



SME BANK LIMITED  
**CONSOLIDATED FINANCIAL STATEMENT**  
FOR THE YEAR ENDED DECEMBER 31, 2010





## Auditor's Report to The Members

For the year ended December 31, 2010

We have audited the annexed statement of financial position of SME Bank Limited (the "Bank") as at December 31, 2010 and the related profit and loss account, statement of other comprehensive income, statement of changes in equity and cash flow statement, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, which include the unaudited certified returns from the branches and other offices except for seven branches and one treasury office which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
  - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984) and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except as disclosed in note 5.1, with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of other comprehensive income, statement of changes in equity and cash flow statement together with the notes forming



part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2010 and its true balance of the loss, its changes in equity and cash flows for the year then ended; and

- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Without qualifying our opinion, we draw attention to contents of note 6 to the financial statements, which elaborate the privatization status of Bank and going concern assumption relating to Bank's financial statements. The Bank incurred a loss of Rs. 248 million during the year ended December 31, 2010 and has accumulated losses of Rs. 455 million (2009: Rs. 200 million) at year end. Government of Pakistan (GoP), hold 94% shares of the Bank and provides financial support to the Bank, in the absence of which and considering the financial condition with other matters disclosed in note 6 indicate the existence of a material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern.

ANJUM ASIM SHAHID RAHMAN

Chartered Accountants

Islamabad

Audit Engagement Partner: Nadeem Tirmizi

Date: 07 March, 2011

**Consolidated Statement of Financial Position**

As at December 31, 2010

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<b>ASSETS</b>			
Cash and balances with treasury banks	8	228,062	213,861
Balances with other banks	9	20,912	79,660
Lendings to financial institutions	10	-	33,445
Investments	11	2,680,334	2,701,816
Advances	12	3,307,599	3,957,897
Operating fixed assets	13	133,302	122,462
Deferred tax assets	14	-	-
Other assets	15	252,972	439,480
		<b>6,623,181</b>	<b>7,548,621</b>
<b>LIABILITIES</b>			
Bills payable	16	40,505	54,542
Borrowings	17	1,437,604	1,728,922
Deposits and other accounts	18	2,651,948	2,934,403
Sub-ordinated loans		-	-
Liability against assets subject to finance lease	19	15,369	2,023
Deferred tax liabilities		-	-
Other liabilities	20	396,657	472,180
		<b>4,542,083</b>	<b>5,192,070</b>
<b>NET ASSETS</b>		<b>2,081,098</b>	<b>2,356,551</b>
<b>REPRESENTED BY</b>			
Share capital	21	2,392,507	2,392,507
Share premium		5,909	5,909
Reserves		235,636	235,636
Unappropriated loss		(485,887)	(201,608)
		<b>2,148,165</b>	<b>2,432,444</b>
Non-controlling interest		81,561	94,346
		<b>2,229,726</b>	<b>2,526,790</b>
(Deficit)/ Surplus on revaluation of assets	22	(148,628)	(170,239)
		<b>2,081,098</b>	<b>2,356,551</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	23		

The annexed notes 1 to 46 and Annexure I form an integral part of these consolidated financial statements.

President/Chief Executive

Director

Director

Director

**Consolidated Profit and Loss Account**

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
Mark-up/ return/ interest earned	24	687,321	879,072
Mark-up/ return/ interest expensed	25	390,532	523,653
Net mark-up/ interest income		296,789	355,419
Provision against non-performing advances-net of reversal	12.5	165,535	27,910
Provision for diminution in the value of investments	11.4	306	29,074
Bad debts written off directly	12.6.1	939	1,937
		166,780	58,921
Net mark-up/ interest income after provisions		130,009	296,498
<b>NON MARK-UP/ INTEREST INCOME</b>			
Fee, commission and brokerage income		13,505	11,094
Dividend income		3,339	3,926
Income from dealing in foreign currency	42.2.1	-	-
Gain on sale of securities	26	12,298	264
Other income	27	33,145	6,194
Total non-markup/ interest income		62,287	21,478
		192,296	317,976
<b>NON MARK-UP/ INTEREST EXPENSE</b>			
Administrative expenses	28	571,741	1,236,080
Other provisions/ write offs	15.4	7,970	(20,000)
Other charges	29	4,267	196
Total non-markup/ interest expenses		583,978	1,216,276
		(391,682)	(898,300)
Gain on settlement related to retirement benefit plans	30	54,630	209,626
GoP financing against VSS-2009	31	-	660,514
<b>(LOSS)/ PROFIT BEFORE TAXATION</b>		<b>(337,052)</b>	<b>(28,160)</b>
Taxation - Current	32	10,111	6,536
- Prior years		(49,511)	-
- Deferred	32	-	(802)
		(39,400)	5,734
<b>(LOSS)/ PROFIT AFTER TAXATION</b>		<b>(297,652)</b>	<b>(33,894)</b>
Attributable to:			
Equity holders of the Bank		(284,280)	(15,160)
Non-controlling interest		(13,372)	(18,734)
		(297,652)	(33,894)
<b>Basic/ Diluted Loss per share (Rupees)</b>	33	<b>(1.24)</b>	<b>(0.14)</b>

The annexed notes 1 to 46 and Annexure I form an integral part of these consolidated financial statements.

  
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 President/Chief Executive

  
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 Director

  
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## Consolidated Statement of Comprehensive Income

For the year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
	(Rupees in '000)	
Net (Loss)/ Profit after taxation	(297,652)	(33,894)
Components of comprehensive income not reflected in equity		
Net change on remeasurement of investment available for sale to fair value	21,611	230,400
<b>Total comprehensive (loss)/ income for the year</b>	<u><u>(276,041)</u></u>	<u><u>196,506</u></u>

The annexed notes 1 to 46 and Annexure I form an integral part of these consolidated financial statements.

President/Chief Executive

Director

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Director




## Consolidated Cash Flow Statement

For the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
(Loss)/ Profit before taxation		(337,052)	(28,160)
Less: Dividend income		(3,339)	(3,926)
		(340,391)	(32,086)
<b>Adjustments for non-cash/ other items:</b>			
Depreciation		15,873	22,756
Amortization		1,700	2,189
Provision against non-performing advances		165,535	27,910
Provision for impairment in value of investments		306	29,074
Profit on sale of fixed asset		(14,959)	(656)
Finance charges on leased assets		28	-
GoP financing against VSS-2009		-	(660,514)
Other provisions/ write offs		7,970	(20,000)
Bad debts written off directly		939	1,937
		177,392	(597,304)
		(162,999)	(629,390)
<b>(Increase)/ Decrease in operating assets</b>			
Lendings to financial institutions		33,445	(2,137)
Advances		483,824	392,739
Other assets (excluding advance taxation)		178,538	(215,494)
		695,807	175,108
<b>Increase/ (Decrease) in operating liabilities</b>			
Bills payable		(14,037)	16,856
Borrowings		(204,579)	(439,723)
Deposits		(282,455)	256,710
Other liabilities (excluding current taxation)		(30,214)	84,010
		(531,285)	(82,147)
		1,522	(536,429)
Income tax paid		(5,908)	(2,707)
<b>Net cash flow used in operating activities</b>		(4,386)	(539,136)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net (investments)/ de-investment in available-for-sale securities		190,014	(193,246)
Net (investments)/ de-investment in held-to-maturity securities		(146,640)	(29,332)
Dividend income		3,339	3,926
Investments in property and equipment		(29,006)	(15,724)
Sale proceeds of property and equipment disposed-off		15,553	3,547
<b>Net cash flow (used in)/from investing activities</b>		33,260	(230,829)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payment of lease obligation		(2,636)	(553)
Financing for leased vehicles		15,954	-
Government of Pakisran (GoP) financing against VSS-2009		-	660,514
<b>Net cash flow fom financing activities</b>		13,318	659,961
<b>Increase/ (Decrease) in cash and cash equivalents</b>		42,192	(110,004)
Cash and cash equivalents at beginning of the year	34	206,782	316,786
<b>Cash and cash equivalents at the end of year</b>	34	248,974	206,782

The annexed notes 1 to 46 and Annexure I form an integral part of these consolidated financial statements.

  
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 President/Chief Executive

  
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 Director

  
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 Director



## Consolidated Statement of Changes in Equity

For the year ended December 31, 2010

	Share Capital	Share Premium	Statutory reserve	Reserve against future losses	Unappropriated profit / (loss)	Sub total	Non controlling interest	Total
Balance as at January 1, 2009	2,392,507	5,909	220,264	8,202	(185,702)	2,441,180	110,278	2,551,458
Surplus on revaluation of investments	-	-	-	-	-	-	443	443
Reversal of provision on available for sale investment in SME leasing	-	-	-	-	6,424	6,424	2,359	8,783
Net loss for the year	-	-	-	-	(33,894)	(33,894)	-	(33,894)
Transfer to statutory reserve	-	-	7,170	-	(7,170)	-	-	-
Share of net profit attributable to non-controlling interest	-	-	-	-	18,734	18,734	(18,734)	-
Balance as at December 31, 2009	2,392,507	5,909	227,434	8,202	(201,608)	2,432,444	94,346	2,526,790
Surplus on revaluation of investments	-	-	-	-	-	-	587	587
Net loss for the year	-	-	-	-	(297,651)	(297,651)	-	(297,651)
Transfer to statutory reserve	-	-	-	-	-	-	-	-
Share of net profit attributable to non-controlling interest	-	-	-	-	13,372	13,372	(13,372)	-
Balance as at December 31, 2010	<b>2,392,507</b>	<b>5,909</b>	<b>227,434</b>	<b>8,202</b>	<b>(485,887)</b>	<b>2,148,165</b>	<b>81,561</b>	<b>2,229,726</b>

The annexed notes 1 to 46 and Annexure I form an integral part of these consolidated financial statements.

President/Chief Executive

Director

Director

Director



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 1. THE GROUP AND ITS OPERATIONS

- 1.1 The Group consists of the holding company - SME Bank Limited (the Bank) and its subsidiary company - SME Leasing Limited (SMEL).

#### **SME Bank Limited - Holding Company:**

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 long term and A-3 (A three) in short term.

In terms of the provisions of the State Bank of Pakistan's 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.

#### **SME Leasing Limited - Subsidiary Company:**

SME Leasing Limited (SMEL) was incorporated in Pakistan as a public limited company on July 12, 2002 and acquired the status of a listed company on December 13, 2006. At the time of incorporation, SMEL was a wholly owned subsidiary of the Bank, whereby under an arrangement the assets and liabilities of the leasing division of the Bank were transferred to SMEL on January 28, 2003. The registered office of SMEL is situated in Islamabad. SMEL is registered with the Securities and Exchange Commission of Pakistan (SECP) as a leasing company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. The core objective of SMEL is to extend lease and working capital financing facilities to small and medium enterprises of the country. Based on the latest credit rating report dated June 30, 2010 issued by JCR-VIS Credit Rating Company Limited, credit rating of the SME Leasing Limited was BBB+(Triple B plus) in long term and A - 3 (A three) in short term.

During the year 2006, SMEL made an Initial Public Offer of 10 million ordinary shares of Rs 10 each at an offer price of Rs. 11 per share inclusive of a premium of Rs. 1 per share thereby increasing the issued, subscribed and paid-up capital to Rs 320 million represented by 32 million ordinary shares of Rs. 10 each. Consequently, the holding of the Bank in SMEL has reduced to 73.14%.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 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.

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 CONSOLIDATION

These consolidated financial statements include the financial statements of the Bank and SMEL.

The assets and liabilities of the subsidiary company have been consolidated on a line by line basis and the carrying value of investment held by the Bank is eliminated against the subsidiary's shareholder's equity in the consolidated financial statements.

Non- controlling interest are that part of the net results of operations and of net assets of the subsidiary company attributable to the interest which are not owned by the Bank.

Material intra-group balances and transactions have been eliminated.

### 3. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with the requirements of BSD Circular No 4 dated February 17, 2006 issued by State Bank of Pakistan.

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 consolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 4. STATEMENT OF COMPLIANCE

4.1 These consolidated 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.

### 4.2 Standards not yet adopted by State Bank of Pakistan

In terms of BSD circular letter No. 10 dated August 26, 2002, the SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement', International Accounting Standard (IAS) 40, 'Investment Property' and International Financial Reporting Standard (IFRS) 7, 'Financial Instruments: Disclosures' 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 consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

### 4.3 Standards, interpretations and amendments to published approved accounting standards that are effective during the year ended December 31, 2010:

The following amendments to an existing standard, IFRS and interpretations of approved accounting standards applicable to the Bank's consolidated financial statements have been published that are mandatory in the Bank's accounting period:

- i) Amendment to IFRS 2 - Share based Payment - Group Cash settled Share based Payment Transactions (effective for annual periods beginning on or after 01 January 2010).
- ii) Amendments to IFRS 8 Operating segments (effective for annual periods beginning on or after 01 January, 2010).
- iii) Amendments to IAS 1 Presentation of financial statements (effective for annual periods beginning on or after 01 January, 2010).
- iv) Amendments to IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 01 January, 2010).



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

- v) Amendments to IAS 17 Leases (effective for annual periods beginning on or after 01 January, 2010).
- vi) Amendments to IAS 36 Impairment of Assets (effective for annual periods beginning on or after 01 January, 2010).
- vii) Amendments to IAS 17 Leases (effective for annual periods beginning on or after 01 January, 2010).

#### 4.4 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following amendments to existing standards, IFRS and interpretations of approved accounting standards applicable to the Bank's consolidated financial statements have been published that are mandatory for the Bank's accounting periods beginning on or after the following dates:

- i) Revised IFRS 3- Business Combinations (applicable for annual periods beginning on or after 01 July 2010).
- ii) Amendments to IAS 1 Presentation of financial statements (effective for annual periods beginning on or after 01 January, 2011).
- iii) Amendments to IAS 12 Income taxes- recovery of underlying assets (effective for annual periods beginning on or after 01 January, 2012).
- iv) Revised IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 01 January, 2011).
- v) Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 01 July 2010).
- vi) Amendments to IFRIC 14 and IAS 19 - The Limit on a Defined Benefits Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January, 2011).

The Bank considers that the above standards and interpretations will have no material impact on its consolidated financial statements in the period of initial application other than to the extent of certain changes or enhancement in representation and disclosure in consolidated financial statements not conflict with State Bank of Pakistan prescribed format of financial statement.

Other standards and interpretations to approved accounting standard are either not relevant or effective for the Bank's operations and are therefore not detailed in these consolidated financial statements.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 5. BASIS OF MEASUREMENT

5.1 These consolidated financial statements have been prepared under the historical cost convention as modified for certain financial assets and liabilities, which have been stated at their fair value, cost or amortized cost.

