

**SME Bank Limited**  
**Statement of Financial Position**  
**As at March 31, 2011**

		<b>March 31, 2011</b>	December 31, 2010
	<b>Note</b>	<b>(Rupees in '000)</b>	
<b>ASSETS</b>			
Cash and balances with treasury banks		<b>175,635</b>	227,980
Balances with other banks		<b>3,358</b>	9,091
Lendings to financial institutions		<b>200,000</b>	-
Investments	7	<b>2,850,269</b>	2,892,131
Advances	8	<b>2,303,919</b>	2,510,780
Operating fixed assets		<b>109,720</b>	109,854
Deferred tax assets		-	-
Other assets		<b>239,569</b>	256,519
		<b>5,882,470</b>	6,006,355
<b>LIABILITIES</b>			
Bills payable		<b>34,798</b>	40,505
Borrowings from financial institutions		<b>1,141,986</b>	1,360,622
Borrowings from SBP	9	<b>17,000</b>	-
Deposits and other accounts		<b>2,391,177</b>	2,225,822
Sub-ordinated loans		-	-
Liability against assets subject to finance lease		<b>18,897</b>	22,215
Deferred tax liabilities		-	-
Other liabilities		<b>338,740</b>	364,300
		<b>3,942,598</b>	4,013,464
<b>NET ASSETS</b>		<b>1,939,872</b>	1,992,891
<b>REPRESENTED BY</b>			
Share capital		<b>2,392,507</b>	2,392,507
Reserves		<b>206,526</b>	206,526
Unappropriated loss		<b>(528,520)</b>	(454,710)
		<b>2,070,513</b>	2,144,323
(Deficit)/ Surplus on revaluation of assets		<b>(130,641)</b>	(151,432)
		<b>1,939,872</b>	1,992,891

**CONTINGENCIES AND COMMITMENTS**

The annexed notes 1 to 13 form an integral part of these financial statements.

\_\_\_\_\_  
**CFO & Company Secretary**

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

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**Director**

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**Director**

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**Director**

**SME Bank Limited**  
**Profit and Loss Account**  
**For the quarter ended March 31, 2011**

	March 31,2011	March 31,2010
Note	(Rupees in '000)	
Mark-up/ return/ interest earned	160,874	151,860
Mark-up/ return/ interest expensed	94,340	98,899
Net mark-up/ interest income	<b>66,534</b>	52,961
Provision against non-performing advances-net of reversal	<b>33,999</b>	56,416
Provision for diminution in the value of investments	-	(12,771)
Bad debts written off directly	<b>193</b>	-
	<b>34,192</b>	43,645
Net mark-up/ interest income after provisions	<b>32,342</b>	9,316
<b>NON MARK-UP/ INTEREST INCOME</b>		
Fee, commission and brokerage income	<b>2,988</b>	3,179
Dividend income	<b>1,050</b>	1,053
Income from dealing in foreign currency	-	-
Gain on sale of securities	-	415
Other income	<b>769</b>	710
Total non-markup/ interest income	<b>4,807</b>	5,357
	<b>37,149</b>	14,673
<b>NON MARK-UP/ INTEREST EXPENSE</b>		
Administrative expenses	<b>139,052</b>	113,569
Other provisions/ write offs	<b>1,115</b>	1,872
Other charges	-	50
Total non-markup/ interest expenses	<b>140,167</b>	115,491
	<b>(103,018)</b>	(100,818)
Gain on closure of Industrial Credit for Rural Women	<b>30,851</b>	
<b>(LOSS)/ PROFIT BEFORE TAXATION</b>	<b>(72,167)</b>	(100,818)
Taxation - Current	<b>1,643</b>	307,131
- Prior years	-	-
- Deferred	-	-
	<b>1,643</b>	307,131
<b>(LOSS)/ PROFIT AFTER TAXATION</b>	<b>(73,810)</b>	(407,949)
<b>Basic/ Diluted (Loss)/ Earning per share (Rupees)</b>	<b>(0.31)</b>	(1.71)

The annexed notes 1 to 13 form an integral part of these financial statements.

