

**CONDENSED INTERIM
FINANCIAL STATEMENTS
(UNAUDITED)**

**FOR THE HALF YEAR ENDED
JUNE 30, 2015**

Directors' Review on Operational Results for the Half Year **Ended June 30, 2015**

On behalf of the Board of Directors, I am pleased to present the operational results of SME Bank for the half year ended June 30, 2015.

The bank is still managing its operations with a narrow equity base of Rs 504 million as on June 30, 2015. The bank has been operating with a limited branch network of 13 branches. Budgetary allocations made by the government during 2010-11, 2011-12, 2012-13, 2013-14 and 2014-2015 for equity injection could not be released due to financial constraints at the level of Ministry of Finance. In the financial budget for the year 2015-2016 the Government has not allocated any amount for the bank. Moreover, uncertainty with regard to the future corporate and operational status of the bank continued to cast a shadow over the performance of the bank.

The deposits of the bank registered increase by Rs. 1,147 million and stood at Rs 4,490 million as on June 30, 2015. The deposit of the bank as on December 31, 2014 was Rs.3,343 million. Loan portfolio of the bank stood at Rs 2,673 million as on June 30, 2015 as compared to Rs 2,929 million on December 31, 2014. The bank made disbursements of Rs 1,058 million during first six months of the year 2015. The disbursement for the corresponding period of year 2014 was Rs.1,023 million. Shortage of funds remained an impediment in building substantial level of loan portfolio. The bank's treasury investment portfolio increased to Rs 5,138 million by June 30, 2015, whereas it was of Rs 1,446 million as on December 31, 2014. The increase was mainly due to purchase of PIB's and T-Bills. The non-performing loans of the bank decreased from Rs 732 million to Rs 657 million during the first half of the year.

The bank booked an operating pre-tax loss of Rs 67.7 million for first half of the year in corresponding period of year 2014 where it was of Rs.262.7 million. The reduction is primarily due to decrease in mark-up expenses, reversal of provision against non-performing loans. The bank's gross mark-up/return income on investment was Rs 361 million, which constitutes Rs 234 million from SME lending operations and Rs 127 million from treasury operations. During the period under review, cost of funds of the bank was Rs 195 million (2014: Rs 249 million) at average rate of 7.44% (2014: 8.79%). Administrative expenses remained at the level of Rs.321 million.

Limited branch network and credit rating of the bank remained major impediments to attract large deposits

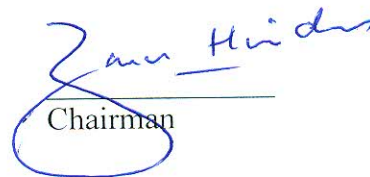
Bank is operating with paid up capital of Rs 2,392 million since 2007 and limited branch network of 13 branches. The Board observed that under the existing circumstances it is very difficult to operate the bank on self-sustainable basis, and advise the management to take up the matter of equity injection with Ministry of Finance. Moreover, being on active agenda of privatization since 2006 which has not reached any conclusion thereby creating an uncertainty about the future corporate status of the bank. It is therefore necessary that decision with regard to future corporate and operational status of the bank is to be taken with Ministry of Finance on priority.

M/S Pakistan Credit Rating Agency Limited affirmed the credit rating of the bank at “BB”/”B” on February 11, 2015.

The management of the Bank is making vigorous efforts to generate additional avenues of income by mobilizing available resources.

We would like to place on record, our thanks and appreciation to the staff for their commitment, dedication and endeavour to enhance business activities under the unfavourable circumstances of economic depression and liquidity crunch. We would also like to thank State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their continued support and professional guidance.

For and on Behalf of
Board of Directors


Chairman

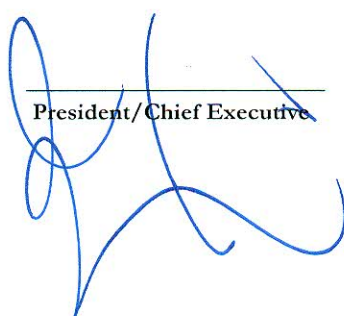
SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Financial Position****As at June 30, 2015**

		(Un-audited) June 30, 2015	(Audited) December 31, 2014
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks		433,357	366,783
Balances with other banks		2,824	2,835
Lendings to financial institutions	8	200,000	215,000
Investments	9	5,138,375	1,446,493
Advances	10	2,672,582	2,928,737
Operating fixed assets	11	120,485	131,490
Deferred tax assets		-	-
Other assets	12	401,165	209,014
		8,968,788	5,300,352
LIABILITIES			
Bills payable	13	85,965	58,298
Borrowings	14	3,441,203	776,168
Deposits and other accounts	15	4,489,860	3,343,102
Deferred tax liabilities		-	-
Other liabilities		447,452	433,418
		8,464,480	4,610,986
NET ASSETS		504,308	689,366
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves	16	206,526	206,526
Unappropriated loss		(2,036,998)	(1,972,670)
		562,035	626,363
(Deficit)/surplus on revaluation of assets	17	(57,727)	63,003
		504,308	689,366
CONTINGENCIES AND COMMITMENTS	18		

