

SME Leasing Limited  
Third Quarterly Report 30 September 2022

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

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Mr. Javed Mehmood, Chairman  
Mr. Dilshad Ali Ahmad  
Mr. Tahir Saeed Effendi  
Mr. Muhammad Mubeen Mufti  
Mr. Bilal Mohy Ud Din  
Ms. Darakhshan Sheikh Vohra  
Mr. Asghar Maqsood \*

*\* Approval from the SECP is in process*

### **CHIEF EXECUTIVE OFFICER**

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Mr. Asghar Maqsood

### **AUDIT COMMITTEE**

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Mr. Tahir Saeed Effendi, Chairman  
Mr. Muhammad Mubeen Mufti  
Mr. Bilal Mohy Ud Din

### **RISK MANAGEMENT COMMITTEE**

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Mr. Javed Mehmood, Chairman  
Mr. Muhammad Mubeen Mufti  
Mr. Bilal Mohy Ud Din  
Ms. Darakhshan Sheikh Vohra

### **HUMAN RESOURCE COMMITTEE**

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Mr. Tahir Saeed Effendi, Chairman  
Mr. Dilshad Ali Ahmad  
Mr. Muhammad Mubeen Mufti  
Mr. Asghar Maqsood

### **PROCUREMENT COMMITTEE**

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Mr. Tahir Saeed Effendi, Chairman  
Mr. Dilshad Ali Ahmad  
Mr. Bilal Mohy Ud Din

### **NOMINATION COMMITTEE**

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Mr. Tahir Saeed Effendi, Chairman  
Mr. Dilshad Ali Ahmad  
Mr. Muhammad Mubeen Mufti

### **COMPANY SECRETARY & CFO**

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Mr. M Shahzad

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**EXTERNAL AUDITORS**

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BDO Ebrahim & Co, Chartered Accountants

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**INTERNAL AUDITOR (ACTING)**

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Syed Muhammad Khurram Ali

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**TAX CONSULTANTS**

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EY Ford Rhodes, Chartered Accountants

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**LEGAL ADVISOR**

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Mohsin Tayebaly & Co., Advocate & Legal Consultant

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**CREDIT RATING**

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Long Term: B- (B Minus)                      Short Term: A4

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**REGISTERED OFFICE**

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56-F, Nazim-ud-Din Road, F-5/1, Blue Area, Islamabad

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**MAIN OFFICE**

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Office No.304, 3rd Floor, Business Arcade, Shakra-e-Faisal, Karachi  
Tel: (+92-21) 34322128-129-137                      Fax: (+92-21) 34322082  
E-mail: info@smelease.com

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**REGISTRAR AND SHARE TRANSFER CERTIFICATE**

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Corptec Associates (Pvt.) Limited  
503-E, Johar Town, Lahore

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**BANKS AND LENDING INSTITUTIONS**

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SME Bank Limited  
Meezan Bank Limited

## Directors' Review Report

The Board of directors of SME Leasing Limited (the Company) is pleased to present unaudited condensed interim financial statements for the nine months that ended on September 30, 2022.

During the period, the management continued its strategy to make recoveries from the NPL portfolio; and control costs.

The profit before tax during the period under review was Rs. 0.34 Million compared to a loss before tax of Rs. 16.268 million in the corresponding period last year. During the period, the Company recovered Rs. 59.081 Million from the portfolio and wrote new leases of Rs. 14.083 Million. An increase of Rs 4.803 Million was recorded in the revenues compared to the corresponding period last year. Net provision reversals during the period were Rs. 39.355 million compared to a reversal of net provision of Rs. 21.047 million in the corresponding period of last year. Administrative expenses increased by Rs 3.246 million compared with the previous year's corresponding period. The unavailability of funds remained a major obstacle in converting the Company into a profit-making institution.

The Company's Net equity was Rs. 6.7 million as of September 30, 2022, against the prescribed minimum equity requirement of Rs 50 million for non-deposit taking leasing companies.

On April 06 2022, PACRA maintained the entity ratings of the Company, which are as under:

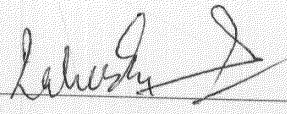
- Long-term "B-"
- Short-term "A4"
- Outlook Negative

Regarding the privatisation of the Parent Company, SME Bank Limited (Bank) and its Subsidiary, the Cabinet Committee on Privatisation (CCOP) approved the new privatisation program of the Bank on March 06, 2019, to divest the Government of Pakistan (GOP) equity stake in the Bank along with management control to a strategic investor as per the decision dated November 19, 2018, of the GOP, whereas the due process was started and various stakeholders participated including the prospective investors. However, due to the lack of interest from prospective investors, the Board of Privatisation Commission, in its meeting held on November 25, 2021, has recommended the delisting of SME Bank Limited from the list of privatisations. The Financial Adviser (FA) of the Privatisation Commission asserted that despite all efforts and iterative interactions with the pre-qualified bidders to date, positive feedback from the pre-qualified bidders is not forthcoming and owing to the deteriorating financial position of the Bank, the FA recommended shelving the Transaction. The

recommendation of the Board of Privatisation was presented to the CCOP in its meeting held on December 31, 2021, where the CCOP decided to ascertain the way forward for the Bank before delisting from the list of privatisation; and, in this regard, constituted a committee consisting of Deputy Governor SBP, Secretary Finance, Secretary Privatisation Commission, Chairman SECP and Minister of Finance.

The Board recognises and appreciates the continued support of all stakeholders.