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**CFO & Company Secretary**

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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**  
**Statement of Comprehensive Income**  
**For the quarter ended March 31, 2011**

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
	<b>(Rupees in '000)</b>	
<b>Net (Loss)/ Profit after taxation</b>	<b>(73,810)</b>	<b>(407,949)</b>
<b>Components of comprehensive income not reflected in equity</b>		
Net change on remeasurement of available for sale investment to fair value	<b>20,792</b>	<b>230,400</b>
<b>Total comprehensive (loss)/ income for the year</b>	<b><u>(53,019)</u></b>	<b><u>(177,549)</u></b>

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\_\_\_\_\_  
**CFO & Company Secretary**

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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**  
**Cash Flow Statement**  
**For the Quarter ended March 31, 2011**

	Note	March 31, 2011 (Rupees in '000)	March 31, 2010
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
(Loss)/ Profit before taxation		(72,167)	(100,818)
Less: Dividend income		(1,050)	(1,053)
		<u>(73,217)</u>	<u>(101,871)</u>
<b>Adjustments for non-cash/ other items</b>			
Depreciation		3,412	3,619
Amortization		391	391
Provision against non-performing advances		33,999	56,416
Provision for impairment in value of investments		-	(12,771)
Loss/(Gain) on sale of fixed asset		(289)	(70)
Finance charges on leased assets		298	119
Other provisions/ write offs		1,115	1,872
Bad debts written off directly		193	-
		<u>39,119</u>	<u>49,576</u>
		<u>(34,098)</u>	<u>(52,295)</u>
<b>(Increase)/ Decrease in operating assets</b>			
Lendings to financial institutions		(200,000)	33,445
Advances		172,669	84,831
Other assets (excluding advance taxation)		15,836	216,149
		<u>(11,495)</u>	<u>334,425</u>
<b>Increase/ (Decrease) in operating liabilities</b>			
Bills payable		(5,707)	(22,771)
Borrowings from financial institutions		(218,636)	(206,660)
Borrowings from SBP		17,000	-
Deposits		165,355	(237,531)
Other liabilities (excluding current taxation)		(26,162)	(52,946)
		<u>(68,150)</u>	<u>(519,908)</u>
		<u>(113,743)</u>	<u>(237,778)</u>
Income tax paid		(1,041)	977
<b>Net cash flow used in operating activities</b>		<u>(114,785)</u>	<u>(236,801)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net (investments)/de-investment in available-for-sale securities		(101,347)	126,269
Net (investments)/de-investment in held-to-maturity securities		164,000	53,360
Dividend income		1,050	1,053
Investments in operating fixed assets		(3,936)	(1,341)
Sale proceeds of property and equipment disposed-off		556	70
<b>Net cash flow from/(used in) investing activities</b>		<u>60,323</u>	<u>179,411</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payment of lease obligations		(3,616)	(665)
<b>Net cash flow from financing activities</b>		<u>(3,616)</u>	<u>(665)</u>
<b>Decrease in cash and cash equivalents</b>		<u>(58,078)</u>	<u>(58,056)</u>
Cash and cash equivalents at beginning of the year		<u>237,071</u>	<u>271,074</u>
<b>Cash and cash equivalents at the end of year</b>		<u><u>178,993</u></u>	<u><u>213,018</u></u>

The annexed notes 1 to 13 form an integral part of these financial statements.

