

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

		(Un-audited) September 30, 2013	(Audited) December 31, 2012 Restated
	Note	(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks		228,901	278,430
Balances with other banks		24,278	38,686
Lendings to financial institutions	8	790,000	750,000
Investments	9	2,264,755	4,662,705
Advances	10	2,620,722	2,854,996
Operating fixed assets	11	110,877	124,610
Deferred tax assets		-	-
Other assets		189,780	258,658
		<b>6,229,313</b>	<b>8,968,085</b>
<b>LIABILITIES</b>			
Bills payable	12	52,220	102,132
Borrowings	13	1,450,824	3,566,576
Deposits and other accounts	14	3,156,574	3,328,001
Sub-ordinated loans		-	-
Liability against assets subject to finance lease		8,748	11,537
Deferred tax liabilities		-	3,606
Other liabilities		520,931	611,515
		<b>5,189,297</b>	<b>7,623,367</b>
<b>NET ASSETS</b>		<b>1,040,016</b>	<b>1,344,718</b>
<b>REPRESENTED BY</b>			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Unappropriated loss		(1,551,405)	(1,266,842)
		<b>1,047,628</b>	<b>1,332,191</b>
(Deficit)/Surplus on revaluation of assets		(7,612)	12,527
		<b>1,040,016</b>	<b>1,344,718</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	15		

The annexed notes 1 to 17 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 Nine months ended September 30, 2013**

	September 30, 2013		September 30, 2012	
	For the Quarter ended	For the Nine months ended	For the Quarter ended	For the Nine months ended
	(Rupees in '000)			
<b>Mark-up/ return/ interest earned</b>	152,584	563,211	201,800	587,097
<b>Mark-up/ return/ interest expensed</b>	95,673	379,468	138,508	397,781
Net mark-up/ interest income	56,911	183,743	63,292	189,316
Provision against non-performing loans and advances-net	20,810	50,681	29,524	34,728
Charge/(reversal) for diminution in the value of investments	-	14,979	-	(23,405)
Bad debts written off directly	-	-	-	27
	20,810	65,660	29,524	11,350
Net mark-up/ interest income after provisions	36,101	118,083	33,768	177,966
<b>NON MARK-UP/ INTEREST INCOME</b>				
Fee, commission and brokerage income	2,119	8,350	2,566	9,364
Dividend income	1	586	-	362
Income from dealing in foreign currencies	-	-	-	-
Gain on sale of securities	242	7,726	1,117	1,440
Unrealized gain on revaluation of investments classified as held for trading	-	-	-	-
Other income	220	602	509	1,606
Total non-markup/ interest income	2,582	17,264	4,192	12,772
	38,683	135,347	37,960	190,738
<b>NON MARK-UP/ INTEREST EXPENSE</b>				
Administrative expenses	144,447	449,573	153,559	435,853
Other provisions/ write offs	1,817	4,372	777	3,372
Other charges	-	25	-	-
Total non-markup/ interest expenses	146,264	453,970	154,336	439,225
<b>LOSS BEFORE TAXATION</b>	(107,581)	(318,623)	(116,376)	(248,487)
Taxation - Current	1,573	6,608	2,204	6,373
- Prior	-	-	-	-
- Deferred	-	-	-	-
	1,573	6,608	2,204	6,373
<b>LOSS AFTER TAXATION</b>	(109,154)	(325,231)	(118,580)	(254,860)
<b>Basic/ diluted loss per share (Rupees)</b>	(0.46)	(1.36)	(0.50)	(1.07)

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SME Bank Limited  
Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)  
For the Nine months ended September 30, 2013

