

**SME BANK LIMITED**  
**Directors' Review on Operational Results for the nine months ended**  
**September 30, 2010**

We are pleased to present the operational results of SME Bank for the nine months ended September 30, 2010.

**Paid Up Capital**

The Paid up Capital of the Bank remained at Rs 2.392 billion and the Bank continued to operate with less than the required minimum capital on the basis of exemption granted by State Bank of Pakistan. The Minimum Capital Requirement set by the State Bank requires the banks to have Rs. 7.0 billion as paid up capital by the end of 2010.

**Financial Review**

The Bank ended its operations as on September 30, 2010 with an Equity of Rs 1.639 billion after accounting for the losses as of September 30, 2010. Depressed economic activities, energy crises and rising cost of doing business are seriously affecting the repayment capacity and behaviour of the Bank's borrowers. Resultantly, the SME and Consumers Sector have reduced their bank borrowings and asset mix of the Banking Sector slightly shifted towards investments. On the other side due to

low equity base, poor credit rating and uncertainty prevailing in the market about future of the bank, the management continued to face difficulties in attracting new clients. Resultantly the lending focus remained on renewal of existing facilities whereas gross outstanding portfolio of the bank maintained the existing level.

The hardships and rising costs faced by the small and medium enterprises have had its adverse effects on the repayment capacity of the borrowers. Resultantly, many of the either to normal business concerns failed to meet their repayment obligations towards bank, thereby further adding to the non performing Loans (NPL's). The NPL's of SME Bank have also recorded an increase from Rs 490 million in September 2009 to Rs 712 million in September 2010. This increase in amount of NPL's pushed the operational results negative and bank posted an operating pre-tax loss of Rs 290 million on September 2010 as compared to pre-tax loss of Rs 228 million in September 2009.

**Disbursements & Recoveries**

The limited resources and branch network remained major impediment to deposit mobilization efforts. With the given circumstances of low deposit base and tight liquidity position, your Bank has been able to achieve disbursements level of Rs 1,400 million. The high staff turnover and difficulties faced by the management in hiring suitably qualified staff also hampered the recovery efforts of the bank. The recoveries from Loans & Advances remained at Rs 380 million in September 2010 as compared to Rs 494 million in September 2009. While recoveries from old portfolio of SBFC & RDFC remained at Rs 17 million (2009: 137 million) due to closure of recovery function.

#### **Interest Income and Expense**

Total income amounted to Rs 459 million (2009: Rs.593 million) of which treasury business generated Rs 211 million (2009: Rs. 217 million) while performance of SME lending operations generated Rs. 242 million (2009: Rs. 282 million). An amount of Rs. 6 million (2009: Rs. 94 million) was generated through recoveries of portfolio of defunct SBFC & RDFC. The income through recovery from old portfolio of defunct SBFC & RDFC ceased after 30<sup>th</sup> June, 2010 due to closure of Recovery Function. However the cost of Rs 7.2 million per month on the employees

rendered surplus due to closure of Recovery Function is adding towards the loss of the Bank.

Mark up expense on account of customer deposits and money market borrowing have reduced from Rs 342 million in September 2009 to Rs 276 million in September 2010. Owing to the rigorous efforts by the management, the average cost of funds of the Bank has decreased from 11.76% in September 2009 to 9.81% in September 2010. However, due to low credit rating, management has been facing great difficulties to attract large deposits from the public sector institutions because of policy of these institutions. The freezing of accounts of the Bank by the FBR have further deterred the depositors and potential lenders of the funds from dealing with SME Bank.

Administrative Expenses of the Bank have reduced from Rs 401 million in September 2009 to Rs 373 million in September 2010. This is mainly due to reduction in establishment cost on account of release of 137 employees under Voluntary Separation Scheme-2009.

For the Bank to operate on self sustainable basis, injection of fresh equity and expansion of branch network are of critical importance. Increase in

equity base will help to improve performance and increase profitability of the bank. The shareholders of the bank have recently decided to recapitalize the bank by increasing its paid up capital and necessary action is being taken by the Ministry of Finance.

We would like to place on record, our thanks to State Bank of Pakistan and other regulatory authorities for their continued support and guidance and the Shareholders for the trust and confidence reposed in us.

