

**SME BANK LIMITED****Condensed Interim Unconsolidated Statement of Financial Position****As at June 30, 2014**

		(Un-audited) June 30, 2014	(Audited) December 31, 2013
	Note	(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks		382,454	314,880
Balances with other banks		2,664	2,286
Lendings to financial institutions	8	400,000	800,000
Investments	9	4,466,912	2,653,388
Advances	10	2,884,964	2,852,375
Operating fixed assets	11	110,288	128,218
Deferred tax assets		-	-
Other assets	12	354,087	272,675
		<b>8,601,369</b>	<b>7,023,822</b>
<b>LIABILITIES</b>			
Bills payable	13	38,039	85,775
Borrowings	14	2,978,259	1,748,960
Deposits and other accounts	15	4,376,316	3,713,111
Sub-ordinated loans		-	-
Liability against assets subject to finance lease		6,901	7,535
Deferred tax liabilities		-	-
Other liabilities		468,426	464,323
		<b>7,867,941</b>	<b>6,019,704</b>
<b>NET ASSETS</b>		<b>733,428</b>	<b>1,004,118</b>
<b>REPRESENTED BY</b>			
Share capital		2,392,507	2,392,507
Reserves	16	206,526	206,526
Unappropriated loss		(1,839,971)	(1,593,421)
		<b>759,062</b>	<b>1,005,612</b>
Deficit on revaluation of assets	17	(25,634)	(1,494)
		<b>733,428</b>	<b>1,004,118</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	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

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President/Chief Executive

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Director

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Director

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**SME BANK LIMITED**  
**Condensed Interim Unconsolidated Profit and Loss Account (Un-audited)**  
**For the half year ended June 30, 2014**

	June 30, 2014		June 30, 2013	
	For the Quarter ended	For the Half Year ended	For the Quarter ended	For the Half Year ended
<b>Note</b>	----- <b>(Rupees in '000)</b> -----			
<b>Mark-up/ return/ interest earned</b>	<b>199,749</b>	<b>358,100</b>	193,778	410,627
<b>Mark-up/ return/ interest expensed</b>	<b>138,957</b>	<b>248,754</b>	133,285	283,795
Net mark-up/ interest income	<b>60,792</b>	<b>109,346</b>	60,493	126,832
Provision against non-performing loans and advances-net	<b>27,126</b>	<b>43,725</b>	7,908	29,871
Charge for diminution in the value of investments	<b>11,702</b>	<b>11,702</b>	14,979	14,979
Bad debts written off directly	-	-	-	-
	<b>38,828</b>	<b>55,427</b>	22,887	44,850
Net mark-up/ interest income after provisions	<b>21,964</b>	<b>53,919</b>	37,606	81,982
<b>NON MARK-UP/ INTEREST INCOME</b>				
Fee, commission and brokerage income	<b>2,823</b>	<b>5,261</b>	3,710	6,231
Dividend income	<b>211</b>	<b>231</b>	585	585
Income from dealing in foreign currencies	-	-	-	-
Gain on sale of securities	<b>4,181</b>	<b>18,209</b>	7,018	7,484
Unrealized gain on revaluation of investments classified as held for trading	-	-	-	-
Other income	<b>344</b>	<b>545</b>	171	382
Total non-markup/ interest income	<b>7,559</b>	<b>24,246</b>	11,484	14,682
	<b>29,523</b>	<b>78,165</b>	49,090	96,664
<b>NON MARK-UP/ INTEREST EXPENSE</b>				
Administrative expenses	<b>151,848</b>	<b>304,918</b>	154,062	305,126
Other provisions/ write offs	<b>1,888</b>	<b>35,159</b>	1,051	2,555
Other charges	<b>811</b>	<b>811</b>	-	25
Total non-markup/ interest expenses	<b>154,547</b>	<b>340,888</b>	155,113	307,706
<b>LOSS BEFORE TAXATION</b>	<b>(125,024)</b>	<b>(262,723)</b>	(106,023)	(211,042)
Taxation - Current	<b>2,444</b>	<b>5,459</b>	2,758	5,035
- Prior	-	-	-	-
- Deferred	-	-	-	-
	<b>2,444</b>	<b>5,459</b>	2,758	5,035
<b>LOSS AFTER TAXATION</b>	<b>(127,468)</b>	<b>(268,182)</b>	(108,781)	(216,077)
<b>Basic/ diluted loss per share (Rupees)</b>	<b>(0.53)</b>	<b>(1.12)</b>	(0.45)	(0.90)

