

SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Financial Position**

As at March 31, 2014

	Note	(Un-audited) March 31, 2014	(Audited) December 31, 2013
(Rupees in '000)			
ASSETS			
Cash and balances with treasury banks		251,821	314,880
Balances with other banks		2,858	2,286
Lendings to financial institutions	8	500,000	800,000
Investments	9	2,540,657	2,653,388
Advances	10	2,782,060	2,852,375
Operating fixed assets	11	113,781	128,218
Deferred tax assets		-	-
Other assets		212,161	272,675
		6,403,338	7,023,822
LIABILITIES			
Bills payable	12	33,922	85,775
Borrowings	13	1,499,416	1,748,960
Deposits and other accounts	14	3,516,202	3,713,111
Sub-ordinated loans		-	-
Liability against assets subject to finance lease		7,224	7,535
Deferred tax liabilities		-	-
Other liabilities		475,418	464,323
		5,532,182	6,019,704
NET ASSETS		871,156	1,004,118
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Unappropriated loss		(1,734,135)	(1,593,421)
		864,898	1,005,612
Surplus/(deficit) on revaluation of assets		6,258	(1,494)
		871,156	1,004,118
CONTINGENCIES AND COMMITMENTS	15		

The annexed notes 1 to 17 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 Profit and Loss Account (Un-audited)****For the Quarter ended March 31, 2014**

Note	<u>March 31, 2014</u>	<u>March 31, 2013</u>
	(Rupees in '000)	
Mark-up/ return/ interest earned	158,351	216,849
Mark-up/ return/ interest expensed	109,797	150,510
Net mark-up/ interest income	<u>48,554</u>	<u>66,339</u>
Provision against non-performing loans and advances-net	<u>16,599</u>	<u>21,963</u>
Charge for diminution in the value of investments	-	-
Bad debts written off directly	-	-
	<u>16,599</u>	<u>21,963</u>
Net mark-up/ interest income after provisions	<u>31,955</u>	<u>44,376</u>
NON MARK-UP/ INTEREST INCOME		
Fee, commission and brokerage income	<u>2,438</u>	<u>2,521</u>
Dividend income	<u>20</u>	-
Income from dealing in foreign currencies	-	-
Gain on sale of securities	<u>14,028</u>	<u>466</u>
Unrealized gain on revaluation of investments classified as held for trading	-	-
Other income	<u>201</u>	<u>211</u>
Total non-markup/ interest income	<u>16,687</u>	<u>3,198</u>
	<u>48,642</u>	<u>47,574</u>
NON MARK-UP/ INTEREST EXPENSE		
Administrative expenses	<u>153,070</u>	<u>151,064</u>
Other provisions/ write offs	<u>33,271</u>	<u>1,504</u>
Other charges	-	<u>25</u>
Total non-markup/ interest expenses	<u>186,341</u>	<u>152,593</u>
LOSS BEFORE TAXATION	<u>(137,699)</u>	<u>(105,019)</u>
Taxation - Current	<u>3,015</u>	<u>2,277</u>
- Prior	-	-
- Deferred	-	-
	<u>3,015</u>	<u>2,277</u>
LOSS AFTER TAXATION	<u>(140,714)</u>	<u>(107,296)</u>
Unappropriated loss brought forward	<u>(1,593,421)</u>	<u>(1,266,842)</u>
Loss available for appropriation	<u>(1,734,135)</u>	<u>(1,374,138)</u>
Basic/ diluted loss per share (Rupees)	<u>(0.59)</u>	<u>(0.45)</u>

The annexed notes 1 to 17 form an integral part of this condensed interim unconsolidated financial information.

Chief Financial Officer

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SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)****For the Quarter ended March 31, 2014**

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
	<u>(Rupees in '000)</u>	
Net loss after taxation	(140,714)	(107,296)
Items that will not be reclassified subsequently to profit & loss		
Recognition of net actuarial gain/(loss)	-	-
Comprehensive income transferred to equity	<u>(140,714)</u>	<u>(107,296)</u>
Other comprehensive income (not transferred to equity)		
Net change on remeasurement of available for sale investment to fair value	7,752	(10,687)
Deferred tax	-	(2,666)
	7,752	(13,353)
Total comprehensive income	<u>(132,962)</u>	<u>(120,649)</u>

The annexed notes 1 to 17 form an integral part of this condensed interim unconsolidated financial information.

