

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

		(Un-audited) September 30, 2014	(Audited) December 31, 2013
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks		284,726	314,880
Balances with other banks		2,779	2,286
Lendings to financial institutions	8	630,000	800,000
Investments	9	4,313,709	2,653,388
Advances	10	2,793,746	2,852,375
Operating fixed assets	11	132,573	128,218
Deferred tax assets		-	-
Other assets		263,469	272,675
		8,421,002	7,023,822
LIABILITIES			
Bills payable	12	47,832	85,775
Borrowings	13	3,523,234	1,748,960
Deposits and other accounts	14	3,749,104	3,713,111
Sub-ordinated loans		-	-
Liability against assets subject to finance lease		5,767	7,535
Deferred tax liabilities		-	-
Other liabilities		470,444	464,323
		7,796,381	6,019,704
NET ASSETS		624,621	1,004,118
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Unappropriated loss		(1,938,391)	(1,593,421)
		660,642	1,005,612
Deficit on revaluation of assets		(36,021)	(1,494)
		624,621	1,004,118
CONTINGENCIES AND COMMITMENTS			
	15		

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

Chief Financial Officer

President/Chief Executive

Director

Director

Director

SME BANK LIMITED
Condensed Interim Unconsolidated Profit and Loss Account (Un-audited)
For the Nine months ended September 30, 2014

	September 30, 2014		September 30, 2013	
	For the Quarter ended	For the Nine months ended	For the Quarter ended	For the Nine months ended
Note	------(Rupees in '000)-----			
Mark-up/ return/ interest earned	229,892	587,992	152,584	563,211
Mark-up/ return/ interest expensed	171,325	420,079	95,673	379,468
Net mark-up/ interest income	58,567	167,913	56,911	183,743
Provision against non-performing loans and advances-net	10,425	54,150	20,810	50,681
Charge for diminution in the value of investments	-	11,702	-	14,979
Bad debts written off directly	-	-	-	-
	10,425	65,852	20,810	65,660
Net mark-up/ interest income after provisions	48,142	102,061	36,101	118,083
NON MARK-UP/ INTEREST INCOME				
Fee, commission and brokerage income	2,555	7,816	2,119	8,350
Dividend income	17	248	1	586
Income from dealing in foreign currencies	-	-	-	-
Gain on sale of securities	967	19,176	242	7,726
Unrealized gain on revaluation of investments classified as held for trading	-	-	-	-
Other income	712	1,257	220	602
Total non-markup/ interest income	4,251	28,497	2,582	17,264
	52,393	130,558	38,683	135,347
NON MARK-UP/ INTEREST EXPENSE				
Administrative expenses	146,791	451,709	144,447	449,573
Other provisions/ write offs	1,616	36,775	1,817	4,372
Other charges	20	831	-	25
Total non-markup/ interest expenses	148,427	489,315	146,264	453,970
LOSS BEFORE TAXATION	(96,034)	(358,757)	(107,581)	(318,623)
Taxation - Current	2,386	7,845	1,573	6,608
- Prior	-	-	-	-
- Deferred	-	-	-	-
	2,386	7,845	1,573	6,608
LOSS AFTER TAXATION	(98,420)	(366,602)	(109,154)	(325,231)
Basic/ diluted loss per share (Rupees)	(0.41)	(1.53)	(0.46)	(1.36)

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

Chief Financial Officer

President/Chief Executive

Director

Director

Director

SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)**

For the Nine months ended September 30, 2014

	September 30, 2014		September 30, 2013	
	For the Quarter ended	For the Nine months ended	For the Quarter ended	For the Nine months ended
	(Rupees in '000)			
Net loss after taxation	(98,420)	(366,602)	(109,154)	(325,231)
Items that will not be reclassified subsequently to profit & loss				
Recognition of net actuarial gain/(loss)	-	21,632	-	40,668
Comprehensive income transferred to equity	(98,420)	(344,970)	(109,154)	(284,563)
Other comprehensive income (not transferred to equity)				
Net change on remeasurement of available for sale investment to fair value	(10,387)	(34,527)	(32,271)	(20,139)
Deferred tax	-	-	(8,957)	(3,606)
	(10,387)	(34,527)	(41,228)	(23,745)
Total comprehensive income	(108,807)	(379,497)	(150,382)	(308,308)