  
\_\_\_\_\_  
Asghar Maqsood  
Chief Executive Officer

  
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Director

Dated: December 29, 2022



SME LEASING LIMITED  
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UN-AUDITED)  
AS AT SEPTEMBER 30, 2022

		September 30, 2022	December 31, 2021
	Note	Un-Audited ----- Rupees -----	Audited
<b>ASSETS</b>			
<b>NON - CURRENT ASSETS</b>			
Property and equipment	8	3,119,722	3,340,157
Right-of-use assets	9	4,485,502	6,697,288
Intangible Assets	10	-	-
Net investment in finance leases	11	182,703,571	177,323,371
Long term finances and loans - secured	12	34,635,414	43,914,041
Long term loans to employees - secured	13	19	343,921
Long term deposits and prepayments	14	772,222	787,222
		<b>225,716,450</b>	<b>232,406,000</b>
<b>CURRENT ASSETS</b>			
Advances	15	3,067,415	2,779,957
Prepayments and other receivables	16	1,834,728	749,393
Current maturity of assets subject to finance lease	11	51,008,194	98,019,136
Current maturity of non current assets	17	9,507,379	9,433,280
Cash and bank balances	18	1,017,380	3,157,864
		<b>66,435,096</b>	<b>114,139,630</b>
<b>TOTAL ASSETS</b>		<b>292,151,546</b>	<b>346,545,631</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized share capital 100,000,000 (2020: 100,000,000) Ordinary shares of Rs 10 each		<b>1,000,000,000</b>	<b>1,000,000,000</b>
Issued, subscribed and paid-up capital 32,000,000 (2020: 32,000,000) Ordinary shares of Rs. 10 each		<b>320,000,000</b>	<b>320,000,000</b>
Capital reserves		<b>38,019,277</b>	<b>38,019,277</b>
		<b>358,019,277</b>	<b>358,019,277</b>
<b>REVENUE RESERVES</b>			
Reserve against future losses		<b>10,447,052</b>	<b>10,447,052</b>
Accumulated losses		<b>(361,767,317)</b>	<b>(361,930,933)</b>
		<b>(351,320,265)</b>	<b>(351,483,881)</b>
		<b>6,699,012</b>	<b>6,535,396</b>
<b>NON - CURRENT LIABILITIES</b>			
Liabilities against assets subject to finance lease	19	1,590,072	4,020,884
Long-term deposits	11.1	86,678,295	130,202,795
Defined benefit obligation		10,193,114	9,764,513
		<b>98,461,481</b>	<b>143,988,192</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		3,712,480	2,736,096
Mark-up accrued on borrowings		6,543,278	4,209,212
Short term borrowings - secured	20	140,695,386	137,183,616
Current maturity of non-current liabilities	21	28,723,573	44,918,469
Current maturity of liabilities against assets subject to finance lease	19	3,437,513	3,594,336
Provision for compensated absences		3,556,473	3,045,411
Taxation - net		322,350	334,902
		<b>186,991,053</b>	<b>196,022,042</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>292,151,546</b>	<b>346,545,631</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	22		

The annexed notes from 1 to 33 form an integral part of these condensed interim financial statements.

  
CHIEF EXECUTIVE OFFICER

  
CHIEF FINANCIAL OFFICER

  
DIRECTOR

SME LEASING LIMITED  
 CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS (UN-AUDITED)  
 FOR THE PERIOD ENDED SEPTEMBER 30, 2022

	Note	Nine Months Ended		Quarter Ended	
		September 30,	September 30,	September 30,	September 30,
		2022	2021	2022	2021
		----- Un-Audited -----			
		----- Rupees -----			
<b>REVENUE</b>					
Finance leases		8,105,153	6,602,912	4,543,259	2,871,896
Finance and loans		5,991,685	2,752,594	834,253	742,018
Other income	23	117,740	56,448	99,527	31,805
		<u>14,214,578</u>	<u>9,411,954</u>	<u>5,477,039</u>	<u>3,645,719</u>
<b>EXPENSES</b>					
Administrative and general expenses	24	36,053,718	32,808,066	11,618,800	10,250,567
Finance cost	25	17,175,688	13,918,260	6,852,049	4,757,345
		<u>53,229,406</u>	<u>46,726,326</u>	<u>18,470,849</u>	<u>15,007,912</u>
<b>Operating loss before reversal</b>		<u>(39,014,828)</u>	<u>(37,314,372)</u>	<u>(12,993,810)</u>	<u>(11,362,193)</u>
Potential lease losses written back		37,881,028	10,671,943	14,833,003	561,789
Reversal of income tax provision		-	7,979,392	-	-
Credit losses on loans and receivables reversal		1,473,947	2,395,435	138,125	182,062
		<u>39,354,975</u>	<u>21,046,770</u>	<u>14,971,128</u>	<u>743,851</u>
<b>Profit/(Loss) for the period before taxation</b>		<u>340,147</u>	<u>(16,267,602)</u>	<u>1,977,318</u>	<u>(10,618,342)</u>
Taxation	26	176,531	116,944	67,312	45,174
<b>Net Profit/(loss) for the period</b>		<u>163,616</u>	<u>(16,384,546)</u>	<u>1,910,006</u>	<u>(10,663,516)</u>
<b>Profit/(Loss) per share - basic and diluted</b>	27	0.01	(0.51)	0.06	(0.33)

The annexed notes from 1 to 33 form an integral part of these condensed interim financial statements.