Chief Financial Officer

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SME BANK LIMITED
Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)
For the Quarter ended March 31, 2014

	March 31, 2014	March 31, 2013
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(137,699)	(105,019)
Less: Dividend income	(20)	-
	<u>(137,719)</u>	<u>(105,019)</u>
Adjustments for non-cash/ other items		
Depreciation	3,887	4,226
Amortization	307	263
Provision against non-performing advances	16,599	21,963
Gain on sale of fixed asset	(20)	4
Finance charges on leased assets	46	101
Other provisions	33,271	1,504
Bad debts written off directly	-	-
	<u>54,090</u>	<u>28,061</u>
	<u>(83,629)</u>	<u>(76,958)</u>
(Increase)/ decrease in operating assets		
Lendings to financial institutions	(100,000)	(50,000)
Advances	53,716	97,486
Other assets (excluding advance taxation)	59,287	24,395
	<u>13,003</u>	<u>71,881</u>
(Decrease)/ increase in operating liabilities		
Bills payable	(51,853)	(29,096)
Borrowings from financial institutions	(249,544)	925,853
Deposits	(196,909)	(160,174)
Other liabilities (excluding current taxation)	11,181	(34,926)
	<u>(487,125)</u>	<u>701,657</u>
	<u>(557,751)</u>	<u>696,580</u>
Income tax paid	(3,101)	(721)
Net cash flow (used in)/ generated from operating activities	<u>(560,852)</u>	<u>695,859</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	120,483	(841,044)
Net disinvestment /(investment) in held-to-maturity securities	-	-
Dividend received	20	-
Investment in operating fixed assets	(21,801)	(552)
Sale proceeds of property and equipment disposed-off	20	505
Net cash flow generated from/ (used in) investing activities	<u>98,722</u>	<u>(841,091)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligations	(357)	(1,584)
Net cash flow from financing activities	<u>(357)</u>	<u>(1,584)</u>
Increase in cash and cash equivalents	<u>(462,487)</u>	<u>(146,816)</u>
Cash and cash equivalents at beginning of the period	717,166	617,116
Cash and cash equivalents at end of the period	<u><u>254,679</u></u>	<u><u>470,300</u></u>

The annexed notes 1 to 17 form an integral part of this condensed interim unconsolidated financial information.

Chief Financial Officer

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SME BANK LIMITED
Condensed Interim Unconsolidated Statement of Changes in Equity (Un-audited)
For the Quarter ended March 31, 2014

	Share Capital	Statutory reserve	Unappropriated loss	Total
	(Rupees in '000)			
Balance as at January 01, 2013	2,392,507	206,526	(1,266,842)	1,332,191
Net loss for the period	-	-	(107,296)	(107,296)
Effect of recognition of actuarial losses	-	-	-	-
Balance as at March 31, 2013	2,392,507	206,526	(1,374,138)	1,224,895
Loss for the period from April 01 to December, 2013	-	-	(323,403)	(323,403)
Effect of recognition of actuarial gain	-	-	104,120	104,120
Balance as at December 31, 2013	2,392,507	206,526	(1,593,421)	1,005,612
Total comprehensive income for the period ended March 31, 2014				
Net loss for the period	-	-	(140,714)	(140,714)
Effect of recognition of actuarial gain	-	-	-	-
Balance as at March 31, 2014	2,392,507	206,526	(1,734,135)	864,898

The annexed notes 1 to 17 form an integral part of this condensed interim unconsolidated financial information.

Chief Financial Officer

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SME Bank Limited

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

For the Quarter ended March 31, 2014

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 27, 2014 issued by PACRA Credit Rating Company Limited, credit rating of the Bank was "BBB-" (Triple B minus) in the long term and "A3" (A three) 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 December 31, 2013 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 30 June 2014, 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.