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

### 5.2 Use of critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The Group uses estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where assumptions and estimates are significant to the Group's consolidated financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification of investments (note 11)
- ii) Provision against investments (note 11.4) and advances and allowances for potential lease and loan losses (note 12.5)
- iii) Useful life of operating fixed assets (note 13)
- iv) Income taxes (note 32)
- v) Staff retirements and other benefits (note 36); and
- vi) Impairment (note 6.8)

### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except stated in 4.3 and 6.1.

#### 6.1 IAS-1 Presentation of financial statements (revised) effective January 01, 2010

The revised standards separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

in equity presented as a single line. Furthermore, the standard also introduce the statement of comprehensive income; it presents all items of recognized income and expenses either in one single statement or in two linked statement.

However, as per the requirements of directive issued by State Bank of Pakistan, surplus/deficit on revaluation of assets shall be separately disclosed below equity.

### 6.2 Cash and cash equivalents

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

### 6.3 Investments

Investments have been classified into following categories:

#### **Held for trading**

These represent investments acquired 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 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.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

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.

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.

### 6.4 Agreements for sale and purchase of securities (repo and reverse repo)

Securities sold under repurchase agreement (repo) are retained in the consolidated financial statements as investments and a liability for consideration received is included in borrowings. The difference between sale and repurchase price is treated as mark-up expense and recognized over the period of contract.

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up income and recognized over the period of the contract.

### 6.5 Advances

#### a) Extended by the Bank:

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 for the year 2010.

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

#### b) Extended by SMEL:

##### Net investment in finance lease

Leases where SMEL transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. Net investment in finance lease is recognised at an amount equal to the aggregate of minimum lease payment including guaranteed residual value and excluding unearned finance income, if any.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### Loans and receivables

Originated loans and receivables are stated at amortised cost less provision, if any, for doubtful loans and receivables.

### Provision for potential lease losses and provision for doubtful loans and receivables

Provisions for potential lease losses and doubtful loans and receivables are determined on the basis of Regulations for Non-Banking Finance Companies, and are charged to profit and loss account.

### Reserve against future losses

Reserve against future losses represents amounts set aside in view of the risks associated with the economic cyclical nature of the business and is recognised as an appropriation of retained earnings. Any credits resulting from the reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit or loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 percent of the outstanding balance of the regular portfolio of leases and loans and receivables as at each period end.

## 6.6 Long term loans and redeemable capital

Long term finances and loans are initially recognized at cost being the fair value of consideration received together with the associated transaction cost. Subsequently, these are carried at amortized cost using effective interest rate method. Transaction cost relating to the long term finance is being amortized over the period of agreement using the effective interest rate method.

## 6.7 Capital work in progress, Operating fixed assets and depreciation

### Capital work in progress

Capital work-in-progress is stated at cost less impairment (if any).

### Operating fixed assets- Owned

Operating fixed assets are stated at cost/ value on their acquisition less accumulated depreciation and impairment losses (if any) except for land which is stated at cost. Depreciation is charged on straight line method at the rates given in note 13.2, commencing from the month in which the asset is acquired. No depreciation is charged in the month of disposal of the asset. Gains or losses on disposal of property and equipment are taken to the profit and loss account.

Maintenance and normal repairs are charged to profit and loss account as and when incurred.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

Major renewals and improvements are capitalized.

### Assets subject to Finance Lease

Assets subject to finance lease are stated at cost less accumulated depreciation at the rates similar to the Group's owned assets and impairment loss (if any). The outstanding obligation under finance lease less financial charges allocated to future periods is shown as liability. Finance charges are calculated at interest rates implicit in the lease and are charged to profit and loss account in the period in which these are incurred.

### Intangible assets

An intangible asset is recognized only if it is identifiable, the Group has control over the asset, it is probable that economic benefits will flow to the enterprise and the cost of the asset can be measured reliably.

All intangible assets that meet the recognition criteria are initially measured at cost and are amortized on a straight line basis at the rate given in note 13.3 commencing from the month when these assets are available for use. The residual value, useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

### 6.8 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment, whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying value that would have been determined net of depreciation/amortization, if no impairment loss had been recognized.

The available for sale equity investments are impaired when there has been a significant or prolonged decline in the value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested company, industry, sector performance and changes in technological and operational/ financial cash flows.

### 6.9 Taxation

Provision for current taxation represents expected tax payable on the taxable income for the year using applicable tax rates after taking into account tax credits and tax rebates, if any.

Deferred tax is accounted for using the balance sheet liability method in respect of all major temporary differences between the carrying amount of assets and liabilities in the consolidated



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

financial statements and the corresponding tax bases used in the computation of taxable profit at the rates that are expected to apply to the period when the differences reverse based on the tax rates that have been enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax asset is reduced to the extent it is no longer probable that the related tax benefits will be realized.

The Group also recognizes deferred tax asset/ liability on deficit/ surplus on revaluation of investments which is adjusted against the related deficit/ surplus in accordance with the requirements of International Accounting Standard on 'Income Taxes' (IAS 12). However, keeping in view the future operation and uncertain status of privatization of the bank; Deferred tax assets has only been recognized to the extent of deferred liability as at balance sheet date.

### 6.10 Staff retirement and other benefits

**The Bank operates following staff retirement and other benefit schemes for its employees:**

#### **Defined Benefit Plan-Pension and gratuity scheme**

Fully funded defined benefit pension and gratuity scheme for permanent employees. Contributions are made in accordance with the actuarial valuation which is carried out periodically using 'Projected Unit Credit Method'. The actuarial gain/ loss in excess of corridor (10% of higher of fair value of plan assets or present value of obligation) is recognized over the expected average remaining working lives of employees participating in the plan.

For its contractual employees the Bank operates a defined benefit unfunded gratuity scheme. The obligation under the defined benefit unfunded gratuity scheme is recognized on the basis of actuarial valuation using the 'Projected Unit Credit Method'. The amount recognized in the balance sheet represents the present value of defined benefit obligation.

#### **Benevolent fund**

The Bank also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme). Contributions to this fund were made equally by the Bank and employees till March 2002. Thereafter it is wholly contributed by the Bank at the rate of 2% of basic salary with a ceiling of Rs. 200 per month per employee. Annual contribution towards the defined benefit scheme are made on the basis of actuarial advice using the Projected Unit Credit Method.

#### **Compensated absences**

The Bank allows compensated absences, an unfunded scheme, per entitlement to all its permanent and contractual employees. Related provision is made in accordance with actuarial valuation. Provision for the year is charged to profit and loss account. The amount recognized in the balance sheet represents the present value of defined benefit obligation.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

SMEL operates following staff retirement and other benefit scheme for its employees:

### Defined benefit plan - Gratuity scheme

SMEL operates an unapproved and unfunded gratuity scheme for all permanent employees who complete the prescribed eligibility period of service. Provision is made annually to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense immediately.

### Defined contribution plan - Provident fund

A recognised contributory provident fund for all permanent employees of SMEL. Equal monthly contribution are made by SMEL and its employees to the fund at the rate of 8 percent of basic salary.

### Employee's Compensated absences

Compensated vested and non-vested absences accumulated by employees of SMEL on the basis of actuarial recommendations. The actuarial valuations are carried out using the 'Projected Unit Credit Method'.

## 6.11 Revenue recognition

### 6.11.1 Advances

#### Advances disbursed by SME Bank Limited:

Markup/ interest on performing advances is recognized on a time proportion basis over the term of loan and advances.

Markup/ interest/ penal markup recoverable on non performing advances and classified investment is recognized on receipt basis.

#### Advances disbursed by defunct RDFC and defunct SBFC:

Advances and related markup is suspended. Markup/ interest on advances is recognized on receipt basis.

Revenue from assigned and transferred portfolio shall be recognized on the receipt of statement of recovery on each anniversary of the agreement from National Bank of Pakistan, when SME Bank Limited share of income will stand determined as per terms of agreement.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 6.11.2 Return on investments

Any premium paid or discount received on purchase of securities is amortized through the profit and loss account over the remaining period of maturity on time apportionment basis.

During the year, the Bank has changed the pattern of amortization of discount/ premium of available for sale securities from full year amortization in year of purchase, while no amortization in the year of disposal to amortization of premium or discount on time apportionment basis. Had the pattern of amortization was not changed, loss before tax would have been increased by Rs. 5.7 million.

### 6.11.3 Dividend income

Dividend income is recognized when the Group's right to receive dividend is established.

### 6.11.4 Income from leasing

Finance method is used in recognising income on lease contracts. Under this method, un-earned income i.e., the excess of aggregate lease rentals plus the estimated residual value over the cost of the leased asset is taken to income over the lease term so as to produce a systematic return on outstanding net investment in lease. Unrealized lease income and unrealised income on originated loans and receivables is held in suspense account, where necessary, in accordance with the requirements of applicable prudential regulations. Gain or loss on termination of lease contracts, documentation charges, front end fee and other lease income are recognised on receipt basis.

Unrealized lease income is held in suspense account where necessary, in accordance with the requirements of the regulations for Non-Banking Finance Companies.

### 6.11.5 Interest, fee, brokerage and commission

Interest, fee, brokerage and commission, profit on other investments, deposits and staff loans is recognized on accrual basis. Income on non-funded facilities (fee, commission, documentation charges etc.) except commission on bank guarantees is recognized on receipt basis.

### 6.12 Off setting

Financial assets and liabilities are off set and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or realize the asset and settle the liability simultaneously.

### 6.13 Related party transactions

Transactions between the Group and its related parties are carried out on arm's length basis determined in accordance with the generally accepted methods.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 6.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are capitalized. Other borrowing costs are recognized as an expense in the period in which it incurs.

### 6.15 Government grants

Government grants are recognized when the conditions attaching to the grant are complied with. Such grants are credited to income over the period necessary to match them with the related costs which they are intended to compensate.

### 6.16 Provisions

Provisions are recorded when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

### 6.17 Segment reporting

A segment is the distinguishable component of the Group that is subject to risks and rewards that are different from those of other segments. A business segment is one that is engaged either in providing certain products or services, whereas a geographical segment is one engaged in providing products and services within a particular economic environment. Segment information is presented as per the Group's functional structure and the guidance of the State Bank of Pakistan. The Group's primary format of reporting is based on business segments:

#### 6.17.1 Business Segments

##### Trading and Sales

This segment undertakes the Group's treasury, money market and capital market activities.

##### Commercial banking

It includes loans, deposits and other transactions with individuals, small and medium enterprises and corporate customers.

##### Other Leasing Operations

It includes extension of lease and working capital financing facilities to small and medium enterprises.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 6.17.2 Geographical Segments

The Group operates only in Pakistan.

### 6.18 Dividend and appropriation to reserves

Dividend and appropriation to reserves (except appropriation required by law) after the balance sheet date are recognized as liability in the Group's financial statement in the year in which these are approved.

## 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



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

separate from the recovery operations of the defunct RDFC and SBFC portfolio and the two operations will be run as independent units within the Bank; and

- ix) Privatization of the Bank by June 2006.

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

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



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

- 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; and
- xi) No further progress has been made on the privatization of the bank.

### 7.3 Going concern assumption

During the year, the Group has incurred a net loss of Rs. 284 million resulting in accumulated losses of Rs. 486 million (2009: Rs. 202 million) as of balance sheet date. The SME Bank Limited (holding company) has been rated as BBB and A3 in long term and short term respectively by JCR-VIS credit rating company dated 29 June, 2010. Furthermore, the Privatization Commission has yet not taken a decision on the privatization of the Bank. The Government of Pakistan (GoP), hold 94% shares of the Bank through Ministry of Finance (MoF). Historically the financial support of GoP has always been available to the Bank, as evident by State Bank of Pakistan loans and grants for employees' VSS in previous years.

The Government has agreed to provide further equity contribution during the coming financial year. The Group's management therefore believes that the going concern assumption is appropriate and has, as such, prepared these financials statement on this basis.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
<b>8. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand - local currency		70,247	61,850
In transit - local currency		12	439
National Prize Bonds		138	22
With State Bank of Pakistan (SBP) in :			
Local currency current account	8.1	115,246	102,858
With National Bank of Pakistan in :			
Local currency current account		42,419	48,650
Local currency deposit account		-	42
		<u>228,062</u>	<u>213,861</u>
<b>8.1</b>	Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.		
<b>9. BALANCES WITH OTHER BANKS</b>	Note	2010	2009
		(Rupees in '000)	
In Pakistan:			
On current account		11,448	25,523
On deposit account	9.1	19,464	64,137
Provision for doubtful balance with a bank	9.2	(10,000)	(10,000)
		<u>20,912</u>	<u>79,660</u>
<b>9.1</b>	These carry interest rate ranging from 1.50% to 6.50% (2009: 0.6 % to 11%) per annum.		
<b>9.2</b>	Provision for doubtful balance is in respect of deposit of Rs. 10 million with Indus Bank Limited which is under liquidation.		
<b>10. LENDINGS TO FINANCIAL INSTITUTIONS</b>	Note	2010	2009
		(Rupees in '000)	
Call money lendings		-	-
Repurchase agreement lendings (Reverse repo)	10.1	-	33,445
		<u>-</u>	<u>33,445</u>
<b>10.1 PARTICULARS OF LENDING</b>			
In local currency		-	33,445
In foreign currencies		-	-
		<u>-</u>	<u>33,445</u>



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

10.2 Securities held as collateral against lending to financial institutions	Note	2010			2009		
		Held by the group	Further given as collateral (Rupees in '000)	Total	Held by the group	Further given as collateral (Rupees in '000)	Total
Market Treasury Bills		-	-	-	33,445	-	33,445
		-	-	-	33,445	-	33,445
		2010			2009		
<b>11 INVESTMENTS</b>		<b>Held by the group</b>	<b>Given as collateral</b>	<b>Total</b>	<b>Held by the group</b>	<b>Given as collateral</b>	<b>Total</b>
		(Rupees in '000)			(Rupees in '000)		
<b>11.1 INVESTMENTS BY TYPES:</b>							
<b>Available-for-sale securities</b>							
Market Treasury Bills (MTBs)		295,681	-	295,681	335,000	-	335,000
Pakistan Investment Bonds (PIBs)		751,223	1,470,578	2,221,801	721,696	1,539,905	2,261,601
Special Savings Certificates (SSCs)		2,500	-	2,500	500	-	500
Fully paid ordinary shares/mutual fund		124,522	-	124,522	247,715	-	247,715
Term Finance Certificates (TFCs)		25,387	-	25,387	31,218	-	31,218
		1,199,313	1,470,578	2,669,891	1,336,129	1,539,905	2,876,034
<b>Held-to-maturity securities</b>							
Term Deposit Receipts (TDRs)		200,000	-	200,000	52,000	-	52,000
Certificates of Investments (COIs)		762	-	762	2,122	-	2,122
		200,762	-	200,762	54,122	-	54,122
Investments at cost		1,400,075	1,470,578	2,870,653	1,390,251	1,539,905	2,930,156
Less: Provision for diminution in value of investments	11.4	(42,721)	-	(42,721)	(58,544)	-	(58,544)
Investments net of impairment		1,357,354	1,470,578	2,827,932	1,331,707	1,539,905	2,871,612
Surplus/(deficit) on revaluation of Available-for-sale-securities	22	(37,973)	(109,625)	(147,598)	4,368	(174,164)	(169,796)
Total Investments at market value		1,319,381	1,360,953	2,680,334	1,336,075	1,365,741	2,701,816