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

Chief Financial Officer

President/Chief Executive

Director

Director

Director

SME BANK LIMITED
Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)
For the Nine months ended September 30, 2014

	September 30, 2014	September 30, 2013
	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(358,757)	(318,623)
Less: Dividend income	(248)	(586)
	<u>(359,005)</u>	<u>(319,209)</u>
Adjustments for non-cash/ other items		
Depreciation	12,434	12,336
Amortization	892	834
Provision against non-performing advances	54,150	50,681
Charge/(reversal) of provision for diminution in the value of investment	11,702	14,979
Gain on sale of fixed asset	(207)	(282)
Finance charges on leased assets	97	262
Other provisions	36,775	4,372
Bad debts written off directly	-	-
	<u>115,843</u>	<u>83,182</u>
	<u>(243,162)</u>	<u>(236,027)</u>
(Increase)/ decrease in operating assets		
Lendings to financial institutions	(100,000)	50,000
Advances	4,479	183,593
Other assets (excluding advance taxation)	4,474	64,505
	<u>(91,047)</u>	<u>298,098</u>
(Decrease)/ increase in operating liabilities		
Bills payable	(37,943)	(49,912)
Borrowings from financial institutions	1,774,274	(2,115,752)
Deposits	35,993	(171,427)
Other liabilities (excluding current taxation)	29,431	(47,002)
	<u>1,801,755</u>	<u>(2,384,093)</u>
	<u>1,467,546</u>	<u>(2,322,022)</u>
Income tax paid	(9,523)	(9,522)
Net cash flow (used in)/ generated from operating activities	<u>1,458,023</u>	<u>(2,331,544)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(1,706,550)	2,159,226
Net disinvestment /(investment) in held-to-maturity securities	-	200,000
Dividend received	248	586
Investment in operating fixed assets	(50,134)	(2,938)
Sale proceeds of property and equipment disposed-off	617	3,783
Net cash flow generated from/ (used in) investing activities	<u>(1,755,819)</u>	<u>2,360,657</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligations	(1,865)	(3,050)
Net cash flow from financing activities	<u>(1,865)</u>	<u>(3,050)</u>
Increase/(decrease) in cash and cash equivalents	<u>(299,661)</u>	<u>26,063</u>
Cash and cash equivalents at beginning of the period	<u>717,166</u>	<u>617,116</u>
Cash and cash equivalents at end of the period	<u>417,505</u>	<u>643,179</u>

The annexed notes 1 to 17 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 Nine months ended September 30, 2014

	Share Capital	Statutory reserve	Unappropriated loss	Total
	(Rupees in '000)			
Balance as at January 01, 2013	2,392,507	206,526	(1,266,842)	1,332,191
Total comprehensive income for the period ended Sep 30, 2013				
Net loss for the period	-	-	(325,231)	(325,231)
Effect of recognition of actuarial losses	-	-	40,668	40,668
Balance as at September 30, 2013	2,392,507	206,526	(1,551,405)	1,047,628
Total comprehensive income for the period ended December 31, 2013				
Loss for the period	-	-	(105,468)	(105,468)
Effect of recognition of actuarial gain	-	-	63,452	63,452
Balance as at December 31, 2013	2,392,507	206,526	(1,593,421)	1,005,612
Total comprehensive income for the period ended September 30, 2014				
Net loss for the period	-	-	(366,602)	(366,602)
Effect of recognition of actuarial gain	-	-	21,632	21,632
Balance as at September 30, 2014	2,392,507	206,526	(1,938,391)	660,642

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

Chief Financial Officer_____
President/Chief Executive_____
Director_____
Director_____
Director

SME Bank Limited

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

For the Nine months ended September 30, 2014

1. GENERAL INFORMATION

1.1 SME Bank Limited (the Bank) is a public limited company incorporated in Pakistan on October 30, 2001 under the Companies Ordinance, 1984 having its registered office at 56-F, Nazim-ud-Din Road, F-6/1, Blue Area Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is a Scheduled Commercial Bank engaged in the business of banking with the primary objective to support and develop Small and Medium Enterprise (SME) sector in Pakistan by providing necessary financial assistance and business support services on sustainable basis. The Bank is operating through a network of 13 Commercial banking branches. Based on the latest credit rating report dated February 27, 2014 issued by PACRA Credit Rating Company Limited, credit rating of the Bank was "BBB-" (Triple B minus) in the long term and "A3" (A three) in the short term.