The annexed notes 1 to 22 form an integral part of this condensed interim unconsolidated financial information

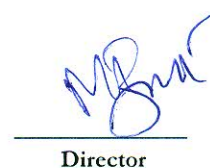
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 Chief Financial Officer


 President/Chief Executive


 Director

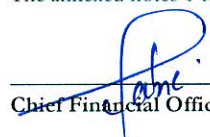

 Director

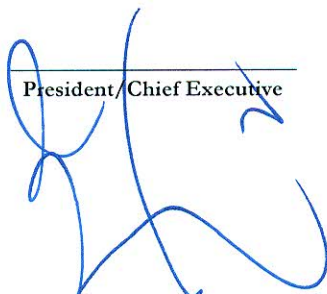

 Director

SME BANK LIMITED
Condensed Interim Unconsolidated Profit and Loss Account (Un-audited)
For the half year ended June 30, 2015

	June 30, 2015		June 30, 2014	
	For the Quarter ended	For the Half Year ended	For the Quarter ended	For the Half Year ended
	----- (Rupees in '000) -----			
Mark-up/ return/ interest earned	235,406	360,927	199,749	358,100
Mark-up/ return/ interest expensed	116,558	195,148	138,957	248,754
Net mark-up/ interest income	118,848	165,779	60,792	109,346
Provision against non-performing loans and advances-net	(83,354)	(64,066)	27,126	43,725
Provision for diminution in the value of investments	-	-	11,702	11,702
Bad debts written off directly	-	-	-	-
	(83,354)	(64,066)	38,828	55,427
Net mark-up/ interest income after provisions	202,202	229,845	21,964	53,919
NON MARK-UP/ INTEREST INCOME				
Fee, commission and brokerage income	3,030	5,590	2,823	5,261
Dividend income	211	211	211	231
Income from dealing in foreign currencies	-	-	-	-
Gain on sale of securities	3,375	25,224	4,181	18,209
Unrealized gain on revaluation of investments classified as held for trading	-	-	-	-
Other income	378	1,393	344	545
Total non-markup/ interest income	6,994	32,418	7,559	24,246
	209,196	262,263	29,523	78,165
NON MARK-UP/ INTEREST EXPENSES				
Administrative expenses	162,035	321,023	151,848	304,918
Other provisions/ write offs	(98)	7,902	1,888	35,159
Other charges	720	1,035	811	811
Total non-markup/ interest expenses	162,657	329,960	154,547	340,888
PROFIT/(LOSS) BEFORE TAXATION	46,539	(67,697)	(125,024)	(262,723)
Taxation - Current	2,458	3,949	2,444	5,459
- Prior	-	-	-	-
- Deferred	-	-	-	-
	2,458	3,949	2,444	5,459
PROFIT/(LOSS) AFTER TAXATION	44,081	(71,646)	(127,468)	(268,182)
Basic/diluted earning/(loss) per share (Rupees)	0.18	(0.30)	(0.53)	(1.12)


The annexed notes 1 to 22 form an integral part of this condensed interim unconsolidated financial information



Chief Financial Officer


President/Chief Executive


Director


Director


Director



SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)****For the half year ended June 30, 2015**

	June 30, 2015		June 30, 2014	
	For the Quarter ended	For the Half Year ended	For the Quarter ended	For the Half Year ended
	(Rupees in '000)			
Net profit/(loss) after taxation	44,081	(71,646)	(127,468)	(268,182)
Items that will never be reclassified subsequently to profit and loss account				
Recognition of net actuarial gain	7,318	7,318	21,632	21,632
Comprehensive income transferred to equity	<u>51,399</u>	<u>(64,328)</u>	<u>(105,836)</u>	<u>(246,550)</u>
Components of comprehensive income not reflected in equity				
Net change on remeasurement of available for sale investment to fair value	(114,775)	(120,730)	(31,892)	(24,140)
Deferred tax	-	-	-	-
	<u>(114,775)</u>	<u>(120,730)</u>	<u>(31,892)</u>	<u>(24,140)</u>
Total comprehensive income	<u>(63,376)</u>	<u>(185,058)</u>	<u>(137,728)</u>	<u>(270,690)</u>

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 Chief Financial Officer


 President/Chief Executive


 Director


 Director


 Director

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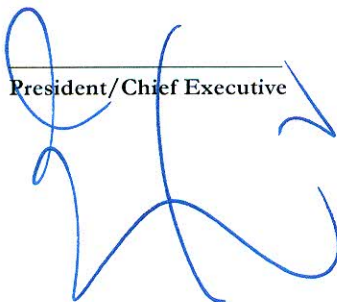
SME BANK LIMITED**Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)****For the half year ended June 30, 2015**