	September 30, 2013		September 30, 2012	
	For the Quarter ended	For the Nine months ended	For the Quarter ended	For the Nine months ended
	(Rupees in '000)			
<b>Net loss after taxation</b>	(109,154)	(325,231)	(118,580)	(254,860)
Effect of change in accounting policy with respect to accounting for actuarial gains and losses- actuarial gain	-	40,668	-	-
<b>Comprehensive income transferred to equity</b>	<b>(109,154)</b>	<b>(284,563)</b>	<b>(118,580)</b>	<b>(254,860)</b>
<b>Other comprehensive income (not transferred to equity)</b>				
Net change on remeasurement of available for sale investment to fair value	(32,271)	(20,139)	36,442	64,848
Deferred tax liabilities	(8,957)	(3,606)	-	-
	(41,228)	(23,745)	36,442	64,848
<b>Total comprehensive income</b>	<b>(150,382)</b>	<b>(308,308)</b>	<b>(82,138)</b>	<b>(190,012)</b>

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**SME Bank Limited**  
**Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)**  
**For the Nine months ended September 30, 2013**

	September 30, 2013	September 30, 2012
Note	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(318,623)	(248,487)
Less: Dividend income	(586)	(362)
	<u>(319,209)</u>	<u>(248,849)</u>
<b>Adjustments for non-cash/ other items</b>		
Depreciation	12,336	11,997
Amortization	834	835
Provision against non-performing advances	50,681	34,728
Charge/(reversal) of provision for diminution in the value of investment	14,979	(23,405)
Gain on sale of fixed asset	(282)	(583)
Finance charges on leased assets	262	432
Other provisions	4,372	3,372
Bad debts written off directly	-	27
	<u>83,182</u>	<u>27,403</u>
	<u>(236,027)</u>	<u>(221,446)</u>
<b>(Increase)/ decrease in operating assets</b>		
Lendings to financial institutions	50,000	(200,000)
Advances	183,593	(68,662)
Other assets (excluding advance taxation)	64,505	(28,419)
	<u>298,098</u>	<u>(297,081)</u>
<b>(Decrease)/ increase in operating liabilities</b>		
Bills payable	(49,912)	(119,988)
Borrowings from financial institutions	(2,115,752)	81,435
Deposits	(171,427)	628,695
Other liabilities (excluding current taxation)	(47,002)	21,128
	<u>(2,384,093)</u>	<u>611,270</u>
	<u>(2,322,022)</u>	<u>92,743</u>
Income tax paid	(9,522)	(4,194)
<b>Net cash flow generated from operating activities</b>	<u>(2,331,544)</u>	<u>88,549</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in available-for-sale securities	2,159,226	99,061
Net disinvestment /(investment) in held-to-maturity securities	200,000	(240,000)
Dividend received	586	362
Investment in operating fixed assets	(2,938)	(18,891)
Sale proceeds of property and equipment disposed-off	3,783	651
<b>Net cash flow from investing activities</b>	<u>2,360,657</u>	<u>(158,817)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment of lease obligations	(3,050)	(2,267)
<b>Net cash flow from financing activities</b>	<u>(3,050)</u>	<u>(2,267)</u>
<b>Increase in cash and cash equivalents</b>	<u>26,063</u>	<u>(72,535)</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><u>643,179</u></u>	<u><u>397,293</u></u>

The annexed notes 1 to 17 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 Nine months ended September 30, 2013**

	Share Capital	Statutory reserve	Unappropriated loss	Total
	(Rupees in '000)			
<b>Balance as at January 01, 2012 - as previously reported</b>	2,392,507	206,526	(684,648)	1,914,385
Effect of retrospective change in accounting policy with respect to accounting for actuarial losses	-	-	(121,766)	(121,766)
<b>Balance as at January 1, 2012 - restated</b>	2,392,507	206,526	(806,414)	1,792,619
<b>Total comprehensive income for the period</b>				
Net loss for the period	-	-	(254,860)	(254,860)
<b>Balance as at September 30, 2012-restated</b>	2,392,507	206,526	(1,061,274)	1,537,759
Net loss for the period- restated	-	-	(124,720)	(124,720)
Effect of recognition of actuarial losses	-	-	(80,848)	(80,848)
<b>Balance as at December 31, 2012 - restated</b>	2,392,507	206,526	(1,266,842)	1,332,191
Balance as at December 31, 2012 as previously stated	2,392,507	206,526	(1,084,406)	1,514,627
<b>Total comprehensive income for the period</b>				
Net loss for the period	-	-	(325,231)	(325,231)
Effect of recognition of actuarial gain	-	-	40,668	40,668
<b>Balance as at September 30, 2013</b>	2,392,507	206,526	(1,551,405)	1,047,628

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**SME Bank Limited**

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

**For the Nine months ended September 30, 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 09, 2013 issued by PACRA Credit Rating Company Limited, credit rating of the Bank was BBB (triple B) in the long term and A-3 (A three) in the short term.

