b></u>	<u><b>(2,545)</b></u>
<b>26. OTHER INCOME</b>			
Gain on sale of operating fixed assets - net		<b>7,953</b>	<b>-</b>
Fee on fund managed by the Bank -EPF		<b>-</b>	<b>-</b>
Others		<u>19</u>	<u>-</u>
		<u><b>7,972</b></u>	<u><b>-</b></u>

## SME BANK LIMITED

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

For the nine months ended September 30, 2023

	September 30, 2023	September 30, 2022
<b>27. OPERATING EXPENSES</b>	<b>(Rupees in '000)</b>	
<b>Total compensation expense</b>	566,288	530,077
<b>Property expense</b>		
Rent & taxes	13,591	5,395
Insurance	670	2,196
Utilities cost	24,288	25,555
Security (including guards)	14,456	17,434
Repair & maintenance	4,199	5,782
Depreciation	33,092	40,959
Others	-	-
	90,296	97,321
<b>Information technology expenses</b>		
Software maintenance	4,969	4,154
Hardware maintenance	1,027	1,816
Depreciation	2,195	773
Amortization	779	675
Network charges	7,313	12,423
Others	300	431
	16,583	20,272
<b>Other operating expenses</b>		
Directors' fees, allowances and other expenses	5,339	2,130
Legal and professional charges	2,571	5,763
Outsourced services costs	19,440	21,012
Travelling and conveyance	1,346	1,905
NIFT clearing charges	1,514	2,196
Depreciation	2,191	1,867
Training & development	14	691
Postage & courier charges	612	511
Communications	2,864	3,297
Stationery and printing	2,613	4,421
Marketing, advertisement & publicity	985	936
Donations	-	-
Auditors' remuneration	647	783
Vehicle running and maintenance	4,970	4,678
Entertainment	1,640	1,658
Subscription, books and newspapers	2,941	2,793
Deposits premium	3,333	3,949
Others	534	623
	53,554	59,213
	<b>726,721</b>	<b>706,883</b>

## SME BANK LIMITED

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

For the nine months ended September 30, 2023

	September 30, 2023	September 30, 2022
	(Rupees in '000)	
<b>28. OTHER CHARGES</b>		
Penalties imposed by the State Bank of Pakistan	-	5
Right of use assets - unwinding of present value	(137,901)	51,030
	<u>(137,901)</u>	<u>51,035</u>
<b>29. PROVISIONS &amp; WRITE OFFS - NET</b>		
Provisions/(reversals) for diminution in value of investment	34,456	-
Provisions/(reversals) against loans & advances	201,452	(5,753)
Other provisions (reversals) / write offs:		
Provisions/(reversals) against other assets	2,009	(3,750)
Bad debts written off directly	-	-
	<u>237,917</u>	<u>(9,503)</u>
<b>30. TAXATION</b>		
Current	5,351	8,504
Prior periods	-	-
Deferred	1,165,977	(95,393)
	<u>1,171,328</u>	<u>(86,889)</u>
	September 30, 2023	September 30, 2022
	(Rupees in '000)	
<b>31. BASIC/ DILUTED LOSS PER SHARE</b>		
Net loss after tax for the period	<u>(2,215,316)</u>	<u>(957,413)</u>
	<u>Number of shares</u>	
Weighted average number of ordinary shares	<u>239,250,700</u>	<u>239,250,700</u>
	<u>Rupees</u>	
Basic/ diluted loss per share	<u>(9.26)</u>	<u>(4.00)</u>

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

**SME BANK LIMITED**

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

**For the nine months ended September 30, 2023**

**32 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of break-up value of these investments as per their latest available audited financial statements.