  
 CHIEF EXECUTIVE OFFICER

  
 CHIEF FINANCIAL OFFICER

  
 DIRECTOR



SME LEASING LIMITED  
 CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)  
 FOR THE PERIOD ENDED SEPTEMBER 30, 2022

	Nine Months Ended		Quarter Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	----- Un-Audited -----			
	----- Rupees -----			
Profit/(Loss) after taxation for the period	163,616	(16,384,546)	1,910,006	(10,663,516)
Other comprehensive income	-	-	-	-
<b>Total comprehensive Profit/(loss) for the period</b>	<b>163,616</b>	<b>(16,384,546)</b>	<b>1,910,006</b>	<b>(10,663,516)</b>

The annexed notes from 1 to 33 form an integral part of these condensed interim financial statements.

  
 CHIEF EXECUTIVE OFFICER

  
 CHIEF FINANCIAL OFFICER

  
 DIRECTOR

SME LEASING LIMITED  
 CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY  
 FOR THE PERIOD ENDED SEPTEMBER 30, 2022

	Capital reserves			Revenue reserves		Total shareholder equity
	Issued, subscribed and paid-up capital	Share premium	Statutory reserve	Reserve against future losses	Unappropriated profit	
	----- Rupees -----					
Balance at January 01, 2021 - audited	320,000,000	10,000,000	28,019,277	10,447,052	(348,905,989)	19,560,340
Total Comprehensive loss for the nine months ended September 31, 2021						
Loss after taxation	-	-	-	-	(16,384,546)	(16,384,546)
Balance at September 30, 2021 - Un-audited	320,000,000	10,000,000	28,019,277	10,447,052	(365,290,535)	3,175,794
Balance at January 01, 2022 - Audited	320,000,000	10,000,000	28,019,277	10,447,052	(361,930,933)	6,535,396
Total Comprehensive loss for the period ended September 30, 2022						
Profit after taxation	-	-	-	-	163,616	163,616
Balance at September 30, 2022 - Un-audited	320,000,000	10,000,000	28,019,277	10,447,052	(361,767,317)	6,699,012

The annexed notes from 1 to 33 form an integral part of these condensed interim financial statements.

  
 CHIEF EXECUTIVE OFFICER

  
 CHIEF FINANCIAL OFFICER

  
 DIRECTOR

SME LEASING LIMITED  
 CONDENSED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)  
 FOR THE PERIOD ENDED SEPTEMBER 30, 2022

		Nine Months Ended	
		September 30, 2022	September 30, 2021
		(Un-Audited)	(Un-Audited)
		-----Rupees-----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>Note</b>		
(Loss) / Profit before taxation		340,147	(16,267,602)
Adjustment for:			
Depreciation and amortization	24	2,693,740	2,675,509
Provision of gratuity		1,549,529	921,289
Provision for compensated absences		1,352,281	1,148,885
Finance cost	25	16,260,604	12,621,854
Interest income	23	(25,620)	(36,448)
Finance charge on right of use of assets	25	915,084	1,296,406
Gain on disposal of property and equipment		(92,120)	(20,000)
Potential lease losses written back		(37,881,028)	(10,671,943)
Reversal of income tax provision		-	(7,979,392)
Credit losses on loans and receivables reversal		(1,473,947)	(2,395,435)
		(16,701,477)	(2,439,275)
<b>Operating loss before working capital changes</b>		(16,361,330)	(18,706,877)
<b>(Increase)/Decrease in current assets:</b>			
Net investment in finance leases	11	79,511,770	30,018,254
Long term finances and loans - secured	12	10,831,140	3,315,374
Long term loans to employees - secured	13	191,799	(140,050)
Prepayments and other receivables	16	(1,085,335)	175,319
Long term deposits and prepayments	14	15,000	83,336
Advances	15	(287,458)	1,684,174
		89,176,916	35,136,407
<b>Increase/(Decrease) in operating liabilities:</b>			
Long term deposits		(59,719,959)	-
Trade and other payables		976,384	53,584
<b>Cash generated from operations</b>		14,072,011	16,483,114
Financial charges paid		(13,926,538)	(12,464,685)
Interest income received		117,740	36,448
Gratuity paid		(1,120,928)	(477,747)
Benefits paid		(841,219)	(1,086,448)
Taxes paid		(189,082)	(143,771)
		(15,960,027)	(14,136,203)
<b>Net cash flows generated from / (used in) operating activities</b>		(1,888,016)	2,346,911
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	8	(261,519)	(61,015)
Proceeds from disposal of property and equipment		-	20,000
<b>Net cash used in investing activities</b>		(261,519)	(41,015)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Lease rentals paid	19	(3,502,719)	(4,795,573)
<b>Net cash used in financing activities</b>		(3,502,719)	(4,795,573)
<b>Net decrease in cash and cash equivalents</b>		(5,652,254)	(2,489,677)
<b>Cash and cash equivalents at beginning of the period</b>		(134,025,752)	(143,164,331)
<b>Cash and cash equivalents at end of the period</b>	31	(139,678,006)	(145,654,008)

The annexed notes from 1 to 33 form an integral part of these condensed interim financial statements.

  
 CHIEF EXECUTIVE OFFICER

  
 CHIEF FINANCIAL OFFICER

  
 DIRECTOR

SME LEASING LIMITED  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)  
FOR THE PERIOD ENDED SEPTEMBER 30, 2022

1 THE COMPANY AND ITS OPERATIONS

1.1 SME Leasing Limited (the Company) was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The Company is a subsidiary of SME Bank Limited (the Parent Company). At the time of incorporation, the Company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the Company on January 28, 2003. The Company is listed on Pakistan Stock Exchange and its registered office is situated at 56-F, Nazim-ul-Din Road F-6/1, Blue Area, Islamabad. The core objective of the Company is to extend lease and working capital financing facilities to small and medium enterprises of the country. The PACRA Credit Rating Agency has assigned a long term rating of B- (2021: B-) and a short term rating of A4 (2021: A4) to the Company in the month of April 2022.