In terms of the provisions of the State Bank of Pakistan BSD circular No. 7 of 2009, the Bank was required to increase its paid up capital (net of losses) as at December 31, 2012 up to Rs. 9 billion. The State Bank of Pakistan (SBP) has granted exemption from meeting the enhanced Minimum Capital Requirement and the Bank is allowed to operate with minimum paid up capital (net of losses) of Rs. 2 billion till privatization of the Bank.

**1.2 Amalgamation of defunct RDFC and SBFC**

The Federal Government promulgated the Regional Development Finance Corporation (RDFC) and Small Business Finance Corporation (SBFC) Amalgamation and Conversion Ordinance, 2001 (the Ordinance 2001) setting forth the mechanism of amalgamation of defunct RDFC and SBFC. Both these entities were Development Financial Institutions (DFIs). In pursuance of the Ordinance 2001, Finance Division, Ministry of Finance issued an Order (SRO (1) 2001) dated December 29, 2001 setting forth the scheme of amalgamation of RDFC and SBFC with the Bank effective January 1, 2002. Pursuant to this scheme entire assets and liabilities of defunct RDFC and SBFC as at December 31, 2001 were transferred to the Bank at fair value. These two institutions stand dissolved and ceased to exist effective January 1, 2002. The Bank allotted its shares to the share holders of defunct RDFC and SBFC in proportion to their shareholding therein based on the fair value of net assets of defunct RDFC and SBFC on December 31, 2001.

**2. BASIS OF MEASUREMENT**

This condensed interim unconsolidated statement of financial position, condensed interim unconsolidated profit and loss account, condensed interim unconsolidated statement of comprehensive income, condensed interim unconsolidated cash flow statement, condensed interim unconsolidated statement of changes in equity together with the explanatory notes have been prepared under the historic cost convention except that certain investments are stated at market value and certain staff retirement benefits are carried at present value.

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

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates. The unconsolidated financial statements are presented in Pak. Rupee, which is the Bank's functional currency.

**3. STATEMENT OF COMPLIANCE**

This condensed interim unconsolidated financial information of the Bank for the nine months ended September 30, 2013 has been prepared in accordance with the requirements of International Accounting Standard 34, 'Interim Financial Reporting' requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the provisions of and directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). In case requirements differ, the provisions of Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the requirement of said directives have been followed.

The disclosures made in this condensed interim unconsolidated financial information have been limited based on the format prescribed by the SBP vide BSD circular Letter No.2 dated May 12, 2004 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and do not include all the information required in the annual financial statements. Accordingly, this condensed interim unconsolidated financial information should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2012.

International Accounting Standard 39, "Financial Instruments: Recognition and Measurement", International Accounting Standard 40, "Investment Property" and International Financial Reporting Standard 7, "Financial Instruments: Disclosure" are not applicable to banking companies in Pakistan. Accordingly, the requirements of these Standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The basis and method used for critical accounting estimates and judgments adopted in the condensed interim unconsolidated financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2012.

**5. FINANCIAL RISK MANAGEMENT**

The Bank's Financial Risk Management objectives and policies are consistent with those disclosed in annual financial statements of the Bank for the year ended December 31, 2012.