This condensed interim unconsolidated financial information has been prepared following the accrual basis of accounting except for the cash flow information.

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.

3. STATEMENT OF COMPLIANCE

This condensed interim unconsolidated financial information of the Bank for the quarter ended March 31, 2014 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, 2013.

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, 2013.

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, 2013.

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, 2013 except for:

IAS 19 (as revised in June 2011) Employee Benefits became effective during the period. The amendments to IAS-19 change accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for change in defined benefit obligation and plan assets. The amendments require the recognition of changes in the defined benefit obligation and fair value of plan assets when they occur, and hence eliminate 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income. Furthermore the interest cost and expected return on plan assets used in previous version of IAS 19 are replaced with the net interest amount under IAS 19 (as revised in June 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. IAS 19 (as revised in June 2011) introduces certain changes in the presentation of defined benefit cost including more extensive disclosures.

SME Bank Limited

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

For the Quarter ended March 31, 2014

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;

SME Bank Limited

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

For the Quarter ended March 31, 2014

- 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;
- 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. 1 billion in the annual budget 2013-14 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. 140.7 million and its accumulated losses stand at Rs. 1.734 billion as of the reporting date. Further the Bank has shortfall of Rs. 1.342 billion on 31 March 2014 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) and has made a budget allocation of Rs. 1 billion to provide further equity contribution to the Bank, notwithstanding that this allocation has been reduced from previously allocated budget of Rs. 2 billion. Further SBP has allowed exemption to the Bank from meeting the minimum capital requirement of Rs. 2 billion (net of losses) till 30 June 2014. With regards to reduction in budget allocation of Rs 1 billion by GoP, the management has approached MoF for increase in equity contribution and based on its discussions believes that MoF will increase the equity contribution from Rs. 1 billion, 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 incase the Bank is not able to meet the minimum capital requirement of Rs. 2 billion (net of losses) till 30 June 2014.

SME Bank Limited

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

For the Quarter ended March 31, 2014

8. LENDINGS TO FINANCIAL INSTITUTIONS	(Un-audited)	(Audited)
	March 31, 2014	December 31, 2013
	(Rupees in '000)	
Call money lendings	-	400,000
Letter of placement	500,000	400,000
	<u>500,000</u>	<u>800,000</u>

These lendings carry markup rate ranging between 10.05% to 10.50% (December 31, 2013: 9.10% to 9.90%) per annum and have maturity period upto 2 months (December 31, 2013: 2 months).

9. INVESTMENTS	Held by the bank	Given as collateral	Total
	(Rupees in '000)		
As at March 31, 2014	<u>1,097,909</u>	<u>1,442,748</u>	<u>2,540,657</u>
As at December 31, 2013	<u>962,300</u>	<u>1,691,088</u>	<u>2,653,388</u>

9.1 INVESTMENTS BY TYPES :

Available-for-sale securities

Market Treasury Bills (MTBs)	495,899	197,653	693,552
Pakistan Investment Bonds (PIBs)	439,155	1,251,326	1,690,481
Fully paid ordinary shares/mutual fund	70,248	-	70,248
Term Finance Certificates (TFCs)	-	-	-
	<u>1,005,302</u>	<u>1,448,979</u>	<u>2,454,281</u>

Held-to-maturity securities

Term Deposit Receipts (TDRs)	40,000	-	40,000
Certificates of Investments (COIs)	762	-	762
	<u>40,762</u>	<u>-</u>	<u>40,762</u>

Investment in subsidiary

SME Leasing Limited	215,457	-	215,457
Investments at cost	<u>1,261,521</u>	<u>1,448,979</u>	<u>2,710,500</u>
Less: Provision for diminution in value of investments	<u>(176,101)</u>	<u>-</u>	<u>(176,101)</u>
Investments net of impairment	<u>1,085,420</u>	<u>1,448,979</u>	<u>2,534,399</u>
Net Surplus/(deficit) on revaluation of available-for-sale-securities	12,489	(6,231)	6,258
Total investments	<u>1,097,909</u>	<u>1,442,748</u>	<u>2,540,657</u>