		June 30, 2015	June 30, 2014
	Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(67,697)	(262,723)
Less: Dividend income		(211)	(231)
		(67,908)	(262,954)
Adjustments for non-cash/ other items			
Depreciation		14,136	7,940
Amortization		328	613
Provision against non-performing advances		(64,066)	43,725
Charge of provision for diminution in the value of investment		-	11,702
Gain on sale of fixed asset		(454)	(170)
Finance charges on leased assets		-	78
Other provisions		7,902	35,159
Bad debts written off directly		-	-
		(42,154)	99,047
		(110,062)	(163,907)
Decrease / (Increase) in operating assets			
Lendings to financial institutions		-	-
Advances		320,221	(76,314)
Other assets (excluding advance taxation)		(200,053)	(84,527)
		120,168	(160,841)
Increase/ (Decrease) in operating liabilities			
Bills payable		27,667	(47,736)
Borrowings from financial institutions		2,665,035	1,229,299
Deposits		1,146,758	663,205
Other liabilities (excluding current taxation)		25,967	27,171
		3,865,427	1,871,939
		3,875,533	1,547,191
		(8,564)	(6,895)
Income tax paid			
Net cash flow generated from operating activities		3,866,969	1,540,296
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in available-for-sale securities		(3,800,441)	(1,849,366)
Net investment in held-to-maturity securities		(12,171)	-
Dividend received		211	231
Investment in operating fixed assets		(3,844)	(22,667)
Sale proceeds of property and equipment disposed-off		839	170
Net cash flow used in investing activities		(3,815,406)	(1,871,632)
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of lease obligations		-	(712)
Net cash flow used in financing activities		-	(712)
Increase/(Decrease) in cash and cash equivalents		51,563	(332,048)
Cash and cash equivalents at beginning of the period		384,618	717,166
Cash and cash equivalents at end of the period	19	436,181	385,118

The annexed notes 1 to 22 form an integral part of this condensed interim unconsolidated financial information



Chief Financial Officer



President/Chief Executive



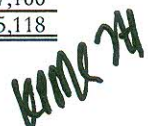
Director



Director



Director



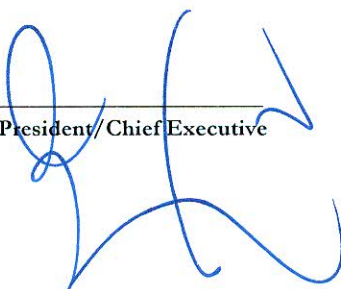
SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Changes in Equity (Un-audited)****For the half year ended June 30, 2015**

	Share Capital	Statutory reserve	Unappropriated loss	Total
	(Rupees in '000)			
Balance as at January 01, 2014	2,392,507	206,526	(1,593,421)	1,005,612
Total comprehensive income for the period ended June 30, 2014				
Net loss for the period	-	-	(268,182)	(268,182)
Effect of recognition of actuarial gain	-	-	21,632	21,632
Balance as at June 30, 2014	2,392,507	206,526	(1,839,971)	759,062
Total comprehensive income for the period ended December 31, 2014				
Net loss for the period	-	-	(118,891)	(118,891)
Effect of recognition of actuarial loss	-	-	(13,808)	(13,808)
Balance as at December 31, 2014	2,392,507	206,526	(1,972,670)	626,363
Total comprehensive income for the period ended June 30, 2015				
Net loss for the period	-	-	(71,646)	(71,646)
Effect of recognition of actuarial gain	-	-	7,318	7,318
Balance as at June 30, 2015	2,392,507	206,526	(2,036,998)	562,035

The annexed notes 1 to 22 form an integral part of this condensed interim unconsolidated financial information

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Chief Financial Officer


President/Chief Executive


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 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 February 11, 2015 issued by PACRA Credit Rating Company Limited, credit rating of the Bank was "BB" (Double B) in the long term and "B" (Single B) in the short term.

In terms of the provisions of the State Bank of Pakistan BSD circular No. 7 of 2009, the Bank was required to increase its paid up capital (net of losses) as at June 30, 2015 up to Rs. 10 billion. The State Bank of Pakistan (SBP) has granted exemption from meeting the enhanced Minimum Capital Requirement and the Bank is allowed to operate with minimum paid up capital (net of losses) of Rs. 2 billion till privatization of the Bank. Further State Bank of Pakistan also has granted extension to the Bank till 31 December 2015, from meeting the reduced requirement of maintaining minimum paid up capital (net of losses) of Rs. 2 billion.

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 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 MEASUREMENT

This condensed interim unconsolidated statement of financial position, condensed interim unconsolidated profit and loss account, condensed interim unconsolidated statement of comprehensive income, condensed interim unconsolidated cash flow statement, condensed interim unconsolidated statement of changes in equity together with the explanatory notes have been prepared under the historic cost convention except that certain investments are stated at market value and certain staff retirement benefits are carried at present value.

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates. The unconsolidated financial statements are presented in Pak. Rupee, which is the Bank's functional currency.

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3. STATEMENT OF COMPLIANCE

This condensed interim unconsolidated financial information of the Bank for the half year ended June 30, 2015 has been prepared in accordance with the requirements of International Accounting Standard 34, 'Interim Financial Reporting' requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the provisions of and directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). In case requirements differ, the provisions of Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the requirement of said directives have been followed.

The disclosures made in this condensed interim unconsolidated financial information have been limited based on the format prescribed by the SBP vide BSD circular Letter No.2 dated May 12, 2004 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and do not include all the information required in the annual financial statements. Accordingly, this condensed interim unconsolidated financial information should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2014.