1.2 The license of the Company to operate as a leasing company expired on May 20, 2019. Thereafter, the Company applied via application reference # SMEL/MO/2019 dated April 16, 2019 and thereafter the company applied via application reference # SMEL/MO/2022 dated April 15, 2022 for its renewal in the manner so required by the NBFC Rules, 2003. However, renewal of license was in progress till the release date of these condensed interim financial statements.

The license, issued to the Company by the SECP under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, shall be deemed valid as stipulated in Rule 5(9) of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 as the Company applied for the renewal of a license as specified in sub-rule (8) and fulfilled all the requirements to the satisfaction of the Commission for the renewal a license.

1.3 The Company obtained license of non deposit taking NBFC and as per section 4 (Schedule I) of NBFC Regulations 2008, a non deposit taking NBFC shall have minimum equity of Rs. 50 million. The Company being non deposit taking NBFC has not complied with said requirement of NBFC Regulations 2008 of maintaining minimum capital requirement.

1.4 The Company has been incurring losses since year ended December 31, 2009 which has resulted in erosion of equity. However, during the period ended September 30, 2022 the Company has reported a profit of Rs. 0.164 million (December 31, 2021: loss of Rs. 13.399 million) which has decreased accumulated losses to Rs.361.767 million (December 31, 2021: Rs. 361.931 million) as on September 30, 2022. Further, the net assets of the Company amounts to Rs. 6.70 million (December 31, 2021: Rs. 6.535 million). The Company has negative cash and cash equivalent of Rs.139.678 million (December 31, 2021: Rs.134.026 million) which comprise of running finance facility from SME Bank Limited and as of that date the Company's current liabilities exceed its current assets by Rs. 120.556 million (December 31, 2021: Rs. 81.882 million).

Further, the Company is dependent on the running finance facility granted by the Parent Company. The revised prudential regulation of State Bank of Pakistan (SBP) applicable from June 2015 has restricted the exposure by bank to a related party to the extent of 7.5% of its equity. However, SBP vide its letter BPRD/BA&CPD/646/332/20 dated January 06, 2020 had granted the Parent Company relaxation of the aforesaid requirement, which has expired on December 31, 2019.

During the financial year 2021, the Parent Company has requested SBP to allow exemption from related party exposure limit till December 31, 2021 and correspondence regarding this was in progress till the current period end. However, no intimation has so far been received from SBP in this regard.

These factors along with other factors indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and the Company may not be able to realize its assets and discharge its liabilities in the normal course of business. However, these condensed interim financial statements have been prepared on going concern basis considering the factors mentioned below:

- The Parent Company has granted a short term running finance facility to the Company amounting to Rs. 150 million out of which Rs. 140.695 million has been utilized as at September 30, 2022 (December 31, 2021: Rs. 137.184 million). The said facility can be extended to the extent of Rs. 300 million as per the stand-by agreement for finance facility. The Parent Company will not call off the said amount till June 30, 2023 and the holding company will facilitate, assist and support the Company in arrangement of finance from external sources as and when required by the Company.
- The management of the Company has prepared cash flow projections which reflect that based on financial support by the Parent Company the Company will be able to continue its business on going concern basis in the foreseeable future.
- Efforts are being made by the management to reduce the overall cost of the company.

Based on the above mentioned financial measures and the concerted operational measures being taken by the Company, the management is confident of the going concern status of the Company and therefore, has prepared these condensed interim financial statements on a going concern basis of accounting.

- 1.5 With respect to privatization of the Parent Company, SME Bank Limited (Bank) and its Subsidiary, the Cabinet Committee on Privatization (CCOP) approved the new privatization program of the Bank on March 06, 2019 to divest the Government of Pakistan (GOP) equity stake in the Bank along with management control to a strategic investor as per the decision dated November 19, 2018 of the GOP, whereas the due process was started and various stakeholders participated including the prospective investors. However, due to lack of interest of prospective investors, Board of Privatization Commission in its meeting held on November 25, 2021 has recommended delisting of SME Bank Limited from list of privatizations. The Financial Adviser (FA) of Privatization Commission asserted that despite all efforts and iterative interactions with the pre-qualified bidders to date positive feedback from the pre-qualified bidders is not forthcoming and owing to the deteriorating financial position of Bank, the FA recommended to shelve the Transaction. Recommendation of the Board of Privatization was presented to the CCOP in its meeting held on December 31, 2021, where the CCOP decided to ascertain the way forward of the bank prior to delisting from list of privatization; and in this regard constituted a committee consisting of Deputy Governor SBP, Secretary Finance, Secretary Privatization Commission, Chairman SECP and Minister of Finance. The Committee has not yet met for any deliberation in this regard.

## 2 SUMMARY OF SIGNIFICANT TRANSACTIONS AND BALANCES

Net lease disbursements	2.1	14,083,300	17,704,000
Recoveries	2.2	59,080,686	83,255,855

2.1 This represents amount disbursed against new leases written during the period

2.2 This represents recoveries from non-performing loans amounting to Rs.40,525 (December 31, 2021 Rs.51,468) and regular parties amounting to Rs.18,555

### **3 IMPACT OF COVID-19 ON FINANCIAL STATEMENTS**

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the COVID-19 outbreak "Public Health Emergency of International Concern". Many countries including Pakistan have enacted protection measures against COVID-19, with a significant impact on economic activities in these countries. The evolution of COVID-19 as well as its impact on the global and the local economy is difficult to predict at this stage. As of the release date of these financial statements, there has been no specifically material quantifiable impact of COVID-19 on the Company's financial condition or results of operations except those disclosed in relevant notes to the financial statements.