For and on Behalf of  
Board of Directors

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Chairman

**SME Bank Limited**  
**Condensed Statement of Financial Position**  
**As at September 30, 2010**

	(Un-audited) September 30, 2010	(Audited) December 31, 2009
Note	(Rupees in '000')	
<b>ASSETS</b>		
Cash and balances with treasury banks	162,387	213,778
Balances with other banks	19,071	57,296
Lending to financial institutions	-	33,445
Investments	2,696,833	2,939,132
Advances	2,310,129	2,500,916
Other assets	200,646	446,244
Operating fixed assets	101,340	108,418
Deferred tax assets	-	-
	<b>5,490,406</b>	<b>6,299,229</b>
<b>LIABILITIES</b>		
Bills payable	56,335	54,542
Borrowings from financial institutions	1,063,965	1,371,750
Deposits and other accounts	2,029,370	2,203,152
Sub-ordinated loans	-	-
Liability against assets subject to finance lease	8,703	12,087
Other liabilities	692,974	436,957
Deferred tax liabilities	-	-
	<b>3,851,347</b>	<b>4,078,488</b>
<b>NET ASSETS</b>	<b>1,639,059</b>	<b>2,220,741</b>
<b>REPRESENTED BY</b>		
Share capital	2,392,507	2,392,507
Reserves	206,526	206,526
Unappropriated loss	(807,907)	(206,848)
	<b>1,791,126</b>	<b>2,392,185</b>
Deficit on revaluation of assets	(152,067)	(171,444)
	<b>1,639,059</b>	<b>2,220,741</b>

**CONTINGENCIES AND COMMITMENTS**

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The annexed notes 1 to 14 form an integral part of these financial statements.

\_\_\_\_\_  
**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**  
**Condensed Profit and Loss Account (Un-audited)**  
**For the nine months ended September 30, 2010**

	Note	September 30, 2010		September 30, 2009	
		For the quarter ended	For the Nine months ended	For the quarter ended	For the Nine months ended
------(Rupees in '000')-----					
Mark-up/return/interest earned		152,114	458,934	173,406	593,016
Mark-up/return/interest expensed		91,562	276,448	111,035	341,643
Net mark-up/interest income		60,552	182,486	62,371	251,373
Provision against non-performing advances		34,316	144,602	53,717	75,111
Provision/(reversal) for diminution/impairment in the value of investments		-	(12,814)	13,057	14,828
Bad debts written off directly		213	391	334	1,870
		34,529	132,179	67,108	91,809
Net mark-up/interest income after provisions		26,023	50,307	(4,737)	159,564
<b>NON MARK-UP/INTEREST INCOME</b>					
Fees, commission and brokerage income		2,820	9,647	2,753	8,361
Dividend income		15	2,432	1,077	2,286
Gain on sale of securities		-	415	-	-
Other income		29,488	31,053	713	3,095
Total non-markup/interest income		32,323	43,547	4,543	13,742
		58,346	93,854	(194)	173,306
<b>NON MARK-UP/INTEREST EXPENSE</b>					
Administrative expenses		121,115	373,451	131,442	401,249
Other provisions/write offs	10	1,957	5,992	-	-
Other charges		(17)	4,267	-	196
Total non-markup/interest expenses		123,055	383,710	131,442	401,445
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<b>(64,709)</b>	<b>(289,856)</b>	<b>(131,636)</b>	<b>(228,139)</b>
Taxation - Current		1,697	4,850	940	3,075
- Prior years	11	-	306,353	-	-
- Deferred		-	-	(1,568)	(1,155)
		1,697	311,203	(628)	1,920
<b>(LOSS)/PROFIT AFTER TAXATION</b>		<b>(66,406)</b>	<b>(601,059)</b>	<b>(131,008)</b>	<b>(230,059)</b>
Unappropriated loss brought forward		(741,501)	(206,848)	(334,582)	(235,530)
Loss available for appropriation		(807,907)	(807,907)	(465,589)	(465,589)
<b>Earning per share (Rupees)</b>		<b>(0.28)</b>	<b>(2.51)</b>	<b>(0.55)</b>	<b>(0.96)</b>

The annexed notes 1 to 14 form an integral part of these financial statements.