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

**September 30, 2023 (un-audited)**

	FAIR VALUE				Total
	Level 1	Level 2	Level 3	carrying / notional value	
	(Rupees in '000)				
<b>32.1 On balance sheet financial instruments</b>					
Financial assets measured at fair value					
- Investments					
Government securities (T bills and PIBs)	-	-	-	-	-
Ordinary shares of listed companies/Mutual funds	4,730	-	-	-	4,730
Ordinary shares of unlisted companies	-	-	-	26,470	26,470
Financial assets not measured at fair value					
- Bank balances with treasury banks	-	-	-	11,728	11,728
- Balances with other banks	-	-	-	3,099	3,099
- Lending to financial institutions	-	-	-	600,000	600,000
- Advances	-	-	-	649,325	649,325
- Other assets	-	-	-	64,762	64,762
- Other Investment (COI/TDR)	-	-	-	-	-
- Subsidiary					
SME Leasing Limited	46,810	-	-	-	46,810

**SME BANK LIMITED**

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

**For the nine months ended September 30, 2023**

December 31, 2022 (audited)

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

Note

(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	32.2	-	-	451,681	451,681
- Balances with other banks	32.2	-	-	1,307	1,307
- Lending to financial institutions	32.2	-	-	-	-
- Advances	32.2	-	-	1,329,573	1,329,573
- Other assets	32.2	-	-	87,948	87,948
- Other Investment (COI/TDR)	32.2	-	-	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).

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

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

**32.3** The Bank's policy is to recognise transfer into and out of the different fair value hierarchy levels at the date, the event or change in circumstances, that caused the transfer occurred. There were no transfers between level 1 and level 2 during the year.

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

Fully paid-up ordinary shares

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

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

Pakistan Investment Bonds / Market Treasury Bills

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

## 33. SEGMENT INFORMATION

## 33.1 Segment details with respect to business activities

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

	September 30, 2023 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
<b>Profit &amp; Loss</b>			
Net mark-up/return/profit	235,336	184,450	419,786
Inter segment revenue - net	-	108,400	108,400
Non mark-up/return/interest income	(927)	17,170	16,243
<b>Total income</b>	<b>234,409</b>	<b>310,020</b>	<b>544,429</b>
Segment direct expenses	168,958	1,073,142	1,242,100
Inter segment expenses allocation	108,400	-	108,400
<b>Total expenses</b>	<b>277,358</b>	<b>1,073,142</b>	<b>1,350,500</b>
Provisions	34,456	203,461	237,917
<b>Loss before tax</b>	<b>(77,405)</b>	<b>(966,583)</b>	<b>(1,043,988)</b>
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
<b>Balance Sheet</b>			
Cash & bank balances	10,378	6,184	16,562
Investments	78,010	-	78,010
Net inter segment lending		650,908	650,908
Lending to financial institutions	600,000	-	600,000
Advances - Performing	-	395,660	395,660
- Non-performing	-	253,665	253,665
Others	137,513	335,280	472,793
<b>Total Assets</b>	<b>825,901</b>	<b>1,641,697</b>	<b>2,467,598</b>
Borrowings	-	111,148	111,148
Deposits & other accounts	-	2,647,565	2,647,565
Net inter segment borrowing	650,908	-	650,908
Others	329,249	6,305,309	6,634,558
<b>Total Liabilities</b>	<b>980,157</b>	<b>9,064,022</b>	<b>10,044,179</b>
Equity	(154,256)	(7,422,325)	(7,576,581)
<b>Total Equity &amp; liabilities</b>	<b>825,901</b>	<b>1,641,697</b>	<b>2,467,598</b>
Contingencies & Commitments	-	1,109,015	1,109,015

SME BANK LIMITED

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

For the nine months ended September 30, 2023

	September 30, 2022 (un-audited)		
	Trading & Sales	Commercial Banking	Total
	(Rupees in '000)		
Profit & Loss			
Net mark-up/return/profit	338,183	217,841	556,024
Inter segment revenue - net	-	81,432	81,432
Non mark-up/return/interest income	(1,474)	10,151	8,677
Total income	336,709	309,424	646,133
Segment direct expenses	342,529	1,275,977	1,618,506
Inter segment expenses allocation	81,432	-	81,432
Total expenses	423,961	1,275,977	1,699,938
Provisions	-	(9,503)	(9,503)
Loss before tax	(87,252)	(957,050)	(1,044,302)
	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

Assumptions used:

- Unallocatable assets representing 3.49% (December 31, 2022: 10.74%) of the gross assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 6.52% (December 31, 2022: 4.52%) of the gross liabilities have been allocated to segments based on their respective incomes.