### **4 BASIS OF PREPARATION**

#### **4.1 Statement of compliance**

These condensed interim financial statements of the Company for the nine-months period ended September 30, 2022 have been prepared in accordance with requirement of the International Accounting Standard 34 - Interim Financial Reporting and provisions of and directives issued under the Companies Act, 2017, the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules), and the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations). In case where requirements differ, the provision or directives issued under the Companies Act, 2017, NBFC Rules, 2003 and NBFC Regulations, 2008 shall prevail.

These condensed interim financial statements does not include all the disclosure required in the annual financial statements. Accordingly, the condensed interim financial statements should be read in conjunction with annual financial statements for the year ended December 31, 2021.

#### **4.2 New and amended standards and interpretations to published accounting and reporting standards that are effective in the current period**

There are certain amendments to the published accounting and reporting standards that are mandatory for the Company's accounting period beginning on January 1, 2022. However, these do not have any significant impact on the Company's operations and, therefore, have not been detailed in these condensed interim financial statements.

#### **4.3 Standards, interpretations and amendments to accounting and reporting standards that are not yet effective**

There are certain new and amended standards, interpretations and amendments that are mandatory for the Company's accounting periods beginning on or after April 01, 2022 but are considered not to be relevant or will not have any significant effect on the Company's operations and are, therefore, not detailed in these condensed interim financial statements.

### **5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of computations followed for the preparation of these condensed interim financial statements are same as those applied in preparing the financial statements for the year ended December 31, 2021.

### **6 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT**

The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that effects the application of accounting policies and reported amounts of assets and liabilities, income and expenses. However, actual results may differ from estimates.

In preparing these condensed interim financial information, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimates uncertainty are the same as applied to the financial statements of the company for the year ended December 31, 2021.

## 7 FINANCIAL RISK MANAGEMENT

The Company's financial risk management objectives and policies are consistent with those disclosed in the financials statements of the Company as at and for the year ended December 31, 2021.

	Note	September 30, 2022	December 31, 2021
		(Un-Audited)	(Audited)
		Rupees	
<b>8 PROPERTY AND EQUIPMENT</b>			
Balance as at January 1		3,340,157	3,903,810
Additions during the period / year		261,519	163,413
Depreciation charged for the period / year		(481,954)	(727,066)
		<u>3,119,722</u>	<u>3,340,157</u>
<b>9 RIGHT-OF-USE ASSETS</b>			
Balance as at January 1		6,697,288	7,770,109
Additions during the period / year		-	1,795,000
Depreciation charged for the period / year		(2,211,786)	(2,867,821)
		<u>4,485,502</u>	<u>6,697,288</u>
<b>10 INTANGIBLE ASSETS</b>			
Cost		1,507,142	1,507,142
Accumulated amortization		(1,507,142)	(1,507,142)
		<u>-</u>	<u>-</u>
<b>11 NET INVESTMENT IN FINANCE LEASES</b>			
Net investment in finance leases	11.1	233,711,765	275,342,507
Less: Current maturity of net investment in leases		(51,008,194)	(98,019,136)
		<u>182,703,571</u>	<u>177,323,371</u>
<b>11.1 Net investment in finance leases</b>			

	September 30, 2022 (Un-audited)			December 31, 2021 (Audited)		
	Total	Later than one year and less than five years	Not later than one year	Total	Later than one year and less than five years	Not later than one year
(Rupees)						
Minimum lease payments	262,153,206	237,551,339	24,601,867	286,239,684	227,716,296	58,523,388
Add: Residual value of leased assets	115,028,072	86,678,295	28,349,777	174,748,031	130,202,795	44,545,236
Gross investment in leases	577,181,278	324,229,634	52,951,644	460,987,715	357,919,091	103,068,624
Less: Unearned lease income	(6,155,320)	(4,211,870)	(1,943,450)	(8,728,447)	(3,673,959)	(5,054,488)
Less: Markup held in suspense account	(42,808,479)	(42,808,479)	-	(44,530,019)	(44,530,019)	-
	(48,963,799)	(47,020,349)	(1,943,450)	(53,258,466)	(48,203,978)	(5,049,488)
	328,217,479	277,209,285	51,008,194	407,729,249	309,715,113	98,019,136
Less: Provision for potential lease loss	(94,505,714)	(94,505,714)	-	(132,394,742)	(132,394,742)	-
Net investment in finance leases	<u>233,711,765</u>	<u>182,703,571</u>	<u>51,008,194</u>	<u>275,342,507</u>	<u>177,323,371</u>	<u>98,019,136</u>

