

SME Bank Limited
Condensed Interim Unconsolidated Statement of Financial Position
As at June 30, 2013

		(Un-audited) June 30, 2013	(Audited) December 31, 2012 Restated
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks		443,035	278,430
Balances with other banks		14,647	38,686
Lendings to financial institutions	8	500,000	750,000
Investments	9	3,271,973	4,662,705
Advances	10	2,781,521	2,854,996
Operating fixed assets	11	116,141	124,610
Deferred tax assets		-	-
Other assets		202,904	258,658
		7,330,221	8,968,085
LIABILITIES			
Bills payable	12	70,934	102,132
Borrowings	13	2,299,870	3,566,576
Deposits and other accounts	14	3,240,476	3,328,001
Sub-ordinated loans		-	-
Liability against assets subject to finance lease		9,084	11,537
Deferred tax liabilities		8,957	3,606
Other liabilities		519,459	611,515
		6,148,780	7,623,367
NET ASSETS		1,181,441	1,344,718
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves	15	206,526	206,526
Unappropriated loss		(1,442,251)	(1,266,842)
		1,156,782	1,332,191
Surplus on revaluation of assets	16	24,659	12,527
		1,181,441	1,344,718
CONTINGENCIES AND COMMITMENTS	17		

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 Profit and Loss Account (Un-audited)
For the half year ended June 30, 2013

	June 30, 2013		June 30, 2012	
	For the Quarter ended	For the Half Year ended	For the Quarter ended	For the Half Year ended
	Note -----(Rupees in '000)-----			
Mark-up/ return/ interest earned	193,778	410,627	203,800	385,297
Mark-up/ return/ interest expensed	133,285	283,795	140,166	259,273
Net mark-up/ interest income	60,493	126,832	63,634	126,024
Provision/(reversal of provision) against non-performing loans and advances-net	7,908	29,871	(157)	5,204
Charge/(reversal) for diminution in the value of investments	14,979	14,979	(23,405)	(23,405)
Bad debts written off directly	-	-	19	27
	22,887	44,850	(23,543)	(18,174)
Net mark-up/ interest income after provisions	37,606	81,982	87,177	144,198
NON MARK-UP/ INTEREST INCOME				
Fee, commission and brokerage income	3,710	6,231	3,715	6,798
Dividend income	585	585	362	362
Income from dealing in foreign currencies	-	-	-	-
Gain on sale of securities	7,018	7,484	-	323
Unrealized gain on revaluation of investments classified as held for trading	-	-	-	-
Other income	171	382	943	1,097
Total non-markup/ interest income	11,484	14,682	5,020	8,580
	49,090	96,664	92,197	152,778
NON MARK-UP/ INTEREST EXPENSE				
Administrative expenses	154,062	305,126	139,799	282,294
Other provisions/ write offs	1,051	2,555	1,232	2,595
Other charges	-	25	-	-
Total non-markup/ interest expenses	155,113	307,706	141,031	284,889
LOSS BEFORE TAXATION	(106,023)	(211,042)	(48,834)	(132,111)
Taxation - Current	2,758	5,035	2,195	4,169
- Prior	-	-	-	-
- Deferred	-	-	-	-
	2,758	5,035	2,195	4,169
LOSS AFTER TAXATION	(108,781)	(216,077)	(51,029)	(136,280)
Basic/ diluted loss per share (Rupees)	(0.45)	(0.90)	(0.21)	(0.57)

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

Chief Financial Officer

President/Chief Executive

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SME Bank Limited
Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)
For the half year ended June 30, 2013

	June 30, 2013		June 30, 2012	
	For the Quarter ended	For the Half Year ended	For the Quarter ended	For the Half Year ended
Net loss after taxation	(108,781)	(216,077)	(51,029)	(136,280)
Effect of change in accounting policy with respect to accounting for actuarial gains and losses- actuarial gain	40,668	40,668	-	-
Comprehensive income transferred to equity	<u>(68,113)</u>	<u>(175,409)</u>	<u>(51,029)</u>	<u>(136,280)</u>
Other comprehensive income (not transferred to equity)				
Net change on remeasurement of available for sale investment to fair value				
	22,819	12,132	13,350	28,406
Deferred tax liabilities	8,017	5,351	-	-
	30,836	17,483	13,350	28,406
Total comprehensive income	<u>(37,277)</u>	<u>(157,926)</u>	<u>(37,679)</u>	<u>(107,874)</u>