**33.2 Segment details with respect to geographical locations**

Presently the Bank does not deal outside Pakistan





SME BANK LIMITED

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

For the nine months ended September 30, 2023

	September 30, 2023 (un-audited)							September 30, 2022 (un-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
<b>Income</b>												
Mark-up / return / interest earned	-	140	-	-	-	-	16,247	188	-	-	-	-
Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-
<b>Expense</b>												
Mark-up / return / interest expense	-	263	243	83,428	219,487	139	-	1,085	1,093	43,008	115,715	165
Fees and other expenses	-	-	5,339	-	-	-	-	-	2,130	-	-	-
Remuneration and allowances	-	67,914	9,574	-	-	-	-	61,990	8,792	-	-	-
Charge for the period relating to employees benefit plans	-	-	-	-	101,442	-	-	-	-	-	106,158	-
				<b>Description</b>					<b>Interest rate</b>			
Principal terms of loan facility to SMEL				Running finance facility upto Rs. 150 million					6 months Kibor + 4.0%			
Principal terms of deposit to Equity Participation Fund				Remunerative deposits					20.50%			
Principal terms of deposit to Employee Benefit Plans				Remunerative deposits					15.35% to 20.50%			
Principal terms of deposit to Directors/CEO				Remunerative deposits					20.50%			

**35. CAPITAL ADEQUACY**

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

		(Un-audited) September 30, 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)		(10,179,001)	(7,963,685)
		(7,579,968)	(5,364,652)
Less: Adjustments			
Goodwill/intangible Assets		-	779
Investment in equity of subsidiary		46,810	80,748
Deficit on revaluation of available for sale investments		-	179
		46,810	81,706
<i>Total tier I capital</i>		(7,626,778)	(5,446,358)
<i>Tier II capital</i>		18	29
<i>Eligible tier III capital</i>		-	-
Total regulatory capital	(a)	(7,626,760)	(5,446,329)
		(Un-audited) September 30, 2023	(Audited) December 31, 2022
		Book value	Risk adjusted value
		Book value	Risk adjusted value
		(Rupees in '000)	
Risk-weighted exposures			
Balance sheet items:			
Cash and other liquid assets		16,562	620
Investments/ lending to financial institutions		678,010	151,200
Loans and advances		649,325	471,434
Fixed assets		10,139	10,139
Deferred tax assets		-	-
Other assets		462,654	234,431
		1,816,690	867,824
Off balance sheet items			
Weighted Non-funded exposures		7,859	3,930
		7,859	3,930
Credit risk-weighted exposures	(b)	1,824,549	871,754
Market risk			62,400
Market risk-weighted exposures		-	62,400
Total risk-weighted exposures	(c)		934,154
<i>Capital adequacy ratio credit risk</i> [ (a) / (b) x 100 ]			-874.88%
<i>Total capital adequacy ratio</i> [ (a) / (c) x 100 ]			-816.43%

State Bank of Pakistan (SBP) has granted exemption to the Bank vide letter No. BSD/SU-21/220/1624/2007 dated June 08, 2007 from computing capital adequacy ratio under BASEL II till restructuring/privatization and has granted exemption from implementation of Basel III Capital Instructions till restructuring/privatization vide SBP letter # BPRD/BA&CPD/646/000886/16 dated January 12, 2016. Accordingly, the Bank computes capital adequacy ratio under BASEL I and SBP has allowed exemption in meeting the minimum CAR requirements of 10% till December 31, 2019 or completion of restructuring/ privatization of the Bank, whichever is earlier vide SBP letter No. BPRD/BA&CPD/646/332/20 dated January 6, 2020. SME Bank has requested SBP to allow further extension which is pending.

36. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on November 22, 2023.



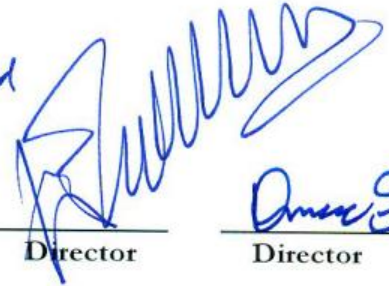
\_\_\_\_\_  
President/CEO



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



\_\_\_\_\_  
Director



\_\_\_\_\_  
Director



\_\_\_\_\_  
Director