

**SME Bank Limited**  
**Condensed Interim Unconsolidated Statement of Financial Position**  
**As at March 31, 2013**

		(Un-audited) March 31, 2013	(Audited) December 31, 2012
	Note	(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks		253,958	278,430
Balances with other banks		16,342	38,686
Lendings to financial institutions	8	700,000	750,000
Investments	9	5,490,396	4,662,705
Advances	10	2,735,547	2,854,996
Operating fixed assets	11	120,164	124,610
Deferred tax assets		-	-
Other assets		232,759	258,658
		<b>9,549,166</b>	<b>8,968,085</b>
<b>LIABILITIES</b>			
Bills payable	12	73,036	102,132
Borrowings	13	4,492,429	3,566,576
Deposits and other accounts	14	3,167,827	3,328,001
Sub-ordinated loans		-	-
Liability against assets subject to finance lease		10,054	11,537
Deferred tax liabilities		940	3,606
Other liabilities		395,709	429,079
		<b>8,139,995</b>	<b>7,440,931</b>
<b>NET ASSETS</b>		<b>1,409,171</b>	<b>1,527,154</b>
<b>REPRESENTED BY</b>			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Unappropriated loss		(1,191,702)	(1,084,406)
		<b>1,407,331</b>	<b>1,514,627</b>
Surplus/(deficit) on revaluation of assets		1,840	12,527
		<b>1,409,171</b>	<b>1,527,154</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	15		-

The annexed notes 1 to 18 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**

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**Director**

**SME Bank Limited**  
**Condensed Interim Unconsolidated Profit and Loss Account (Un-audited)**  
**For the Quarter ended March 31, 2013**

	<u>March 31, 2013</u>	<u>March 31, 2012</u>
	(Rupees in '000)	
<b>Mark-up/ return/ interest earned</b>	<b>216,849</b>	181,497
<b>Mark-up/ return/ interest expensed</b>	<b>150,510</b>	119,107
Net mark-up/ interest income	<u>66,339</u>	<u>62,390</u>
Provision/(reversal of provision) against non-performing loans and advances-net	<u>21,963</u>	5,361
Provision for diminution in the value of investments	-	-
Bad debts written off directly	-	8
	<u>21,963</u>	<u>5,369</u>
Net mark-up/ interest income after provisions	<u>44,376</u>	57,021
<b>NON MARK-UP/ INTEREST INCOME</b>		
Fee, commission and brokerage income	<u>2,521</u>	3,083
Dividend income	-	-
Income from dealing in foreign currencies	-	-
Gain on sale of securities	<u>466</u>	323
Unrealized gain on revaluation of investments classified as held for trading	-	-
Other income	<u>211</u>	154
Total non-markup/ interest income	<u>3,198</u>	3,560
	<u>47,574</u>	60,581
<b>NON MARK-UP/ INTEREST EXPENSE</b>		
Administrative expenses	<u>151,064</u>	142,495
Other provisions/ write offs	<u>1,504</u>	1,363
Other charges	<u>25</u>	-
Total non-markup/ interest expenses	<u>152,593</u>	143,858
<b>LOSS BEFORE TAXATION</b>	<b>(105,019)</b>	<b>(83,277)</b>
Taxation - Current	<u>2,277</u>	1,974
- Prior	-	-
- Deferred	-	-
	<u>2,277</u>	1,974
<b>LOSS AFTER TAXATION</b>	<b>(107,296)</b>	<b>(85,251)</b>
Unappropriated loss brought forward	<u>(1,084,406)</u>	(684,648)
Loss available for appropriation	<u>(1,191,702)</u>	<u>(769,899)</u>
<b>Basic/ diluted loss per share (Rupees)</b>	<b>(0.45)</b>	<b>(0.36)</b>

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**SME Bank Limited**  
**Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)**  
**For the Quarter ended March 31, 2013**