**CFO & Company Secretary**

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

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**Director**

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**SME Bank Limited**  
**Condensed Statement of Comprehensive Income (Un-audited)**  
**For the nine months ended September 30, 2010**

	<b>September 30, 2010</b>		September 30, 2009	
	<b>For the quarter ended</b>	<b>For the Nine months ended</b>	For the quarter ended	For the Nine months ended
	----- <b>(Rupees in '000')</b> -----			
<b>Net (Loss)/Profit after taxation</b>	<b>(66,406)</b>	<b>(601,059)</b>	(131,008)	(230,059)
<b>Other comprehensive income for the period</b>				
Surplus on remeasurement of investment available for sale to fair value	<b>(7,054)</b>	<b>19,377</b>	(4,317)	230,342
<b>Total comprehensive (loss)/income for the period</b>	<b><u>(73,460)</u></b>	<b><u>(581,682)</u></b>	<b><u>(135,325)</u></b>	<b><u>283</u></b>

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**Director**

**SME Bank Limited**  
**Condensed Cash Flow Statement (Un-audited)**  
**For the nine months ended September 30, 2010**

Note	September 30, 2010	September 30, 2009
	(Rupees in '000')	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss before taxation	(289,856)	(228,139)
Dividend income	(2,432)	(2,286)
	<u>(292,288)</u>	<u>(230,426)</u>
<b>Adjustments for non-cash/other items:</b>		
Depreciation	10,172	16,245
Amortization	1,173	1,583
Provision against non-performing advances	144,602	75,111
Provision/(reversal) for impairment in value of investments	(12,814)	14,828
Other provisions/write offs	5,992	-
Bad debts written off directly	391	1,870
Net (profit)/loss on sale of operating fixed asset	(14,668)	(671)
Finance charges on leased assets	294	603
	<u>135,142</u>	<u>109,569</u>
	<u>(157,146)</u>	<u>(120,856)</u>
<b>(Increase)/ decrease in operating assets</b>		
Lendings to financial institutions	33,445	-
Advances	45,794	4,428
Other assets (excluding advance taxation)	239,606	(36,569)
	<u>318,845</u>	<u>(32,141)</u>
<b>Increase/ (decrease) in operating liabilities</b>		
Bills payable	1,793	(11,749)
Borrowings from financial institutions	(307,785)	(46,131)
Deposits	(173,782)	134,268
Other liabilities (excluding current taxation)	(51,085)	(21,611)
	<u>(530,859)</u>	<u>54,777</u>
	<u>(369,160)</u>	<u>(98,220)</u>
Income tax paid	(4,101)	(1,859)
<b>Net cash flow from/(used in) operating activities</b>	<u>(373,261)</u>	<u>(100,079)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net (investments)/de-investment in available-for-sale securities	221,130	(3,121)
Net (investments)/de-investment in held-to-maturity securities	53,360	22,668
Dividend income	2,432	2,286
Investments in operating fixed assets	(4,724)	(7,977)
Sale proceeds of operating fixed assets disposed-off	15,125	1,665
<b>Net cash flow (used in)/from investing activities</b>	<u>287,323</u>	<u>15,521</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payments of lease obligations	(3,678)	(6,704)
<b>Net cash flow used in financing activities</b>	<u>(3,678)</u>	<u>(6,704)</u>
Decrease in cash and cash equivalents	(89,616)	(91,262)
Cash and cash equivalents at beginning of the period	271,074	349,863
<b>Cash and cash equivalents at the end of period</b>	<u>181,458</u>	<u>258,601</u>
Cash and balances with treasury banks	244,692	163,797
Balances with other banks	9,352	94,804
Call money lending	-	-
	<u>254,044</u>	<u>258,601</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

**CFO & Company Secretary**

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**President/Chief Executive**

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**Director**

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**Director**

**SME Bank Limited**  
**Condensed Statement of Changes in Equity (Un-audited)**  
**For the nine months ended September 30, 2010**