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

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

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**President/Chief Executive**

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**Director**

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**Director**

**SME BANK LIMITED****Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)****For the half year ended June 30, 2014**

	<b>June 30, 2014</b>		June 30, 2013	
	<b>For the Quarter ended</b>	<b>For the Half year ended</b>	For the Quarter ended	For the Half year ended
	(Rupees in '000)			
<b>Net loss after taxation</b>	<b>(127,468)</b>	<b>(268,182)</b>	(108,781)	(216,077)
<b>Items that will not be reclassified subsequently to profit &amp; loss</b>				
Recognition of net actuarial gain	<u>21,632</u>	<u>21,632</u>	40,668	40,668
<b>Comprehensive income transferred to equity</b>	<u><b>(105,836)</b></u>	<u><b>(246,550)</b></u>	<u>(68,113)</u>	<u>(175,409)</u>
<b>Other comprehensive income (not transferred to equity)</b>				
Net change on remeasurement of available for sale investment to fair value	(31,892)	(24,140)	22,819	12,132
Deferred tax	-	-	8,017	5,351
	<u>(31,892)</u>	<u>(24,140)</u>	30,836	17,483
<b>Total comprehensive income</b>	<u><b>(137,728)</b></u>	<u><b>(270,690)</b></u>	<u>(37,277)</u>	<u>(157,926)</u>

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**Director**

**SME BANK LIMITED**  
**Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)**  
**For the half year ended June 30, 2014**

	<b>June 30, 2014</b>	June 30, 2013
	<b>(Rupees in '000)</b>	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(262,723)	(211,042)
Less: Dividend income	(231)	(585)
	<u>(262,954)</u>	<u>(211,627)</u>
<b>Adjustments for non-cash/ other items</b>		
Depreciation	7,940	8,358
Amortization	613	527
Provision against non-performing advances	43,725	29,871
Charge/(reversal) of provision for diminution in the value of investment	11,702	14,979
Gain on sale of fixed asset	(170)	(91)
Finance charges on leased assets	78	189
Other provisions	35,159	2,555
Bad debts written off directly	-	-
	<u>99,047</u>	<u>56,388</u>
	<b>(163,907)</b>	<b>(155,239)</b>
<b>(Increase)/ decrease in operating assets</b>		
Lendings to financial institutions	-	(50,000)
Advances	(76,314)	43,604
Other assets (excluding advance taxation)	(84,527)	53,199
	<u>(160,841)</u>	<u>46,803</u>
<b>(Decrease)/ increase in operating liabilities</b>		
Bills payable	(47,736)	(31,198)
Borrowings from financial institutions	1,229,299	(1,266,706)
Deposits	663,205	(87,525)
Other liabilities (excluding current taxation)	27,171	(54,522)
	<u>1,871,939</u>	<u>(1,439,951)</u>
	<u>1,547,191</u>	<u>(1,548,387)</u>
Income tax paid	(6,895)	(1,901)
<b>Net cash flow (used in)/ generated from operating activities</b>	<b>1,540,296</b>	<b>(1,550,288)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in available-for-sale securities	(1,849,366)	1,193,236
Net disinvestment /(investment) in held-to-maturity securities	-	200,000
Dividend received	231	585
Investment in operating fixed assets	(22,667)	(1,397)
Sale proceeds of property and equipment disposed-off	170	1,072
<b>Net cash flow generated from/ (used in) investing activities</b>	<b>(1,871,632)</b>	<b>1,393,496</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment of lease obligations	(712)	(2,642)
<b>Net cash flow from financing activities</b>	<b>(712)</b>	<b>(2,642)</b>
<b>Increase in cash and cash equivalents</b>	<b>(332,048)</b>	<b>(159,434)</b>
Cash and cash equivalents at beginning of the period	717,166	617,116
<b>Cash and cash equivalents at end of the period</b>	<b>385,118</b>	<b>457,682</b>

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

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**President/Chief Executive**

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**Director**

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**Director**

**SME BANK LIMITED****Condensed Interim Unconsolidated Statement of Changes in Equity (Un-audited)****For the half year ended June 30, 2014**

