



SME BANK LIMITED

**CONDENSED INTERIM UNCONSOLIDATED FINANCIAL
INFORMATION FOR THE HALF YEAR ENDED JUNE 30, 2016**

Directors' Review on Operational Results for the Half Year Ended June 30, 2016

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, 2016.

The bank is still managing its operations with a narrow equity base of Rs 218 million as on June 30, 2016. The bank has been operating with a limited branch network of 13 branches. Budgetary allocations made by the government during financial years 2011-12 to 2014-2015 for equity injection could not be released. Subsequently in previous two financial budgets 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 decreased by Rs.43 million and stood at Rs 4,727 million as on June 30, 2016. The deposit of the bank as on December 31, 2015 was Rs.4,770 million. Loan portfolio of the bank stood at Rs 2,596 million as on June 30, 2016 as compared to Rs 2,752 million on December 31, 2015. The bank made disbursements of Rs 1,045 million during first six months of the year 2016. The disbursement for the corresponding period of year 2015 was Rs.1,058 million. Shortage of funds remained an impediment in building substantial level of loan portfolio. The bank's treasury investment portfolio stood at Rs 4,025 million by June 30, 2016, whereas it was of Rs 4,117 million as on December 31, 2015. The cause of negative variances are mainly due to uncertain situation on account of privatization process.

SME sector bore the burden of the energy crisis due to lack of access to alternate energy which in turn seriously dampened the business activities in the country to a great extent and 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 by Rs.57 million. The non-performing loans of the bank decreased from Rs 611 million to Rs 554 million during the first half of the year.

The bank booked an operating pre-tax loss of Rs 185 million for first half of the year in corresponding period of year 2015 where it was of Rs.67.7 million. The increase in loss is primarily due to decrease in net mark-up income and non-mark-up income. The bank's gross mark-up/return income was Rs 317 million, which constitutes Rs 152 million from SME lending operations, income from SBFC portfolio and Rs 165 million from treasury operations. During the period under review, cost of funds of the bank was Rs 220 million (2015: Rs 195 million) at average rate of 6.09% (2015: 7.44%). Administrative expenses remained at the level of Rs.372 million.

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

In the current year, China-Pakistan Economic Corridor (CPEC) is one of the biggest and most significant projects for Pakistan and the region. As per this agreement, both Pakistan and China will allow banks to open branches in each other's country that will result Pakistani Financial sector to link with world largest economy, this would also ease Chinese investments for the Economic Corridor through Pakistani banks. There will be urgent need for reforms in different sector for taking advantage of economic corridor. In this context the small and medium sector will also grow and the SME Bank will take part in financing the sectors.

The Bank is on agenda of privatization by Privatization Commission (PC) since 2006. Financial Adviser was appointed by Privatization Commission in March 2007 who processed the transaction. Expression of interest was solicited in 2008. Received 18 Expression of Interests from the interested investors. Shortlisted firms/companies were in process of due diligence, when State Bank of Pakistan raised minimum Paid up Capital requirements for all locally incorporated banks to Rs. 23 billion (net of losses). The decision of the SBP adversely affected feasibility of the transaction. The interested investor could not keep remain their interest in the transaction resultantly the transaction was suspended by the Government of Pakistan.

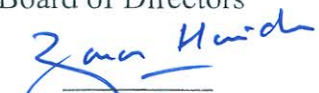
Privatization of SME Bank reactivated in 2015 by the Privatization Commission Financial Adviser for privatization of the bank has been appointed. Financial Advisor has completed draft due diligence report and after finalization it will be submitted to Privatization Commission.

M/S PACRA Limited affirmed the credit rating of the bank at "B"/"B" on April 14, 2016.

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