In terms of the provisions of the State Bank of Pakistan BSD circular No. 7 of 2009, the Bank was required to increase its paid up capital (net of losses) as at 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.

3. STATEMENT OF COMPLIANCE

This condensed interim unconsolidated financial information of the Bank for the quarter ended September 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 and method used for critical accounting estimates and judgments adopted in the condensed interim unconsolidated financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2013.

5. FINANCIAL RISK MANAGEMENT

The Bank's Financial Risk Management objectives and policies are consistent with those disclosed in annual financial statements of the Bank for the year ended December 31, 2013.

6. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this condensed interim unconsolidated financial information are the same as those applied in the preparation of the financial statements for the year ended December 31, 2013.

SME Bank Limited

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

For the Nine months ended September 30, 2014

7. FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION

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

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

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

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

SME Bank Limited

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

For the Nine months ended September 30, 2014

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

7.3 Further restructuring of SME Bank:

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

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

7.4 Going concern assumption and minimum capital requirement

The Bank continues to operate in net loss situation. During the period, the Bank has incurred a net loss after tax of Rs. 366.6 million and its accumulated losses stand at Rs. 1.938 billion as of the reporting date. Further the Bank has shortfall of Rs. 1.546 billion on 30 Sep 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 Nine months ended September 30, 2014

8. LENDINGS TO FINANCIAL INSTITUTIONS	(Un-audited)	(Audited)
	September 30, 2014	December 31, 2013
	(Rupees in '000)	
Call money lendings	130,000	400,000
Letter of placement	500,000	400,000
	630,000	800,000

These lendings carry markup rate @ 10.15% to 11.00% (December 31, 2013: 9.55% to 10.55%) per annum and have maturity period upto 3 months (December 31, 2013: 2 months).

9. INVESTMENTS	Held by the bank	Given as collateral	Total
	(Rupees in '000)		
As at September 30, 2014	817,840	3,495,869	4,313,709
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)	578,206	-	578,206
Pakistan Investment Bonds (PIBs)	97,246	3,535,614	3,632,860
Fully paid ordinary shares/mutual fund	70,248	-	70,248
Term Finance Certificates (TFCs)	-	-	-
	745,700	3,535,614	4,281,314

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	1,001,919	3,535,614	4,537,533
Less: Provision for diminution in value of investments	(187,803)	-	(187,803)
Investments net of impairment	814,116	3,535,614	4,349,730
Net Surplus/(deficit) on revaluation of available-for-sale-securities	3,724	(39,745)	(36,021)
Total investments	817,840	3,495,869	4,313,709

SME Bank Limited

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

For the Nine months ended September 30, 2014

	Note	(Un-audited) September 30, 2014	(Audited) December 31, 2013
(Rupees in '000)			
10. ADVANCES			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	10.1	4,378,310	4,379,650
Defunct RDFC	10.1	505,441	506,617
SME Bank Ltd		3,061,824	3,053,300
Due from ex-employees	10.1	18,531	19,002
Due from employees		141,834	153,215
		8,105,940	8,111,784
Net investment in finance lease - In Pakistan	10.1	1,253	1,253
Advances - gross		8,107,193	8,113,037
Provision for non-performing advances			
Specific provision		(5,305,146)	(5,251,248)
General provision		(8,301)	(9,414)
	10.3	(5,313,447)	(5,260,662)
Advances - net of provision		2,793,746	2,852,375

10.1 Assignment of Non-Performing Loan (NPL) portfolios of defunct SBFC, RDFC & due from ex-employees to National Bank of Pakistan (NBP)

The Board through its resolution by circular No.10/circ/33 dated March 08, 2010 duly endorsed by the members in their meeting dated May 20, 2010 has approved the transfer and assignment of fully non- performing loan portfolios of defunct RDFC, SBFC and due from ex-employees to NBP on the basis of deferred transfer price. Subsequently transfer and assignment agreement was executed between the Bank and National Bank of Pakistan at Karachi on July 01, 2010 (Effective date). According to the agreement, the transferor (SME) and the acquirer (NBP) acknowledge, declare and confirm the transfer, assignment and vesting of all rights, interests, privileges, title, powers and remedies in favor of the acquirer with respect to:

- 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. During the year in the meeting held on March 04, 2013 the Board of Directors reconsidered the position taken earlier on this matter on grounds of related cost of recovery and infrastructure and decided that since the Bank is still on the privatization list, the decision to cancel the agreement with NBP or continue with the agreement would be made once the privatization of the Bank is confirmed. Accordingly, the outstanding portfolio relating to defunct RDFC, SBFC and due from ex-employees stands recognized in the financial statements of the Bank.