International Accounting Standard 39, "Financial Instruments: Recognition and Measurement", International Accounting Standard 40, "Investment Property" and International Financial Reporting Standard 7, "Financial Instruments: Disclosure" are not applicable to banking companies in Pakistan. Accordingly, the requirements of these Standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The basis and method used for critical accounting estimates and judgments adopted in the condensed interim unconsolidated financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2014.

5. FINANCIAL RISK MANAGEMENT

The Bank's Financial Risk Management objectives and policies are consistent with those disclosed in annual financial statements of the Bank for the year ended December 31, 2014.

6. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this condensed interim unconsolidated financial information are the same as those applied in the preparation of the financial statements for the year ended December 31, 2014.

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SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2015

7. FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION

7.1 The Government of Pakistan (GoP) assisted by Asian Development Bank (ADB) is working on SME Sector Development Programme (SME SDP). Loan agreement for this programme between GoP and ADB and project agreement between ADB, SBP, Small and Medium Enterprise Development Authority (SMEDA) and the Bank have been signed on February 10, 2004. This programme, apart from other aspects on policy matrix relating to SME sector of Pakistan, also envisages restructuring of SME Bank Limited. Salient features of the restructuring of the Bank are given below:

- i) Adjustment of accumulated balances due from SBP on account of its share in profits and losses of the Bank against credit lines provided by SBP;
- ii) Payment of Rs 3 billion to SBP before January 1, 2004 against outstanding credit lines and conversion of balance of remaining credit lines into a loan repayable in full by June 30, 2006;
- iii) Raising the paid-up capital to Rs 1,100 million by issuing additional shares to GoP;
- iv) The Ministry of Finance (MoF) shall ensure that SBP's shareholding in the Bank is terminated through the purchase of SBP held shares at nominal value by shareholders or otherwise;
- v) 100% provision to be made against non performing financial assistance extended by the defunct RDFC and SBFC prior to January 1, 2002 which provision to be adjusted against SBP credit lines. SBP will recover this amount from proceeds of ADB loan to GoP;
- vi) Reduction in the number of recovery branches, staff rationalization through Voluntary Separation Scheme (VSS), human resource audit and hiring of new professional staff on merit;
- vii) Reimbursement by GoP of costs related to VSS launched for all regular employees;
- viii) SBP to issue a banking license to the Bank on compliance with all conditions of restructuring and applicable SBP regulations. The commercial banking operations will be separate from the recovery operations of the defunct RDFC and SBFC portfolio and the two operations will be run as independent units within the Bank; and
- ix) Privatization of the Bank by June 2006.

7.2 Current status of the above referred financial restructuring is given below:

- i) Accumulated balances of Rs 3,275.752 million due from SBP on account of its share in profits and losses of the Bank have been adjusted against credit lines provided by SBP;
- ii) Rs. 7,393 million has been paid to SBP since 2003, to fully adjust the loan liability;
- iii) Paid-up capital has been increased to Rs. 2,393 million by issue of 73,502,453 additional shares of Rs 10 each to GoP without right issue in 2004, issue of 40,000,000 additional shares of Rs 10 each to GoP without right issue in 2005, issue of 50,000,000 additional bonus shares of Rs 10 each to GoP without right issue in 2006 and issue of 39,250,700 additional shares of Rs. 10 each to GoP without right issue in 2007. Proceeds against issue of additional shares in 2004 were paid by GoP to SBP against the Bank's loan balance due to SBP;
- iv) Provision of Rs 1,283.196 million against non performing financial assistance extended by the defunct RDFC and SBFC was adjusted against credit lines of SBP in 2003;

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SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2015

- v) VSS was approved by the Board of Directors of the Bank on November 7, 2003. 707 employees were relieved under the scheme upto December 31, 2005 and the aggregate reported cost for 707 employees was Rs. 1,764.268 million, which has been received by the bank by March 31, 2007;
- vi) Human resource technical audit has been completed and report has been submitted to the Bank;
- vii) Banking license was issued by SBP on September 13, 2004 and the Bank has started banking operations after the issue of certificate for commencement of banking business by SBP on April 16, 2005;
- viii) Privatization Commission (PC) has constituted a transaction committee which is represented by members from the Privatization Commission, State Bank of Pakistan, Ministry of Finance and the Bank. Privatization Commission has approved M/s BMA Capital as Financial Advisors for the Bank and due diligence exercise for the privatization of the Bank has been carried out in the year 2008; and
- ix) No further progress has been made on the privatization of the Bank.

7.3 Further restructuring of SME Bank:

In compliance to the decisions taken during meeting at Ministry of Finance dated September 14, 2009 following actions have been undertaken.

- i) VSS offered to the regular employees of the Bank in November 2009, wherein 138 employees opted for VSS offered vide Circular No. HO/HR&SD/2009/5385 dated October 15, 2009. These employees have been relieved at a total cost of Rs. 653 million with effect from November 14, 2009;
- ii) Refer Note 10.1, for status of transfer of Old portfolio of defunct RDFC & defunct SBFC to National Bank of Pakistan ; and
- iii) Government of Pakistan has allocated an amount of Rs. 0.5 billion in the annual budget 2014-15 for equity injection into the Bank.