**Notes to the Consolidated Financial Statement**

For the year ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
<b>11.2 INVESTMENTS BY SEGMENTS :</b>			
<b>Federal Government Securities:</b>	11.3		
- Market Treasury Bills (MTBs)	11.2.1	295,681	335,000
- Pakistan Investment Bonds (PIBs)		2,221,801	2,261,601
- Special Savings Certificates		2,500	500
		<b>2,519,982</b>	2,597,101
<b>Fully paid up ordinary shares:</b>			
- Listed companies/mutual funds	11.6	103,519	226,712
- Unlisted companies/mutual funds	11.7	21,003	21,003
		<b>124,522</b>	247,715
<b>Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:</b>			
- Listed TFCs	11.8	25,387	31,218
<b>Other investments</b>			
- Certificates of Investment (CoIs)		762	2,122
- Term Deposit Receipts (TDRs)		200,000	52,000
		<b>200,762</b>	54,122
Total investments at cost		<b>2,870,653</b>	2,930,156
Provision for diminution in value of investments	11.4	(42,721)	(58,544)
Investment (net of provision)		<b>2,827,932</b>	2,871,612
Less: Deficit on revaluation of available for sale securities - net	22	(147,598)	(169,796)
<b>Total investments at market value</b>		<b>2,680,334</b>	2,701,816

**11.2.1** The Bank has purchased Market Treasury Bill having face value of Rs. 216 million during the year. The value of this T-Bill has been apportioned between the investment of the Bank and investment of the employee's benefit fund at Rs. 170 million and Rs. 46 million respectively.



## Notes to the Consolidated Financial Statement

### For the year ended December 31, 2010

#### 11.3 Principal terms of investments in Federal Government securities

Name of investment	Maturity	Principal payment	Rate	Coupon payment
Market Treasury Bills	January 2011 to February 2011	On maturity	12.66% to 13.02%	-
Pakistan Investment Bonds	February 2011 to June 2013	On maturity	9% to 14%	semi-annually
Special Saving Certificates	June 2014 to December 2015	On maturity	11.6% to 14.2%	-

Market Treasury Bills and Pakistan Investment Bonds are securities eligible for re-discounting with the State Bank of Pakistan.

11.4 Particulars of provision for diminution in value of investments	Note	2010	2009
		(Rupees in '000)	
Opening balance		58,544	47,589
Charge for the year		306	19,739
Reversal on disposal		(16,129)	(8,784)
Closing balance		42,721	58,544

#### 11.4.1 Particulars of provision in respect of type and segment

Available-for-sale securities			
-Fully paid up ordinary shares			
- Quoted Companies		20,956	19,290
- Quoted Mutual Fund		-	16,129
- Unlisted Mutual Fund/Shares		20,000	20,000
- Delisted Companies	11.7.2	1,003	1,003
Held-to-maturity securities			
- Other investments			
- Certificates of Investment		762	2,122
		42,721	58,544



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	Note	2010		2009	
		Market value (Rupees '000)	Rating	Market value (Rupees '000)	Rating
<b>11.5 Quality of Available-for-sale securities</b>					
Market Treasury Bill	11.5.1	295,598	unrated	322,668	unrated
Pakistan Investment Bonds	11.5.1	2,064,934	unrated	2,088,570	unrated
Special Saving Certificates	11.5.1	2,500	unrated	500	unrated
<b>Fully paid up ordinary shares</b>	11.5.2				
National Refinery Limited		4,107	AAA/A1+	2,652	AAA (L)
PICIC Investment Fund Limited		883	3-Star	801	3-Star
Hub Power Company Limited		4,003	AA+/A1+	3,326	AA+
Pakistan PTA Limited		1,093	unrated	625	unrated
Dewan Salman Fibre Limited		55	unrated	27	unrated
Pakistan Telecommunication Company Limited		167	unrated	152	unrated
D.G. Khan Cement Company Limited		171	unrated	185	unrated
Faisal Spinning Mills Limited		130	unrated	99	unrated
Treet Corporation Pakistan Limited		300	AA-	142	unrated
Askari Income Fund		-	-	107,388	5-Star
NAFA Cash Fund		54,209	A+(f)	54,100	A(f)
NAFA Stock Fund		1,463	unrated	1,208	unrated
UBL PPF-1		4,494	AA+(cpf)	4,145	AM2-
Pakistan Stock Fund		2,069	4-star/4-star	1,804	unrated
AMZ Stock Plus Fund		1,631	2-star/2-star	1,467	unrated
United Stock Fund		1,920	unrated	1,582	unrated
Crosby Dragon Fund		1,607	AM4+	1,440	AM4+
Meezan CPF-1		6,003	AM2	5,315	AA(f)
Alfalah GHP PPF		2,611	AA	2,417	AM3
NAMCo Income Fund		3,330	A(f)	3,137	AM3-
ABL Income Fund		-	-	3,000	A+(f)
Askari Sovereign Fund		-	-	2,008	unrated
Faysal Saving Growth Fund		-	-	2,015	A(f)
MCB Cash Optimizer Fund		-	-	3,000	AM3+
Meezan Cash Fund		-	-	1,004	AA(f)
UBL PPF-2		-	-	1,252	AM2-
NAMCo Balanced Fund (Closed End)		1,032	AM3-	1,180	AM3-
Nishat Mills Limited		7	A+/A1	7	A+(L)
Crescent Textile Mills Limited		1	unrated	1	unrated
Services Industries Limited		17	unrated	19	unrated
Invest Capital Investment Bank Limited		872	D	1,565	A-
AKD-Venture Fund		-	unrated	-	unrated
		92,175		207,063	
<b>Term Finance Certificates</b>					
Financial Receivables Securitisation Company Limited		8,598	A+	10,989	AA-(L)
Pakistan Mobile Communications Limited		16,529	A+	20,026	AA-(L)
		25,127		31,015	
		2,480,334		2,649,816	

11.5.1 These are Government of Pakistan guaranteed securities.

11.5.2 Rating of these equity securities represent 'Entity/ Funds Rating'.

11.5.3 Securities have either been rated by 'The Pakistan Credit Rating Agency Limited' (PACRA) or 'JCR-VIS Credit Rating Company Limited' (JCR-VIS). These ratings reflect independent credit risk assessment by respective credit rating entities.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 11.6 Investments in listed companies/ mutual funds

No. of ordinary shares/units		Paid-up value per share/ average price per unit (Rs)	Name of company/mutual fund	Note	2010	2009
2010	2009				(Rupees in '000)	
15,000	15,000	354.17	National Refinery Limited		5,312	5,312
137,668	137,668	18.12	PICIC Investment Fund Limited		2,494	2,494
107,000	107,000	18.95	Hub Power Company Limited		2,028	2,028
79,775	79,775	10.15	Pakistan PTA Limited		810	810
18,449	18,449	18.24	Dewan Salman Fibre Limited		337	337
8,600	8,600	68.20	Pakistan Telecommunication Company Limited		586	586
5,672	5,672	49.38	D.G. Khan Cement Company Limited		280	280
4,000	4,000	40.41	Faisal Spinning Mills Limited		162	162
5,000	500	29.50	Treet Corporation Pakistan Limited		147	147
319	319	93.52	Nishat Mills Limited		30	30
18	18	34.84	Crescent Textile Mills Limited		1	1
72	72	25.30	Services Industries Limited		2	2
1,117,876	1,117,876	11.84	Invest Capital Investment Bank Limited		13,236	13,236
<b>Mutual Funds</b>						
-	1,011,004	-	Askari Income Fund		-	106,519
5,321,308	5,321,308	10.48	NAFA Cash Fund		55,768	55,768
192,475	167,580	6.28	NAFA Stock Fund		1,208	2,000
44,849	41,875	92.42	UBL PPF-1		4,145	5,000
35,068	29,336	51.45	Pakistan Stock Fund		1,804	2,000
24,718	19,683	59.36	AMZ Stock Plus Fund		1,467	2,000
46,108	18,315	34.30	United Stock Fund		1,581	2,000
16,725	13,341	86.09	Crosby Dtagon Fund		1,440	2,000
109,415	97,769	45.70	Meezan CPF-1		5,000	5,000
46,939	43,090	42.61	Alfalalah GHP PPF		2,000	2,000
31,729	30,500	78.79	NAMCo Income Fund		2,500	2,500
-	342,993	-	ABL Income Fund		-	3,000
-	19,498	-	Askari Sovereign Fund		-	2,000
-	19,533	-	Faysal Saving Growth Fund		-	2,000
-	29,203	-	MCB Cash Optimizer Fund		-	3,000
-	19,127	-	Meezan Cash Fund		-	1,000
-	13,112	-	UBL PPF-2		-	1,000
250,000	250,000	4.72	NAMCo Balanced Fund (Closed End)		1,181	2,500
					<b>103,519</b>	<b>226,712</b>
Impairment in available for sale listed shares/ units					<b>(20,956)</b>	<b>(35,419)</b>
Investment in listed shares/ units (net of impairment)					<b>82,563</b>	<b>191,293</b>
Surplus/(Deficit) on revaluation of listed shares/ units - (net)					<b>9,612</b>	<b>15,770</b>
Market value as on December 31,					<b>92,175</b>	<b>207,063</b>
<b>11.7 Particulars of investments held in unlisted mutual funds and delisted companies</b>						
AKD Venture Fund (formerly TMT-PKIC Incubation Fund Limited)				11.7.1	<b>20,000</b>	20,000
Companies delisted from stock exchange				11.7.2	<b>1,003</b>	1,003
					<b>21,003</b>	<b>21,003</b>



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	% age	Number of units held	Cost/Paid-up value per unit held (Rupees)	Total paid up value (Rupees in '000)	Break up value	Name of Chief executive
11.7.1 AKD Venture Fund (formerly TMT-PKIC Incubation Fund Limited)	8%	2,000,000	10.00	20,000	-	Kashif Shamim

11.7.1.1 Management has fully provided this investment as irrecoverable and impaired.

11.7.2 Particulars of investments in shares of companies delisted from stock exchange and are currently under liquidation.

	Number of shares held	Cost/Paid-up value per share (Rupees)	Total paid up value (Rupees in '000)
Mohib Exports Company Limited	4,600	23.81	109
Sunflo Citrus Limited	100,000	4.22	422
Tawakal Garments Company Limited	4,000	38.38	154
Tristar Shipping Lines Limited	5,000	23.56	118
Zahoor Textile Mills Limited	15,200	13.16	200
			<u>1,003</u>

### 11.8 Investment in Term Finance Certificates/Bonds

#### Investment in Listed Term Finance Certificates/Bonds

No. of certificates	Company's name	Nominal value per certificate Rupees		
			2010	2009
2010	2009		(Rupees in '000)	
4,000	Pakistan Mobile Communications Limited	4,160	16,640	19,972
3,000	Financial Receivables Securitisation Company Limited	2,916	8,747	11,246
			<u>25,387</u>	<u>31,218</u>
	(Deficit)/Surplus on revaluation of TFCs/ Bonds		(260)	(203)
	Market value as on December 31,		<u>25,127</u>	<u>31,015</u>

These carry rate of return ranging from 13.74% to 14.16% (2009: 13.95% to 18.97%) per annum and having maturity periods of upto 7 years (2009: 7 years).



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
<b>12. ADVANCES</b>			
Loans, cash credits, running finances, etc- in Pakistan			
Extended by:			
Defunct SBFC	12.2	4,406,468	4,420,980
Defunct RDFC	12.2	540,039	560,315
SME Bank Ltd		2,573,116	2,463,877
Due from ex-employees	12.2	21,153	22,867
Due from employees		187,646	212,187
Originated loans & receivables		75,961	107,086
Arrangement fee against issuance of TFCs		-	-
		<u>7,804,383</u>	<u>7,787,312</u>
Net investment in finance lease - in Pakistan	12.3	940,213	1,456,158
Advances - gross		<u>8,744,596</u>	<u>9,243,470</u>
Provision for non- performing advances	12.5	(5,436,997)	(5,285,573)
Advances - net of provision		<u>3,307,599</u>	<u>3,957,897</u>

### 12.1 Particulars of Advances (Gross)

12.1.1 In local currencies		8,744,596	9,243,470
In foreign currencies		-	-
		<u>8,744,596</u>	<u>9,243,470</u>
12.1.2 Short Term (upto one year)		2,130,554	2,480,704
Long term (over one year)		6,614,042	6,762,766
		<u>8,744,596</u>	<u>9,243,470</u>

### 12.2 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 member 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.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

12.3 NET INVESTMENT IN FINANCE LEASE	2010				2009			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	(Rupees in '000)							
Lease rentals receivable	516,063	108,643	-	624,706	640,549	258,268	-	898,817
Residual value	153,100	280,353	-	433,453	311,984	428,318	-	740,302
Minimum lease payments	669,163	388,996	-	1,058,159	952,533	686,586	-	1,639,119
Financial charges for future periods	100,330	17,616	-	117,946	138,974	43,987	-	182,961
Present value of minimum lease payments	568,833	371,380	-	940,213	813,559	642,599	-	1,456,158

12.4 Advances include Rs. 5,995,139 thousands (2009: 6,166,877) which have been placed under non-performing status as detailed below:

Category of Classification	2010				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Substandard	36,522	-	36,522	4,930	4,930
Doubtful	110,121	-	110,121	32,619	32,619
Loss	5,848,496	-	5,848,496	5,399,448	5,399,448
	5,995,139	-	5,995,139	5,436,997	5,436,997

12.5 Particulars of provision against non-performing advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,285,573	-	5,285,573	5,431,451	-	5,431,451
Amounts written off	(13,399)	-	(13,399)	(173,788)	-	(173,788)
Provision of transferred portfolio	(712)	-	(712)	-	-	-
<b>Charge/(Reversals)</b>						
Charge for the year	209,032	-	209,032	77,035	-	77,035
Reversals	(43,497)	-	(43,497)	(49,125)	-	(49,125)
	165,535	-	165,535	27,910	-	27,910
Closing balance	5,436,997	-	5,436,997	5,285,573	-	5,285,573

12.5.1 As per NBFC Regulations (For SME Leasing) SRO No. 1203 of 2008 para 25 (Classification and Provisioning of Non Performing Assets) in relation to provision for loans and advances, thereby allowing benefit of 80% in first year and 70% in second and third year respectively and above of forced value(FSV) of stocks, mortgaged commercial and residential properties held as collateral against non performing advances.