Pending cancellation of transfer and assignment agreement with NBP the amount recovered by the Bank from the borrowers of defunct RDFC, SBFC and due from ex-employees has been recognized as liability to NBP on a prudent basis. Funds received by NBP to be apportioned in terms of this agreement have also not been accounted for by the Bank.

10.2 Advances include Rs. 5,709,104 thousand (Dec 2013: Rs. 5,650,444 thousand) which have been placed under non-performing status as detailed below:

Category of Classification	September 30, 2014 (Un-audited)				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Other Assets Especially Mentioned	24,269	-	24,269	20	20
Substandard	33,028	-	33,028	61	61
Doubtful	61,114	-	61,114	1,849	1,849
Loss	5,590,693	-	5,590,693	5,303,216	5,303,216
	5,709,104	-	5,709,104	5,305,146	5,305,146

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
	5,650,444	-	5,650,444	5,251,248	5,251,248

10.3 Particulars of provision against non-performing advances

	September 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	(670)	-	(670)	(1,202)	-	(1,202)
Provision of transferred portfolio	(695)	-	(695)	(1,391)	-	(1,391)
Charge/(Reversals)						
Charge for the year	70,706	2,250	72,956	71,083	9,414	80,497
Reversal for the year	(15,443)	(3,363)	(18,806)	(16,777)	-	(16,777)
	55,263	(1,113)	54,150	54,306	9,414	63,720
Closing balance	5,305,146	8,301	5,313,447	5,251,248	9,414	5,260,662

10.3.1 FSV benefit availed in last years has been increased by Rs. 19,149 thousand (Sep 30, 2013: decreased by Rs. 32,246 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. 19,149 thousand (Sep 30, 2013: decreased by Rs. 32,246 thousand).

SME Bank Limited

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

For the Nine months ended September 30, 2014

	(Un-audited) September 30, 2014	(Audited) December 31, 2013	
Note	(Rupees in '000)		
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	28,776	22,021
Property and equipment	11.2	134,574	104,908
Intangible assets	11.3	1,267	1,289
		<u>164,617</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>132,573</u></u>	<u><u>128,218</u></u>
11.1 Capital work-in-progress			
Advances to suppliers and contractors		<u>28,776</u>	<u>22,021</u>
		<u><u>28,776</u></u>	<u><u>22,021</u></u>
11.2 Property and equipment			
Book value at the beginning of the period/year	11.2.1	104,908	122,702
Cost of additions during the period/year		42,510	3,878
Book value of the deletions during the period/year		(410)	(5,296)
Depreciation charge during the period/year		<u>(12,434)</u>	<u>(16,376)</u>
Book value at the end of the period		<u><u>134,574</u></u>	<u><u>104,908</u></u>

11.2.1 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 plots in doubtful category, the bank has recorded a provision of Rs. 32.044 million against these plots.

	(Un-audited) September 30, 2014	(Audited) December 31, 2013
	(Rupees in '000)	
11.3 Intangible assets		
Book value at the beginning of the period/year	1,289	1,908
Cost of additions during the period/year	870	522
Amortization charge during the period/year	<u>(892)</u>	<u>(1,141)</u>
Book value at the end of the period/year	<u><u>1,267</u></u>	<u><u>1,289</u></u>