7.4 Going concern assumption and minimum capital requirement

The Bank continues to operate in net loss situation. During the period, the Bank has incurred a net loss after tax of Rs. 71.65 million and its accumulated losses stand at Rs. 2.037 billion as of the reporting date. Further the Bank has shortfall of Rs. 1.644 billion on 30 June 2015 in meeting the minimum capital requirements of Rs. 2 billion (net of losses) as prescribed by the State Bank of Pakistan (SBP). These conditions indicate a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern and therefore, that it may be unable to realize its assets and discharge its liabilities in the ordinary course of business. However the Bank's management believes that going concern assumption is appropriate basis to prepare these unconsolidated financial statements since the Government of Pakistan (GoP), holds 94% shares of the Bank through Ministry of Finance (MoF). Government of Pakistan (GoP) has reduced the budget allocation, to provide further equity contribution to Bank, to nil. This allocation has been reduced from previously allocated budget of Rs. 2 billion for the year ended 2012-13 and Rs. 1 billion for the year 2013-14 and Rs. 0.5 billion for the year 2014-15. Further SBP has allowed exemption to the Bank from meeting the minimum capital requirement of Rs. 2 billion (net of losses) till December 31, 2015. With regards to reduction in budget allocation by GoP, the management is contemplating to approached MoF for increase in equity contribution, which will enable the bank to meet the minimum capital requirement of Rs. 2 billion (net of losses). Further keeping in view the past trend and the fact that the Bank is in the privatization list of GoP, the management believes that SBP will further extend the exemption in case the Bank is not able to meet the minimum capital requirement of Rs. 2 billion (net of losses) till December 31, 2015.

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SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2015

8. LENDINGS TO FINANCIAL INSTITUTIONS	(Un-audited) June 30, 2015	(Audited) December 31, 2014
	(Rupees in '000)	
Call money lendings	-	15,000
Letter of placement	200,000	200,000
	<u>200,000</u>	<u>215,000</u>

These lendings carry markup rate @ 8.00% (December 31, 2014: 9.25% to 10.15%) per annum and have maturity period upto 2 months (December 31, 2014: upto 2 months).

9. INVESTMENTS	Held by the bank	Given as collateral	Total
	(Rupees in '000)		
As at June 30, 2015	<u>1,678,959</u>	<u>3,459,416</u>	<u>5,138,375</u>
As at December 31, 2014	<u>717,481</u>	<u>729,012</u>	<u>1,446,493</u>

9.1 INVESTMENTS BY TYPES :

Available-for-sale securities

Market Treasury Bills (MTBs)	996,619	-	996,619
Pakistan Investment Bonds (PIBs)	548,493	3,500,155	4,048,648
Fully paid ordinary shares/mutual fund	70,248	-	70,248
	<u>1,615,360</u>	<u>3,500,155</u>	<u>5,115,515</u>

Held-to-maturity securities

Term Deposit Receipts (TDRs)	52,171	-	52,171
Certificates of Investments (COIs)	762	-	762
	<u>52,933</u>	<u>-</u>	<u>52,933</u>

Investment in subsidiary

SME Leasing Limited	<u>215,457</u>	<u>-</u>	<u>215,457</u>
Investments at cost	1,883,750	3,500,155	5,383,905
Less: Provision for diminution in value of investments	<u>(187,803)</u>	<u>-</u>	<u>(187,803)</u>
Investments net of impairment	1,695,947	3,500,155	5,196,102
Net deficit on revaluation of available-for-sale-securities	<u>(16,988)</u>	<u>(40,739)</u>	<u>(57,727)</u>
Total investments	<u>1,678,959</u>	<u>3,459,416</u>	<u>5,138,375</u>

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		(Un-audited) June 30, 2015	(Audited) December 31, 2014
		(Rupees in '000)	
10. ADVANCES			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	10.1	4,377,407	4,377,908
Defunct RDFC	10.1	505,441	505,441
SME Bank Ltd		2,898,619	3,215,436
Due from ex-employees	10.1	17,877	17,951
Due from employees		132,253	135,613
		7,931,597	8,252,349
Net investment in finance lease - In Pakistan	10.1	1,253	1,253
Advances - gross		7,932,850	8,253,602
Provision for non-performing advances			
Specific provision		(5,252,110)	(5,315,765)
General provision		(8,158)	(9,100)
	10.3	(5,260,268)	(5,324,865)
Advances - net of provision		2,672,582	2,928,737

10.1 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 favour 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 is an amount equal to 50% of the net recoveries.

Under the above referred arrangements, portfolio of defunct SFBC & 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 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.

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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.

Pending cancellation of transfer and assignment agreement with NBP non- performing loan portfolios of defunct SBFC and RDFC stands recognised in these unconsolidated financial statements and accordingly the amount recovered by the Bank from the borrowers of defunct SBFC & RDFC has been recognized as liability to NBP on a prudent basis. Funds received by NBP to be apportioned in terms of this agreement have also not been accounted for by the Bank.