The State Bank of Pakistan (SBP) has amended the Prudential Regulation vide BSD Circular No. 10 of 2009 in relation to provision for loans and advances, thereby allowing benefit of 40% of Forced Sale Value (FSV) of pledged stocks, mortgaged commercial and residential properties held as collateral against non performing advances. The bank opted for this benefit, and provisions against non performing loan (NPL) are provided at prescribed rate after considering FSV of the subjected collateral.

12.5.2 Particulars of provisions against non-performing advances	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	5,436,997	-	5,436,997	5,285,573	-	5,285,573
In foreign currencies	-	-	-	-	-	-
	5,436,997	-	5,436,997	5,285,573	-	5,285,573

**Notes to the Consolidated Financial Statement**

For the year ended December 31, 2010

	Note	2010	2009
<b>12.6 PARTICULARS OF WRITE OFFS:</b>		<b>(Rupees in '000)</b>	
<b>12.6.1</b> Against provisions	12.5	<b>13,399</b>	173,788
Directly charged to Profit and Loss account		<b>939</b>	1,937
		<b>14,338</b>	175,725
<b>12.6.2</b> Write Offs of Rs. 500,000 and above	12.7	<b>2,177</b>	7,776
Write Offs of below Rs. 500,000		<b>12,161</b>	167,949
		<b>14,338</b>	175,725
<b>12.7 DETAILS OF LOAN WRITE OFF OF Rs. 500,000 AND ABOVE</b>			
In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31st, 2010 is given at Annexure-1.			
<b>12.8 PARTICULARS OF LOANS AND ADVANCES TO DIRECTORS, ASSOCIATED COMPANIES, ETC.</b>	Note	2010	2009
		<b>(Rupees in '000)</b>	
Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons:			
Balance at the beginning of the year		51,906	52,310
Loans granted during the year		58,604	21,426
Repayments		(18,988)	(21,830)
Balance at the end of the year		<b>91,522</b>	51,906
<b>13. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	13.1	<b>716</b>	1,408
Property and equipment	13.2	<b>131,049</b>	117,817
Intangible assets	13.3	<b>1,537</b>	3,237
		<b>133,302</b>	122,462
<b>13.1 Capital work-in-progress</b>			
Advances to suppliers and contractors for:			
- Equipment		-	692
- Software		<b>716</b>	716
		<b>716</b>	1,408



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

13.2 PROPERTY AND EQUIPMENT	Note	COST			DEPRECIATION			(Rupees '000)		
		As at January 01, 2010	Transfer (from)/ to leased assets	Additions/ (Disposals) Dec 31, 2010	As at January 01, 2010	Transfer (from)/ to leased assets	Charge for the year/ (disposals)		As at Dec 31, 2010	Net book value as at Dec 31, 2010
Lease hold land	13.6	64,087	-	-	64,087	-	-	-	64,087	-
Lease hold improvements		18,728	-	11,560	30,286	18,501	702	19,201	11,085	33 1/3
Buildings		26,298	-	(2)	26,298	4,531	887	5,418	20,880	5
Office furniture and fixtures		15,072	-	81	14,959	13,644	923	14,383	576	20
Library		19	-	(194)	19	19	(184)	19	-	20
Office equipment		24,747	-	5,172	28,778	13,972	3,270	16,503	12,275	15
Computer equipment		74,963	-	(1,141)	75,219	69,306	3,796	73,102	2,117	33 1/3
Vehicles		47,955	3,832	88	29,110	45,462	2,911	27,884	1,226	20
		271,869	3,832	(22,765)	268,756	165,435	11,673	156,510	112,246	
				(24,102)			(23,509)			
<b>Assets held under finance lease</b>										
Vehicles		21,022	(3,832)	12,541	29,732	9,640	4,200	10,929	18,803	20
2010		292,891	-	29,698	298,488	175,075	15,873	167,439	131,049	
2009		293,070	-	13,185	292,891	162,787	22,756	175,075	117,817	
				(13,363)			(10,468)			
<b>13.3 INTANGIBLE ASSETS</b>										
		COST			AMORTISATION			(Rupees '000)		
		As at January 01, 2010	Transfer (from) leased assets	Additions/ (Disposals) Dec 31, 2010	As at January 01, 2010	Transfer (from) leased assets	Amortisation	As at Dec 31, 2010	Net book value as at Dec 31, 2010	Amortization rate per annum %
Computer software		24,439	-	-	24,439	-	1,700	22,902	1,537	33 1/3
2010		24,439	-	-	24,439	-	1,700	22,902	1,537	
2009		20,672	-	3,767	24,439	-	2,189	21,202	3,237	



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 13.4 Details of disposal of fixed assets :

Particulars of assets	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyers
	------(Rupees '000)-----					
<b>Vehicles</b>						
Suzuki Mehran	346	346	-	69	As Per Bank Policy	Ibraz Mehmood Butt
Suzuki Bolan Van	367	367	-	386	Through Auction	Rizwan Mazhar
Suzuki Bolan Van	367	367	-	384	Through Auction	Muhammad Javed
Suzuki Bolan Van	367	367	-	373	Through Auction	Rizwan Mazhar
Suzuki Bolan Van	390	390	-	384	Through Auction	Javed Akhtar
Suzuki Bolan Van	390	390	-	386	Through Auction	Mumtaz Khan
Suzuki Bolan Van	390	390	-	340	Through Auction	Javed Akhtar
Suzuki Bolan Van	390	390	-	386	Through Auction	Rizwan Mazhar
Suzuki Bolan Van	390	390	-	366	Through Auction	Javed Akhtar
Suzuki Mehran	353	353	-	305	Through Auction	Nasir Iqbal Rana
Chevrolet Optra	1,257	1,222	35	631	Through Auction	Nasir Iqbal Rana
Suzuki Mehran	346	346	-	315	Through Auction	Rab Nawaz Khan
Suzuki Jeep	358	354	4	282	Through Auction	Malik M. Ismail
Suzuki Bolan Van	391	391	-	329	Through Auction	Muhammad Javed
Suzuki Jeep	190	190	-	222	Through Auction	Raees Khan
Suzuki Bolan Van	391	391	-	313	Through Auction	Pervaiz Ahmed
Suzuki Jeep	238	238	-	190	Through Auction	Gul Ahmed
Suzuki Mehran	266	266	-	231	Through Auction	Ghazanfar Ali Zaidi
Suzuki Bolan Van	390	390	-	262	Through Auction	Shahid Latif
Suzuki Bolan Van	390	390	-	340	Through Auction	Muhammad Ejaz
Suzuki Bolan Van	393	393	-	313	Through Auction	Pervaiz Ahmed
Suzuki Jeep	238	238	-	217	Through Auction	Raees Khan
Suzuki Bolan Van	367	367	-	210	Through Auction	Abdul Sattar Khan
Suzuki Bolan Van	391	391	-	322	Through Auction	Pervaiz Ahmed
Suzuki Bolan Van	391	391	-	322	Through Auction	Pervaiz Ahmed
Suzuki Bolan Van	391	391	-	326	Through Auction	Pervaiz Ahmed
Suzuki Bolan Van	391	391	-	321	Through Auction	Pervaiz Ahmed
Suzuki Bolan Van	391	391	-	328	Through Auction	Pervaiz Ahmed
Suzuki Bolan Van	391	391	-	210	Through Auction	Zeeshan Qazi
Suzuki Bolan Van	391	391	-	377	Through Auction	Kamran Yousuf
Suzuki Jeep	166	166	-	217	Through Auction	Raees Khan
Suzuki Bolan Van	390	390	-	170	Through Auction	Rahat Ahmed
Suzuki Bolan Van	390	390	-	306	Through Auction	Qaisar Khan
Suzuki Bolan Van	390	390	-	222	Through Auction	Noor-ul-Ameen
Suzuki Bolan Van	391	391	-	250	Through Auction	Javed Alam
Suzuki Bolan Van	390	390	-	295	Through Auction	Qaisar Khan
Suzuki Bolan Van	390	390	-	150	Through Auction	Abdul Rasheed
Suzuki Bolan Van	390	390	-	333	Through Auction	Faheem Shoukat
Suzuki Bolan Van	391	391	-	290	Through Auction	Ajmal Khan
Suzuki Bolan Van	393	393	-	264	Through Auction	Muhammad Atif Khan
Suzuki Jeep	238	238	-	170	Through Auction	Rahat Ahmed
Suzuki Jeep	238	238	-	250	Through Auction	Khush Dil Khan
Suzuki Jeep	261	255	6	282	Through Auction	Tariq Aziz
Suzuki Bolan Van	367	367	-	320	Through Auction	Shakir Ahmed
Suzuki Jeep	238	238	-	224	Through Auction	Raees Khan
Suzuki Bolan Van	393	393	-	317	Through Auction	Kamran Yousuf
Suzuki Bolan Van	393	393	-	255	Through Auction	Muhammad Atif Khan
Suzuki Bolan Van	390	390	-	268	Through Auction	Muhammad Nasir Khan



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

Suzuki Bolan Van	390	390	-	293	Through Auction	Muhammad Nasir Khan
Suzuki Bolan Van	367	367	-	180	Through Auction	Muhammad Shafiq Malik
Suzuki Baleno	764	764	-	76	As Per Bank Policy	Shahzad Ahmed
Santro Club-1000cc	540	540	-	54	As Per Bank Policy	Muhammad Jahangir
Santro Club-1000cc	540	540	-	54	As Per Bank Policy	Tariq Mehmood Cheema
Santro Club-1000cc	540	540	-	54	As Per Bank Policy	Mirza Nadeem-ud-Din
Santro Club-1000cc	540	540	-	54	As Per Bank Policy	Saboor Ahmed Khan
Suzuki Margala	213	213	-	-	As Per Bank Policy	Ifukhar Ahmed Jogezi
Suzuki Alto	479	343	136	141	As Per SMEEL Policy	Muhammad Younus
Suzuki Cultus	560	336	224	168	As Per SMEEL Policy	Tanveer ul Bari
Yamaha 100	19	19	-	13	Through Auction	Muhammad Atif Khan
Yamaha 100	19	19	-	7	Through Auction	Muhammad Ali
Yamaha 100	33	33	-	15	Through Auction	Muhammad Attaur Rehman
Yamaha 100	33	33	-	15	Through Auction	Muhammad Attaur Rehman
Honda CD-70	19	19	-	20	Through Auction	Muhammad Arif Khan
Honda CD 125	14	14	-	20	Through Auction	Tahir Mehmood
Yamaha 100	24	24	-	5	Through Auction	Shabbir Ahmed
Honda CD-70	44	44	-	17	Through Auction	Afaq Hussain
Honda CD 125	14	14	-	35	Through Auction	Afaq Hussain
Yamaha 100	33	33	-	17	Through Auction	Shabbir Ahmed
Yamaha 100	38	38	-	8	Through Auction	Muhammad Shabbir
Yamaha 100	33	33	-	21	Through Auction	Fahad Arshad
Honda CD 125	24	24	-	15	Through Auction	Muhammad Asif
Yamaha 100	19	19	-	9	Through Auction	Muhammad Shabbir
Yamaha 100	14	14	-	12	Through Auction	Muhammad Atif Khan
Honda CD-70	19	19	-	11	Through Auction	Abdul Rasheed
Yamaha 100	32	32	-	7	Through Auction	Muhammad Attaur Rehman
Yamaha 100	32	32	-	20	Through Auction	Muhammad Asif Yousaf
Honda CD-70	14	14	-	15	Through Auction	Muhammad Shafiq Malik
Honda CD-70	14	14	-	10	Through Auction	Muhammad Shafiq Malik
	<u>23,325</u>	<u>22,920</u>	<u>405</u>	<u>15,389</u>		
Other assets having book value of more than Rs. 250,000 or cost of Rs.1,000,000 which ever is less	-	-	-	-		
<b>2010</b>	<u><b>23,325</b></u>	<u><b>22,920</b></u>	<u><b>405</b></u>	<u><b>15,389</b></u>		
2009	<u>9,095</u>	<u>6,767</u>	<u>2,328</u>	<u>3,054</u>		

13.5 Gross carrying amount of fully depreciated assets that are still in use was Rs. 136,133 thousands (2009: Rs. 143,449 thousands).

13.6 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. 3.367 million for transferring the plot in the name of the Bank. 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 payment has been accounted for as addition in 2007 as the matter is being pursued by the Bank with CDA.