SME Bank Limited

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

For the Quarter ended March 31, 2014

	Note	(Un-audited) March 31, 2014	(Audited) December 31, 2013
(Rupees in '000)			
10. ADVANCES			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	10.1	4,379,071	4,379,650
Defunct RDFC	10.1	506,617	506,617
SME Bank Ltd		3,006,074	3,053,300
Due from ex-employees	10.1	18,965	19,002
Due from employees		146,762	153,215
		8,057,489	8,111,784
Net investment in finance lease - In Pakistan	10.1	1,253	1,253
Advances - gross		8,058,742	8,113,037
Provision for non-performing advances			
Specific provision		(5,267,934)	(5,251,248)
General provision		(8,748)	(9,414)
	10.3	(5,276,682)	(5,260,662)
Advances - net of provision		2,782,060	2,852,375

10.1 Assignment of Non-Performing Loan (NPL) portfolios of defunct SBFC, RDFC & due from ex-employees 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 RDFC, SBFC and due from ex-employees to NBP on the basis of deferred transfer price. Subsequently transfer and assignment agreement was executed between the Bank and National Bank of Pakistan at Karachi on July 01, 2010 (Effective date). According to the agreement, the transferor (SME) and the acquirer (NBP) acknowledge, declare and confirm the transfer, assignment and vesting of all rights, interests, privileges, title, powers and remedies in favor of the acquirer with respect to:

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

The agreed transfer price is an amount equal to 50% of the net recoveries.

Subsequent to the agreement and on the request of the Bank's management to re-visit and re-analyze the transfer of portfolio to NBP, the Board had agreed in principle with the management recommendation and advised the management to convey its views along with legal opinion, NBP recovery performance 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. During the year 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 and decided that since the Bank is still on the privatization list, the decision to cancel the agreement with NBP or continue with the agreement would be made once the privatization of the Bank is confirmed. Accordingly, the outstanding portfolio relating to defunct RDFC, SBFC and due from ex-employees stands recognized in the financial statements of the Bank.

Pending cancellation of transfer and assignment agreement with NBP the amount recovered by the Bank from the borrowers of defunct RDFC, SBFC and due from ex-employees 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. 5,711,402 thousand (Dec 2013: Rs. 5,650,444 thousand) which have been placed under non-performing status as detailed below:

Category of Classification	March 31, 2014 (Un-audited)				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Other Assets Especially Mentioned	26,035	-	26,035	23	23
Substandard	69,764	-	69,764	107	107
Doubtful	75,997	-	75,997	2,541	2,541
Loss	5,539,606	-	5,539,606	5,265,263	5,265,263
	<u>5,711,402</u>	<u>-</u>	<u>5,711,402</u>	<u>5,267,934</u>	<u>5,267,934</u>

Category of Classification	December 31, 2013 (Audited)				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Other Assets Especially Mentioned	9,407	-	9,407	50	50
Substandard	44,172	-	44,172	40	40
Doubtful	99,923	-	99,923	2,407	2,407
Loss	5,496,942	-	5,496,942	5,248,751	5,248,751
	<u>5,650,444</u>	<u>-</u>	<u>5,650,444</u>	<u>5,251,248</u>	<u>5,251,248</u>

10.3 Particulars of provision against non-performing advances

	March 31, 2014 (Un-audited)			December 31, 2013 (Audited)		
	Specific	General	Total	Specific	General	Total
		(Rupees in '000)				
Opening balance	5,251,248	9,414	5,260,662	5,199,535	-	5,199,535
Amounts written off	(270)	-	(270)	(1,202)	-	(1,202)
Provision of transferred portfolio	(309)	-	(309)	(1,391)	-	(1,391)
Charge/(Reversals)						
Charge for the year	24,723	991	25,714	71,083	9,414	80,497
Reversal for the year	(7,458)	(1,657)	(9,115)	(16,777)	-	(16,777)
	<u>17,265</u>	<u>(666)</u>	<u>16,599</u>	<u>54,306</u>	<u>9,414</u>	<u>63,720</u>
Closing balance	<u>5,267,934</u>	<u>8,748</u>	<u>5,276,682</u>	<u>5,251,248</u>	<u>9,414</u>	<u>5,260,662</u>