10.2 Advances include Rs. 5,565,246 thousand (Dec 2014: Rs. 5,640,890 thousand) which have been placed under non-performing status as detailed below:

Category of Classification	June 30, 2015 (Un-audited)				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
	(Rupees in '000)				
Other Assets Especially Mentioned	2,795	-	2,795	12	12
Substandard	10,651	-	10,651	151	151
Doubtful	45,999	-	45,999	406	406
Loss	5,505,801	-	5,505,801	5,251,541	5,251,541
	5,565,246	-	5,565,246	5,252,110	5,252,110

Category of Classification	December 31, 2014 (Audited)				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
	(Rupees in '000)				
Other Assets Especially Mentioned	268	-	268	2	2
Substandard	22,889	-	22,889	56	56
Doubtful	16,760	-	16,760	328	328
Loss	5,600,973	-	5,600,973	5,315,379	5,315,379
	5,640,890	-	5,640,890	5,315,765	5,315,765

10.3 Particulars of provision against non-performing advances

	June 30, 2015 (Un-audited)			December 31, 2014 (Audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,315,765	9,100	5,324,865	5,251,248	9,414	5,260,662
Amounts written off	(37)	-	(37)	(887)	-	(887)
Reversal of provision of transferred portfolio	(494)	-	(494)	(1,304)	-	(1,304)
Charge/(Reversals)						
Charge for the year	33,668	1,369	35,037	84,021	3,224	87,245
Reversal for the year	(96,792)	(2,311)	(99,103)	(17,313)	(3,538)	(20,851)
	(63,124)	(942)	(64,066)	66,708	(314)	66,394
Closing balance	5,252,110	8,158	5,260,268	5,315,765	9,100	5,324,865

- 10.3.1** The FSV benefit availed in last years has been reduced by Rs. 19,703 thousand (net of FSV benefit availed during the period), which has resulted in increased charge for specific provision for the period ended by the same amount. The FSV benefit is not available for cash or stock dividend / bonus to employees. Had the FSV benefit not recognized, loss before and after tax for the year ended would have been lower by Rs. 19,703 thousand (June 30, 2014: increased by Rs. 20,886 thousand).

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	Note	(Un-audited) June 30, 2015	(Audited) December 31, 2014
(Rupees in '000)			
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	-	841
Property and equipment	11.2	150,843	161,618
Intangible assets	11.3	1,686	1,075
		152,529	163,534
Less: Provision held against property and equipment	11.2.1	(32,044)	(32,044)
Operating Fixed Assets		120,485	131,490
11.1 Capital work-in-progress			
Advances to suppliers and contractors		-	841
		-	841
11.2 Property and equipment			
Book value at the beginning of the period/year	11.2.1	161,618	104,908
Cost of additions during the period/year		3,746	75,792
Book value of the deletions during the period/year		(385)	(741)
Depreciation charge during the period/year		(14,136)	(18,341)
Book value at the end of the period/ year		150,843	161,618

11.2.1 This represent cost of land measuring 500 square yards in sector G-7 and 4666.66 square yards situated in sector G-5/2 which was originally allotted to SBFC and RDFC respectively. CDA required payment of Rs. 3.637 million for transferring the plot in the name of the Group from SBFC and RDFC. However, on receiving draft of the required amount, CDA returned the same requiring payment of market value in view of proposed privatization of the Bank. The management of the Bank has taken up the matter with the Privatization Commission Government of Pakistan (PC). Pursuant to which Departmental Audit Committee (DAC) of PC directed the Bank to take up the case of restoration of plots through Ministry of Finance, Government of Pakistan (MOF). Upon management's perusal and in compliance with directions of DAC, MOF vide its letter dated 12 February 2014 has advised CDA to reconsider the Bank's request for restoration of the above said land and take steps for early restoration of land. Management believes that since the Bank is a successor of RDFC and SBFC by virtue of Section 5 of the Amalgamation and Conversion Ordinance, 2001. The bank has inherited aforementioned land and is not required to pay the market value of the plot. Accordingly the Bank has ownership rights over this land, however on the advice of SBP to classify these plots in doubtful category, the Bank has recorded a impairment of Rs. 32.044 million against these plots.

	(Un-audited) June 30, 2015	(Audited) December 31, 2014
(Rupees in '000)		
11.3 Intangible assets		
Book value at the beginning of the period/year	1,075	1,289
Cost of additions during the period/year	939	870
Amortization charge during the period/year	(328)	(1,084)
Book value at the end of the period/year	1,686	1,075

12. OTHER ASSETS

This includes an amount of Rs 138.6 million which represents successful bid price against auction, of the property of a bank's borrower in default, carried out on 30 June 2015. The Honourable 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. The ownership rights or possession of the said property has not yet been conveyed to the Bank. However, the management based on a legal opinion believes that, under the provision of section 65 of the Civil Procedure Code, the ownership right in the immovable property is deemed to have vested in the Bank, retrospectively from the date when auction was held i.e. 30 June 2015, and accordingly the settlement related transactions have been appropriately recognized in this condensed interim unconsolidated financial information as of and for the six months period ended 30 June 2015.