	<b>Share Capital</b>	<b>Statutory reserve</b>	<b>Unappropriated loss</b>	<b>Total</b>
	(Rupees in '000)			
<b>Balance as at January 01, 2013</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(1,266,842)</b>	<b>1,332,191</b>
<b>Total comprehensive income for the period ended June 30, 2013</b>				
Net loss for the period	-	-	(216,077)	(216,077)
Effect of recognition of actuarial gain	-	-	40,668	40,668
<b>Balance as at June 30, 2013</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(1,442,251)</b>	<b>1,156,782</b>
<b>Total comprehensive income for the period ended December 31, 2013</b>				
Loss for the period	-	-	(214,622)	(214,622)
Effect of recognition of actuarial gain	-	-	63,452	63,452
<b>Balance as at December 31, 2013</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(1,593,421)</b>	<b>1,005,612</b>
<b>Total comprehensive income for the period ended June 30, 2014</b>				
Net loss for the period	-	-	(268,182)	(268,182)
Effect of recognition of actuarial gain	-	-	21,632	21,632
<b>Balance as at June 30, 2014</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(1,839,971)</b>	<b>759,062</b>

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

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**Chief Financial Officer**

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**President/Chief Executive**

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**Director**

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**Director**

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**Director**

## **SME Bank Limited**

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

**For the half year ended June 30, 2014**

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#### **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 June 30, 2014 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 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.

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.

**SME Bank Limited**

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

**For the half year ended June 30, 2014**

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**3. STATEMENT OF COMPLIANCE**

This condensed interim unconsolidated financial information of the Bank for the half yearly ended June 30, 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.

SBP vide BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, 'Financial Instrument: Recognition and Measurement' (IAS 39) and International Accounting Standard 40, 'Investment Property' (IAS 40), for banking companies till further instructions. Further, according to the notification of SECP dated April 28, 2008, the International Financial Reporting Standard 7, 'Financial Instruments: Disclosures' (IFRS 7), has not been made applicable for the banks. However, investments have been valued in accordance with the requirements of various circulars issued by SBP.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The basis for accounting estimates adopted in the preparation of this condensed interim unconsolidated financial information are the same as those applied in the preparation of the unconsolidated 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.

## **SME Bank Limited**

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

**For the half year ended June 30, 2014**

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#### **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;



## **SME Bank Limited**

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

#### **For the half year ended June 30, 2014**

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- 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. 268.2 million and its accumulated losses stand at Rs. 1.840 billion as of the reporting date. Further the Bank has shortfall of Rs. 1.447 billion on 30 June 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 this unconsolidated 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. 0.5 billion to provide further equity contribution to the Bank, notwithstanding that this allocation has been reduced from previously allocated budget of Rs. 1 billion. Further SBP has allowed exemption to the Bank from meeting the minimum capital requirement of Rs. 2 billion (net of losses) till 31 December 2014. With regards to reduction in budget allocation of Rs 0.5 billion by GoP, the management is contemplating to approach MoF for increase in equity contribution. 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 31 December 2014.

**SME Bank Limited**

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

**For the half year ended June 30, 2014**

<b>8. LENDINGS TO FINANCIAL INSTITUTIONS</b>	<b>(Un-audited) June 30, 2014</b>	<b>(Audited) December 31, 2013</b>
	<b>(Rupees in '000)</b>	
Call money lendings	-	400,000
Letter of placement	<b>400,000</b>	400,000
	<b>400,000</b>	<b>800,000</b>

These lendings carry markup rate @ 10.15% (December 31, 2013: 9.10% to 9.90%) per annum and have maturity period upto 2 months (December 31, 2013: 2 months).

<b>9. INVESTMENTS</b>	<b>Held by the bank</b>	<b>Given as collateral</b>	<b>Total</b>
	<b>(Rupees in '000)</b>		
<b>As at June 30, 2014</b>	<b>1,541,156</b>	<b>2,925,756</b>	<b>4,466,912</b>
As at December 31, 2013	962,300	1,691,088	2,653,388

**9.1 INVESTMENTS BY TYPES :**

**Available-for-sale securities**

Market Treasury Bills (MTBs)	564,229	-	564,229
Pakistan Investment Bonds (PIBs)	841,002	2,948,651	3,789,653
Fully paid ordinary shares/mutual fund	70,248	-	70,248
	<b>1,475,479</b>	<b>2,948,651</b>	<b>4,424,130</b>

**Held-to-maturity securities**

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

**Investment in subsidiary**

SME Leasing Limited	215,457	-	215,457
Investments at cost	<b>1,731,698</b>	<b>2,948,651</b>	<b>4,680,349</b>
Less: Provision for diminution in value of investments	<b>(187,803)</b>	<b>-</b>	<b>(187,803)</b>
Investments net of impairment	<b>1,543,895</b>	<b>2,948,651</b>	<b>4,492,546</b>
Net deficit on revaluation of available-for-sale-securities	<b>(2,739)</b>	<b>(22,895)</b>	<b>(25,634)</b>
Total investments	<b>1,541,156</b>	<b>2,925,756</b>	<b>4,466,912</b>