**6. ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of this condensed interim unconsolidated financial information are the same as those applied in the preparation of the financial statements for the year ended December 31, 2012 except for:

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

**SME Bank Limited**

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

**For the Nine months ended September 30, 2013**

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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 Nine months ended September 30, 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 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. 325.231 million and its accumulated losses stand at Rs. 1.551 billion as of the reporting date. Further the bank has shortfall of Rs. 1.159 billion on 30 September 2013 in meeting the minimum capital requirements of Rs. 2 billion (net of losses) as prescribed by the State Bank of Pakistan (SBP) on the basis of amounts reported in the statement of financial position. These conditions indicate a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern and therefore, that it may be unable to realize its assets and discharge its liabilities in the ordinary course of business. However the Bank's management believes that going concern assumption is appropriate basis to prepare this condensed interim financial information since the Government of Pakistan (GoP), holds 94% shares of the Bank through Ministry of Finance (MoF) and has made a budget allocation of Rs. 1 billion to provide further equity contribution to the Bank, notwithstanding that this has been reduced from previously allocated budget of Rs. 2 billion. SBP has allowed exemption to the Bank from meeting the minimum capital requirement of Rs. 2 billion (net of losses) till 31 December 2013. With regards to reduction in budget allocation of Rs 1 billion by GoP, the management has approached MoF for increase in equity contribution and based on its discussions believes that MoF will increase the equity contribution from Rs. 1 billion, which will enable the bank to meet the minimum capital requirement of Rs. 2 billion (net of losses). However the management believes that this exemption will further be extended by the SBP incase the Bank is not able to meet the minimum capital requirement of Rs. 2 billion (net of losses) till 31 December 2013.

## SME Bank Limited

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

For the Nine months ended September 30, 2013

8. LENDINGS TO FINANCIAL INSTITUTIONS	(Un-audited)	(Audited)
	September 30, 2013	December 31, 2012
	(Rupees in '000)	
Call money lendings	390,000	300,000
Letter of placement	400,000	450,000
	<u>790,000</u>	<u>750,000</u>

These lendings carry markup rate ranging between 9.10% to 9.90% (December 31, 2012: 9.90% to 11.10%) per annum and have maturity period upto 2 months (December 31, 2012: 3 months).

9. INVESTMENTS	Held by the bank	Given as collateral	Total
	(Rupees in '000)		
As at September 30, 2013	<u>883,206</u>	<u>1,381,549</u>	<u>2,264,755</u>
As at December 31, 2012	<u>1,148,749</u>	<u>3,513,956</u>	<u>4,662,705</u>

## 9.1 INVESTMENTS BY TYPES :

## Available-for-sale securities

Market Treasury Bills (MTBs)	549,509	194,003	743,512
Pakistan Investment Bonds (PIBs)	173,133	1,201,646	1,374,779
Fully paid ordinary shares/mutual fund	72,867	-	72,867
Term Finance Certificates (TFCs)	1,250	-	1,250
	<u>796,759</u>	<u>1,395,649</u>	<u>2,192,408</u>

## Held-to-maturity securities

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

## Investment in subsidiary

SME Leasing Limited	215,457	-	215,457
Investments at cost	<u>1,052,978</u>	<u>1,395,649</u>	<u>2,448,627</u>
Less: Provision for diminution in value of investments	<u>(176,260)</u>	<u>-</u>	<u>(176,260)</u>
Investments net of impairment	<u>876,718</u>	<u>1,395,649</u>	<u>2,272,367</u>
Net Surplus/(deficit) on revaluation of available-for-sale-securities	<u>6,488</u>	<u>(14,100)</u>	<u>(7,612)</u>
Total investments	<u>883,206</u>	<u>1,381,549</u>	<u>2,264,755</u>

**SME Bank Limited**

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

**For the Nine months ended September 30, 2013**

	Note	(Un-audited) September 30, 2013	(Audited) December 31, 2012
(Rupees in '000)			
<b>10. ADVANCES</b>			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	10.1	4,380,281	4,381,397
Defunct RDFC	10.1	506,617	506,617
SME Bank Ltd		2,802,104	2,979,883
Due from ex-employees	10.1	19,035	19,917
Due from employees		159,697	165,464
		<u>7,867,734</u>	<u>8,053,278</u>
Net investment in finance lease - In Pakistan	10.1	1,253	1,253
Advances - gross		<u>7,868,987</u>	<u>8,054,531</u>
Provision for non-performing advances	10.3		
Specific provision		(5,239,662)	(5,199,535)
General provision		(8,603)	-
		<u>(5,248,265)</u>	<u>(5,199,535)</u>
Advances - net of provision		<u><u>2,620,722</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.