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SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2015

	Note	(Un-audited) June 30, 2015	Audited December 31, 2014
(Rupees in '000)			
13. BILLS PAYABLE			
In Pakistan		85,965	58,298
Outside Pakistan		-	-
		<u>85,965</u>	<u>58,298</u>
14. BORROWINGS			
In Pakistan		3,441,203	776,168
Outside Pakistan		-	-
		<u>3,441,203</u>	<u>776,168</u>
14.1 Particulars of borrowings with respect to currencies			
In local currency		3,441,203	776,168
In foreign currencies		-	-
		<u>3,441,203</u>	<u>776,168</u>
14.2 Details of borrowings secured/unsecured			
Borrowings from State Bank of Pakistan - unsecured	14.2.1	57,580	53,068
Repurchase agreement borrowings - secured	14.2.2	3,383,623	723,100
		<u>3,441,203</u>	<u>776,168</u>
<p>14.2.1 This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agri Produce (FFSAP)" vide SMEFD circular No. 08 dated June 04, 2010 & IH&SSMEFD circular No. 05 dated Feb 23, 2015. These carries mark up rate of 6.50 % & 4.75% respectively and is repayable in quarterly instalments.</p> <p>14.2.2 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 6.60% to 8.20% (Dec 31, 2014: 9.50% to 10.00%) per annum for period upto two month (Dec 31, 2014: upto one month). REPO transactions are secured against investment of the Bank in Government securities.</p>			
(Rupees in '000)			
15. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		864,607	800,191
Savings deposits		2,115,337	1,258,358
Current accounts - non-remunerative		658,482	532,827
Margin accounts		43,844	29,612
		<u>3,682,270</u>	<u>2,620,988</u>
Financial Institutions			
Remunerative deposits	15.1	807,590	721,167
Non-remunerative deposits		-	947
		<u>4,489,860</u>	<u>3,343,102</u>
Particulars of deposits			
In local currency		4,489,860	3,343,102
In foreign currencies		-	-
		<u>4,489,860</u>	<u>3,343,102</u>
15.1	Remunerative deposits include Rs. 357.584 million (December 31, 2014: Rs. 346.167 million) related to Equity Participation Fund.		

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Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2015

16. RESERVES	Statutory Reserve	Un-appropriated loss	(Un-audited) June 30, 2015	(Audited) December 31, 2014
			(Rupees in '000)	
Balance at beginning of the period/year	206,526	(1,972,670)	(1,766,144)	(1,386,895)
Comprehensive income transferred to equity	-	(64,328)	(64,328)	(379,249)
Balance at end of the period/year	<u>206,526</u>	<u>(2,036,998)</u>	<u>(1,830,472)</u>	<u>(1,766,144)</u>

- 16.1 As at June 30, 2015, the Bank has availed net of tax benefit of Forced Sales Value (FSV) of Rs. 279,636 thousand (December 31, 2014: Rs. 299,339 thousand) in respect of pledged stocks, mortgaged residential, commercial, industrial properties (land and building only) and plant and machinery under charge held as collateral against non-performing assets. Reserves and un-appropriated profit to that extent are not available for distribution by way of cash, stock dividend or bonus to employees.

17. (DEFICIT)/SURPLUS ON REVALUATION OF ASSETS	(Un-audited) June 30, 2015	(Audited) December 31, 2014
	(Rupees in '000)	
(Deficit)/Surplus on revaluation of available-for-sale securities		
Federal Government securities		
- Market Treasury Bills (MTBs)	2,056	(151)
- Pakistan Investment Bonds (PIBs)	(65,468)	58,034
	(63,412)	57,883
Fully paid up ordinary shares/units		
- Listed companies/mutual funds	5,685	5,120
	(57,727)	63,003
- Deferred tax	-	-
	<u>(57,727)</u>	<u>63,003</u>

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	(Un-audited) June 30, 2015	(Audited) December 31, 2014
	(Rupees in '000)	
18. CONTINGENCIES AND COMMITMENTS		
18.1 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	203,543	172,820
Others	-	-
18.2 Other Contingencies		
a) Claims not acknowledged as debt from various borrowers	24,972	24,972
b) Damages claim by borrower for delay in recording repayments received from borrower, not acknowledged as debt.	49,800	49,800
c) Damages claimed by an ex-employee of the then RDFC involved in Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited affairs and a director of Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited not acknowledged as debt.	15,000	15,000
d) Tax demands of Rs. 612,707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals). The management of the Bank strongly believes and expects favourable outcome and therefore no provision has been made for this effect in the financial statements.	612,707	612,707
e) The Bank and the income tax department have filed an appeal before the Appellate Tribunal Inland Revenue 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 thousand and tax liability of Rs. 52,932 thousand against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4,249 thousand for the tax year 2008. Without prejudice to the appeal, the demand has been paid by the Bank; however no provision has been made in these financial statements as the management is confident of a favorable outcome.	13,505	13,505
f) The bank is in appeal before the Appellate Tribunal Inland Revenue against the amended assessment order for the tax year 2010, whereby the taxation officer had assessed income of Rs. 636,499 thousand and tax liability of Rs. 222,774 thousand as against income of Rs. 7,559 thousand and tax liability of Rs. 3,947 thousand admitted by the Bank. The CIR(A) decided the appeal partly in the Bank's favor while setting aside certain matters. the re-assessment has not yet been finalized by the taxation officer.	211,716	211,716
g) Back benefits and claims of staff/employees under litigation.	111,890	112,240
18.3 Commitments in respect of forward lending		
Commitments to extend credit	99,100	212,410
18.4 Commitments for the acquisition of operating fixed assets	4,326	2,346
18.5 Commitments against repo/reverse repo transactions		
Sale and repurchase agreements	3,459,416	729,012
18.6 Other commitments		
Undrawn facilities	251,127	138,968
18.7 Bills for collection		
Payable in Pakistan	1	66