	<u>March 31, 2013</u>	<u>March 31, 2012</u>
	<b>(Rupees in '000)</b>	
Net loss after taxation	<u>(107,296)</u>	<u>(85,251)</u>
Comprehensive income transferred to equity	<u>(107,296)</u>	<u>(85,251)</u>
<b>Other comprehensive income (not transferred to equity)</b>		
Net change on remeasurement of available for sale investment to fair value		
Deferred tax liabilities	<u>(10,687)</u>	<u>15,056</u>
	<u>(2,666)</u>	<u>-</u>
	<u>(13,353)</u>	<u>15,056</u>
<b>Total comprehensive income</b>	<b><u>(120,649)</u></b>	<b><u>(70,195)</u></b>

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**SME Bank Limited**  
**Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)**  
**For the Quarter ended March 31, 2013**

	March 31, 2013	March 31, 2012
	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(105,019)	(83,277)
Less: Dividend income	-	-
	<u>(105,019)</u>	<u>(83,277)</u>
<b>Adjustments for non-cash/ other items</b>		
Depreciation	4,226	3,809
Amortization	263	333
Provision against non-performing advances	21,963	5,361
Reversal of provision for diminution in the value of investment	-	-
Gain on sale of fixed asset	4	-
Finance charges on leased assets	101	141
Other provisions	1,504	1,363
Bad debts written off directly	-	8
	<u>28,061</u>	<u>11,015</u>
	<u>(76,958)</u>	<u>(72,262)</u>
<b>(Increase)/ decrease in operating assets</b>		
Lendings to financial institutions	(50,000)	(325,000)
Advances	97,486	22,119
Other assets (excluding advance taxation)	24,395	(10,962)
	<u>71,881</u>	<u>(313,843)</u>
<b>(Decrease)/ increase in operating liabilities</b>		
Bills payable	(29,096)	(161,383)
Borrowings from financial institutions	925,853	365,225
Deposits	(160,174)	114,581
Other liabilities (excluding current taxation)	(34,926)	3,004
	<u>701,657</u>	<u>321,427</u>
	<u>696,580</u>	<u>(64,678)</u>
Income tax paid	(721)	(1,216)
<b>Net cash flow generated from operating activities</b>	<u>695,859</u>	<u>(65,894)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in available-for-sale securities	(841,044)	(80,889)
Net (investments)/disinvestment in held-to-maturity securities	-	-
Dividend received	-	-
Investment in operating fixed assets	(552)	(2,288)
Sale proceeds of property and equipment disposed-off	505	-
<b>Net cash flow from investing activities</b>	<u>(841,091)</u>	<u>(83,177)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment of lease obligations	(1,584)	(1,305)
<b>Net cash flow from financing activities</b>	<u>(1,584)</u>	<u>(1,305)</u>
<b>Increase in cash and cash equivalents</b>	<u>(146,816)</u>	<u>(150,376)</u>
Cash and cash equivalents at beginning of the period	617,116	469,828
<b>Cash and cash equivalents at end of the period</b>	<u>470,300</u>	<u>319,452</u>

The annexed notes 1 to 18 form an integral part of this condensed interim unconsolidated financial information.

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SME Bank Limited  
Condensed Interim Unconsolidated Statement of Changes in Equity (Un-audited)  
For the Quarter ended March 31, 2013

	Share Capital	Statutory reserve	Unappropriated loss	Total
	(Rupees in '000)			
Opening balance as at January 1, 2012	2,392,507	206,526	(684,648)	1,914,385
<b>Total comprehensive income for the period</b>				
Net loss for the period	-	-	(85,251)	(85,251)
<b>Balance as at March 31, 2012</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(769,899)</b>	<b>1,829,134</b>
Loss for the period from April 01 to Dec, 2012	-	-	(314,507)	(314,507)
<b>Balance as at December 31, 2012</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(1,084,406)</b>	<b>1,514,627</b>
<b>Total comprehensive income for the period</b>				
Net loss for the period	-	-	(107,296)	(107,296)
<b>Balance as at March 31, 2013</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(1,191,702)</b>	<b>1,407,331</b>

The annexed notes 1 to 18 form an integral part of this condensed interim unconsolidated financial information.

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**SME Bank Limited**  
**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)**  
**For the Quarter ended March 31, 2013**

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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 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 06, 2012 issued by JCR-VIS 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.