#### 14. DEFERRED TAX ASSETS

##### Deductible temporary differences on:

Accelerated tax depreciation and unused tax losses

2010	2009
(Rupees in '000)	

1,969	(1,172)
<u>1,969</u>	<u>(1,172)</u>

##### Taxable temporary differences on:

Excess of accounting book value of leased assets over corresponding liabilities

(1,969)	1,172
<u>(1,969)</u>	<u>1,172</u>

-	-
<u>450,450</u>	<u>237,526</u>

14.1 Temporary differences for which no deferred tax is recognized:



## Notes to the Consolidated Financial Statement

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	Note	2010	2009
(Rupees in '000)			
<b>15. OTHER ASSETS</b>			
Income/ mark-up accrued in local currency	15.1	116,361	127,256
Advances, deposits, advance rent and other prepayments		34,213	26,400
Refund due from defined benefit pension and gratuity fund		-	182,064
Refund due from benevolent fund	36.4	54,630	-
VSS cost reimbursable from GoP		-	59,808
Receivable from SBP	15.2	7,277	-
Recovery of principal portion of transferred portfolio		712	-
Receivable from Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited		11,699	11,699
Stock Exchange membership	15.3	38,000	38,000
Receivable from Speedway Fondmetal Pakistan Limited		19,640	19,640
Receivable from Equity Participation Fund		-	4,339
Receivable against factorized portfolio		8,248	8,248
Others		43,682	36,105
		<u>334,462</u>	<u>513,559</u>
Less: Provision held against other assets	15.4	81,490	74,079
Other assets (net of provision)		<u>252,972</u>	<u>439,480</u>
<b>15.1</b>	This balance has been arrived at after adjusting interest in suspense of Rs 4,031,723 thousand (2009: Rs 4,003,869 thousand).		
<b>15.2</b>	This amount represents receivable from SBP under circular SMEFD 11, dated July 01, 2010 related to relief provided to borrowers of flood affected areas of Khyber Pakhtun Khwa, FATA and PATA.		
<b>15.3</b>	This includes membership of Lahore Stock Exchange of Rs.20 million and Islamabad Stock Exchange Rs. 18 million as settlement with Ravi Securities (Pvt) Limited and Taas Securities Limited. The cost reflected here is based on best management estimate of the fair value of membership of Lahore Stock Exchange at settlement date		
	Note	2010	2009
(Rupees in '000)			
<b>15.4 Provision against other assets</b>			
Opening balance		74,079	85,140
Charge for the year		8,300	9,335
Reversals		(330)	(20,000)
		7,970	(10,665)
Amount written off		(559)	(396)
Closing balance		<u>81,490</u>	<u>74,079</u>
<b>Provision balance is in respect of:</b>			
Income/mark-up accrued in local currency			
Prudential Investment Bank Limited		-	506
Universal Leasing Limited		22	22
Receivable from Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited		11,699	11,699
Receivable from Speedway Fondmetall Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		8,248	8,248
Other receivables- SME Portfolio		15,449	8,140
Legal charges recoverable from borrowers-SBFC & RDFC		22,373	22,137
Others		4,059	3,687
		<u>81,490</u>	<u>74,079</u>



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	Note	2010	2009
(Rupees in '000)			
<b>16. BILLS PAYABLE</b>			
In Pakistan		40,505	54,542
Outside Pakistan		-	-
		<u>40,505</u>	<u>54,542</u>
<b>17. BORROWINGS</b>			
In Pakistan		1,437,604	1,728,992
Outside Pakistan		-	-
		<u>1,437,604</u>	<u>1,728,992</u>
<b>17.1 Particulars of borrowings with respect to currencies</b>			
In local currency		1,437,604	1,728,922
In foreign currencies		-	-
		<u>1,437,604</u>	<u>1,728,922</u>
<b>17.2 Details of borrowings secured/unsecured</b>			
Repurchase agreement borrowings - secured	17.2.1	1,360,622	1,371,750
Short term borrowings - secured	17.2.2	-	86,739
Privately placed term finance certificates - secured	17.2.3	62,073	144,551
Certificate of investments - secured	17.2.4	7,244	3,221
Certificate of investments - un secured	17.2.5	6,000	-
Long term finance - secured	17.2.6	1,665	122,661
		<u>1,437,604</u>	<u>1,728,922</u>
<b>17.2.1</b>	These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 9.65% to 14.00% (2009: 6.00% to 14.90%) per annum for period upto four months (2009: upto three months). REPO transactions are secured against investment of the Bank in Government securities.		
<b>17.2.2</b>	SMEL had obtained running finance facility from a commercial bank with aggregate limit of Rs. 100 million. Mark-up was payable at the rate of 14.59% (2009: 14.56%) per annum. The finance is secured by way of hypothecation of SMEL's specific leased assets and related receivables.		
<b>17.2.3</b>	The facility is secured by way of hypothecation of the SMEL specific leased assets and associated lease rental receivables.		
<b>17.2.4</b>	SMEL has issued certificates of investments under permission granted by the Securities and Exchange Commission of Pakistan through its letter no. SC/NBFC-1/JD/SME/2006/386. These certificates of investment are repayable between January 2011 to September 2011 and carries return at the rate ranging from 9% to 13% per annum (2009: 9% to 12.5%) per annum.		
<b>17.2.5</b>	SMEL has issued certificates of investments under permission granted by the Securities and Exchange Commission of Pakistan through its letter no. SC/NBFC-1/JD/SME/2006/386. These certificates of investment are repayable between June 2013 to July 2013 and carries return at the rate ranging from 11.5% to 14% per annum (2009: Nil) per annum.		



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 17.2.6 Long-term finances - secured

	Facility amount (Rupees in '000)	Repayment period		Price	Note	2010	2009
		From	To			(Rupees in '000)	
<b><u>From financial institutions</u></b>							
Pak Oman Investment Company Limited (Facility No. IV - Tranche I)	25,000	Aug-07	Aug-10	6 months KIBOR + 2.00% (payable quarterly)	17.2.6.1	-	6,250
Pak Oman Investment Company Limited (Facility No. IV - Tranche II)	25,000	Aug-07	Aug-10	6 months KIBOR + 2.00% (payable quarterly)	17.2.6.1	-	6,250
						-	12,500
<b><u>From banking companies</u></b>							
National Bank of Pakistan	150,000	Mar-06	Mar-10	6 months KIBOR + 1.85% (payable semi-annually)	17.2.6.1	-	18,750
United Bank Limited (Loan III)	50,000	Feb-07	Feb-10	3 months KIBOR + 2.6% (payable quarterly)	17.2.6.1	-	4,167
United Bank Limited (Loan IV)	50,000	Dec-07	Dec-10	6 months KIBOR + 1.65% (payable semi-annually)	17.2.6.1	-	16,667
Allied Bank Limited	150,000	Sep-07	Sep-10	6 months KIBOR + 2% (payable quarterly)	17.2.6.1	-	39,205
Faysal Bank Limited	100,000	May-07	May-10	3 months KIBOR + 1.75% (payable quarterly)	17.2.6.2	-	19,604
Emirates Global Islamic Bank	100,000	Sep-07	May-11	6 months KIBOR + 2.5% (payable quarterly)	17.2.6.3	-	11,768
						<b>1,665</b>	<b>11,768</b>
						<b>1,665</b>	<b>110,161</b>
<b>Total financing from financial institutions and banking companies</b>						<b>1,665</b>	<b>122,661</b>

**17.2.6.1** This represents financing arrangements under a sale and repurchase agreement for lease operations of the SMEL. These loans are secured by hypothecation charge on the SMEL's specific lease assets and associated lease rental receivable.

**17.2.6.2** This represents long term Murahaba facility obtained from Faysal Bank Limited.

**17.2.6.3** This represents long term Diminishing Musharika facility obtained from Emirates Global Islamic Bank Limited.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

18. DEPOSITS AND OTHER ACCOUNTS	Note	2010	2009
(Rupees in '000)			
Customers			
Fixed deposits	18.2	826,798	910,599
Savings deposits		689,481	595,785
Current accounts - non-remunerative		410,796	304,665
Margin accounts		454,990	756,412
		<b>2,382,065</b>	2,567,461
Financial Institutions			
Remunerative deposits		259,877	366,942
Non-remunerative deposits		10,006	-
		<b>2,651,948</b>	<b>2,934,403</b>
<b>18.1 Particulars of deposits</b>			
In local currency		2,651,948	2,934,403
In foreign currencies		-	-
		<b>2,651,948</b>	<b>2,934,403</b>
<b>18.2</b>			
Saving deposits include Rs. 259.873 million (2009: Rs. 266.879 million) related to Equity Participation Fund.			

### 19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2010			2009		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
(Rupees in '000)						
Not later than one year	2,799	1,005	1,794	1,353	190	1,163
Later than one year and not later than five years	14,904	1,329	13,575	943	83	860
Over five years	-	-	-	-	-	-
	<b>17,703</b>	<b>2,334</b>	<b>15,369</b>	<b>2,296</b>	<b>273</b>	<b>2,023</b>

This represents liability against vehicle lease agreements with leasing companies. Monthly lease rentals are payable including financial charges at rates ranging between 13.50% and 16.70% (2009: 14.23% and 16.70%) per annum, which have been used as discounting factor to determine present value of minimum lease payments. The purchase option is available with the Bank at the time of payment of the last installment or surrender of deposit money under the lease agreements.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
<b>20. OTHER LIABILITIES</b>			
Mark-up/ return/ interest payable in local currency		44,517	54,197
Unearned commission on guarantees		2,885	1,319
Accrued expenses		18,313	68,947
Advance payments			-
Income tax payable		30,367	75,675
Accounts payable		4,845	6,485
Sundry creditors		110,762	107,659
Payable to NBP	20.1	1,350	-
Branch adjustment account		186	2,014
Industrial Credit for Rural Women - Promotional Fund	20.2	30,851	30,851
Payable against employees benefit plans			
Defined benefit pension			
The Bank	36.1.2	1,377	-
SMEL		-	-
Defined benefit unfunded gratuity scheme			
The Bank	36.2.1	31,362	24,475
SMEL		3,364	2,407
Unfunded compensated absences			
The Bank	36.3.4	70,561	54,793
SMEL		922	785
Benevolent fund			
The bank	36.4	-	-
SMEL		-	-
Payable on termination/maturity of lease		456	1,613
Payable in respect of undisbursed lease		-	144
Security deposits against lease		280	280
Employees' VSS payments withheld	20.3	18,410	17,422
Transfer of provision related to transferred portfolio		712	
Payable to Cash Management Scheme		-	85
Payable to Equity Participation Fund		4,196	-
Income tax withheld payable		17,452	17,714
Others	20.4	3,489	5,315
		<u>396,657</u>	<u>472,180</u>
<b>20.1</b>			
According to the provisions of transfer and assignment agreement (Agreement), the amount collected by SME Bank Limited after the effective date is held in trust for NBP and shall be transferred fully to NBP after which the share of SME revenue will be transferred as per terms of the agreement. As a result necessary adjustment relating to the assets and respective provision have been made.			
	Note	2010	2009
		(Rupees in '000)	
<b>20.2 Industrial Credit for Rural Women - Promotional Fund</b>			
Funds received including accumulated profit	20.2.1	30,851	30,851
Less: Loan and mark up receivable outstanding		3,491	3,491
Provision held		(3,491)	(3,491)
		-	-
		<u>30,851</u>	<u>30,851</u>
<b>20.2.1</b>			
The Fund was in respect of Rs 21.5 million received by the defunct RDFC in 1995 from GoP, National Development Finance Corporation (now amalgamated with National Bank of Pakistan), IDBP and Pakistan Banking Council (now taken over by SBP) for providing industrial credit to rural women. The asset and liability was merged with SME Bank in 2000.			
<b>20.3</b>			
Employees VSS payments of Rs.18.410 million has been withheld due to legal cases pending in the courts against employees filed by SME Bank and customers.			
<b>20.4</b>			
During the year, unassigned recoveries against advances extended by SBFC and RDFC has been taken as income, and advances-net of unassigned recoveries were transferred to NBP.			



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 21. SHARE CAPITAL

#### 21.1 Authorized Capital

2010	2009		2010	2009
			(Rupees in '000)	
<b>1,000,000,000</b>	1,000,000,000	Ordinary shares of Rs 10 each	<b>10,000,000</b>	10,000,000

#### 21.2 Issued, subscribed and paid up capital

2010	2009	Ordinary shares		2010	2009
<b>152,853,153</b>	152,853,153	Fully paid in cash		<b>1,528,532</b>	1,528,532
<b>50,000,000</b>	50,000,000	Issued as bonus shares		<b>500,000</b>	500,000
<b>36,397,547</b>	36,397,547	Issued for consideration other than cash		<b>363,975</b>	363,975
<b>239,250,700</b>	239,250,700			<b>2,392,507</b>	2,392,507

#### 21.3 Break-up of share capital is as follows:

	Number of shares	%		
Federal Government	224,615,978	93.89	2,246,160	2,246,160
National Bank of Pakistan	6,121,095	2.56	61,211	61,211
United Bank Limited	3,975,003	1.66	39,750	39,750
Habib Bank Limited	1,987,501	0.83	19,875	19,875
MCB Bank Limited	1,490,619	0.62	14,906	14,906
Allied Bank Limited	774,351	0.32	7,744	7,744
Industrial Development Bank of Pakistan	286,146	0.12	2,861	2,861
Directors	7	-	-	-
	<b>239,250,700</b>	<b>100</b>	<b>2,392,507</b>	<b>2,392,507</b>

### 22. (DEFICIT)/ SURPLUS ON REVALUATION OF ASSETS

(Deficit)/ surplus on revaluation of available-for-sale securities

Federal Government securities

- Market Treasury Bill (MTBs)

- Pakistan Investment Bonds (PIBs)

Fully paid up ordinary shares/ units

- Listed companies/ mutual funds

Term Finance Certificates, Debentures, Bonds and

Participation Term Certificates

- Listed TFCs

Deferred tax thereon

Non- controlling interest

Note	2010	2009
(Rupees in '000)		
	<b>(83)</b>	(12,332)
	<b>(156,867)</b>	(173,031)
	<b>(156,950)</b>	(185,363)
	<b>9,612</b>	15,770
	<b>(260)</b>	(203)
	<b>(147,598)</b>	(169,796)
14.1	-	-
	<b>(147,598)</b>	(169,796)
	<b>1,030</b>	443
	<b>(148,628)</b>	(170,239)



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	2010	2009
	(Rupees in '000)	
<b>23. CONTINGENCIES AND COMMITMENTS</b>		
<b>23.1 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	122,471	71,156
Others	110,716	90,411
<b>23.2 Other Contingencies</b>		
a) Claims not acknowledged as debt from various borrowers for loss sustained due to non-disbursement.	28,472	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 claim by Ravi Securities (Private) Limited and Taas Securities (Private) Limited, not acknowledged as debt.	23,800	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 was filed against the order with Income Tax Commissioner. The appeal has been decided in favour of the Bank. However tax authorities have filed appeal against the decision of the Income Tax Commissioner. During the year before the decision of the Income Tax Commissioner, the SBP directed the Bank to provide 50% provision against this demand. However after decision at lower forum, and based on tax advisor opinion, management strongly believes and expect favourable outcome and therefore no provision has been provided for this effect in the financial statements	612,707	612,707
e) Adjustment of loan guarantee against borrowing from IDBP repaid in prior years, disputed by IDBP.	9,939	9,939
f) Back benefits and claims of staff/employees under litigation.	103,020	90,800
	<u>1,060,925</u>	<u>973,585</u>
<b>23.3 Commitments in respect of forward lending</b>		
Commitments to extend credit	145,050	243,700
<b>23.4 Commitments for the acquisition of operating fixed assets</b>	-	680
<b>23.5 Commitments against repo/ reverse repo transactions</b>		
Purchase and resale agreements	-	33,445
Sale and repurchase agreements	1,360,622	1,371,750
	<u>1,360,622</u>	<u>1,405,195</u>
<b>23.6 Other commitments</b>		
Undrawn facilities	204,081	201,747
<b>23.7 Bills for collection</b>		
Payable in Pakistan	815	2,076