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

Chief Financial Officer

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Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)
For the half year ended June 30, 2013

	Note	June 30, 2013	June 30, 2012
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(211,042)	(132,111)
Less: Dividend income		(585)	(362)
		<u>(211,627)</u>	<u>(132,473)</u>
Adjustments for non-cash/ other items			
Depreciation		8,358	7,777
Amortization		527	584
Provision against non-performing advances		29,871	5,204
Charge/(reversal) of provision for diminution in the value of investment		14,979	(23,405)
Gain on sale of fixed asset		(91)	(54)
Finance charges on leased assets		189	292
Other provisions		2,555	2,595
Bad debts written off directly		-	27
		<u>56,388</u>	<u>(6,980)</u>
		<u>(155,239)</u>	<u>(139,453)</u>
(Increase)/ decrease in operating assets			
Lendings to financial institutions		(50,000)	(150,000)
Advances		43,604	(45,454)
Other assets (excluding advance taxation)		53,199	(43,429)
		<u>46,803</u>	<u>(238,883)</u>
(Decrease)/ increase in operating liabilities			
Bills payable		(31,198)	(91,158)
Borrowings from financial institutions		(1,266,706)	577,039
Deposits		(87,525)	664,047
Other liabilities (excluding current taxation)		(54,522)	10,800
		<u>(1,439,951)</u>	<u>1,160,728</u>
		<u>(1,548,387)</u>	<u>782,392</u>
Income tax paid		(1,901)	(3,660)
Net cash flow generated from operating activities		<u>(1,550,288)</u>	<u>778,732</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		1,193,236	(364,916)
Net disinvestment /(investment) in held-to-maturity securities		200,000	(240,000)
Dividend received		585	362
Investment in operating fixed assets		(1,397)	(16,172)
Sale proceeds of property and equipment disposed-off		1,072	54
Net cash flow from investing activities		<u>1,393,496</u>	<u>(620,672)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of lease obligations		(2,642)	(1,786)
Net cash flow from financing activities		<u>(2,642)</u>	<u>(1,786)</u>
Increase in cash and cash equivalents		<u>(159,434)</u>	<u>156,274</u>
Cash and cash equivalents at beginning of the period	19	617,116	469,828
Cash and cash equivalents at end of the period		<u>457,682</u>	<u>626,102</u>

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

Chief Financial Officer

President/Chief Executive

Director

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SME Bank Limited
Condensed Interim Unconsolidated Statement of Changes in Equity (Un-audited)
For the half year ended June 30, 2013

	Share Capital	Statutory reserve	Unappropriated loss	Total
	(Rupees in '000)			
Balance as at January 01, 2012 - as previously reported	2,392,507	206,526	(684,648)	1,914,385
Effect of retrospective change in accounting policy with respect to accounting for actuarial losses - note 18	-	-	(121,766)	(121,766)
Balance as at January 1, 2012 - restated	2,392,507	206,526	(806,414)	1,792,619
Total comprehensive income for the period				
Net loss for the period	-	-	(136,280)	(136,280)
Balance as at June 30, 2012-restated	2,392,507	206,526	(942,694)	1,656,339
Net loss for the period- restated	-	-	(243,300)	(243,300)
Effect of recognition of actuarial losses - note 18	-	-	(80,848)	(80,848)
Balance as at December 31, 2012 - restated	2,392,507	206,526	(1,266,842)	1,332,191
Balance as at December 31, 2012 as previously stated	2,392,507	206,526	(1,084,406)	1,514,627
Total comprehensive income for the period				
Net loss for the period	-	-	(216,077)	(216,077)
Effect of recognition of actuarial gain	-	-	40,668	40,668
Balance as at June 30, 2013	2,392,507	206,526	(1,442,251)	1,156,782

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

Chief Financial Officer

President/Chief Executive

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SME Bank Limited
Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)
For the half year ended June 30, 2013

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 40-Jang Building, A.K. Fazal ul Haq Road, 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 July 09, 2013 issued by PACRA Credit Rating Company Limited, credit rating of the Bank was BBB (triple B) in the long term and A-3 (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, 2012 up to Rs. 9 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.

