



**CONDENSED INTERIM  
FINANCIAL STATEMENTS  
(UNAUDITED)**

**FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2015**

**Directors' Review on Operational Results for the Period**  
**Ended September 30, 2015**

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

The bank is still managing its operations with a narrow equity base of Rs 492 million as on September 30, 2015. The bank has been operating with a limited branch network of 13 branches. Budgetary allocations made by the government during 2011-12, 2012-13, 2013-14 & 2014-2015 for equity injection could not be released due to financial constraints at the level of Ministry of Finance. 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 has increased by Rs.1,336 million and stand at Rs 4,679 million as on September 30, 2015 as compared to Rs 3,343 million as on December 31, 2014. SME loan portfolio was decreased by Rs. 467 million from Rs. 3,215 million as on December 31, 2014 to Rs. 2,748 million as on September 30, 2015. The bank made disbursements of Rs 1,375 million during the nine months period ended on September 30, 2015, as compared to Rs 1,463 million for the corresponding period of the last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio. The bank's treasury investment portfolio increased by Rs. 2,397 million during the nine months period & attained the level of Rs 3,843 million as on September 30, 2015. The increase was mainly due to purchase of PIB's and T-Bills. The ongoing energy crises seriously dampened the business activities in the country to a great extent, which in turn affected the repayment capacity and behaviour of the bank's borrowers but despite these hindrances the management of the bank made persistent efforts to reduce the non-performing loans of the bank resulting in decrease from Rs 732 million on December 31, 2014 to Rs 653 million on September 30, 2015.

The bank has booked an operating pre-tax loss of Rs 183 million for nine months ended on September 30, 2015, as compared to Rs 359 million during the same period of 2014. The positive variance is primarily due to decrease in provision against investments & advances and increase in net mark-up/interest income. The bank's gross income was Rs 580 million, which mainly constitutes of Rs 310 million from SME lending operations, Rs 231 million from treasury operations and Rs.39 million from non-mark up income. During the period under review, cost of funds of the bank was Rs 323 million (September-14: Rs 420 million) at average rate of 7.34% (September-14: 9.03%). Administrative expenses increased by Rs. 30 million from Rs. 452 million as on September 30, 2014 to Rs. 482 million as on September 30, 2015.

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 has therefore advised 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 taken by Ministry of Finance on priority.

M/S Pakistan Credit Rating Agency Limited affirmed the credit rating of the bank at “BB”/B on June 10, 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