**SME Bank Limited**  
**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)**  
**For the Quarter ended March 31, 2013**

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**3. STATEMENT OF COMPLIANCE**

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

**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.

**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 Quarter ended March 31, 2013**

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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 have allocated an amount of Rs. 2 billion in the annual budget 2012-13 for equity injection into the Bank.

**7.4 Going concern assumption and minimum capital requirement**

During the period, the Bank has incurred a net loss after tax of Rs. 107.296 million resulting in accumulated losses of Rs. 1.191 billion (December 31, 2012: Rs. 1.084 billion) as of balance sheet date. The Government of Pakistan (GoP), holds 94% shares of the Bank through Ministry of Finance (MoF) and has made a budget allocation of Rs. 2 billion to provide further equity contribution to the Bank. The Bank's management therefore believes that GoP will provide further equity contribution to the Bank and therefore the going concern assumption is an appropriate basis to prepare these financial statements. Further the Bank has a shortfall of Rs. 799 million as on March 31, 2013 (December 31, 2012: Rs. 692 million) in meeting the minimum capital requirement of Rs. 2 billion (net of losses) as prescribed by the State Bank of Pakistan on the basis of amounts reported in the statement of financial position. The management is confident that the realization of budgeted amount will enable the Bank to meet the minimum capital requirement. Further the State Bank of Pakistan has granted extension to the Bank till June 30, 2013 in meeting the minimum capital requirement

## SME Bank Limited

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

For the Quarter ended March 31, 2013

8. LENDINGS TO FINANCIAL INSTITUTIONS	(Un-audited)	(Audited)
	March 31, 2013	December 31, 2012
	(Rupees in '000)	
Call money lendings	200,000	300,000
Letter of placement	500,000	450,000
	700,000	750,000

These lendings carry markup rate ranging between 9.50% to 9.95% (December 31, 2012: 9.90% to 11.10%) per annum and have maturity period upto 1 month (December 31, 2012: 3 months).

9. INVESTMENTS	Held by the bank	Given as collateral	Total
	(Rupees in '000)		
As at March 31, 2013	1,040,100	4,450,296	5,490,396
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)	527,903	2,246,438	2,774,341
Pakistan Investment Bonds (PIBs)	130,867	2,208,776	2,339,643
Fully paid ordinary shares/mutual fund	72,867	-	72,867
Term Finance Certificates (TFCs)	5,827	-	5,827
	737,464	4,455,214	5,192,678

**Held-to-maturity securities**

Term Deposit Receipts (TDRs)	240,000	-	240,000
Certificates of Investments (COIs)	762	-	762
	240,762	-	240,762

**Investment in subsidiary**

SME Leasing Limited	215,457	-	215,457
Investments at cost	1,193,683	4,455,214	5,648,897
Less: Provision for diminution in value of investments	(161,281)	-	(161,281)
Investments net of impairment	1,032,402	4,455,214	5,487,616
Net Surplus/(deficit) on revaluation of available-for-sale-securities	7,698	(4,918)	2,780
Total investments	1,040,100	4,450,296	5,490,396

**SME Bank Limited**

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

**For the Quarter ended March 31, 2013**

	Note	(Un-audited)	(Audited)
		March 31, 2013	December 31, 2012
		(Rupees in '000)	
<b>10. ADVANCES</b>			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	10.1	4,380,680	4,381,397
Defunct RDFC	10.1	506,617	506,617
SME Bank Ltd		2,887,009	2,979,883
Due from ex-employees	10.1	19,880	19,917
Due from employees		160,693	165,464
		<u>7,954,879</u>	<u>8,053,278</u>
Net investment in finance lease - In Pakistan	10.1	1,253	1,253
Advances - gross		<u>7,956,132</u>	<u>8,054,531</u>
Provision for non-performing advances - specific	10.3	(5,220,585)	(5,199,535)
Advances - net of provision		<u><u>2,735,547</u></u>	<u><u>2,854,996</u></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 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.