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 half year ended June 30, 2013 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, 2012.

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, 2012.

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, 2012.

SME Bank Limited

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

For the half year ended June 30, 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, 2012 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.

Adoption of amended IAS 19 amounts to change in accounting policy as per IAS 8: "Accounting policies, changes in accounting estimates and errors" and effects of retrospective application of this change in accounting policy has been disclosed in note 18.

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;

SME Bank Limited

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

For the half year ended June 30, 2013

- 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;

SME Bank Limited

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

For the half year ended June 30, 2013

- 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;
- 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. 216.077 million and its accumulated losses stand at Rs. 1.442 billion as of the reporting date. Further the bank has shortfall of Rs. 1.050 billion on 30 June 2013 in meeting the minimum capital requirements of Rs. 2 billion (net of losses) as prescribed by the State Bank of Pakistan (SBP) on the basis of amounts reported in the statement of financial position. 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 this condensed interim financial information 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 this has been reduced from previously allocated budget of Rs. 2 billion. SBP has allowed exemption to the Bank from meeting the minimum capital requirement of Rs. 2 billion (net of losses) till 31 December 2013. 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). However the management believes that this exemption will further be extended by the SBP incase the Bank is not able to meet the minimum capital requirement of Rs. 2 billion (net of losses) till 31 December 2013.

SME Bank Limited

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

For the half year ended June 30, 2013

8. LENDINGS TO FINANCIAL INSTITUTIONS	(Un-audited) June	(Audited) December
	30, 2013	31, 2012
	(Rupees in '000)	
Call money lendings	-	300,000
Letter of placement	500,000	450,000
	500,000	750,000

These lendings carry markup rate ranging between 9.55% to 9.80% (December 31, 2012: 9.90% to 11.10%) per annum and have maturity period upto 2 months (December 31, 2012: 3 months).

9. INVESTMENTS	Held by the	Given as collateral	Total
	bank		
	(Rupees in '000)		
As at June 30, 2013	1,013,479	2,258,494	3,271,973
As at December 31, 2012	1,148,749	3,513,956	4,662,705

9.1 INVESTMENTS BY TYPES:

Available-for-sale securities

Market Treasury Bills (MTBs)	496,782	1,627,521	2,124,303
Pakistan Investment Bonds (PIBs)	350,000	608,729	958,729
Fully paid ordinary shares/mutual fund	72,867	-	72,867
Term Finance Certificates (TFCs)	2,499	-	2,499
	922,148	2,236,250	3,158,398

Held-to-maturity securities

Term Deposit Receipts (TDRs)	40,000	-	40,000
Certificates of Investments (COIs)	762	-	762
	40,762	-	40,762

Investment in subsidiary

SME Leasing Limited	215,457	-	215,457
Investments at cost	1,178,367	2,236,250	3,414,617
Less: Provision for diminution in value of investments	(176,260)	-	(176,260)
Investments net of impairment	1,002,107	2,236,250	3,238,357
Net Surplus/(deficit) on revaluation of available-for-sale-securities	11,372	22,244	33,616
Total investments	1,013,479	2,258,494	3,271,973