**SME Bank Limited**

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

**For the half year ended June 30, 2014**

	Note	(Un-audited) June 30, 2014	(Audited) December 31, 2013
(Rupees in '000)			
<b>10. ADVANCES</b>			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	10.1	4,378,822	4,379,650
Defunct RDFC	10.1	505,441	506,617
SME Bank Ltd		3,143,088	3,053,300
Due from ex-employees	10.1	18,933	19,002
Due from employees		140,985	153,215
		<u>8,187,269</u>	<u>8,111,784</u>
Net investment in finance lease - In Pakistan	10.1	1,253	1,253
Advances - gross		<u>8,188,522</u>	<u>8,113,037</u>
Provision for non-performing advances			
Specific provision		(5,294,646)	(5,251,248)
General provision		(8,912)	(9,414)
	10.3	<u>(5,303,558)</u>	<u>(5,260,662)</u>
Advances - net of provision		<u>2,884,964</u>	<u>2,852,375</u>

**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:

- 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.

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. 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 this condensed interim financial information 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.

**SME Bank Limited**  
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**For the half year ended June 30, 2014**

**10.2 Advances include Rs. 5,699,841 thousand (31 December 2013: Rs. 5,650,444 thousand) which have been placed under non-performing status as detailed below:**

Category of Classification	June 30, 2014 (Un-audited)				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Other Assets Especially Mentioned	23,042	-	23,042	354	354
Substandard	30,373	-	30,373	35	35
Doubtful	66,303	-	66,303	2,831	2,831
Loss	5,580,123	-	5,580,123	5,291,426	5,291,426
	<b>5,699,841</b>	<b>-</b>	<b>5,699,841</b>	<b>5,294,646</b>	<b>5,294,646</b>

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
	<b>5,650,444</b>	<b>-</b>	<b>5,650,444</b>	<b>5,251,248</b>	<b>5,251,248</b>

**10.3 Particulars of provision against non-performing advances**

	June 30, 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	(559)	-	(559)	(1,391)	-	(1,391)
<b>Charge/(Reversals)</b>						
Charge for the year	55,139	1,988	57,127	71,083	9,414	80,497
Reversal for the year	(10,912)	(2,490)	(13,402)	(16,777)	-	(16,777)
	<b>44,227</b>	<b>(502)</b>	<b>43,725</b>	<b>54,306</b>	<b>9,414</b>	<b>63,720</b>
Closing balance	<b>5,294,646</b>	<b>8,912</b>	<b>5,303,558</b>	<b>5,251,248</b>	<b>9,414</b>	<b>5,260,662</b>

**10.3.1** FSV benefit availed in last years has been increased by Rs. 20,886 thousand (June 30, 2013: decreased by Rs. 5,305 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. 20,886 thousand (June 30, 2013: decreased by Rs. 5,305 thousand).

**SME Bank Limited**

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

**For the half year ended June 30, 2014**

		(Un-audited)	(Audited)
	Note	June 30, 2014	December 31, 2013
(Rupees in '000)			
<b>11. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	11.1	39,267	22,021
Property and equipment	11.2	102,389	104,908
Intangible assets	11.3	676	1,289
		<u>142,332</u>	<u>128,218</u>
Less: Provision held against property and equipment	11.2.1	(32,044)	-
Operating Fixed Assets (net of provision)		<u><u>110,288</u></u>	<u><u>128,218</u></u>
<b>11.1 Capital work-in-progress</b>			
Advances to suppliers and contractors		<u>39,267</u>	<u>22,021</u>
		<u><u>39,267</u></u>	<u><u>22,021</u></u>
<b>11.2 Property and equipment</b>			
Book value at the beginning of the period/year	11.2.1	104,908	122,702
Cost of additions during the period/year		5,421	3,878
Book value of the deletions during the period/year		-	(5,296)
Depreciation charge during the period/year		(7,940)	(16,376)
Book value at the end of the period		<u><u>102,389</u></u>	<u><u>104,908</u></u>
<b>11.2.1</b>	This includes 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. However on the advise of State Bank of Pakistan to classify these two plots in doubtful category, the bank has recorded a provision of Rs. 32.044 million against these plots.		
		(Un-audited )	(Audited )
		June 30, 2014	December 31, 2013
(Rupees in '000)			
<b>11.3 Intangible assets</b>			
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		(613)	(1,141)
Book value at the end of the period/year		<u><u>676</u></u>	<u><u>1,289</u></u>