SME Bank Limited

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

For the Nine months ended September 30, 2014

	Note	(Un-audited) September 30, 2014	Audited December 31, 2013
		(Rupees in '000)	
12. BILLS PAYABLE			
In Pakistan		47,832	85,775
Outside Pakistan		-	-
		<u>47,832</u>	<u>85,775</u>
13. BORROWINGS			
In Pakistan		3,523,234	1,748,960
Outside Pakistan		-	-
		<u>3,523,234</u>	<u>1,748,960</u>
13.1 Particulars of borrowings with respect to currencies			
In local currency		3,523,234	1,748,960
In foreign currencies		-	-
		<u>3,523,234</u>	<u>1,748,960</u>
13.2 Details of borrowings secured/unsecured			
Borrowings from State Bank of Pakistan - unsecured	13.2.1	56,812	68,045
Repurchase agreement borrowings - secured	13.2.2	3,466,422	1,680,915
		<u>3,523,234</u>	<u>1,748,960</u>
13.2.1	This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agri Produce (FFSAP)" vide SMEFD circular No. 08 dated June 04, 2010. This carries mark up rate of 6.5 % and is repayable in quarterly installments.		
13.2.2	These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 10.30% 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.		
		(Un-audited) September 30, 2014	Audited December 31, 2013
		(Rupees in '000)	
14. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		1,647,052	1,499,652
Savings deposits		1,258,698	1,210,328
Current accounts - non-remunerative		273,987	464,664
Margin accounts		29,509	22,940
		<u>3,209,246</u>	<u>3,197,584</u>
Financial Institutions			
Remunerative deposits	14.1	539,104	513,830
Non-remunerative deposits		754	1,697
		<u>3,749,104</u>	<u>3,713,111</u>
Particulars of deposits			
In local currency		3,749,104	3,713,111
In foreign currencies		-	-
		<u>3,749,104</u>	<u>3,713,111</u>
14.1	Remunerative deposits include Rs. 339.104 million (December 31, 2013: Rs. 313.714 million) related to Equity Participation Fund.		

SME Bank Limited

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

For the Nine months ended September 30, 2014

	(Un-audited) September 30, 2014	(Audited) December 31, 2013
	(Rupees in '000)	
15. CONTINGENCIES AND COMMITMENTS		
15.1 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	136,242	92,908
Others	32,693	43,960
15.2 Other Contingencies		
a) Claims not acknowledged as debt from various borrowers for loss sustained due to non-disbursement.	24,972	24,972
b) Damages claim by borrower for delay in recording repayments received from borrower, not acknowledged as debt.	49,800	49,800
c) Damages claimed by an ex-employee of the then RDFC involved in Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited affairs and a director of Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited not acknowledged as debt	15,000	15,000
d) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals). The management of the Bank strongly believes and expects favourable outcome and therefore no provision has been made for this effect in the financial statements.	612,707	612,707
e) The Bank and the income tax department have filed an appeal before the Appellate Tribunal Inland Revenue against the appellate order of the Commissioner (Appeals), who had partly set aside the order of the Taxation officer assessing taxable income of Rs. 165,658 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
15.3 Commitments in respect of forward lending		
Commitments to extend credit	77,464	131,350
15.4 Commitments for the acquisition of operating fixed assets	9,940	38,696
15.5 Commitments against repo/reverse repo transactions		
Sale and repurchase agreements	3,495,869	1,691,088
15.6 Other commitments		
Undrawn facilities	351,617	208,896
15.7 Bills for collection		
Payable in Pakistan	-	256

SME Bank Limited**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)****For the Nine months ended September 30, 2014****16. RELATED PARTY TRANSACTIONS**

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

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

	(Un-audited)	(Audited)
Balances outstanding as at	September 30, 2014	December 31, 2013
	(Rupees in '000)	
SME Leasing Limited :		
Investment in subsidiary	215,457	215,457
Loan to SMEL - secured	151,851	43,483
Receivable from SMEL	1,840	486
Deposit balance of SMEL	754	1,692
Equity Participation Fund :		
Amount payable to fund	270	1,172
Deposit balance of EPF funds	339,104	313,714
	(Un-audited)	(Un-audited)
	September 30, 2014	September 30, 2013
	(Rupees in '000)	
Transactions during the period		
Interest income on loan to SMEL	5,406	4,182
Repayment of loan by SMEL (term loan)	-	2,380
Total debits in running finance	221,329	34,120
Total credits in running finance	112,961	59,414
Interest received on loan	5,104	4,556
Fee on Equity Participation Fund managed by the Bank	972	-
Payments made on behalf of Equity Participation Fund	70	8
Payments made on behalf of SMEL	305	152
Receipt of payments from SMEL	193	125

Principal terms of loan facility to SMEL

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

17. DATE OF AUTHORIZATION

This condensed interim unconsolidated financial information was authorized for issue by the Board of Directors of the Bank on October 29, 2014.

Chief Financial Officer

President/Chief Executive

Director

Director

Director