SME Bank Limited

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

For the half year ended June 30, 2013

	Note	(Un-audited) June 30, 2013	(Audited) December 31, 2012
(Rupees in '000)			
10. ADVANCES			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	10.1	4,380,430	4,381,397
Defunct RDFC	10.1	506,617	506,617
SME Bank Ltd		2,943,227	2,979,883
Due from ex-employees	10.1	19,067	19,917
Due from employees		158,450	165,464
		8,007,791	8,053,278
Net investment in finance lease - In Pakistan	10.1	1,253	1,253
Advances - gross		8,009,044	8,054,531
Provision for non-performing advances	10.3		
Specific provision		(5,225,903)	(5,199,535)
General provision		(1,620)	-
		(5,227,523)	(5,199,535)
Advances - net of provision		2,781,521	2,854,996

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 favour of the acquirer with respect to:

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

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

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 had approved the transfer and assignment of non performing portfolio of defunct SBFC, RDFC and due from ex-employees to NBP on the basis of deferred transfer price.

Since the implementation phases of the agreement has not been completed due to varying administrative reasons, 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.

SME Bank Limited

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

For the half year ended June 30, 2013

10.2 Advances include Rs. 5,610,504 thousand (December 31, 2012: Rs. 5,563,980 thousand) which have been placed under non-performing status as detailed below:

Category of Classification	June 30, 2013 (Un-audited)				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Substandard	41,782	-	41,782	539	539
Doubtful	51,904	-	51,904	549	549
Loss	5,516,818	-	5,516,818	5,224,815	5,224,815
	<u>5,610,504</u>	<u>-</u>	<u>5,610,504</u>	<u>5,225,903</u>	<u>5,225,903</u>

Category of Classification	December 31, 2012 (Audited)				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Substandard	18,062	-	18,062	-	-
Doubtful	36,564	-	36,564	591	591
Loss	5,509,354	-	5,509,354	5,198,944	5,198,944
	<u>5,563,980</u>	<u>-</u>	<u>5,563,980</u>	<u>5,199,535</u>	<u>5,199,535</u>

10.3 Particulars of provision against non-performing advances

	June 30, 2013 (Un-audited)			December 31, 2012 (Audited)		
	Specific	General	Total	Specific	General	Total
		(Rupees in '000)				
Opening balance	5,199,535	-	5,199,535	5,157,084	-	5,157,084
Amounts written off	(826)	-	(826)	(11,378)	-	(11,378)
Provision of transferred portfolio	(1,057)	-	(1,057)	(3,292)	-	(3,292)
Charge/(Reversals)						
Charge for the year	37,728	1,620	39,348	85,251	-	85,251
Reversals	(9,477)	-	(9,477)	(28,130)	-	(28,130)
	<u>28,251</u>	<u>1,620</u>	<u>29,871</u>	<u>57,121</u>	<u>-</u>	<u>57,121</u>
Closing balance	<u>5,225,903</u>	<u>1,620</u>	<u>5,227,523</u>	<u>5,199,535</u>	<u>-</u>	<u>5,199,535</u>

10.3.1 During the period effective May 07, 2013, State Bank of Pakistan has revised the Prudential Regulations (PRs) for Small and Medium Enterprises (SME) financing. 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 and specific regulations which are applicable to Small Enterprises (SE) and Medium Enterprise (ME) financing including revising the categories for non performing financing and introduction of general provision for Small enterprise financing. These revised PRs are applicable with immediate effect on fresh financing, however the Banks/DFIs are allowed a maximum implementation period upto 30 September 2013 for their existing portfolio. Revision in PRs as at 30 June 2013 has resulted in recognition of general provision of Rs. 1.620 million, representing 1% of the outstanding SE portfolio disbursed after the promulgation of revised PR. Currently the Bank is in the process of segregating its existing portfolio and the related financial impacts will be incorporated upon completion of the segregation exercise upto implementation period of 30 September 2013.

10.3.2 Net reduction in FSV benefit during the period amounted to Rs.5,305 thousand resulting in increased charge for specific provision for the period ended by the same amount. The FSV is not available for cash or stock dividend.