SME Bank Limited

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

For the Nine months ended September 30, 2013

10.2 Advances include Rs. 5,656,432 thousand (December 31, 2012: Rs. 5,563,980 thousand) which have been placed under non-performing status as detailed below:

Category of Classification	September 30, 2013 (Un-audited)				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
(Rupees in '000)					
Other assets especially mentioned	37,805	-	37,805	135	135
Substandard	56,447	-	56,447	699	699
Doubtful	80,079	-	80,079	2,061	2,061
Loss	5,482,101	-	5,482,101	5,236,767	5,236,767
	<b>5,656,432</b>	<b>-</b>	<b>5,656,432</b>	<b>5,239,662</b>	<b>5,239,662</b>

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
	<b>5,563,980</b>	<b>-</b>	<b>5,563,980</b>	<b>5,199,535</b>	<b>5,199,535</b>

10.3 Particulars of provision against non-performing advances

	September 30, 2013 (Un-audited)			December 31, 2012 (Audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,199,535	-	5,199,535	5,157,084	-	5,157,084
Amounts written off	(852)	-	(852)	(11,378)	-	(11,378)
Provision of transferred portfolio	(1,099)	-	(1,099)	(3,292)	-	(3,292)
<b>Charge/(Reversals)</b>						
Charge for the year	55,605	8,603	64,208	85,251	-	85,251
Reversals	(13,527)	-	(13,527)	(28,130)	-	(28,130)
	<b>42,078</b>	<b>8,603</b>	<b>50,681</b>	<b>57,121</b>	<b>-</b>	<b>57,121</b>
Closing balance	<b>5,239,662</b>	<b>8,603</b>	<b>5,248,265</b>	<b>5,199,535</b>	<b>-</b>	<b>5,199,535</b>

10.3.1 The State Bank of Pakistan has revised the Prudential Regulations (PRs) for Small and Medium Enterprises (SME) financing vide IH&SMEFD Circular No. 8 of 2013 dated May 07, 2013. Revised PRs segregate the SME financing between small enterprise financing and medium enterprise financing and prescribe general guidelines which are applicable to both small and medium enterprise financing. The specific regulations which are applicable to Small Enterprises (SE) and Medium Enterprise (ME) financing including revising the categories for non performing financing and introduction of general provision for Small enterprise financing. Revision in PRs as at 30 Sep 2013 has resulted in recognition of general provision of Rs. 8.603 million.

10.3.2 Net reduction in FSV benefit during the period amounted to Rs. 32,246 thousand resulting in increased charge for specific provision for the period ended by the same amount. The FSV is not available for cash or stock dividend.

**SME Bank Limited**

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

**For the Nine months ended September 30, 2013**

	Note	(Un-audited) September 30, 2013	(Audited) December 31, 2012
(Rupees in '000)			
<b>11. OPERATING FIXED ASSETS</b>			
Property and equipment	11.1	109,281	122,702
Intangible assets	11.2	1,596	1,908
		<u>110,877</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		2,416	29,687
Book value of the deletions during the period/year		(3,501)	(68)
Depreciation charge during the period/year		<u>(12,336)</u>	<u>(16,391)</u>
Book value at the end of the period		<u>109,281</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) September 30, 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	522	171
Amortization charge during the period/year	<u>(834)</u>	<u>(1,094)</u>
Book value at the end of the period/year	<u>1,596</u>	<u>1,908</u>