10.2 Advances include Rs. 5,604,130 thousand (December 31, 2012: Rs. 5,563,980 thousand) which have been placed under non-performing status as detailed below:

Category of Classification	March 31, 2013 (Un-audited)				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
(Rupees in '000)					
Substandard	49,366	-	49,366	12	12
Doubtful	35,722	-	35,722	551	551
Loss	5,519,042	-	5,519,042	5,220,022	5,220,022
	<u>5,604,130</u>	<u>-</u>	<u>5,604,130</u>	<u>5,220,585</u>	<u>5,220,585</u>

Category of Classification	December 31, 2012 (Audited)				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
(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

	March 31, 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	(627)	-	(627)	(11,378)	-	(11,378)
Provision of transferred portfolio	(286)	-	(286)	(3,292)	-	(3,292)
<b>Charge/(Reversals)</b>						
Charge for the year	24,345	-	24,345	85,251	-	85,251
Reversals	(2,382)	-	(2,382)	(28,130)	-	(28,130)
	<u>21,963</u>	<u>-</u>	<u>21,963</u>	<u>57,121</u>	<u>-</u>	<u>57,121</u>
Closing balance	<u>5,220,585</u>	<u>-</u>	<u>5,220,585</u>	<u>5,199,535</u>	<u>-</u>	<u>5,199,535</u>

10.3.1 The SBP amended the Prudential Regulations vide BSD Circular No. 1 of 2011 dated October 21, 2011 in relation to provision for loans and advances, thereby allowing benefit of Forced Sale Value (FSV) of pledged stocks, mortgaged residential, commercial and industrial properties (land and building only) and plant and machinery under charge held as collateral against non-performing advances. The FSV benefit availed in last years has been reduced by Rs. 3,957 thousand (net of FSV benefit availed during the year), which has resulted in increased charge for specific provision for the period ended by the same amount. The FSV benefit is not available for cash or stock dividend. Had the FSV benefit not recognized, loss before and after tax for the period ended would have been lower by Rs. 3,957 thousand (March 31, 2012: higher by Rs. 6,056 thousand) respectively.

SME Bank Limited

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

For the Quarter ended March 31, 2013

	Note	(Un-audited) March 31, 2013	(Audited) December 31, 2012
(Rupees in '000)			
<b>11. OPERATING FIXED ASSETS</b>			
Property and equipment	11.1	118,519	122,702
Intangible assets	11.2	1,645	1,908
		<u>120,164</u>	<u>124,610</u>
<b>11.1 Property and equipment</b>			
Book value at the beginning of the period/year	11.1.1	122,702	109,474
Cost of additions during the period/year		552	29,687
Book value of the deletions during the period/year		(509)	(68)
Depreciation charge during the period/year		(4,226)	(16,391)
Book value at the end of the period		<u>118,519</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) March 31, 2013	(Audited) December 31, 2012
(Rupees in '000)		
<b>11.2 Intangible assets</b>		
Book value at the beginning of the period/year	1,908	2,831
Cost of additions during the period/year	-	171
Amortization charge during the period/year	(263)	(1,094)
Book value at the end of the period/year	<u>1,645</u>	<u>1,908</u>