**Notes to the Consolidated Financial Statement**

For the year ended December 31, 2010

24. MARK-UP/ RETURN/ INTEREST EARNED	Note	2010 (Rupees in '000)	2009
On loans and advances to			
Customers			
Extended by:			
Defunct RDFC		5,219	3,752
Defunct SBFC		4,548	100,764
SME Bank Limited		308,472	353,204
Income on originated loans & receivable		11,043	17,064
Mark up on investment in finance lease		72,973	103,850
		402,255	578,634
Employees		6,515	10,934
		408,770	589,568
On investments in			
Available for sale securities		273,793	275,665
Held to maturity securities		590	4,503
		274,383	280,168
On deposits with financial institutions		1,252	3,989
On securities purchased under resale agreements		248	3,587
On call money lendings		2,668	1,760
		687,321	879,072
<b>25. MARK-UP/ RETURN/ INTEREST EXPENSED</b>			
Deposits		173,129	214,768
Borrowings		174,843	256,436
Amortisation of premium/ discount on investments (net)		39,800	49,748
Lease finance charges		190	270
Brokerage and commission		487	555
Bank charges		2,083	1,876
		390,532	523,653
<b>26. GAIN ON SALE OF SECURITIES</b>			
Mutual Funds		12,298	264
<b>27. OTHER INCOME</b>			
Net profit on sale of property and equipment		14,959	656
Profit on off-balance sheet item	27.1	13,956	272
Gain on termination of lease		145	759
Others		4,085	4,507
		33,145	6,194
<b>27.1 Profit on off-balance sheet item</b>			
Equity Participation Funds		9,971	272
Cash Management Scheme		3,985	-
		13,956	272

**Notes to the Consolidated Financial Statement**

For the year ended December 31, 2010

	Note	2010	2009
		(Rupees in '000)	
<b>28. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.	28.1	359,616	337,140
Charge for defined benefit plans			
- pension fund		27,619	33,729
- unfunded gratuity scheme		10,296	8,990
Contribution to defined contribution plan - benevolent fund		431	726
Non-executive directors' fees, allowances and other expenses		918	400
Rent, taxes, insurance, electricity, etc.		76,839	76,540
Legal and professional charges		18,192	18,760
Communications		6,812	8,465
Repairs and maintenance		13,735	13,291
Finance charges on leased assets		28	-
Stationery and printing		4,352	4,996
Advertisement and publicity		1,679	620
Auditors' remuneration	28.2	2,688	2,758
Depreciation	13.2	15,873	22,756
Amortization	13.3	1,700	2,189
Staff separation costs		-	661,883
Staff recovery costs		2,533	5,403
Recovery expenses - outsourced portfolio		-	1,177
Recruitment expenses		536	373
Travel and transport		5,327	6,782
Vehicle running and maintenance expenses		4,673	9,840
Entertainment		1,793	1,969
Training		646	478
Books, subscription and newspapers		3,815	3,089
Other expenses	28.3	11,640	13,726
		<u>571,741</u>	<u>1,236,080</u>
<b>28.1</b>	This includes arrears and adjustments of Rs 4.6 million paid to ex-employees based on decision of Ministry of Finance (MoF), Court order and management approval.		
<b>28.2 Auditors' remuneration</b>		2010	2009
		(Rupees in '000)	
Audit fee		1,400	1,400
Special certifications, half yearly review and audit of consolidated financial statements		667	667
Out-of-pocket expenses		621	691
		<u>2,688</u>	<u>2,758</u>
<b>28.3</b>	This includes Security charges of Rs. 5,986,143 (2009: 5,831,353), NIFT charges of Rs. 1,140,669 (2009: 1,157,078) and SWIFT & TELEX charges of Rs. 1,732,540 (2009: 1,735,027).		
<b>29. OTHER CHARGES</b>		2010	2009
		(Rupees in '000)	
Penalties imposed by the State Bank of Pakistan		4,267	196
<b>30. GAIN ON SETTLEMENT RELATED TO RETIREMENT BENEFIT PLANS</b>			
Defined benefit pension and gratuity fund		-	185,469
Leave encashment & unfunded gratuity		-	24,157
Benevolent fund		54,630	-
		<u>54,630</u>	<u>209,626</u>



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	<u>2010</u>	<u>2009</u>
	(Rupees in '000)	
<b>31. GOP FINANCING AGAINST VSS-2009</b>	<u>-</u>	<u>660,514</u>
This represents amount granted by Govt. of Pakistan through SBP for payment of benefits of those employees who opted VSS during the year ended December 2009.		
	<u>2010</u>	<u>2009</u>
	(Rupees in '000)	
<b>32. TAXATION</b>		
For the year		
Current	32.1 <u>10,111</u>	6,536
Deferred	<u>-</u>	<u>(802)</u>
	<u>10,111</u>	<u>5,734</u>
For prior years		
Current	32.2 <u>(49,511)</u>	-
	<u>(49,511)</u>	<u>-</u>
<b>32.1</b>	Provision for current year expenses is charged on minimum tax rate of 1% of the turnover due to tax losses of the Group for the year ended December 31, 2010.	
	The numerical reconciliation between average tax rate and the applicable tax rate has not been presented in these consolidated financial statement due to taxable loss during the year.	
<b>32.2</b>	This represents balance amount after providing for all tax liabilities including additional tax demand for the previous years.	
	<u>2010</u>	<u>2009</u>
	(Rupees in '000)	
<b>33. BASIC/ DILUTED LOSS PER SHARE</b>	<u>(297,652)</u>	<u>(33,894)</u>
Loss for the year		
	<b>Number of shares</b>	
Weighted average number of ordinary shares	<u>239,250,700</u>	<u>239,250,700</u>
	<b>Rupees</b>	
Basic/ diluted loss per share	<u>(1.24)</u>	<u>(0.14)</u>
	<u>2010</u>	<u>2009</u>
	(Rupees in '000)	
<b>34. CASH AND CASH EQUIVALENTS</b>	<u>228,062</u>	<u>213,861</u>
Cash and balances with treasury banks	<u>20,912</u>	<u>79,660</u>
Balance with other banks	<u>-</u>	<u>(86,739)</u>
Refinanced utilized under markup arrangements	<u>248,974</u>	<u>206,782</u>
	<b>Numbers</b>	
<b>35. STAFF STRENGTH</b>	<u>199</u>	<u>201</u>
Permanent	<u>254</u>	<u>342</u>
Temporary/ on contractual basis	<u>2</u>	<u>11</u>
Daily wagers	<u>-</u>	<u>6</u>
Others (Recovery Tehsildars & Police constables)	<u>455</u>	<u>560</u>
Bank's own staff strength at the end of the year	<u>68</u>	<u>73</u>
Outsourced	<u>523</u>	<u>633</u>
Total staff strength		



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 36. EMPLOYEE BENEFIT PLANS

#### 36.1 Defined benefit pension and gratuity plan

##### 36.1.1 General description

Bank operates an approved defined benefit pension and gratuity fund for all its permanent and regular employees. Contributions are made in accordance with the actuarial recommendations.

The scheme entitles the members to:

- Gratuity payable to members who have completed a minimum of 5 years of service and total service on retirement or cessation of service or death is less than 10 years.
- Pension payable to members who have completed a minimum of 10 years of service with the Bank on retirement at age of sixty years or on completion of 25 years of service with the Bank or on permanent disability or on death during service.

	2010	2009
	(Rupees '000)	
<b>36.1.2 The amounts recognised in the balance sheet are as follows:</b>		
Present value of defined benefit obligation	392,450	245,555
Fair value of plan assets	(259,279)	(409,184)
(Surplus)/ deficit	133,171	(163,629)
Unrecognized actuarial loss	(127,443)	(12,996)
Unrecognized past service cost	(4,351)	(5,439)
Net asset	1,377	(182,064)
<b>36.1.3 Movement in net asset recognised in the balance sheet</b>		
Opening balance of net asset	(182,064)	(12,382)
Expense for the year	27,619	33,729
Gain on settlement related to retirement benefit plans	-	(185,469)
Transfer to SME Bank against VSS 2009 optees	170,993	-
Contribution to the fund	(15,171)	(17,942)
Closing balance of net asset	1,377	(182,064)
<b>36.1.4 The amounts recognised in the profit and loss account are as follows:</b>		
Current service cost	17,045	17,906
Interest cost	34,129	51,389
Expected return on plan assets	(24,643)	(51,761)
Past service cost - over the vesting period	-	1,088
Actuarial (Gain)/ Loss recognized - Due to curtailment	1,088	15,107
Expense for the year	27,619	33,729
VSS Gain	-	(185,469)
Gain on settlement related to retirement benefit plans	-	(185,469)
The expense has been recognized in administrative expenses in profit and loss account.		
<b>36.1.5 Actual return on plan assets</b>	<b>9,473</b>	<b>54,383</b>

The expected return on plan assets is based on the market expectations and depend upon the asset portfolio of the Fund, at the beginning of the year. Expected yield on fixed interest investments is based on gross redemption yields as at the balance sheet date.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	2010		2009	
	(Rupees '000)			
<b>36.1.6 Changes in present value of defined benefit obligation</b>				
Present value of obligation at the beginning of the year		245,555		342,592
Current service cost		17,045		17,906
Interest cost		34,129		51,389
Benefits paid (existing pensioners)		(3,555)		(8,211)
VSS Gain		-		(185,469)
Actuarial loss		99,276		27,348
Present value of obligation at the end of the year		<u>392,450</u>		<u>245,555</u>
<b>36.1.7 Changes in fair value of plan assets</b>				
Fair value of opening plan assets		409,184		345,070
Expected return on plan assets		24,643		51,761
Contributions		15,171		17,942
Transfer to SME Bank against VSS 2009 optees		(170,993)		-
Benefits paid		(3,555)		(8,211)
Actuarial gain/(loss)		(15,171)		2,622
Fair value of closing plan assets		<u>259,279</u>		<u>409,184</u>
<b>36.1.8 Break-up of category of assets</b>				
	2010		2009	
	(Rupees '000)	% age	(Rupees '000)	% age
Market Treasury Bills (MTBs)	57,825	22%	330,819	81%
Term Deposits Receipts (TDRs)	194,202	75%	73,527	18%
Bank deposit accounts	7,252	3%	4,838	1%
	<u>259,279</u>	<u>100%</u>	<u>409,184</u>	<u>100%</u>
<b>36.1.9 Principal actuarial assumptions</b>				
Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at December 31, 2010 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:				
	2010		2009	
Valuation discount rate - per annum	14%		14%	
Expected return on plan assets - per annum	13%		14%	
Salaries increase rate - per annum	14%		13%	
Pension indexation rate	10%		10%	
Mortality rate	61-66		61-66	
Average expected remaining working lives in years	7		7	



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 36.1.10 Disclosure for current and previous four annual years

	2010	2009	2008	2007	2006
	<b>(Rupees '000)</b>				
Present value of obligation	<b>392,450</b>	245,555	342,592	293,103	245,335
Fair value of plan assets	<b>(259,279)</b>	(409,184)	(345,070)	(286,310)	(245,919)
Deficit / (Surplus)	<b>133,171</b>	(163,629)	(2,478)	6,793	(584)
Experience adjustments on plan liabilities- Loss/ (Gain)	<b>99,276</b>	27,348	1,702	(5,953)	9,231
Experience adjustments on plan assets- Gain/ (Loss)	<b>(15,171)</b>	2,622	9,680	(2,655)	255
				<b>2010</b>	2009
				<b>(Rupees '000)</b>	
<b>36.2 Defined benefit unfunded gratuity scheme</b>				<b>31,362</b>	24,475
<b>36.2.1 The amounts recognised in the balance sheet are as follows:</b>					
Present value of defined benefit obligation				<b>41,326</b>	27,562
Unrecognized actuarial loss				<b>(9,964)</b>	(3,087)
Net liability				<b>31,362</b>	24,475
<b>36.2.2 Movement in net liability recognised in the balance sheet</b>					
Opening balance of net liability				<b>24,475</b>	20,675
Expense for the year				<b>9,264</b>	8,909
Benefits paid during the year				<b>(2,377)</b>	(5,109)
Closing balance of net liability				<b>31,362</b>	24,475
<b>36.2.3 The amount recognised in the profit and loss account are as follows:</b>					
Current service cost				<b>5,377</b>	5,175
Interest cost				<b>3,859</b>	3,643
Actuarial Losses/ (Gains) recognised				<b>28</b>	91
				<b>9,264</b>	8,909
The expense has been recognized in administrative expenses in profit and loss account.					
<b>36.2.4 Movement in payable to defined benefit unfunded gratuity scheme</b>					
Present value of obligation at the beginning of the year				<b>27,562</b>	24,284
Current service cost				<b>5,377</b>	5,175
Interest cost				<b>3,859</b>	3,643
Benefits paid				<b>(2,377)</b>	(5,109)
Actuarial loss				<b>6,904</b>	(431)
Present value of obligation at the end of the year				<b>41,326</b>	27,562
<b>36.2.5 Significant actuarial assumptions are as follows:</b>				<b>2010</b>	2009
Discount factor - per annum				<b>14%</b>	14%
Salary increase rate - per annum				<b>14%</b>	14%
Average expected remaining working lives in years				<b>12</b>	12
Mortality rate				<b>EFU 61-66</b>	EFU 61-66



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 36.2.6 Disclosure for current and previous four annual periods

	2010	2009	2008	2007	2006
	(Rupees '000)				
Present value of obligation	41,326	27,562	24,284	16,972	14,417
Unrecognized actuarial loss	(9,964)	(3,087)	(3,609)	(634)	(561)
	<u>31,362</u>	<u>24,475</u>	<u>20,675</u>	<u>16,338</u>	<u>13,856</u>

### 36.3 Unfunded compensated absences

#### 36.3.1 General description

Bank allows compensated absences, an unfunded scheme, per entitlement to all its permanent and contractual employees. Related provision is made in accordance with the actuarial valuation.

#### 36.3.2 Principal actuarial assumptions

Actuarial valuation was carried out as at December 31, 2010 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:

	2010	2009
Discount factor - per annum	14%	14%
Salaries increase rate - per annum	13%	13%
Average expected remaining working lives in years	6	7
Mortality rate	EFU 61-66	EFU 61-66

#### 36.3.3 The amounts recognised in the balance sheet are as follows:

	2010	2009
	(Rupees '000)	
Present value of defined benefit obligation	70,561	54,793
Unrecognized actuarial (gain)/ loss	-	-
Net liability	<u>70,561</u>	<u>54,793</u>

#### 36.3.4 Movement in liability recognized in the balance sheet

	2010	2009
Balance at beginning of the year	54,793	91,670
Expense for the year	26,491	530
VSS Gain	-	(24,157)
Benefits paid during the year	(10,723)	(13,250)
Balance at end of the year	<u>70,561</u>	<u>54,793</u>

#### 36.3.5 The amounts recognised in the profit and loss account are as follows:

	2010	2009
Current service cost	3,308	3,544
Interest cost	7,671	13,751
Actuarial gain recognised	15,512	(16,765)
Expense for the year	<u>26,491</u>	<u>530</u>
VSS Gain	-	(24,157)
Gain on settlement related to retirement benefit plans	-	(24,157)

The expense has been recognized in administrative expenses in profit and loss account.