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Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2015

	(Un-audited) June 30, 2015	(Un-audited) June 30, 2014
19. CASH AND CASH EQUIVALENTS	(Rupees in '000)	
Cash and cash equivalents comprise of the following:		
Cash and balances with treasury banks	433,357	382,454
Balances with other banks	2,824	2,664
Call money lendings	-	-
	<u>436,181</u>	<u>385,118</u>

20. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Commercial Banking (Rupees in '000)	Total
June 30, 2015 (Un-audited)			
Total income	152,679	240,666	393,345
Total expenses	125,686	335,356	461,042
Net income/ (loss) before tax	26,993	(94,690)	(67,697)
Segment Assets (gross)	6,065,500	8,457,445	14,522,945
Segment Non Performing Loans	-	5,565,246	5,565,246
Segment Provision Required	207,443	5,346,714	5,554,157
Segment liabilities	3,546,325	4,918,155	8,464,480
Segment Return on net Assets (ROA) (%)	0.46%	-3.04%	
Segment cost of funds (%)	3.54%	6.82%	
June 30, 2014 (Un-audited)			
Total income	207,032	175,314	382,346
Total expenses	195,465	449,604	645,069
Net income/ (loss) before tax	11,567	(274,290)	(262,723)
Segment assets (gross)	5,648,436	8,566,203	14,214,639
Segment non performing loans	-	5,699,841	5,699,841
Segment provision required	233,077	5,380,193	5,613,270
Segment liabilities	3,141,329	4,726,612	7,867,941
Segment Return on net Assets (ROA) (%)	0.21%	-8.61%	
Segment cost of funds (%)	6.22%	9.51%	

Assumptions used:

- Unallocatable assets representing 1.62% (June 30, 2014: 0.79%) of the total assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 4.53% (June 30, 2014: 4.81%) of the total liabilities have been allocated to segments based on their respective incomes.

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SME Bank Limited

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2015

21. RELATED PARTY TRANSACTIONS

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

	June 30, 2015 (Un-audited)						December 31, 2014 (Audited)					
	Subsidiary SMEL	Key Management Personnel	Other Employees	Directors	Equity Participation Fund	Employees benefit plans	Subsidiary SMEL	Key Management Personnel	Other Employees	Directors	Equity Participation Fund	Employees benefit plans
Rupees in '000												
Balances outstanding as at												
- Investment in subsidiary	215,457	-	-	-	-	-	215,457	-	-	-	-	-
- Advances	133,257	10,689	129,651	-	-	-	155,044	10,330	146,369	-	-	-
- Receivables/markup	1,386	5,732	47,140	-	789	1,706	1,919	5,087	47,041	-	44	1,794
- Deposits	-	6,346	61,960	-	357,584	-	947	1,334	58,229	17	346,167	-
- Payables/markup	-	23	373	-	1,323	194,056	-	12	430	-	1,907	203,693
Rupees in '000												
Transactions during the period												
- Net mark-up / interest earned	10,081	172	2,222	-	-	-	4,904	145	2,628	-	-	-
- Net mark-up / interest expensed	-	122	1,731	-	9,336	-	-	137	2,077	-	11,021	-
- Total debit in running finance	27,320	-	-	-	-	-	176,348	-	-	-	-	-
- Total credits in running finance	49,107	-	-	-	-	-	79,593	-	-	-	-	-
- Payments made on behalf of	284	-	-	-	128	-	193	-	-	-	69	-
- Payments received from	284	-	-	-	-	-	193	-	-	-	-	-
- Remuneration and allowances	-	28,869	166,934	630	-	-	-	20,843	161,301	511	-	-
- Payments to employees benefit plans	-	-	-	-	-	47,681	-	-	-	-	-	34,707
- Charge for the year relating to employees benefit plans	-	-	-	-	-	32,193	-	-	-	-	-	35,147
- Fee and commission income	-	-	-	-	617	-	-	-	-	-	-	-

Principal terms of loan facility to SMEL

Amount (Rs. in 000)

150,000

Term

Running finance facility (reviewable annually)

Interest rate

1 year Kibor + 3.50%

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SME Bank Limited

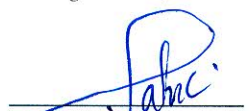
Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2015

22. DATE OF AUTHORIZATION

This condensed interim unconsolidated financial information was authorized for issue by the Board of Directors of the Bank on August 29, 2015.

Wame



Chief Financial Officer



President/ Chief Executive



Director



Director



Director