**CFO & Company Secretary**

**President/Chief Executive**

**Director**

**Director**

**Director**

**SME Bank Limited**  
**Statement of Changes in Equity**  
**For the period ended March 31, 2011**

	<b>Share Capital</b>	<b>Statutory reserve</b>	<b>Unappropriated loss</b>	<b>Total</b>
	<b>(Rupees in '000)</b>			
<b>Balance as at January 1, 2010</b>	2,392,507	206,526	(206,848)	2,392,185
Net profit for the year	-	-	(407,949)	(407,949)
Transfer to statutory reserve	-	-	-	-
<b>Balance as at March 31, 2010</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(614,797)</b>	<b>1,984,236</b>
Net Profit for the period from April 01 to December 31, 2010	-	-	160,087	160,087
<b>Balance as at December 31, 2010</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(454,710)</b>	<b>2,144,323</b>
Net loss for the quarter	-	-	(73,810)	(73,810)
Transfer to statutory reserve	-	-	-	-
<b>Balance as at March 31, 2011</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(528,520)</b>	<b>2,070,513</b>

The annexed notes 1 to 13 form an integral part of these financial statements.

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**CFO & Company Secretary**

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**Director**

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**Director**

## **SME Bank Limited**

### **Notes to the Financial Statements**

#### **For the quarter ended March 31, 2011**

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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 now 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 June 29, 2010 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, 2010 up to Rs. 7 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 PRESENTATION**

These financial statements have been prepared in accordance with the requirements of BSD Circular No 1 dated January 07, 2004 issued by State Bank of Pakistan.

#### **3. STATEMENT OF COMPLIANCE**

**3.1** These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP). Approved accounting standards comprise of such International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by SECP and SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives shall take precedence.

#### **4. BASIS OF MEASUREMENT**

These financial statements have been prepared under the historical cost convention as modified for certain investments which are shown at revalued amounts.

The financial statements are presented in Pak Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.

#### **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

The principal accounting policies applied in the preparation of these financial statements are set out below.

##### **5.1 Cash and cash equivalents**

Cash and cash equivalents comprise of cash and balances with treasury banks, balances with other banks and call money lendings.

##### **5.2 Investments**

Investments have been classified into following categories:

###### **Held for trading**

These represent investments acquired by the Bank with the intention to trade by taking advantage of short-term market/ interest rate movements. These are marked to market and surplus/ (deficit) arising on revaluation is taken to profit and loss account.

###### **Held to maturity**

These represent investments acquired by the Bank with the intention and ability to hold them upto maturity. These are carried at amortized cost.

###### **Available for sale**

These represent investments which do not fall under held for trading or held to maturity securities.

Securities for which ready quotations are available on Reuters page (PKRV) or Stock Exchange are valued at quoted price and resulting surplus/ (deficit) is kept in a separate account and is shown below the shareholders' equity in the balance sheet.

Unquoted equity securities are valued at lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Other unquoted investments are valued at cost.

Provision for diminution in values of securities (other than debentures, participation term certificates and term finance certificates) is made after considering impairment if any in their values. Provision for diminution in the value of debentures, participation term certificates and term finance certificates is made as per prudential regulations issued by State Bank of Pakistan.

All purchases and sales of investment that require delivery within the timeframe established by regulation or market convention are recognized at the date which the bank commits to purchase or sell the

Investment in subsidiary is carried at cost net of impairment (if any).

Gain/ (loss) on sale of investments is recognized in the year of sale.

### 5.3 Advances

Advances are stated net of provision for non-performing advances. Provision for non-performing advances is determined and charged to profit and loss account in accordance with the requirements of Prudential Regulations issued by SBP from time to time.

State Bank of Pakistan vide BSD Circular No. 10 of 2009 allowed benefits of 40% of Forced Sale Value (FSV) of pledged stock and mortgaged residential, commercial & industrial properties held as collateral against NPL's for three years from date of classification for calculating provisioning requirement. The bank has accordingly availed the benefit of 40% of FSV while calculating the provisioning requirement against NPL's.

Advances are written off when there is no realistic prospect of recovery.

## 6. FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION

6.1 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.

## 6.2

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;
- 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. 139 employees opted for VSS-2009 offered vide Circular No. HO/HR&SD/2009/5385 dated October 15, 2009. These employees have been relieved at a total cost of Rs. 661 million with effect from November 14, 2009;
- 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) All the recovery offices and recovery booths have been closed with effect from December 31, 2009. and
- x) No further progress has been made on the privatization of the bank.