		September 30, 2022	December 31, 2021
	Note	(Un-Audited)	(Audited)
----- Rupees -----			
<b>12</b>	<b>LONG TERM FINANCES AND LOANS - SECURED</b>		
Considered good		6,563,907	12,489,003
Considered doubtful		43,163,867	48,069,911
		49,727,774	60,558,914
Less: Provision		(5,966,526)	(7,440,473)
		43,761,248	53,118,441
Less: Current maturity	17	(9,125,834)	(9,204,400)
		<u>34,635,414</u>	<u>43,914,041</u>
<b>13</b>	<b>LONG TERM LOAN TO EMPLOYEES - SECURED</b>		
Vehicle loan		381,564	572,801
Less: Current Maturity	17	(381,545)	(228,880)
		<u>39</u>	<u>343,921</u>
<b>14</b>	<b>LONG TERM DEPOSITS AND PREPAYMENTS</b>		
Rent		696,000	711,000
Central Depository Company		50,000	50,000
Miscellaneous		14,422	14,422
BRR Security Vault		11,800	11,800
		<u>772,222</u>	<u>787,222</u>
<b>15</b>	<b>ADVANCES</b>		
Considered good - unsecured			
Employees	15.1	607,541	466,858
Legal advisors	15.2	2,239,480	2,175,980
SBP deposit		15,000	15,000
Others		205,394	122,119
		<u>3,067,415</u>	<u>2,779,957</u>
15.1	This represents interest free advances given to employees against salaries. These are recovered through monthly deductions from salaries over a period upto one year from the date of granting loans.		
15.2	This represents advance payments made to the legal advisors of the Company for handling cases on behalf of the Company.		
<b>16</b>	<b>PREPAYMENTS AND OTHER RECEIVABLES</b>		
Prepayments		1,769,728	622,659
Accrued interest on long term finances and loans		-	61,734
Other receivable		65,000	65,000
		<u>1,834,728</u>	<u>749,393</u>



	Note	September 30,	December 31, 2021
		2022	(Audited)
		(Un-Audited)	(Audited)
----- Rupees -----			
<b>17 CURRENT MATURITY OF NON CURRENT ASSETS</b>			
Current maturity of:			
Long term finances and loans	12	9,125,834	9,204,400
Long term loans to employees	13	381,545	228,880
		<u>9,507,379</u>	<u>9,433,280</u>

	Note	June 30,	December 31, 2020
		2021	(Audited)
		(Un-Audited)	(Audited)
----- Rupees -----			
<b>18 CASH AND BANK BALANCES</b>			
Balances with banks in:			
in current accounts		962,968	3,091,452
Cash in hand		54,412	66,412
		<u>1,017,380</u>	<u>3,157,864</u>

	September 30, 2022		December 31, 2021	
	(Un-audited)		(Audited)	
	Minimum lease payment	Present value	Minimum lease payment	Present value
----- Rupees -----				
Upto one year	4,230,106	3,437,513	4,535,365	3,594,336
Later than one year but not later than five years	1,188,138	1,158,726	4,376,388	4,020,884
Total minimum lease payments	5,418,244	4,596,239	8,911,753	7,615,220
Less: Finance charges not due yet	(542,555)	-	(1,296,533)	-
Present value of minimum lease payments	5,027,585	4,596,239	7,615,220	7,615,220
Less: Current maturity	(3,437,513)	(3,437,513)	(3,594,336)	(3,594,336)
	<u>1,590,072</u>	<u>1,158,726</u>	<u>4,020,884</u>	<u>4,020,884</u>

20 SHORT-TERM BORROWING - SECURED

The facility for short-term running finance available from SME Bank Limited amounting to Rs. 150 million (December 31, 2021: Rs. 150 million). Mark-up is payable at rate of 11.65% to 18.10% (December 31, 2021: from 11.35% to 11.65%) per annum. The finance are secured by way of hypothecation of the Company's leased assets and related receivables.

		September 30, 2022 (Un-Audited)	December 31, 2021 (Audited)
		Rupees	
21	CURRENT MATURITY OF NON-CURRENT LIABILITIES		
	Long term finance	373,233	373,233
	Long term deposits	28,349,777	44,545,236
		<u>28,723,010</u>	<u>44,918,469</u>

22 CONTINGENCIES AND COMMITMENTS

22.1 Contingencies

A suit has been filed against the Company impleaded it for declaration, injunction and damages amounting to Rs. 3.5 million in the Honourable High Court of Sindh. The evidence of the parties has been completed before the commissioner and the case is at the stage of final arguments.

22.2 Commitments

There are no commitments as at September 30, 2022 (September 30, 2021: nil).

	Nine Months Ended		Quarter Ended	
	September 30, 2022 (Un-Audited)	September 30, 2021 (Un-Audited)	September 30, 2022 (Un-Audited)	September 30, 2021 (Un-Audited)
Rupees				
23	OTHER INCOME			
	Mark-Up On Loan To Employees	25,620	36,448	25,620
	Gain On Disposal Of Fixed Assets	92,120	20,000	73,907
		<u>117,740</u>	<u>56,448</u>	<u>99,527</u>

	Nine Months Ended		Quarter Ended	
	September 30, 2022 (Un-Audited)	September 30, 2021 (Un-Audited)	September 30, 2022 (Un-Audited)	September 30, 2021 (Un-Audited)
Rupees				
24	ADMINISTRATIVE AND GENERAL EXPENSES			
	Salaries, allowances and other benefits	24,587,249	21,423,492	7,670,325
	Directors' fee	405,000	390,000	30,000
	Rent	137,087	369,248	23,949
	Electricity, gas and water	930,880	605,795	402,790
	Telephone and postage	591,626	745,845	190,635
	Repairs and maintenance	434,354	423,864	173,423
	Books and periodicals	30,250	14,445	6,710
	Vehicle running	525,899	206,620	157,960
	Advertising	12,200	411,776	-
	Travelling, conveyance and entertainment	718,621	657,192	220,831
	Printing and stationery	542,722	531,073	364,116
	Auditors' remuneration	474,100	108,600	205,350
	Depreciation	2,693,700	2,675,509	898,941
	Staff training and development	13,000	10,500	-
	Legal and professional	3,029,429	2,805,258	916,223
	Insurance	629,867	741,127	221,932
	Miscellaneous	507,655	474,705	135,616
		<u>36,053,718</u>	<u>32,808,066</u>	<u>11,618,800</u>