	Share Capital	Statutory reserve	Unappropriated loss	(Deficit)/ Surplus on revaluation of available for sale investment	Total
	(Rupees in '000')				
Balance as at January 1, 2009	2,392,507	199,356	(235,530)	(401,844)	1,954,489
Transfer to statutory reserve	-	-	-	-	-
<b>Total comprehensive income for the period:</b>					
Loss for the period after taxation	-	-	(230,059)	-	(230,059)
<b>Other comprehensive income</b>					
Surplus on remeasurement of investments available for sale to fair value	-	-	-	230,342	230,342
Total comprehensive income for the period	-	-	(230,059)	230,342	283
<b>Balance as at September 30, 2009</b>	<b>2,392,507</b>	<b>199,356</b>	<b>(465,589)</b>	<b>(171,502)</b>	<b>1,954,772</b>
Balance as at October 1, 2009	2,392,507	199,356	(465,589)	(171,502)	1,954,772
Transfer to statutory reserve	-	7,170	(7,170)	-	-
<b>Total comprehensive loss for the period:</b>					
Profit for the period after taxation	-	-	265,911	-	265,911
<b>Other comprehensive income</b>					
Deficit on remeasurement of investments available for sale to fair value	-	-	-	58	58
Total comprehensive income for the period	-	-	265,911	58	265,969
<b>Balance as at December 31, 2009</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(206,848)</b>	<b>(171,444)</b>	<b>2,220,741</b>
Balance as at January 1, 2010	2,392,507	206,526	(206,848)	(171,444)	2,220,741
Transfer to statutory reserve	-	-	-	-	-
<b>Total comprehensive loss for the period:</b>					
Loss for the period after taxation	-	-	(601,059)	-	(601,059)
<b>Other comprehensive income</b>					
Deficit on remeasurement of investments available for sale to fair value	-	-	-	19,377	19,377
Total comprehensive loss for the period	-	-	(601,059)	19,377	(581,682)
<b>Balance as at September 30, 2010</b>	<b>2,392,507</b>	<b>206,526</b>	<b>(807,907)</b>	<b>(152,067)</b>	<b>1,639,059</b>

The annexed notes 1 to 14 form an integral part of these financial statements.

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## **SME Bank Limited**

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

**For the nine months ended September 30, 2010**

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#### **1. GENERAL INFORMATION**

##### **1.1 Status and Nature of Business**

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 a 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. 6 of 2005, the Bank was required to increase its paid up capital (net of losses) as at December 31, 2009 up to Rs.6 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 privatisation 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 net assets value of defunct RDFC and SBFC on December 31, 2001.

Further, pursuant to clause 6 of the Ordinance 2001, notwithstanding anything contained in any other law for the time being in force, the Bank shall take and maintain existing deposits, continue lending and any other business which were being undertaken by defunct RDFC and SBFC, respectively, without prejudice to State Bank of Pakistan's permission for commencement of banking business.

#### **2. BASIS OF PRESENTATION**

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

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

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 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 take precedence.

## **SME Bank Limited**

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

#### **For the nine months ended September 30, 2010**

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In terms of BSD circular letter No. 10 dated August 26, 2002, the State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 11 dated September 11, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these condensed interim financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

The disclosures made in these condensed interim financial statements have, however been limited based on the format prescribed by the State Bank of Pakistan vide BSD Circular No. 2 dated May 12, 2004 and the requirements of International Accounting Standards IAS 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements and these financial statements should be read in conjunction with the financial statements of the bank for the year ended December 31, 2009.

#### **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.

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

The same accounting policies and methods of computation are followed in these condensed interim financial statements as compared with the annual financial statements issued for the year ended December 31, 2009. However BSD circular Letter No. 07 of 2010 dated April 20, 2010 on the subject "*Revised IAS-1 Presentation of Financial Statements*" is applicable and accordingly applied by the Bank in presentation of condensed interim financial statement.

#### **6. FINANCIAL RESTRUCTURING**

**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.

## **SME Bank Limited**

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

#### **For the nine months ended September 30, 2010**

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- 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) Amount of 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. Costs of VSS are reimbursable by GoP under the Small and Medium Enterprise Sector Development Programme loan agreement between GoP and Asian Development Bank. 712 employees opted for VSS. Aggregate estimated cost of VSS for 712 employees amounts to approximately Rs. 1,800 million. 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; and
  - 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.
  - ix) All the recovery offices and recovery booths have been closed with effect from December 31, 2009.
  - x) 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.
  - xi) No further progress has been made on the privatisation of the bank.