**SME Bank Limited**  
**Notes to the Financial Statements**  
**For the quarter ended March 31, 2011**

**7 INVESTMENTS**

	<b>Held by the bank</b>	<b>Given as collateral</b>	<b>Total</b>
	<b>(Rupees in '000)</b>		
<b>As at March 31, 2011</b>	<b>1,703,749</b>	<b>1,146,519</b>	<b>2,850,269</b>
<b>As at December 31, 2010</b>	<b>1,531,177</b>	<b>1,360,954</b>	<b>2,892,131</b>

**7.1 INVESTMENTS BY TYPES:**

**Available-for-sale securities**

Market Treasury Bills (MTBs)	466,425	-	466,425
Pakistan Investment Bonds (PIBs)	914,852	1,247,135	2,161,987
Fully paid ordinary shares/mutual funds	102,196	-	102,196
Term Finance Certificates (TFCs)	40,804	-	40,804
	<b>1,524,277</b>	<b>1,247,135</b>	<b>2,771,412</b>

**Held-to-maturity securities**

Certificates of Investments (COIs)	-	-	-
Letter of placement (LOP)	36,000	-	36,000
Term Deposit Receipts (TDRs)	-	-	-
Certificates of Investments (COIs)	762	-	762
	<b>36,762</b>	<b>-</b>	<b>36,762</b>

**Investment in subsidiary**

SME Leasing Limited	215,457	-	215,457
Investments at cost	<b>1,776,496</b>	<b>1,247,135</b>	<b>3,023,631</b>
Less: Provision for diminution in value of investments	<b>(42,721)</b>	<b>-</b>	<b>(42,721)</b>
Investments net of impairment	<b>1,733,775</b>	<b>1,247,135</b>	<b>2,980,910</b>
Surplus/(deficit) on revaluation of Available-for-sale-securities	<b>(30,025)</b>	<b>(100,616)</b>	<b>(130,641)</b>
Total Investments at market value	<b>1,703,749</b>	<b>1,146,519</b>	<b>2,850,269</b>

**SME Bank Limited**  
**Notes to the Financial Statements**  
**For the quarter ended March 31, 2011**

	Note	March 31, 2011	December 31, 2010
(Rupees in '000)			
<b>8. ADVANCES</b>			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	8.2	4,406,463	4,406,468
Defunct RDFC	8.2	540,039	540,039
SME Bank Ltd		2,519,426	2,687,773
Due from ex-employees	8.2	21,105	21,153
Due from employees		180,580	185,124
		<u>7,667,613</u>	<u>7,840,557</u>
Net investment in finance lease - In Pakistan	8.2	1,253	1,253
Advances - gross		<u>7,668,866</u>	<u>7,841,810</u>
Provision for non-performing advances	8.1	(5,364,947)	(5,331,030)
Advances - net of provision		<u>2,303,919</u>	<u>2,510,780</u>

Category of Classification	March 31, 2011			Provision Required	Provision Held
	Classified Advances				
	Domestic	Overseas	Total		
(Rupees in '000)					
Substandard	44,732	-	44,732	9,745	9,745
Doubtful	50,384	-	50,384	17,415	17,415
Loss	5,550,983	-	5,550,983	5,337,787	5,337,787
	<u>5,646,099</u>	<u>-</u>	<u>5,646,099</u>	<u>5,364,947</u>	<u>5,364,947</u>

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

	March 31, 2011	December 31, 2010
(Rupees in '000)		
Opening balance	5,331,030	5,221,053
Amounts written off	(30)	(13,399)
Provision of transferred portfolio	(52)	(712)
<b>Charge/ (Reversals)</b>		
Charge for the year	46,085	165,164
Reversals	(12,086)	(41,076)
	<u>33,999</u>	<u>124,088</u>
Closing balance	<u>5,364,947</u>	<u>5,331,030</u>

**8.2 Assignment of Non-Performing Loan (NPL) portfolios of defunct SBFC & RDFC 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 the non-performing loan portfolios of defunct RDFC and SBFC to NBP on the basis of deferred transfer price. Subsequently transfer and assignment agreement was executed between SME Bank Limited 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 acquiree with respect to:

- the non-performing loans, collateral and the debtors;
- 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;
- 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 or 25% of the gross recoveries which ever is higher in first two anniversaries and 50% of the net recovery from 2nd anniversary.