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For the year ended December 31, 2010

	2010	2009
	(Rupees '000)	
<b>36.3.6 Movement in payable to defined benefit unfunded compensated absences</b>		
Present value of obligation at the beginning of the year	54,793	91,670
Current service cost	3,308	3,544
Interest cost	7,671	13,751
Benefits paid	(10,723)	(13,250)
VSS Gain	-	(24,157)
Actuarial (Gain)/Loss	15,512	(16,765)
Present value of obligation at the end of the year	<u>70,561</u>	<u>54,793</u>

### 36.3.7 Disclosure for current and previous four annual periods

	2010	2009	2008	2007	2006
	(Rupees '000)				
Present value of obligation	70,561	54,793	91,670	83,764	75,925
Unrecognized actuarial (gain)/ loss	-	-	-	-	-
	<u>70,561</u>	<u>54,793</u>	<u>91,670</u>	<u>83,764</u>	<u>75,925</u>

	Staff Benevolent Fund	Officers Benevolent Fund	Total
	(Rupees '000)		
<b>36.4 Benevolent fund</b>			
Actuarial liability for active employees	4,746	1,499	6,245
Actuarial liability for beneficiaries	430	225	655
<b>Total actuarial liability</b>	<u>5,176</u>	<u>1,724</u>	<u>6,900</u>
Fair value of any plan assets	(41,018)	(20,512)	(61,530)
<b>Funding (surplus)/ deficit</b>	<u>(35,842)</u>	<u>(18,788)</u>	<u>(54,630)</u>
Unrecognized actuarial gains/(losses)	-	-	-
<b>(Asset)/ liability to be recognized in balance sheet</b>	<u>(35,842)</u>	<u>(18,788)</u>	<u>(54,630)</u>
Current service cost	286	116	401
Interest cost	725	241	966
Expected return on plan assets	(5,743)	(2,872)	(8,614)
<b>Expected benevolent expense/ (income) for the next one year commencing 01 January, 2011</b>	<u>(4,732)</u>	<u>(2,515)</u>	<u>(7,247)</u>

36.5 SMEL operates following staff retirement and other benefits schemes for its employees

#### 36.5.1 Staff Gratuity Scheme

The company operates an unapproved and unfunded gratuity scheme for all its permanent employees. The latest actuarial valuation of the gratuity scheme was carried out as at December 31, 2010 using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

##### Principal actuarial assumptions

	2010	2009
	% per annum	
Discount rate	14.50%	12.75%
Expected long-term rate of increase in salary level	14.50%	12.75%
Expected long-term rate of interest	14.50%	-



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For the year ended December 31, 2010

	2010	2009			
<b>36.5.1.1 Reconciliation of provision for gratuity scheme</b>	<b>(Rupees '000)</b>				
Present value of defined benefit obligation	3,688	3,098			
Fair value of plan assets	-	-			
	<u>3,688</u>	<u>3,098</u>			
Unrecognised actuarial gain/ (loss)	(324)	(691)			
Unrecognised prior services cost	-	-			
Deficit in scheme's assets	<u>3,364</u>	<u>2,407</u>			
<b>36.5.1.2 Movement in the balance sheet liability</b>					
Balance at beginning of the year	2,407	2,519			
Expense recognised during the year	1,032	81			
Contribution made during the year	(76)	(193)			
Balance at end of the year	<u>3,364</u>	<u>2,407</u>			
<b>36.5.1.3 Gratuity scheme expenses</b>					
Current services cost	583	589			
Interest cost	422	413			
Actuarial gain recognized during the year	27	(921)			
	<u>1,032</u>	<u>81</u>			
<b>36.5.1.4 Disclosure for current and previous four annual periods</b>					
	2010	2009	2008	2007	2006
	<b>(Rupees '000)</b>				
Present value of obligation	3,688	2,407	2,519	2,439	2,276
Fair value of plan assets	-	-	-	-	-
	<u>3,688</u>	<u>2,407</u>	<u>2,519</u>	<u>2,439</u>	<u>2,276</u>
Experience adjustment on obligation	340	(921)	(125)	1,038	(125)
	<u>2010</u>		<u>2009</u>		
	<b>(Rupees '000)</b>				
<b>36.5.2 Compensated absences</b>	<u>948</u>		<u>785</u>		
<b>36.5.3</b>	During the year, an amount of Rs. 427 thousand (2009: Rs. 534 thousand) has been charged to profit and loss account in respect of SMEL's contribution to provident fund.				



## Notes to the Consolidated Financial Statement

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### 37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President/Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in '000)					
Fees	-	-	340	50	-	-
Managerial remuneration	6,509	5,365	-	-	98,878	55,713
Charge for defined benefit plan	920	887	-	-	12,723	8,080
Rent and house maintenance	1,846	1,810	-	-	19,848	10,752
Utilities	72	95	-	-	11,555	5,246
Medical	274	265	-	-	9,767	5,172
Conveyance	-	-	-	-	2,990	605
Leave fare assistance	250	250	-	-	5,299	4,056
Bonus/ex-gratia	-	-	-	-	-	-
Others	1,181	1,087	362	57	21,328	52,287
	<b>11,052</b>	<b>9,759</b>	<b>702</b>	<b>107</b>	<b>182,388</b>	<b>141,911</b>
Number of persons	<b>2</b>	<b>2</b>	<b>7</b>	<b>5</b>	<b>116</b>	<b>67</b>

Executives mean employees, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

### 38. FAIR VALUE OF FINANCIAL INSTRUMENTS

38.1 On-balance sheet financial instruments	2010		2009	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
<b>Assets</b>				
Cash balances with treasury banks	228,062	228,062	213,861	213,861
Balances with other banks	20,912	20,912	79,660	79,660
Lending to financial institutions	-	-	33,445	33,445
Investments	2,680,334	2,680,334	2,701,816	2,701,816
Advances	3,307,599	3,307,599	3,957,897	3,957,897
Other assets	136,586	136,586	147,791	147,791
	<b>6,373,493</b>	<b>6,373,493</b>	<b>7,134,470</b>	<b>7,134,470</b>
<b>Liabilities</b>				
Bills payable	40,505	40,505	54,542	54,542
Borrowings	1,437,604	1,437,604	1,728,922	1,728,922
Deposits and other accounts	2,651,948	2,651,948	2,934,403	2,934,403
Liabilities against assets subject to finance lease	15,369	15,369	2,023	2,023
Other liabilities	265,009	265,009	329,301	329,301
	<b>4,410,435</b>	<b>4,410,435</b>	<b>5,049,191</b>	<b>5,049,191</b>
<b>38.2 Off-balance sheet financial instruments</b>				
Commitments to extend credit	145,050	145,050	243,700	243,700

38.3 The fair value of investments is based on quoted market prices and rates quoted at Reuters Pages (PKRV) with the exception of unlisted securities, investment in subsidiary and held to maturity investments.

Fair value of the remaining financial assets and liabilities except fixed term loans, staff loans, non-performing advances and fixed term deposits is not significantly different from the carrying amounts since such assets and liabilities are short term in nature.

Fair value of fixed term loans, staff loans, non-performing advances and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and reliable data regarding market rates for similar instruments.

The provision for non-performing advances has been calculated in accordance with the Group's accounting policy as stated in note 6.5. The maturity profile and effective rates are stated in note 42.



## Notes to the Consolidated Financial Statement

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### 39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:-

	Trading & Sales	Commercial Banking (Rupees in '000)	Other Leasing Operations
<b>2010</b>			
Total income	291,831	301,834	43,793
Total expenses	195,218	705,943	73,349
Net income	96,613	(404,109)	(29,556)
Segment assets (gross)	3,042,402	8,223,077	1,080,054
Segment non performing loans	-	5,623,404	371,735
Segment provision required	225,492	5,391,181	102,133
Segment liabilities	1,525,889	2,487,575	528,619
Segment Return on net Assets (ROA) (%)	3.43%	-14.27%	-3.02%
Segment cost of funds (%)	10.29%	6.53%	6.91%
<b>2009</b>			
Total income	264,902	1,378,098	68,769
Total expenses	239,722	1,377,030	123,177
Net income	25,180	1,068	(54,408)
Segment assets (gross)	3,099,403	8,349,934	1,704,040
Segment non performing loans	-	5,543,241	623,636
Segment provision required	256,653	5,273,793	67,547
Segment liabilities	1,446,839	2,619,562	1,125,669
Segment Return on net Assets (ROA) (%)	0.89%	0.03%	-3.32%
Segment cost of funds (%)	13.30%	9.75%	6.94%

Assumptions used:

- Unallocatable administrative expenses have been allocated to segments based on their respective incomes except for the depreciation expense which has been allocated on the annual basis of net book value of segment operating fixed assets.
- Unallocatable assets representing 0.72% (2009: 2.0%) of the total assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 7.17% (2009: 8.05%) of the total liabilities have been allocated to segments based on their respective incomes.



## Notes to the Consolidated Financial Statement

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### 40. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its directors, executive officers and employees' funds.

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

	2010	2009
	(Rupees in '000)	
Balances outstanding		
<b>Executive officers</b>		
Loan to executives	91,522	51,906
<b>Transactions during the year:</b>		
<b>Loan to executives:</b>		
Loans disbursed during the year	58,604	3,622
Repayments during the year	18,988	21,830
Mark up earned	2,633	1,651
<b>The Bank</b>		
Payment/ contribution to employee's funds	28,702	37,027
Charge for the year relating to employee's funds	63,805	43,894
<b>SMEL</b>		
Defined benefit under gratuity scheme	1,032	193
Provident fund	427	534

Remuneration of chief executive officer and executives and fee paid to directors is disclosed in note 37 to the consolidated financial statements.



## Notes to the Consolidated Financial Statement

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### 41. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy was as follows:

	2010		2009	
	(Rupees in '000)			
Regulatory capital base				
<i>Tier I capital</i>				
Balance in share premium account	2,392,507		2,392,507	
Shareholders capital/assigned capital	5,909		5,909	
Reserves	235,636		235,636	
Minority interest	81,561		94,346	
Unappropriated/unremitted profits (net of losses)	(485,887)		(201,608)	
	2,229,726		2,526,790	
Less: Adjustments				
Deficit on revaluation of available for sale investments	(159,399)		(195,837)	
	(159,399)		(195,837)	
<i>Total tier I capital</i>	2,070,327		2,330,953	
<i>Tier II capital</i>	3,685		1,818	
Eligible tier III capital	-		-	
Total regulatory capital	2,074,012		2,332,771	
Risk-weighted exposures				
	2010		2009	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	(Rupees '000)			
Credit risk				
Balance sheet items:-				
Cash and other liquid assets	248,974	4,184	293,521	16,020
Investments	2,680,334	317,302	2,735,261	290,078
Loans and advances	3,307,599	1,779,440	3,957,897	2,162,665
Fixed assets	133,302	133,302	122,462	122,462
Deferred tax assets	-	-	-	-
Other assets	252,972	189,936	439,480	323,913
	6,623,181	2,424,164	7,548,621	2,915,138
Off balance sheet items				
Loan repayment guarantees	233,187	110,716	90,411	90,411
	233,187	110,716	90,411	90,411
Credit risk- weighted exposures	6,856,368	2,534,880	7,639,032	3,005,549
Market risk				
Market risk- weighted exposures	-	-	-	-
Total risk- weighted exposures	2,534,880		3,005,549	
<i>Capital adequacy ratio</i> [(a) / (b) x 100]	81.82%		77.62%	

The Commercial Banks are required to disclose State Bank of Pakistan's (SBP) forms for annual financial statements' Note 44.1 (Capital-Assessment and Adequacy Basel II Specific) in place of Note 44 (Capital Adequacy) from December 31, 2008. However, State Bank of Pakistan (SBP) has granted exemption to the Bank from applying Note 44.1 (Capital-Assessment and Adequacy Basel II Specific).



## Notes to the Consolidated Financial Statement

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### 42. RISK MANAGEMENT

#### 42.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Group is not exposed to major concentration of credit risk. Written procedures for credit and risk management functions have been developed and implemented. Credit evaluation system comprise of well designed loan approval and review responsibilities and it is ensured that Group's credit-granting activities conform to the established strategy, prudential regulations and SBP instructions are strictly followed. To ensure that credit granting activities are adequately diversified, besides fixing limits on individual credit, it is ascertained that there is no concentration in a particular industry or economic sector, geographical region and specific product. Special attention is placed on such non-performing loans and a special Recovery Division follows up and recovers all such loans. Recovery against certain specific non-performing loans has been outsourced to independent Recovery Service Providers.

#### 42.1.1 Segment by class of business

	2010					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	133,273	1.52%	12,800	0.48%	-	-
Agriculture, forestry, hunting and fishing	246,832	2.82%	2	-	-	-
Mining & quarrying	9,053	0.10%	-	-	-	-
Textile	452,017	5.17%	69,366	2.62%	650	0.02%
Cement	21,284	0.24%	11,670	0.44%	-	-
Sugar	-	-	-	-	-	-
Footwear and leather garments	120,247	1.38%	21,799	0.82%	-	-
Automobile and transportation equipment	285,568	3.27%	48,598	1.83%	-	-
Financial	-	-	269,883	10.18%	1,370,561	49.45%
Insurance	-	-	194	0.01%	-	-
Electronics and electrical appliances	72,798	0.83%	6,902	0.26%	-	-
Construction	239,579	2.74%	42,849	1.62%	-	-
Power (electricity), gas, water and sanitary	290,321	3.32%	80,910	3.05%	-	-
Wholesale and trade	1,867,336	21.35%	-	-	-	-
Exports/ Imports	-	-	-	-	-	-
Transport, storage and communication	114,787	1.31%	28,960	1.09%	500	0.02%
Individuals	2,176,712	24.89%	1,191,505	44.93%	449,051	16.20%
Services	145,814	1.67%	2,732	0.10%	25,750	0.93%
Government	-	-	-	-	735,178	26.53%
Others	2,568,975	29.38%	863,778	32.57%	189,803	6.85%
	<u>8,744,596</u>	<u>100%</u>	<u>2,651,948</u>	<u>100%</u>	<u>2,771,493</u>	<u>100%</u>

#### 42.1.2 Segment by sector

Public/ Government	-	-	728,262	27%	735,178	26.5%
Private	8,744,596	100%	1,923,686	73%	2,036,315	73.5%
	<u>8,744,596</u>	<u>100%</u>	<u>2,651,948</u>	<u>100%</u>	<u>2,771,493</u>	<u>100%</u>

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**42.1.3 Details of non-performing advances and specific provisions by class of business segment**

	2010		2009	
	(Rupees in '000)			
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Chemical and pharmaceuticals	85,621	72,863	96,171	76,677
Agriculture, forestry, hunting and fishing	237,235	237,772	237,050	236,417
Mining & quarrying	9,053	9,053	14,499	14,499
Textile	303,487	265,147	331,909	265,379
Cement	21,284	21,284	21,284	21,284
Sugar	-	-	-	-
Footwear and leather garments	107,778	88,630	9,697	8,262
Automobile and transportation equipment	201,856	179,538	187,277	136,555
Financial	-	-	-	-
Insurance	-	-	-	-
Electronics and electrical appliances	68,908	65,320	99,840	71,100
Construction	48,551	41,341	-	-
Power (electricity), gas, water and sanitary	30,012	12,949	90,819	69,268
Wholesale and trade	1,560,646	1,532,244	1,550,137	1,519,342
Exports/ Imports	-	-	-	-
Transport, storage and communication	7,510	3,566	-	-
Individuals	1,769,187	1,696,741	1,726,323	1,650,925
Services	83,604	74,322	81,119	66,520
Government	-	-	-	-
Others	1,460,407	1,136,227	1,720,752	1,149,345
	<u>5,995,139</u>	<u>5,436,997</u>	<u>6,166,877</u>	<u>5,285,573</u>

**42.1.4 Details of non-performing advances and specific provisions by sector**

Public/ Government	-	-	-	-
Private	5,995,139	5,436,997	6,166,877	5,285,573
	<u>5,995,139</u>	<u>5,436,997</u>	<u>6,166,877</u>	<u>5,285,573</u>



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 42.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	(337,052)	6,623,181	2,081,098	2,771,493
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>(337,052)</u>	<u>6,623,181</u>	<u>2,081,098</u>	<u>2,771,493</u>

### 42.2 Market risk

Market risk is the risk that the value of on and off-balance sheet positions of the Group will be adversely affected by movements in interest rates, foreign exchange rates and equity prices resulting in a loss to earnings and capital. The Group's interest rates exposure comprises those originating from investing and lending activities. The Asset and Liability Committee of the Bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effect on the profitability of the Group.