**SME Bank Limited****Notes to the Condensed Interim Financial Statements (Un-audited)****For the nine months ended September 30, 2010****7. INVESTMENTS**

	Held by the bank	Given as collateral	Total
	(Rupees in '000')		
<b>As at December 31, 2009</b>	<b>1,573,391</b>	<b>1,365,741</b>	<b>2,939,132</b>
<b>As at September 30, 2010</b>	<b>1,632,047</b>	<b>1,064,786</b>	<b>2,696,833</b>

**7.1 INVESTMENTS BY TYPES:****As at September 30, 2010****Available-for-sale securities**

Market Treasury Bills	285,170	-	285,170
Pakistan Investment Bonds (PIBs)	1,028,099	1,196,224	2,224,323
Fully paid ordinary shares/Units/Certificates	102,196	-	102,196
Term Finance Certificates (TFCs)	62,048	-	62,048
	<b>1,477,513</b>	<b>1,196,224</b>	<b>2,673,737</b>

**Held-to-maturity securities**

Certificates of Investments (COIs)	762	-	762
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**Investment in subsidiary**

SME Leasing Limited	215,457	-	215,457
Investments at cost	1,693,732	1,196,224	2,889,956
Provision for diminution/impairment in value of investments	(41,056)	-	(41,056)
Investments net of impairment	1,652,676	1,196,224	2,848,900
Deficit on revaluation of Available-for-sale-securities	(20,629)	(131,438)	(152,067)
<b>Total Investments at market value</b>	<b>1,632,047</b>	<b>1,064,786</b>	<b>2,696,833</b>

**SME Bank Limited**

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

**For the nine months ended September 30, 2010**

	Note	(Un-audited) September 30, 2010	(Audited) December 31, 2009
		(Rupees in '000')	
<b>8. ADVANCES</b>			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	8.2	4,407,311	4,420,980
Defunct RDFC	8.2	543,041	560,315
The Bank		2,498,847	2,507,438
Due from ex-employees	8.2	21,196	22,867
Due from employees		191,001	209,116
		<u>7,661,396</u>	<u>7,720,716</u>
Net investment in finance lease - In Pakistan		1,253	1,253
Advances - gross		<u>7,662,649</u>	<u>7,721,969</u>
Provision for non-performing advances		(5,352,520)	(5,221,053)
Advances - net of provision		<u>2,310,129</u>	<u>2,500,916</u>

**8.1** Advances include Rs. 5,689,766 thousand (2009: 5,543,241 thousands) which have been placed under non-performing status as detailed below:

Category of Classification	September 30, 2010				
	Domestic	Overseas	Total	Provision Required	Provision Held
----- (Rupees in '000') -----					
Substandard	119,805	-	119,805	25,700	25,700
Doubtful	100,811	-	100,811	42,145	42,145
Loss	5,469,150	-	5,469,150	5,284,675	5,284,675
	<u>5,689,766</u>	<u>-</u>	<u>5,689,766</u>	<u>5,352,520</u>	<u>5,352,520</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 has approved the transfer and assignment of the non-performing loan portfolio of defunct SBFC & RDFC to NBP which is subsequently transferred and assigned through "Transfer and Assignment Agreement" executed between the Bank and NBP at Karachi on July 01, 2010. The recovery shall be shared between NBP and SME, according to the terms of agreement. The agreement is effective from July 01, 2010 and no adjustments have been incorporated in these condensed interim financial statements.