10.3.1 The State Bank of Pakistan has revised the Prudential Regulations (PRs) for Small and Medium Enterprises (SME) financing vide IH&SMEFD Circular No. 8 of 2013 dated May 07, 2013. Revised PRs segregate the SME financing between small enterprise financing and medium enterprise financing and prescribe general guidelines which are applicable to both small and medium enterprise financing. The FSV benefit availed in last years has been increased by Rs. 22,077 thousand (net of FSV benefit availed during the period), which has resulted in decrease charge for specific provision for the period ended by the same amount. The FSV benefit is not available for cash or stock dividend. Had the FSV benefit not recognized, loss before and after tax for the period ended would have been increased by Rs. 22,077 thousand (March 31, 2013: decreased by Rs. 3,957 thousand)

SME Bank Limited

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

For the Quarter ended March 31, 2014

	Note	(Un-audited) March 31, 2014	(Audited) December 31, 2013
(Rupees in '000)			
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	42,971	22,021
Property and equipment	11.2	101,872	104,908
Intangible assets	11.3	982	1,289
		<u>145,825</u>	<u>128,218</u>
Less: Provision held against property and equipment	11.2.2	<u>(32,044)</u>	-
Operating Fixed Assets (net of provision)		<u><u>113,781</u></u>	<u><u>128,218</u></u>
11.1 Capital work-in-progress			
Advances to suppliers and contractors		<u>42,971</u>	<u>22,021</u>
		<u><u>42,971</u></u>	<u><u>22,021</u></u>
11.2 Property and equipment			
Book value at the beginning of the period/year	11.2.1	104,908	122,702
Cost of additions during the period/year		851	3,878
Book value of the deletions during the period/year		-	(5,296)
Depreciation charge during the period/year		<u>(3,887)</u>	<u>(16,376)</u>
Book value at the end of the period		<u><u>101,872</u></u>	<u><u>104,908</u></u>

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 Bank 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 it has inherited aforementioned land, the Bank is not required to pay the market value of the plot and accordingly the Bank has ownership rights over this land.

11.2.2 State Bank of Pakistan in its inspection report BID(Insp)/19418/45-33/2013 dated December 24, 2013 has classified these two plots in doubtful category and advised to create a provision of Rs. 32.044 million against these plots. The Bank accordingly created the provision as advised during the period.

	(Un-audited) March 31, 2014	(Audited) December 31, 2013
(Rupees in '000)		
11.3 Intangible assets		
Book value at the beginning of the period/year	1,289	1,908
Cost of additions during the period/year	-	522
Amortization charge during the period/year	<u>(307)</u>	<u>(1,141)</u>
Book value at the end of the period/year	<u><u>982</u></u>	<u><u>1,289</u></u>

SME Bank Limited

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

For the Quarter ended March 31, 2014

	Note	(Un-audited) March 31, 2014	Audited December 31, 2013
(Rupees in '000)			
12. BILLS PAYABLE			
In Pakistan		33,922	85,775
Outside Pakistan		-	-
		<u>33,922</u>	<u>85,775</u>
13. BORROWINGS			
In Pakistan		1,499,416	1,748,960
Outside Pakistan		-	-
		<u>1,499,416</u>	<u>1,748,960</u>
13.1 Particulars of borrowings with respect to currencies			
In local currency		1,499,416	1,748,960
In foreign currencies		-	-
		<u>1,499,416</u>	<u>1,748,960</u>
13.2 Details of borrowings secured/unsecured			
Borrowings from State Bank of Pakistan - unsecured	13.2.1	64,301	68,045
Repurchase agreement borrowings - secured	13.2.2	1,435,115	1,680,915
		<u>1,499,416</u>	<u>1,748,960</u>
13.2.1	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. This carries mark up rate of 6.5 % and is repayable in quarterly installments.		
13.2.2	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 10.00% to 10.25% (Dec 31, 2013: 9.70% to 10.05%) per annum for period upto two months (Dec 31, 2013: upto one month). REPO transactions are secured against investment of the Bank in Government securities.		
		(Un-audited) March 31, 2014	Audited December 31, 2013
(Rupees in '000)			
14. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		1,473,194	1,499,652
Savings deposits		1,169,382	1,210,328
Current accounts - non-remunerative		329,662	464,664
Margin accounts		22,440	22,940
		2,994,678	3,197,584
Financial Institutions			
Remunerative deposits	14.1	520,029	513,830
Non-remunerative deposits		1,495	1,697
		<u>3,516,202</u>	<u>3,713,111</u>
Particulars of deposits			
In local currency		3,516,202	3,713,111
In foreign currencies		-	-
		<u>3,516,202</u>	<u>3,713,111</u>
14.1	Remunerative deposits include Rs. 320.029 million (December 31, 2013: Rs. 313.714 million) related to Equity Participation Fund.		

