



**CONDENSED INTERIM  
FINANCIAL STATEMENTS  
(UNAUDITED)**

**FOR THE HALF YEAR ENDED  
JUNE 30, 2015**

## **Directors' Review on Operational Results for the Half Year** **Ended June 30, 2015**

On behalf of the Board of Directors, I am pleased to present the operational results of SME Bank for the half year ended June 30, 2015.

The bank is still managing its operations with a narrow equity base of Rs 504 million as on June 30, 2015. The bank has been operating with a limited branch network of 13 branches. Budgetary allocations made by the government during 2010-11, 2011-12, 2012-13, 2013-14 and 2014-2015 for equity injection could not be released due to financial constraints at the level of Ministry of Finance. In the financial budget for the year 2015-2016 the Government has not allocated any amount for the bank. Moreover, uncertainty with regard to the future corporate and operational status of the bank continued to cast a shadow over the performance of the bank.

The deposits of the bank registered increase by Rs. 1,147 million and stood at Rs 4,490 million as on June 30, 2015. The deposit of the bank as on December 31, 2014 was Rs.3,343 million. Loan portfolio of the bank stood at Rs 2,673 million as on June 30, 2015 as compared to Rs 2,929 million on December 31, 2014. The bank made disbursements of Rs 1,058 million during first six months of the year 2015. The disbursement for the corresponding period of year 2014 was Rs.1,023 million. Shortage of funds remained an impediment in building substantial level of loan portfolio. The bank's treasury investment portfolio increased to Rs 5,138 million by June 30, 2015, whereas it was of Rs 1,446 million as on December 31, 2014. The increase was mainly due to purchase of PIB's and T-Bills. The non-performing loans of the bank decreased from Rs 732 million to Rs 657 million during the first half of the year.

The bank booked an operating pre-tax loss of Rs 67.7 million for first half of the year in corresponding period of year 2014 where it was of Rs.262.7 million. The reduction is primarily due to decrease in mark-up expenses, reversal of provision against non-performing loans. The bank's gross mark-up/return income on investment was Rs 361 million, which constitutes Rs 234 million from SME lending operations and Rs 127 million from treasury operations. During the period under review, cost of funds of the bank was Rs 195 million (2014: Rs 249 million) at average rate of 7.44% (2014: 8.79%). Administrative expenses remained at the level of Rs.321 million.

Limited branch network and credit rating of the bank remained major impediments to attract large deposits


Bank is operating with paid up capital of Rs 2,392 million since 2007 and limited branch network of 13 branches. The Board observed that under the existing circumstances it is very difficult to operate the bank on self-sustainable basis, and advise the management to take up the matter of equity injection with Ministry of Finance. Moreover, being on active agenda of privatization since 2006 which has not reached any conclusion thereby creating an uncertainty about the future corporate status of the bank. It is therefore necessary that decision with regard to future corporate and operational status of the bank is to be taken with Ministry of Finance on priority.

M/S Pakistan Credit Rating Agency Limited affirmed the credit rating of the bank at “BB”/”B” on February 11, 2015.

The management of the Bank is making vigorous efforts to generate additional avenues of income by mobilizing available resources.

We would like to place on record, our thanks and appreciation to the staff for their commitment, dedication and endeavour to enhance business activities under the unfavourable circumstances of economic depression and liquidity crunch. We would also like to thank State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their continued support and professional guidance.

For and on Behalf of  
Board of Directors

  
Chairman