**SME Bank Limited**  
**Notes to the Financial Statements**  
**For the quarter ended March 31, 2011**

**9. BORROWING FROM SBP**

This represents the 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.

	<b>March 31, 2011</b>	December 31, 2010
	<b>(Rupees in '000)</b>	
<b>10. CONTINGENCIES AND COMMITMENTS</b>		
<b>10.1 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	<b>129,675</b>	71,156
Others	<b>106,516</b>	90,411
<b>10.2 Other Contingencies</b>		
a) Claims not acknowledged as debt from various borrowers for loss sustained due to non-disbursement.	<b>24,972</b>	24,972
b) Damages claim by borrower for delay in recording repayments received from borrower, not acknowledged as debt.	<b>49,800</b>	49,800
c) Damages claim by Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited, not acknowledged as debt.	<b>23,800</b>	23,800
d) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost has been decided in favour of the Bank. However tax authorities has filed appeal against the decision of the Income Tax Commissioner. Based on tax advisors' opinion, management strongly believes and expects favourable outcome and therefore no provision has been provided for this effect in the financial statements.	<b>612,707</b>	612,707
e) Adjustment of loan guarantee against borrowing from IDBP repaid in prior years, disputed by IDBP.	-	9,939
f) Back benefits and claims of staff/employees under litigation.	<b>103,020</b>	90,800
	<b>1,050,490</b>	973,585
<b>10.3 Commitments in respect of forward lending</b>		
Commitments to extend credit	<b>135,700</b>	243,700
<b>10.4 Commitments for the acquisition of operating fixed assets</b>	<b>14,778</b>	680
<b>10.5 Commitments against repo/reverse repo transactions</b>		
Purchase and resale agreements	-	33,445
Sale and repurchase agreements	<b>1,141,986</b>	1,371,750
	<b>1,141,986</b>	1,405,195
<b>10.6 Other commitments</b>		
Undrawn facilities	<b>259,465</b>	201,747
<b>10.7 Bills for collection</b>		
Payable in Pakistan	<b>3,938</b>	2,076

**SME Bank Limited**  
**Notes to the Financial Statements**  
**For the quarter ended March 31, 2011**

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**11. RELATED PARTY TRANSACTIONS**

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

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

	<b>2011</b>	2010
	<b>(Rupees in '000)</b>	
Balances outstanding		
<b>SME Leasing Limited :</b>		
Investment in subsidiary	<b>215,457</b>	215,457
Loan to SMEL	<b>84,172</b>	52,802
Receivable from SMEL	<b>2,042</b>	1,468
Liability against assets subject to finance lease	<b>5,159</b>	11,541
Investment in TFC's issued by SMEL	<b>16,667</b>	50,000
Interest income on loan to SMEL	<b>3,750</b>	1,743
Repayment of loan	<b>30,485</b>	10,759
Repayment of interest on loan	<b>3,929</b>	1,743
Payment received against TFC's	<b>8,333</b>	8,333

**Principal terms of loan to SMEL**

Year	Amount (Rupees '000)	Term	Interest rate	Repayment	Number of installments
2010	131,000	3 Years, Reviewable 6 monthly	3 months Kibor + 3 %	RF	-

**12. CORRESPONDING FIGURES**

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

**13. DATE OF AUTHORIZATION**

These financial statements were authorized for issue by the Board of Directors of the Bank on April \_\_\_\_\_, 2011.

\_\_\_\_\_  
**CFO & Company Secretary**

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

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

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

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