25 FINANCE COST				
Mark-up on short term borrowings	16,177,985	12,516,906	6,541,278	4,368,180
Lease finance charges	915,086	1,295,406	307,843	385,733
Bank charges	82,619	104,948	928	3,534
	<u>17,175,690</u>	<u>13,918,260</u>	<u>6,852,049</u>	<u>4,757,447</u>

Nine Months Ended		Quarter Ended	
September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
(Un-Audited)	(Un-Audited)	(Un-Audited)	(Un-Audited)
----- Rupees -----			

26 TAXATION				
Minimum tax under Section 113 of the Income Tax Ordinance, 2001	176,531	116,544	67,312	45,174

#### 26.1 Current tax liability

Provision for the current year income tax has been made under the provisions of minimum tax under Section 113 of the Income Tax Ordinance, 2001.

#### 27 PROFIT/LOSS PER SHARE - BASIC AND DILUTED

	Nine Months Ended		Quarter Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	(Un-Audited)	(Un-Audited)	(Un-Audited)	(Un-Audited)
Profit/(loss) after taxation attributable to ordinary shareholders (Rupees)	<u>163,516</u>	<u>(16,384,546)</u>	<u>1,930,005</u>	<u>(10,663,516)</u>
Weighted average number of ordinary shares outstanding during the period	<u>32,000,000</u>	<u>32,000,000</u>	<u>32,000,000</u>	<u>32,000,000</u>
Basic Profit/Loss per share (Rupees)	0.01	(0.51)	0.06	(0.33)

27.1 No figure for diluted earnings per share has been presented as the Company has no potential ordinary shares outstanding at the nine months end.

#### 28 TRANSACTIONS WITH RELATED PARTIES

The related party of the Company include SME Bank Limited (the Parent Company), Staff Provident fund, directors, key management personnel and companies in which directors are common or hold office. Transactions with related parties and the balances outstanding at the period ended given below:

	September 30, 2022	December 31, 2021
	(Un-Audited)	(Audited)
----- Rupees -----		
28.1 BALANCES		
SME Bank Limited (Parent Company)		
Short term borrowings	140,695,386	137,183,616
	September 30, 2022	September 30, 2021
	(Un-Audited)	(Un-Audited)
----- Rupees -----		

28.2 TRANSACTIONS			
SME Bank Limited (Parent Company)			
Markup on Short term borrowings	16,177,985	12,516,906	
Utilization of short term borrowing facility-net	3,511,770	1,228,015	
Rent expense paid for Peshawar branch	358,178	412,704	
Key Management Personnel			
Key management remuneration	6,351,053	5,664,608	
Staff Provident Fund			
Contribution towards provident fund	608,671	567,517	

All transactions are carried out on commercial terms and on arm's length basis.

20 SEGMENTAL INFORMATION

A segment is a distinguishable component of the Company that is engaged in business activities from which the Company earns revenues and incur expenses and its results are regularly reviewed by the Company's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance. Further, discrete financial information is available for each segment.

The Company's reportable segments under IFRS 8 are therefore finance lease, loans and receivables, and investments. Other operations, which are not deemed by the management to be significant to disclose as separate items are reported under others.

All assets and liabilities are allocated to reportable segments other than assets and liabilities not directly related to particular segment.

Particulars	For the period ended September 30, 2022 (Un-audited)			
	Finance Lease	Loans and Receivable	Others	Total
	Rupees			
Segment Revenue	8,105,153	5,991,685	117,740	14,314,578
Reversal of provision - net	37,881,020	1,473,947	-	39,354,975
Segment Results	45,986,381	7,465,632	117,740	53,569,753
<b>Unallocated Cost</b>				
Finance Cost	-	-	-	17,175,688
Administrative & selling expenses	-	-	-	35,053,718
Reversal of income tax provision	-	-	-	-
				52,229,406
Loss before income tax	-	-	-	340,147
Income tax expense	-	-	-	176,531
Loss for the period				516,678
Segment Assets	233,711,765	43,741,248	-	277,473,013
Unallocated Assets	-	-	14,678,533	14,678,533
<b>Total Assets</b>				292,151,546
Segment Liabilities	115,028,072	-	-	115,028,072
Unallocated Liabilities	-	-	170,424,462	170,424,462
<b>Total Liabilities</b>				285,452,534
<b>Net Assets</b>				6,699,012
<b>Other Information</b>				
Capital Expenditure	-	-	261,519	261,519

Particulars	For the year ended December 31, 2021 (Audited)			
	Finance Lease	Loans and Receivable	Others	Total
	Rupees			
Segment Revenue	10,646,338	10,656,993	80,277	21,393,608
Reversal of provision - net	561,789	182,062	7,979,392	8,723,243
Segment Results	11,208,127	10,839,055	8,049,669	30,116,851
<b>Unallocated Cost</b>				
Finance Cost	-	-	-	4,757,345
Administrative & selling expenses	-	-	-	10,250,567
				15,007,912
Profit before income tax	-	-	-	15,108,939
Income tax expense	-	-	-	45,174
Profit for the period				15,063,765
Other Information	8214867	-	-	8,214,867
Segment Assets	275,342,507	53,118,441	-	328,460,948
Unallocated Assets	-	-	18,084,682	18,084,682
<b>Total Assets</b>				346,545,630
Segment Liabilities	176,793,809	-	-	176,793,809
Unallocated Liabilities	-	-	163,216,425	163,216,425
<b>Total Liabilities</b>				340,010,234
<b>Net Assets</b>				6,535,397
<b>Other Information</b>				
Capital Expenditure	-	-	163,413	163,413

29.1 Revenue reported above represents revenue from external customers. There are no intersegment sales.

29.2 Revenue from finance lease includes income from finance lease operations and gain/loss on termination of lease. Revenue from loan and receivable includes markup income on loans to customers and employees and revenue from investment includes gain on disposal of investment.