#### 42.2.1 Foreign exchange risk

Presently the Group does not deal in foreign exchange.

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	6,623,181	4,542,083	-	-
United States dollar	-	-	-	-
Great Britain pound	-	-	-	-
Deutsche mark	-	-	-	-
Japanese yen	-	-	-	-
Euro	-	-	-	-
Other currencies	-	-	-	-
	<u>6,623,181</u>	<u>4,542,083</u>	<u>-</u>	<u>-</u>

#### 42.2.2 Equity position risk

The Group's exposure in equity market is classified in available for sale category with the intent to earn profit based on fundamentals.



# Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

	Effective Yield/Interest rate	2010										Non-interest bearing financial instruments
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
<b>Mismatch of interest rate sensitive assets and liabilities</b>												
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash and balances with treasury banks	3.45%	228,062	-	-	-	-	-	-	-	-	-	228,062
Balances with other banks	12.30%	20,912	9,465	-	-	-	-	-	-	-	-	11,447
Lending to financial institutions	11.53%	2,680,334	423,490	208,470	-	607,360	1,056,805	375,611	8,598	-	-	-
Investments	12.50%	3,307,599	722,622	240,670	481,003	664,997	628,509	408,124	77,297	66,537	17,840	136,586
Advances		136,586	-	-	-	-	-	-	-	-	-	-
Other assets		6,373,493	1,155,577	449,140	481,003	1,272,357	1,685,314	783,735	85,895	66,537	17,840	376,095
<b>Liabilities</b>												
Bills payable		40,505	-	-	-	-	-	-	-	-	-	40,505
Borrowings	12.41%	1,437,604	582,628	808,175	20,824	20,393	5,584	-	-	-	-	-
Large time deposits (over 5 million rupees)	8.52%	727,571	45,289	269,774	240,758	166,250	5,500	-	-	-	-	-
Deposits and other accounts		1,924,377	983,208	22,123	12,527	23,604	6,064	1,058	-	-	-	875,793
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	14.52%	15,369	255	678	276	1,284	1,318	1,543	10,015	-	-	265,009
Other liabilities		265,009	-	-	-	-	-	-	-	-	-	1,181,307
On-balance sheet gap		4,410,435	1,611,380	1,100,750	274,385	211,531	18,466	2,601	10,015	66,537	17,840	1,181,307
<b>Off-balance sheet financial instruments</b>		1,963,058	(455,803)	(651,610)	206,618	1,060,826	1,666,848	781,134	75,880	66,537	17,840	(805,212)
Commitments to extend credit		145,050	145,050	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		145,050	145,050	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		(600,853)	(651,610)	206,618	1,060,826	1,666,848	1,666,848	781,134	75,880	66,537	17,840	(805,212)
Cumulative Yield/Interest Risk Sensitivity Gap		(600,853)	(1,252,462)	(1,045,844)	149,83	1,49,83	1,681,831	2,462,965	2,538,845	2,605,382	2,623,222	1,818,010
<b>42.2.3.1 Reconciliation of Assets and Liabilities exposed to Yield/Interest Rate Risk with Total Assets and Liabilities</b>												
		(Rupees '000)										
Total financial assets as per note 42.2.3		6,373,493										
Add non-financial assets:		133,302										
Operating Fixed Assets		-										
Deferred Tax Assets		116,386										
Other Assets		-										
Balance as per Balance Sheet		6,623,181										
Balance as per Balance Sheet		6,623,181										
<b>42.2.3.2 Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.</b>												
<b>42.2.3.3 Interest rate risk</b>												
Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. Out of total financial assets of Rs. 6,373,493 million (2009: Rs. 7,134,469 million), the financial assets which were subject to interest rate risk amounted to Rs. 5,997,398 million (2009: Rs. 6,772,718 million). Investments and other assets amounting to Rs. 2,367,809 million (2009: Rs. 2,656,909 million) respectively are guaranteed by the Government of Pakistan. The Assets and Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.												



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 42.3 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. In order to avoid liquidity risk, the Group has a policy to maintain sufficient liquidity. To closely watch liquidity position, the Assets and Liability Committee meets periodically to ensure that adequate liquidity is maintained to meet any future financial obligation.

#### 42.3.1 Maturities of assets and liabilities

	2010								
	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
<b>Assets</b>									
Cash and balances with treasury banks	228,062	-	-	-	-	-	-	-	-
Balances with other banks	20,912	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-
Investments	2,680,334	208,470	-	607,360	1,056,805	375,611	8,598	-	-
Advances	3,307,599	240,670	481,003	664,997	628,509	408,124	77,297	66,537	17,840
Operating fixed assets	133,302	115	622	1,660	10,864	2,171	13,712	28,311	75,846
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	252,972	92,131	17,519	5,557	1,206	-	10,141	-	-
<b>6,623,181</b>	<b>1,521,505</b>	<b>541,386</b>	<b>499,144</b>	<b>1,279,574</b>	<b>1,697,384</b>	<b>785,906</b>	<b>109,748</b>	<b>94,848</b>	<b>93,686</b>
<b>Liabilities</b>									
Bills payable	40,505	-	-	-	-	-	-	-	-
Borrowings	1,437,604	808,175	20,824	20,393	5,584	-	-	-	-
Large time deposits (over 5 million rupees)	727,571	45,289	240,758	166,250	5,500	-	-	-	-
Deposits and other accounts	1,924,377	1,448,873	104,140	48,496	115,213	171,460	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	15,369	678	276	1,284	1,318	1,543	10,015	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Other liabilities	396,657	8,370	94,118	17,198	3,364	-	-	-	103,300
<b>4,542,083</b>	<b>2,287,857</b>	<b>1,123,192</b>	<b>460,116</b>	<b>253,621</b>	<b>130,979</b>	<b>173,003</b>	<b>10,015</b>	<b>-</b>	<b>103,300</b>
<b>Net assets</b>	<b>2,081,098</b>	<b>(766,352)</b>	<b>39,028</b>	<b>1,025,953</b>	<b>1,566,405</b>	<b>612,903</b>	<b>99,733</b>	<b>94,848</b>	<b>(9,614)</b>
Share capital	2,392,507	-	-	-	-	-	-	-	-
Share premium	5,909	-	-	-	-	-	-	-	-
Reserves	235,636	-	-	-	-	-	-	-	-
Unappropriated profit	(485,887)	-	-	-	-	-	-	-	-
Non-controlling interest	81,561	-	-	-	-	-	-	-	-
Deficit on revaluation of assets	(148,628)	-	-	-	-	-	-	-	-
<b>2,081,098</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 42.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Operational risks are managed through Bank-wide or line of business specific policies and procedures, controls and monitoring tools. Examples of these include personnel management practices, data reconciliation processes, fraud management units, transaction processing monitoring and analysis and business continuity planning.



## Notes to the Consolidated Financial Statement

For the year ended December 31, 2010

### 43. OFF BALANCE SHEET ITEMS

#### 43.1 Equity participation funds

GoP provided funds aggregating Rs 173.621 million to defunct RDFC in prior years for investing in the shares of private limited companies in public sector of NWFP, Baluchistan and Azad Jammu and Kashmir. This off balance sheet activity is dealt through three equity participation funds for investment in NWFP, Baluchistan and Azad Jammu and Kashmir respectively. Profit earned on these funds upto December 31, 2010 was Rs. 106.18 million (2009: Rs 111 million). Aggregate amount of Rs. 12.680 million (2009: Rs. 13.553 million) has been invested in shares of private limited companies and Rs. 259.873 million (2009: Rs. 266.879 million) has been retained by the Bank as deposits on which return is paid to the funds. Other net assets of the funds at December 31, 2010 amounts to Rs. 7.244 million (2009: Rs. 14.445 million). Balances and transactions of these funds are not part of the financial statements of the Bank. Ministry of Finance, Government of Pakistan has requested for repayment of the balance amount

#### 43.2 Cash management scheme

Cash Management Scheme (CMS) was the activity of defunct Regional Development Finance Corporation (RDFC). As a result of amalgamation of defunct RDFC, SME Bank Limited assumed the responsibilities of maintaining the books of accounts of CMS and also to phase it out over the period. Balances and transactions of the fund are not part of the financial statements of the Bank. The outstanding balance due to the customers under this scheme as on December 31, 2010 was Rs NIL (2009: Rs 99.99 thousand) as the amount of deposits have been transferred to unclaimed deposits for subsequent surrender to State Bank of Pakistan. The scheme has been closed.

### 44. CORRESPONDING FIGURES

Corresponding information has been re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year. Major changes in the financial statements are as follows.

Particulars	From	To	Rs ('000)
Charge for the year in provision of other assets.	Provision for diminution in the value of investments.	Other provisions/ write offs.	9,335

### 45. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on 05 Mar, 2011.

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

President/Chief Executive

Director

Director

Director



# Notes to the Consolidated Financial Statement

## For the year ended December 31, 2010

Sr. No	Name and Address of Borrower	Name of Individual/ Partner/ Directors (with NIC No.)	Father's/ Husband's Name	Outstanding liabilities at beginning of year				Interest/ Mark-up written-off	Other financial relief provided	TOTAL
				Principal	Interest/ Mark-up	Others	Total			
1	Zinnat Mining Corporation Village Pir Ismail, Zarat, Balochistan	Syed Baqar Shah 601-48-137756 Mrs. Zia Gul 601-55-191068 Mushaq Ahmed 601-31-141575	Syed Hussain Shah Syed Bakar Shah Haji Muhammad Ramzan	4,572,817	4,612,193	-	9,185,010	-	4,592,505	4,592,505
2	Hattar Fabrics (Pvt) Ltd Khasra No. 2148/296-2150/297 and 252/2, Village Industrial Estate, Hattar	Imran Mehmood 212-68-235332 Mahmood Ahmed 212-88-069378 Malik Farhat Niyat 101-72-031963 Irfan Mahmood 212-68-235332	Muhammad Ahmad Irfan Mahmood Malik Mohabat Khan Mahmood Ahmad	622,738	-	-	622,738	-	-	622,738
3	Spinzer Printing (Pvt) Ltd Plot No. 66 - 67/A, Jamrud Industrial Estate, Peshawar NWTP	Habib-Ur-Rehman 135-87-240005 Waqar Ahmed 135-59-338812 Samaruddin Qureshi 135-52-370067	Mufti Abdul Rehman Muhammad Din Khan Dr. Abdul Rahim	2,501,368	2,403,019	11,719	4,916,106	239,959	2,414,738	2,654,697
4	Al-Zakhrat (Pvt) Ltd Kotri Plot No C/7-A, SITE Area, Kotri, Hyderabad	Masood Ahmad Jummami 450-59-151858 Shaikat Khayyan 451-89-138788 Afzal Ahmad 451-26-148441 Hizoori Bux Wasan 486-48-006633	Jamaluddin Jummami Muhammad Afzal Ahmed Amir Muhammad Haji Acher Wasan	8,193,000	10,892,030	-	19,085,030	-	10,892,030	10,892,030
5	Thames Hotel (Pvt) Ltd Mingora Fiza Gut, Mingora, Swat	Muhammad Idrees 137-88-535290 Muhammad Ijaz 137-88-535292 Haji Zareef Khan 137-30-072432 Haji Ashoor Khan 140-50-011081	Zareef Khan Zareef Khan Qasim Khan Haji Zareef Khan	13,000,000	17,012,039	-	30,012,039	-	12,495,038	12,495,038
6	Javed Qamar Qureshi S-34, Banghash Colony Chowk, Main Pirwadhai road, Rawalpindi	Javed Qamar Qureshi 82203-642361-9	Qamar-Ud-Din Qureshi	632,308	429,747	8,000	1,070,055	632,308	143,857	776,165
7	Dr. Ghulam Hussain Memon C-77, Muballi Al-Mansoor Colony, Block 17, Sanghar	Dr. Ghulam Hussain Memon 44203-6520989-1	Imratt Buxsh Memon	1,000,000	664,473	4,950	1,669,423	681,984	-	681,984
8	M/s Unique towels House B-32, Block H, North Nazimabad, Karachi	Mrs. Shahida Ehtesham 42101-1052050-6	Ehtesham Ahmed	4,999,284	857,092	-	5,856,376	-	585,605	585,605
9	Singh Brothers Shop 45/46, Ground Floor, Mazin Boulevard, Gulberg II, Lahore	Darshan Singh 17501-6330521-1 Munawar Singh 17501-1672292-9	Sarbat Singh Sarbat Singh	3,999,999	239,072	16,676	4,255,747	-	500,000	500,000
				<b>39,521,514</b>	<b>37,109,665</b>	<b>41,345</b>	<b>76,672,524</b>	<b>2,176,989</b>	<b>31,623,773</b>	<b>33,800,762</b>