SME Bank Limited

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

For the half year ended June 30, 2013

	Note	(Un-audited)	(Audited)
		June 30, 2013	December 31, 2012
(Rupees in '000)			
11. OPERATING FIXED ASSETS			
Property and equipment	11.1	114,733	122,702
Intangible assets	11.2	1,408	1,908
		<u>116,141</u>	<u>124,610</u>
11.1 Property and equipment			
Book value at the beginning of the period/year	11.1.1	122,702	109,474
Cost of additions during the period/year		1,370	29,687
Book value of the deletions during the period/year		(981)	(68)
Depreciation charge during the period/year		<u>(8,358)</u>	<u>(16,391)</u>
Book value at the end of the period		<u>114,733</u>	<u>122,702</u>

11.1.1 This represent cost of land measuring 500 square yards in sector G-7 and 4666.66 square yards situated in sector G-5/2 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 matter is still pending, however based on the fact that the land is under possession of the Bank and the title is in the name of SBFC and RDFC which are now SME, the management believes that the Bank is not required to pay the market value of the plot and accordingly the Bank has ownership rights over this land.

	(Un-audited)	(Audited)
	June 30, 2013	December 31, 2012
(Rupees in '000)		
11.2 Intangible assets		
Book value at the beginning of the period/year	1,908	2,831
Cost of additions during the period/year	27	171
Amortization charge during the period/year	<u>(527)</u>	<u>(1,094)</u>
Book value at the end of the period/year	<u>1,408</u>	<u>1,908</u>

SME Bank Limited

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

For the half year ended June 30, 2013

	Note	(Un-audited) June 30, 2013	(Audited) December 31, 2012
12. BILLS PAYABLE		(Rupees in '000)	
In Pakistan		70,934	102,132
Outside Pakistan		-	-
		<u>70,934</u>	<u>102,132</u>
13. BORROWINGS			
In Pakistan		2,299,870	3,566,576
Outside Pakistan		-	-
		<u>2,299,870</u>	<u>3,566,576</u>
13.1 Particulars of borrowings with respect to currencies			
In local currency		2,299,870	3,566,576
In foreign currencies		-	-
		<u>2,299,870</u>	<u>3,566,576</u>
13.2 Details of borrowings secured/unsecured			
Borrowings from State Bank of Pakistan - unsecured	13.2.1	75,533	83,022
Repurchase agreement borrowings - secured	13.2.2	2,224,337	3,483,555
		<u>2,299,870</u>	<u>3,566,577</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 repurchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 9.20% to 9.70% (December 31, 2012: 9.0% to 9.95%) per annum for period upto two months (December 31, 2012: upto three months). REPO transactions are secured against investment of the Bank in

		(Un-audited) June 30, 2013	(Audited) December 31, 2012
14. DEPOSITS AND OTHER ACCOUNTS		(Rupees in '000)	
Customers			
Fixed deposits		938,404	1,432,357
Savings deposits		1,150,476	905,710
Current accounts - non-remunerative		521,391	450,737
Margin accounts		27,061	43,316
		<u>2,637,332</u>	<u>2,832,120</u>
Financial Institutions			
Remunerative deposits	14.1	602,870	492,936
Non-remunerative deposits		274	2,945
		<u>3,240,476</u>	<u>3,328,001</u>
Particulars of deposits			
In local currency		3,240,476	3,328,001
In foreign currencies		-	-
		<u>3,240,476</u>	<u>3,328,001</u>

14.1 Remunerative deposits include Rs. 302.741 million (December 31, 2012: Rs. 292.931 million) related to Equity Participation Fund.

SME Bank Limited

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

For the half year ended June 30, 2013

15. RESERVES	Statutory Reserve	Un-appropriated loss	(Un-audited)	(Audited)
			June 30, 2013	December 31, 2012
			Restated	
			(Rupees in '000)	
Balance at beginning of the year	206,526	(1,266,842)	(1,060,316)	(591,813)
Comprehensive income transferred to equity	-	(175,409)	(175,409)	(468,503)
Balance at end of the year	<u>206,526</u>	<u>(1,442,251)</u>	<u>(1,235,725)</u>	<u>(1,060,316)</u>

15.1 As at December 31, 2012, the Bank has availed net of tax benefit of Forced Sales Value (FSV) of Rs. 327,314 thousand (December 31, 2012: Rs. 332,619 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 or stock dividend.