**SME Bank Limited**

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

**For the Nine months ended September 30, 2013**

	Note	(Un-audited) September 30, 2013	(Audited) December 31, 2012
<b>12. BILLS PAYABLE</b>		<b>(Rupees in '000)</b>	
In Pakistan		52,220	102,132
Outside Pakistan		-	-
		<u>52,220</u>	<u>102,132</u>
<b>13. BORROWINGS</b>			
In Pakistan		1,450,824	3,566,576
Outside Pakistan		-	-
		<u>1,450,824</u>	<u>3,566,576</u>
<b>13.1 Particulars of borrowings with respect to currencies</b>			
In local currency		1,450,824	3,566,576
In foreign currencies		-	-
		<u>1,450,824</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	71,789	83,022
Repurchase agreement borrowings - secured	13.2.2	1,379,035	3,483,555
		<u>1,450,824</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 repurchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 9.20% to 9.50% (December 31, 2012: 9.0% to 9.95%) per annum for period upto two months (December 31, 2012: upto three months). REPO transactions are secured against investment of the Bank in Government securities.		
		(Un-audited) September 30, 2013	(Audited) December 31, 2012
<b>14. DEPOSITS AND OTHER ACCOUNTS</b>		<b>(Rupees in '000)</b>	
Customers			
Fixed deposits		1,248,180	1,432,357
Savings deposits		1,074,314	905,710
Current accounts - non-remunerative		303,994	450,737
Margin accounts		21,489	43,316
		<u>2,647,977</u>	<u>2,832,120</u>
Financial Institutions			
Remunerative deposits	14.1	507,455	492,936
Non-remunerative deposits		1,142	2,945
		<u>3,156,574</u>	<u>3,328,001</u>
<b>Particulars of deposits</b>			
In local currency		3,156,574	3,328,001
In foreign currencies		-	-
		<u>3,156,574</u>	<u>3,328,001</u>
<b>14.1</b>	Remunerative deposits include Rs. 307.343 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 Nine months ended September 30, 2013**

	(Un-audited) September 30, 2013	(Audited) December 31, 2012
	(Rupees in '000)	
<b>15. CONTINGENCIES AND COMMITMENTS</b>		
<b>15.1 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	76,202	184,042
Others	49,591	32,288
<b>15.2 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 thousand and tax liability of Rs. 18,554 thousand against the declared tax loss of Rs. 22,211 thousand and tax liability of Rs. 4,249 thousand for the tax year 2008. The Commissioner (Appeals) had granted some relief in his order. DCIR has issued the revised order by assessing taxable income at Rs. 165,658 thousand and raising tax demand of Rs. 13,505 thousand. The Bank is currently in the process of filing an appeal before the Commissioner (Appeals)	13,505	14,284
h) Back benefits and claims of staff/employees under litigation.	78,120	145,800
<b>15.3 Commitments in respect of forward lending</b>		
Commitments to extend credit	182,200	102,400
<b>15.4 Commitments for the acquisition of operating fixed assets</b>	24,579	-
<b>15.5 Commitments against repo/reverse repo transactions</b>		
Sale and repurchase agreements	1,381,549	3,513,956
<b>15.6 Other commitments</b>		
Undrawn facilities	382,271	252,369
<b>15.7 Bills for collection</b>		
Payable in Pakistan	131	2,478

**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:

	(Un-audited) September 30, 2013	(Audited) December 31, 2012
	(Rupees in '000)	
Balances outstanding as at		
<b>SME Leasing Limited :</b>		
Investment in subsidiary	215,457	215,457
Loan to SMEL - secured	21,351	57,783
Markup receivable from SMEL	432	1,022
Deposit balance of SMEL	1,143	1,578
<b>Equity Participation Fund :</b>		
Amount payable to fund	2,229	2,238
Deposit balance of EPF funds	307,343	292,931
	(Un-audited) September 30, 2013	(Un-audited) September 30, 2012
	(Rupees in '000)	
<b>Transactions during the period</b>		
Interest income on loan to SMEL	5,305	12,821
Repayment of loan by SMEL	2,380	3,158
Total debits in running finance	45,962	77,729
Total credits in running finance	80,014	107,824
Interest received on loan	6,016	13,525
Fee on Equity Participation Fund managed by the Bank	-	438
Payments made on behalf of Equity Participation Fund	9	113
Payments made on behalf of SMEL	245	347
Receipt of payments from SMEL	125	169

**Principal terms of loan facility to SMEL**

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

**17. DATE OF AUTHORIZATION**

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

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

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

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director