30 FAIR VALUE AND RISK MANAGEMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value of underlying financial assets are determined based on requirements of Regulation 66 of Non-Banking Finance Companies and Notified Entities Regulations, 2008 and directives if any, issued by the Securities and Exchange Commission of Pakistan.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorized into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Level 1	Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.
Level 2	Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).
Level 3	Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

30.1 The Company has not disclosed the fair values for these financial instruments, because their carrying amounts are reasonable approximation of fair value.

30.2 For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the period ended September 30, 2022, there were no transfers between Level 1, Level 2 or Level 3 of fair value measurements.

As at September 30, 2022, the Company held the following classes of financial instruments measured at fair value:

September 30, 2022 (Un-audited)	Note	Carrying amount				Fair value			
		Cash and cash equivalent	Loans and receivables	Other assets and liabilities	Total	Level 1	Level 2	Level 3	Total
Rupees									
<b>Financial assets not measured at fair value</b>									
Cash and bank balance	18	1,017,980	-	-	1,017,980	-	-	-	-
Advances	15	-	3,067,415	-	3,067,415	-	-	-	-
Deposits, prepayments and other receivables	16	-	1,834,728	-	1,834,728	-	-	-	-
Long term finances and loans and accrued interest thereon	17	-	83,761,248	-	83,761,248	-	-	-	-
Net investment in finance leases	11	-	233,711,765	-	233,711,765	-	-	-	-
		<u>1,017,980</u>	<u>262,375,156</u>	<u>-</u>	<u>263,393,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities not measured at fair value</b>									
Trade and other payables		-	-	3,712,480	3,712,480	-	-	-	-
Accrued mark-up on borrowings		-	-	6,543,278	6,543,278	-	-	-	-
Short term borrowings	20	140,695,386	-	-	140,695,386	-	-	-	-
Provision for compensated absences		-	-	3,556,473	3,556,473	-	-	-	-
Long term finance	21	-	-	373,233	373,233	-	-	-	-
Long term deposits	11	-	-	86,678,255	86,678,255	-	-	-	-
Defined benefit obligation		-	-	10,193,114	10,193,114	-	-	-	-
Lease liabilities	19	-	-	5,027,585	5,027,585	-	-	-	-
		<u>140,695,386</u>	<u>-</u>	<u>116,084,459</u>	<u>256,779,845</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

As at December 31, 2021 the Company held the following classes of financial instruments measured at fair value:

December 31, 2021 (Audited)	Note	Carrying amount				Fair value			
		Cash and cash equivalent	Loans and receivables	Other assets and liabilities	Total	Level 1	Level 2	Level 3	Total
Rupees									
<b>Financial assets not measured at fair value</b>									
Cash and bank balance	18	3,157,854	-	-	3,157,854	-	-	-	-
Advances	13	-	2,778,957	-	2,778,957	-	-	-	-
Deposits, prepayments and other receivables	14	-	749,398	-	749,398	-	-	-	-
Long term finances and loans and accrued interest thereon	18	-	53,118,441	-	53,118,441	-	-	-	-
Net investment in finance leases	9	-	275,342,507	-	275,342,507	-	-	-	-
		<u>3,157,854</u>	<u>581,990,256</u>	<u>-</u>	<u>585,148,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities not measured at fair value</b>									
Trade and other payable		-	-	2,736,095	2,736,095	-	-	-	-
Accrued mark-up on borrowings		-	-	4,209,212	4,209,212	-	-	-	-
Short term borrowings	18	137,183,616	-	-	137,183,616	-	-	-	-
Provision for compensated absences		-	-	3,045,411	3,045,411	-	-	-	-
Long term finances	19	-	-	373,233	373,233	-	-	-	-
Long term deposits	9	-	-	130,202,795	130,202,795	-	-	-	-
Defined benefit obligation		-	-	9,764,513	9,764,513	-	-	-	-
Lease liabilities	17	-	-	7,615,220	7,615,220	-	-	-	-
		<u>137,183,616</u>	<u>-</u>	<u>157,446,480</u>	<u>294,630,096</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Note	September 30,	September 30,
		2022	2021
		(Un-Audited)	(Un-Audited)
		----- Rupees -----	
<b>31 CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	18	1,017,380	364,645
Short term borrowings	20	(140,695,386)	(146,018,653)
		<u>(139,678,006)</u>	<u>(145,654,008)</u>

**32 GENERAL**

**32.1** In order to comply with the requirement of IAS 34, the condensed interim financial position has been compared with the balances of annual audited financial statements of preceding financial year. Whereas, the condensed interim statement of profit or loss account, condensed interim statement of comprehensive income, condensed interim statement of cash flows and condensed interim statement of changes in equity have been compared with the balances of comparable period of immediately preceding financial year.

**32.2** The figures in the condensed interim financial statements are rounded off to the nearest rupee.

**33 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorized for issue on 29 December 2022 by the Board of Directors of the Company.

  
CHIEF EXECUTIVE OFFICER

  
CHIEF FINANCIAL OFFICER

  
DIRECTOR