16. SURPLUS/(DEFICIT) ON REVALUATION OF ASSETS	(Un-audited)	(Audited)
	June 30, 2013	December 31, 2012
	(Rupees in '000)	
Surplus/(deficit) on revaluation of available-for-sale securities		
Federal Government securities		
- Market Treasury Bills (MTBs)	798	5,587
- Pakistan Investment Bonds (PIBs)	21,581	2,343
	22,379	7,930
Fully paid up ordinary shares/units		
- Listed companies/mutual funds	11,233	8,160
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates		
- Listed TFCs	4	43
- Deferred tax	(8,957)	(3,606)
	<u>24,659</u>	<u>12,527</u>

SME Bank Limited

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

For the half year ended June 30, 2013

	(Un-audited)	(Audited)
	June 30, 2013	December 31, 2012
	(Rupees in '000)	
17. CONTINGENCIES AND COMMITMENTS		
17.1 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	114,249	184,042
Others	12,185	32,288
17.2 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	14,284
h) Back benefits and claims of staff/employees under litigation.	78,120	145,800
17.3 Commitments in respect of forward lending		
Commitments to extend credit	241,880	102,400
17.4 Commitments against repo/reverse repo transactions		
Sale and repurchase agreements	2,258,494	3,513,956
17.5 Other commitments		
Undrawn facilities	289,395	252,369
17.6 Bills for collection		
Payable in Pakistan	436	2,478

18 EFFECTS OF CHANGES IN ACCOUNTING POLICY

This change in accounting policy has been accounted for retrospectively in accordance with International Accounting Standard - 8 Accounting Policies, Changes in Accounting Estimates and Errors', resulting in adjustment of prior year financial statements.

Effect of retrospective application of change in accounting policy is as follows:

18.1 Effect of recognizing actuarial gain or loss on balance sheet which were previously not recognized

	As at 31 December 2012		
	As previously reported	Restated	As Restated
	(Rupees in '000)		
Increase in defined benefit obligation:			
Gratuity	43,165	(1,511)	41,654
Pension	3,009	183,947	186,956
Compensated absences	79,019	-	79,019
Net (decrease)/increase in unappropriated profit	(1,084,406)	182,436	(1,266,842)

6 Months ended June 30, 2013	For the year ended December 31, 2012	Prior to January 01, 2012
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(Rupees in '000)

18.2 Effect on profit and loss account

Net decrease in loss after tax	-	20,178	71,206
	-	20,178	71,206

18.2.1 Since actuarial valuation was carried out in 2012 at the year end, accordingly the related adjustments were incorporated during the second half in year 2012.

18.3 Effect on other comprehensive income

Recognition of actuarial losses reclassified to other comprehensive income	-	20,178	71,206
Net actuarial (gain) / loss now recognised in other comprehensive income previously unrecognized	(40,668)	60,670	121,766
	(40,668)	80,848	192,972

The effect on earnings per share related to the restatement is as follows:

	2012	2011
	(Rupees)	
Basic and diluted earnings per share	0.084	0.077

18.4 Staff retirement benefits

Changes in defined benefit obligation, fair value of plan assets are as follows:

2012	1 January 2012	Current service cost	Interest cost	Expected return on plan assets	Benefits Paid	Actuarial gains / losses recognised in other comprehensive income	Contribution by the employer	Total 31 December 2012
Defined benefit obligation	588,018	34,398	72,226	-	(20,418)	76,198	-	750,422
Fair value of plan assets	(355,551)	-	-	(47,298)	3,015	5,724	(48,683)	(442,793)
Defined benefit liability	<u>232,467</u>	<u>34,398</u>	<u>72,226</u>	<u>(47,298)</u>	<u>(17,403)</u>	<u>81,922</u>	<u>(48,683)</u>	<u>307,629</u>

There is no change in the actuarial assumptions which has been disclosed in the financial statements for the year ended December 31, 2012.