**SME Bank Limited**

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

**For the half year ended June 30, 2014**

**12. OTHER ASSETS**

This includes Trading Right Entitlement Certificates (TREC) of Lahore Stock Exchange and Islamabad Stock Exchange of Rs. 22 million. Pursuant to the requirement of Stock Exchange (Corporatization, Demutualization and Inegration) Act 2012 (the Act). These TRECs are due to be lapsed in case these are not transferred or used within two years from the date of demutualisation i.e., 26 August 2014. Management of the Bank has commenced the process to setup a company and intends to transfer the TREC's to the company being incorporated and believe that since the process for transfer has been initiated, the TRECs will not lapse in case these are not transferred till 26 August 2014.

	Note	(Un-audited) June 30, 2014	Audited December 31, 2013
(Rupees in '000)			
<b>13. BILLS PAYABLE</b>			
In Pakistan		38,039	85,775
Outside Pakistan		-	-
		<u>38,039</u>	<u>85,775</u>
<b>14. BORROWINGS</b>			
In Pakistan		2,978,259	1,748,960
Outside Pakistan		-	-
		<u>2,978,259</u>	<u>1,748,960</u>
<b>14.1 Particulars of borrowings with respect to currencies</b>			
In local currency		2,978,259	1,748,960
In foreign currencies		-	-
		<u>2,978,259</u>	<u>1,748,960</u>
<b>14.2 Details of borrowings secured/unsecured</b>			
Borrowings from State Bank of Pakistan - unsecured	14.2.1	60,557	68,045
Repurchase agreement borrowings - secured	14.2.2	2,917,702	1,680,915
		<u>2,978,259</u>	<u>1,748,960</u>
<b>14.2.1</b>	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 % per annum and is repayable in quarterly installments.		
<b>14.2.2</b>	These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 10.40% to 10.50% (Dec 31, 2013: 9.70% to 10.05%) per annum for period upto three months (Dec 31, 2013: upto one month). REPO transactions are secured against investment of the Bank in Government securities.		

**SME Bank Limited**
**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)**
**For the half year ended June 30, 2014**

		(Un-audited) June 30, 2014	Audited December 31, 2013
		(Rupees in '000)	
<b>15. DEPOSITS AND OTHER ACCOUNTS</b>			
Customers			
Fixed deposits		1,857,668	1,499,652
Savings deposits		1,332,649	1,210,328
Current accounts - non-remunerative		624,198	464,664
Margin accounts		29,309	22,940
		<b>3,843,824</b>	3,197,584
Financial Institutions			
Remunerative deposits	15.1	531,944	513,830
Non-remunerative deposits		548	1,697
		<b>4,376,316</b>	<b>3,713,111</b>
<b>Particulars of deposits</b>			
In local currency		4,376,316	3,713,111
In foreign currencies		-	-
		<b>4,376,316</b>	<b>3,713,111</b>

15.1 remunerative deposits include Rs. 331.944 million (December 31, 2013: Rs. 313.714 million) related to Equity Participation F

16. RESERVES	Statutory Reserve	Un-appropriated loss	(Un-audited) June 30, 2014	(Audited) December 31, 2013
			(Rupees in '000)	
Balance at beginning of the period	206,526	(1,593,421)	(1,386,895)	(1,060,316)
Comprehensive income transferred to equity	-	(246,550)	(246,550)	(326,579)
Balance at end of the period	<b>206,526</b>	<b>(1,839,971)</b>	<b>(1,633,445)</b>	<b>(1,386,895)</b>

16.1 As at June 30, 2014, the Bank has availed net of tax benefit of Forced Sales Value (FSV) of Rs. 328,527 thousand (December 31, 2013: Rs. 307,641 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.