SME Bank Limited

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

For the Quarter ended March 31, 2013

	Note	(Un-audited) March 31, 2013	(Audited) December 31, 2012
<b>12. BILLS PAYABLE</b>		<b>(Rupees in '000)</b>	
In Pakistan		73,036	102,132
Outside Pakistan		-	-
		<u>73,036</u>	<u>183,863</u>
<b>13. BORROWINGS</b>			
In Pakistan		4,492,429	3,566,576
Outside Pakistan		-	-
		<u>4,492,429</u>	<u>3,566,576</u>
<b>13.1 Particulars of borrowings with respect to currencies</b>			
In local currency		4,492,429	3,566,576
In foreign currencies		-	-
		<u>4,492,429</u>	<u>3,566,576</u>
<b>13.2 Details of borrowings secured/unsecured</b>			
Borrowings from State Bank of Pakistan - unsecured	13.2.1	79,277	83,022
Repurchase agreement borrowings - secured	13.2.2	4,413,152	3,483,555
		<u>4,492,429</u>	<u>3,566,577</u>
<b>13.2.1</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 % and is repayable in quarterly installments.		
<b>13.2.2</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 9.10% to 9.45% (December 31, 2012: 9.0% to 9.95%) per annum for period upto three months (December 31, 2012: upto three months). REPO transactions are secured against investment of the Bank in Government securities.		
		(Un-audited) March 31, 2013	(Audited) December 31, 2012
<b>14. DEPOSITS AND OTHER ACCOUNTS</b>		<b>(Rupees in '000)</b>	
Customers			
Fixed deposits		830,006	1,432,357
Savings deposits		1,211,427	905,710
Current accounts - non-remunerative		441,835	450,737
Margin accounts		35,359	43,316
		<u>2,518,627</u>	<u>2,832,120</u>
Financial Institutions			
Remunerative deposits	14.1	648,338	492,936
Non-remunerative deposits		862	2,945
		<u>3,167,827</u>	<u>3,328,001</u>
<b>Particulars of deposits</b>			
In local currency		3,167,827	3,328,001
In foreign currencies		-	-
		<u>3,167,827</u>	<u>3,328,001</u>
<b>14.1</b>	Remunerative deposits include Rs. 298.212 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 Quarter ended March 31, 2013**

		(Un-audited)	(Audited)
		Marach 31, 2013	December 31, 2012
		(Rupees in '000)	
<b>15.</b>	<b>CONTINGENCIES AND COMMITMENTS</b>		
<b>15.1</b>	<b>Transaction-related contingent liabilities</b>		
	Guarantees in favour of:		
	Government	149,803	184,042
	Others	14,438	32,288
<b>15.2</b>	<b>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 than 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). Based on tax advisor's opinion, 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 has filed an appeal before the Appellate Tribunal Inland Revenue against the appellate order of the Commissioner Inland Revenue (Appeals), Islamabad, who upheld the order of Taxation Authorities for the tax year 2008. 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.	14,284	14,284
f)	Back benefits and claims of staff/employees under litigation.	145,800	145,800
<b>15.3</b>	<b>Commitments in respect of forward lending</b>		
	Commitments to extend credit	228,050	102,400
<b>15.4</b>	<b>Commitments for the acquisition of operating fixed assets</b>	-	-
<b>15.5</b>	<b>Commitments against repo/reverse repo transactions</b>		
	Purchase and resale agreements	-	-
	Sale and repurchase agreements	4,450,296	3,513,956
<b>15.6</b>	<b>Other commitments</b>		
	Undrawn facilities	349,702	252,369
<b>15.7</b>	<b>Bills for collection</b>		
	Payable in Pakistan	824	2,478

**SME Bank Limited****Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)****For the Quarter ended March 31, 2013****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 period end and transactions with related parties are as follows:

Balances outstanding as at	<b>(Un-audited)</b> <b>March 31, 2013</b>	<b>(Audited)</b> <b>December 31, 2012</b>
	<b>(Rupees in '000)</b>	
<b>SME Leasing Limited :</b>		
Investment in subsidiary	215,457	215,457
Loan to SMEL - secured	44,046	57,783
Markup receivable from SMEL	830	1,022
Deposit balance of SMEL	854	1,578
<b>Equity Participation Fund :</b>		
Amount payable to fund	2,230	2,238
Deposit balance of EPF funds	298,212	292,931
	<b>(Un-audited)</b> <b>March 31, 2013</b>	<b>(Un-audited)</b> <b>March 31, 2012</b>
	<b>(Rupees in '000)</b>	
<b>Transactions during the period</b>		
Interest income on loan to SMEL	2,280	4,607
Repayment of loan by SMEL	1,172	1,011
Total debits in running finance	15,157	35,845
Total credits in running finance	27,721	39,811
Interest received on loan	2,561	4,811
Payments made on behalf of Equity Participation Fund	8	58
Payments made on behalf of SMEL	140	91

**17. CORRESPONDING FIGURES**

Comparative information has been re-classified/re-arranged in these financial statements, wherever necessary to facilitate comparison.

**18. DATE OF AUTHORIZATION**

This condensed interim unconsolidated financial information was authorized for issue by the Board of Directors of the Bank on April 29, 2013.

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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**