SME Bank Limited

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

For the half year ended June 30, 2013

	(Un-audited) June 30, 2013	(Un-audited) June 30, 2012
19. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents comprise of the following:		
Cash and balances with treasury banks	443,035	315,869
Balances with other banks	14,647	10,233
Call money lendings	-	300,000
	<u>457,682</u>	<u>626,102</u>

20. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Commercial Banking	Total
June 30, 2013 (Un-audited)		(Rupees in '000)	
Total income	253,633	171,676	425,309
Total expenses	177,805	458,546	636,351
Net income/ (loss)	75,828	(286,870)	(211,042)
Segment assets (gross)	4,414,275	8,374,844	12,789,119
Segment non performing loans	-	5,610,504	5,610,504
Segment provision required	162,284	5,296,614	5,458,898
Segment liabilities	2,528,143	3,620,636	6,148,779
Segment Return on net Assets (ROA) (%)	1.78%	-9.32%	
Segment cost of funds (%)	7.03%	12.66%	
June 30, 2012 (Un-audited)			
Total income	218,182	175,695	393,877
Total expenses	120,036	405,952	525,988
Net income/ (loss)	98,146	(230,257)	(132,111)
Segment assets (gross)	5,146,523	8,495,911	13,642,434
Segment non performing loans	-	5,572,251	5,572,251
Segment provision required	168,625	5,224,197	5,392,822
Segment liabilities	2,805,265	3,685,911	6,491,176
Segment Return on net Assets (ROA) (%)	1.97%	-7.04%	
Segment cost of funds (%)	4.28%	11.01%	

Assumptions used:

- Unallocatable administrative expenses have been allocated to segments based on their respective incomes except for the depreciation expense which has been allocated on the annual basis of net book value of segment operating fixed assets.
- Unallocatable assets representing 0.78% (June 30, 2012: 0.76%) of the total assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 7.60% (June 30, 2012: 4.80%) of the total liabilities have been allocated to segments based on their respective incomes.

21. 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 period end and transactions with related parties are as follows:

Balances outstanding as at	(Un-audited) June 30, 2013	(Audited) December 31, 2012
	(Rupees in '000)	
SME Leasing Limited :		
Investment in subsidiary	215,457	215,457
Loan to SMEL - secured	30,109	57,783
Markup receivable from SMEL	676	1,022
Deposit balance of SMEL	274	1,578
Equity Participation Fund :		
Amount payable to fund	2,229	2,238
Deposit balance of EPF funds	302,741	292,931
Employees' Benefit Plans :		
Amount payable to employees' benefit plans	264,354	307,629
Key Management Personnel (KMP)		
Loans to KMP - secured	76,778	73,931
Markup receivable from KMP	26,882	24,593
	(Un-audited) June 30, 2013	(Un-audited) June 30, 2012
	(Rupees in '000)	
Transactions during the period		
Interest income on loan to SMEL	4,182	8,957
Repayment of loan by SMEL	2,380	2,066
Total debits in running finance	34,120	71,914
Total credits in running finance	59,414	83,964
Interest received on loan	4,556	7,848
Payments to employees' funds	43,273	36,043
Charge for the year relating to employees' funds	42,376	37,135
Fee on Equity Participation Fund managed by the Bank	-	438
Payments made on behalf of Equity Participation Fund	9	93
Payments made on behalf of SMEL	152	148
Receipt of payments from SMEL	125	169
Salaries and benefit to KMP	140,706	114,931
Loans disbursed to KMP	5,775	2,105
Loans recovered from KMP	9,803	9,120
Mark-up charged on loans to KMP	1,383	1,206
Mark-up recovered from KMP	780	358

Principal terms of loan facility to SMEL

Amount	Term	Interest rate
90,000	Stand by facility (reviewable annually)	1 year Kibor + 6%

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, 2013.

Chief Financial Officer

President/Chief Executive

Director

Director

Director