SME Bank Limited

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

For the Quarter ended March 31, 2014

		(Un-audited) March 31, 2014	(Audited) December 31, 2013
		(Rupees in '000)	
15.	CONTINGENCIES AND COMMITMENTS		
15.1	Transaction-related contingent liabilities		
	Guarantees in favour of:		
	Government	87,889	92,908
	Others	43,960	43,960
15.2	Other Contingencies		
a)	Claims not acknowledged as debt from various borrowers for loss sustained due to non-disbursement.	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 assessing taxable income of Rs. 165 thousand and tax liability of Rs. 18,554 thousand against the declared tax loss of Rs. 22,211 thousand and tax liability of Rs. 4,249 thousand for the tax year 2008. The Commissioner (Appeals) had granted some relief in his order. DCIR has issued the revised order by assessing taxable income at Rs. 165,658 thousand and raising tax demand of Rs. 13,505 thousand. The Bank is currently in the process of filing an appeal before the Commissioner (Appeals)	13,505	13,505
f)	Back benefits and claims of staff/employees under litigation.	75,820	75,820
15.3	Commitments in respect of forward lending		
	Commitments to extend credit	111,650	131,350
15.4	Commitments for the acquisition of operating fixed assets	18,325	38,696
15.5	Commitments against repo/reverse repo transactions		
	Sale and repurchase agreements	1,442,748	1,691,088
15.6	Other commitments		
	Undrawn facilities	353,061	208,896
15.7	Bills for collection		
	Payable in Pakistan	166	256

SME Bank Limited**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)****For the Quarter ended March 31, 2014****16. RELATED PARTY TRANSACTIONS**

The Bank has a related party relationship with its subsidiary- SME Leasing Limited (SMEL), its directors, executive officers, employees' funds and entities having common directorship

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

Balances outstanding as at	(Un-audited)	(Audited)
	March 31, 2014	December 31, 2013
	(Rupees in '000)	
SME Leasing Limited :		
Investment in subsidiary	215,457	215,457
Loan to SMEL - secured	70,834	43,483
Receivable from SMEL	837	486
Deposit balance of SMEL	1,495	1,692
Equity Participation Fund :		
Amount payable to fund	1,271	1,172
Deposit balance of EPF funds	320,029	313,714
	(Un-audited)	(Un-audited)
	March 31, 2014	March 31, 2013
	(Rupees in '000)	
Transactions during the period		
Interest income on loan to SMEL	1,674	2,280
Repayment of loan by SMEL (term loan)	-	1,172
Total debits in running finance	64,719	15,157
Total credits in running finance	37,367	27,721
Interest received on loan	1,190	2,561
Payments made on behalf of Equity Participation Fund	40	8
Payments made on behalf of SMEL	95	140

Principal terms of loan facility to SMEL

Amount (Rs. in 000)	Term	Interest rate
90,000	Running finance facility (reviewable annually)	1 year Kibor + 3.50%

17. DATE OF AUTHORIZATION

This condensed interim unconsolidated financial information was authorized for issue by the Board of Directors of the Bank on April , 2014.

Chief Financial Officer

President/Chief Executive

Director

Director

Director