17. (DEFICIT)/SURPLUS ON REVALUATION OF ASSETS	(Un-audited) June 30, 2014	(Audited) 2013
	(Rupees in '000)	
(Deficit)/surplus on revaluation of available-for-sale securities		
Federal Government securities		
- Market Treasury Bills (MTBs)	(761)	(921)
- Pakistan Investment Bonds (PIBs)	(31,133)	(10,265)
	<b>(31,894)</b>	(11,186)
Fully paid up ordinary shares/units		
- Listed companies/mutual funds	6,260	9,692
	<b>(25,634)</b>	(1,494)
- Deferred tax	-	-
	<b>(25,634)</b>	<b>(1,494)</b>

**SME Bank Limited**  
**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)**  
**For the half year ended June 30, 2014**

	(Un-audited) June 30, 2014	(Audited) December 31, 2013
	(Rupees in '000)	
<b>18. CONTINGENCIES AND COMMITMENTS</b>		
<b>18.1 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	140,908	92,908
Others	32,693	43,960
<b>18.2 Other Contingencies</b>		
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. 165,658 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. 51,284 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.	75,790	75,820
<b>18.3 Commitments in respect of forward lending</b>		
Commitments to extend credit	88,214	131,350
<b>18.4 Commitments for the acquisition of operating fixed assets</b>	35,834	38,696
<b>18.5 Commitments against repo/reverse repo transactions</b>		
Sale and repurchase agreements	2,925,756	1,691,088
<b>18.6 Other commitments</b>		
Undrawn facilities	272,183	208,896
<b>18.7 Bills for collection</b>		
Payable in Pakistan	971	256



**SME Bank Limited****Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)****For the half year ended June 30, 2014**

	(Un-audited) June 30, 2013	(Un-audited) June 30, 2013
<b>19. CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents comprise of the following:		
Cash and balances with treasury banks	382,454	443,035
Balances with other banks	2,664	14,647
Call money lendings	-	-
	<b>385,118</b>	<b>457,682</b>

**20. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES**

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

	Trading & Sales	Commercial Banking	Total
<b>June 30, 2014 (Un-audited)</b>		(Rupees in '000)	
Total income	207,032	175,314	382,346
Total expenses	195,465	449,604	645,069
Net income/ (loss)	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%	
<b>June 30, 2013 (Un-audited)</b>			
Total income	253,633	171,676	425,309
Total expenses	262,775	373,576	636,351
Net income/ (loss)	(9,142)	(201,900)	(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) (%)	-0.22%	-6.56%	
Segment cost of funds (%)	10.39%	10.32%	

Assumptions used:

- Unallocatable assets representing 0.79% (June 30, 2013: 0.78%) of the total assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 4.81% (June 30, 2013: 7.60%) of the total liabilities have been allocated to segments based on their respective incomes.

**SME Bank Limited****Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)****For the half year ended June 30, 2014****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 year end and transactions with related parties are as follows:

Balances outstanding as at	(Un-audited) June 30, 2014	(Audited) December 31, 2013
	(Rupees in '000)	
<b>SME Leasing Limited :</b>		
Investment in subsidiary	215,457	215,457
Loan to SMEL - secured	140,238	43,483
Receivable from SMEL	1,427	486
Deposit balance of SMEL	548	1,692
<b>Equity Participation Fund :</b>		
Amount payable to fund	1,241	1,172
Deposit balance of EPF funds	331,944	313,714
<b>Employees' Benefit Funds :</b>		
Amount payable to employees' benefit Funds	54,844	76,091
<b>Key Management Personnel (KMP)</b>		
Loans to KMP - secured	75,026	82,824
Markup receivable from KMP	31,398	30,807
	(Un-audited) June 30, 2014	(Un-audited) June 30, 2013
	(Rupees in '000)	
<b>Transactions during the period</b>		
Interest income on loan to SMEL	4,904	4,182
Repayment of loan by SMEL (term loan)	-	2,380
Total debits in running finance	176,348	34,120
Total credits in running finance	79,593	59,414
Interest received on loan	3,734	4,556
Payments to employees' funds	23,492	34,641
Charge for the year relating to employees' funds	21,400	27,555
Payments made on behalf of Equity Participation Fund	69	9
Payments made on behalf of SMEL	193	152
Receipt of payments from SMEL	193	125
Salaries and benefit to KMP	138,533	140,706
Loans disbursed to KMP	5,628	5,775
Loans recovered from KMP	13,425	9,803
Mark-up charged on loans to KMP	1,441	1,383
Mark-up recovered from KMP	851	780

**Principal terms of loan facility to SMEL**

Amount (Rs. in 000)	Term	Interest rate
180,000	Running finance facility	1 year Kibor + 3.50%

**SME Bank Limited**

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

**For the half year ended June 30, 2014**

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**22. DATE OF AUTHORIZATION**

This condensed interim unconsolidated financial information was authorized for issue by the Board of Directors of the Bank on August 30, 2014.

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

\_\_\_\_\_  
**President/Chief Executive**

\_\_\_\_\_  
**Director**

\_\_\_\_\_  
**Director**

\_\_\_\_\_  
**Director**