**SME Bank Limited**  
**Notes to the Condensed Interim Financial Statements (Un-audited)**  
**For the nine months ended September 30, 2010**

	<b>(Un-audited)</b> <b>September 30,</b> <b>2010</b>	<b>(Audited)</b> <b>December 31,</b> <b>2009</b>
	<b>(Rupees in '000')</b>	
<b>9. CONTINGENCIES AND COMMITMENTS</b>		
<b>9.1 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	<b>121,904</b>	71,156
Others	<b>85,434</b>	90,411
<b>9.2 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 (Private) Limited and Taas Securities (Private) 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 which has been re-imbursed by GOP to the Bank by issuing show cause notice to amend the assessment of tax year 2005 u/s 122 (3). Appeal has been filed against the order. The Management, based on tax advisor assessment, is expecting a favourable outcome, however on the direction of SBP vide Letter No BID (Insp)/595/45-49-2010 dated March 22, 2010, 50% of the total demand has been provided in these financial statements.	<b>306,353</b>	612,707
e) Adjustment of loan guarantee against borrowing from IDBP repaid in prior years, disputed by IDBP	<b>9,939</b>	9,939
f) Back benefits and claims of staff/employees under litigation	<b>71,400</b>	90,800
	<b>693,602</b>	973,585
<b>9.3 Commitments in respect of forward lending</b>		
Commitments to extend credit	<b>231,210</b>	243,700
<b>9.4 Commitments for the acquisition of operating fixed assets</b>	-	680
<b>9.5 Commitments against Repo/Reverse Repo transactions</b>		
Purchase and resale agreements	-	33,445
Sale and repurchase agreements	<b>1,063,965</b>	1,371,750
	<b>1,063,965</b>	1,405,195
<b>9.6 Other commitments</b>		
Undrawn facilities	<b>309,664</b>	201,747
<b>9.7 Bills for collection</b>		
Payable in Pakistan	<b>1,576</b>	2,076

**SME Bank Limited**

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

**For the nine months ended September 30, 2010**

**10. OTHER PROVISIONS/WRITE OFFS**

This includes miscellaneous charges relating to Non-Performing Loan (NPL) of the Bank and Ex-SBFC.

**11. TAXATION- PRIOR YEARS**

This represents 50% of total tax demand raised by Income Tax Authorities as detailed in Note # 9.2 (d) to these condensed interim financial statements. This provision has been made on the direction of State Bank of Pakistan vide Letter No BID (Insp)/595/45-49-2010 dated March 22, 2010.

**12. 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>(Un-audited)</b>	(Audited)
	<b>September 30,</b>	December 31,
	<b>2010</b>	2009
	<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>100,099</b>	43,561
Receivable from SMEL	<b>2,741</b>	1,442
Liability against assets subject to finance lease	<b>8,703</b>	12,087
Investment in TFC's issued by SMEL	<b>33,333</b>	58,333
<b>Transaction during the year</b>	<b>(Un-audited)</b>	(Un-Audited)
	<b>September 30,</b>	September 30,
	<b>2010</b>	2009
<b>SME Leasing Limited :</b>		
Interest income on loan to SMEL	<b>8,524</b>	4,341
Loan disbursed	<b>185,906</b>	45,000
Repayment of loan	<b>99,368</b>	6,552
Repayment of interest on loan	<b>8,503</b>	2,952
Payment received against TFC's	<b>25,000</b>	33,333
Markup on liability against assets subject to finance lease	<b>294</b>	603
Payment for liability against assets subject to finance lease	<b>1,660</b>	2,192

**Principal terms of loan to SMEL**

<b>Year</b>	<b>Amount</b>	<b>Term</b>	<b>Interest rate</b>	<b>Repayment</b>	<b>Number of</b>
	<b>(Rupees '000')</b>				<b>installments</b>
2010	10,000	1 Month	15% for one month	Monthly	1
2010	10,000	10 Days	3 months Kibor + 3 %	10 Days	1
2010	15,000	1 Month	3 months Kibor + 3 %	Monthly	1
2010	30,000	3 Months	3 months Kibor + 3 % per quarter	Quarterly	1
2010	32,000	3 Months	3 months Kibor + 3 % per quarter	Quarterly	1
2010	131,000	3 Years, Reviewable 6 monthly	3 months Kibor + 3 %	RF	-

**SME Bank Limited**

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

**For the nine months ended September 30, 2010**

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**13. GENERAL**

Figures have been rounded to the nearest thousand rupees unless otherwise stated.

**14. DATE OF AUTHORIZATION**

These financial statements were authorized for issue by the Board of Directors of the Bank on \_\_\_\_\_, 2010.

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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**