SME Bank Ltd
small business - Big opportunities

CONDENSED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE QUARTER ENDED
MARCH 31, 2017

Directors' Report

On behalf of the Board of Directors, I am pleased to present the operational results of SME Bank for the quarter ended on March 31, 2017.

Bank has booked a net loss of Rs 110 million for the three months ended on March 31, 2017, as compared to Rs 105 million during the same period of 2016. Bank's gross income was Rs 160.7 million, which mainly constitutes Rs 69.2 million from SME Lending Operation, Rs 82.3 million from treasury operations and Rs 9.2 million from non-mark-up income.

During the period under review cost of funds of the Bank was Rs 120 million (March 2016: Rs 109 million) at average rate of 5.74% (March 2016: 6.16%). Increase in cost of funds was mainly due to increase in borrowing by Rs 1,238 million (Mar-17 Rs 3,657 million, Mar-16 Rs 2,419 million) and deposits by Rs 75 million (Mar-17 Rs 4,463 million, Mar-16 Rs 4,388 million) during the period as compared to corresponding period of last year. Administrative expenses increased by Rs 24.73 million from Rs 182 million on March 31,2016 to Rs 206.73 million on March 31,2017.

Limited branch network, credit rating of the Bank which is at (B) and low equity remained major impediments to attract a wide deposit base and we remain susceptible to movement of desire level of deposit. Deposits have reduced by Rs 766 million from Rs 5,229 million as on December 31, 2016, to Rs 4,463 million as on March 31, 2017 due to advertised EOI for privatization of the Bank.

SME loan portfolio was decreased by Rs 262 million from Rs 2,996 million as on December 31, 2016 to Rs 2,734 million as on March 31, 2017 due to substantial recovery of classified portfolio. Bank made disbursements of Rs 323 million during three months period ended on March 31, 2017 as compared to Rs 448 million of corresponding period of last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio.

SME sector is facing the problem of energy crisis due to lack of access to alternate energy means which in turn seriously dampened the business activities in the country to a great extent and affected the repayment capacity and behaviour of Bank's borrowers but despite these hindrances management made persistent efforts to reduce non-performing loans resulting in decrease from Rs 575 million on March 31, 2016 to Rs 552 million on March 31, 2017.

Investment portfolio of Bank has decreased by Rs 64 million during the three months period and stands at Rs 4,806 million (December 2016: Rs 4,870 million). Major portion of investment is in government securities.

Bank is operating with paid up capital of Rs 2,392 million since 2007. Presently the equity of the Bank has been completely eroded and stands at Rs -83.49 million as on March 31, 2017.

GOP decided to divest its equity stake in the Bank along with management control to a strategic investor through Privatization Commission (PC). Transaction structure was approved by PC board on January 17, 2017 and recommended to Cabinet Committee on Privatization (CCOP). CCOP approved the transaction structure in its meeting held on January 27, 2017. PC invited Expression of Interest (EOI) on February 14, 2017, from reputed local and international investors who have an interest in entering the process towards acquiring strategic shareholding in SME Bank. SOQ's have been submitted by 5 potential investors.

Bank has been assigned a long term as well as short term credit rating of B (Single B) with developing outlook by PACRA credit rating agency on April 14, 2017. Credit rating company has expressed that growth in the Bank's operations is restricted. On a standalone basis, SME Bank Limited has a stressed profile. Due to subdued performance of the Bank, equity base has been almost eroded. Given continuous operational losses and limited equity base, timely completion of privatization process is critical.

On behalf of the Board, I would like to thank State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their continued support and guidance. I would also like to express my gratitude to our shareholders for their counsel. Most importantly, I am grateful to our valued customers for their continued patronage. I will also like this opportunity to acknowledge the dedication and hard work of our employees who continue to contribute to the organization and enable us to perform well in a challenging business environment.

For and on Behalf of

Board of Directors

Chairman

SME BANK LIMITED

Condensed Interim Unconsolidated Statement of Financial Position

As at March 31, 2017

	Note	(Un-audited) March 31, 2017	(Audited) December 31, 2016
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks		364,933	560,802
Balances with other banks		5,097	4,226
Lendings to financial institutions	7	285,000	445,000
Investments	8	4,806,493	4,869,535
Advances	9	2,507,363	2,771,720
Operating fixed assets	10	97,346	101,859
Deferred tax assets	11	310,656	256,177
Other assets		381,637	368,896
		8,758,525	9,378,215
LIABILITIES			
Bills payable	12	136,138	95,443
Borrowings	13	3,657,017	3,460,326
Deposits and other accounts	14	4,462,731	5,228,716
Deferred tax liabilities		-	-
Other liabilities		586,130	573,082
		8,842,016	9,357,567
NET ASSETS		(83,491)	20,648
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Unappropriated loss		(2,701,066)	(2,590,705)
		(102,033)	8,328
Surplus on revaluation of assets		18,542	12,320
		(83,491)	20,648
CONTINGENCIES AND COMMITMENTS	15		

The annexed notes from 1 to 17 form an integral part of these condensed interim unconsolidated financial information.

Chief Financial Officer

President/Chief Executive **Director** **Director** **Director**

SME BANK LIMITED

Condensed Interim Unconsolidated Profit and Loss Account (Un-audited)

For the Quarter ended March 31, 2017

	Note	March 31, 2017	March 31, 2016
		(Rupees in '000)	
Mark-up/ return/ interest earned		**151,498**	156,016
Mark-up/ return/ interest expensed		**119,701**	108,610
Net mark-up/ interest income		**31,797**	47,406
Provision against non-performing loans and advances-net		**(820)**	(25,864)
Reversal for diminution in the value of investments		**70**	-
Bad debts written off directly		**-**	-
		(750)	(25,864)
Net mark-up/ interest income after provisions		**32,547**	73,270
NON MARK-UP/ INTEREST INCOME			
Fee, commission and brokerage income		**2,621**	2,526
Dividend income		**-**	-
Income from dealing in foreign currencies		**-**	-
Gain on sale of securities		**6,621**	3,888
Unrealized gain on revaluation of investments classified as held for trading		**-**	-
Other income		**13**	10
Total non-markup/ interest income		**9,255**	6,424
		41,802	79,694
NON MARK-UP/ INTEREST EXPENSES			
Administrative expenses		**206,735**	182,007
Other provisions/ write offs		**194**	616
Other charges		**-**	-
Total non-markup/ interest expenses		**206,929**	182,623
LOSS BEFORE TAXATION		**(165,127)**	(102,929)
Taxation - Current		**1,644**	1,628
- Prior		**-**	-
- Deferred		**(56,410)**	-
		(54,766)	1,628
LOSS AFTER TAXATION		**(110,361)**	(104,557)
Unappropriated loss brought forward		**(2,590,705)**	(2,296,206)
Basic/diluted (loss) per share (Rupees)		**(0.46)**	(0.44)

The annexed notes from 1 to 17 form an integral part of these condensed interim unconsolidated financial information.

Chief Financial Officer

President/Chief Executive **Director** **Director** **Director**

SME BANK LIMITED

Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)

For the Quarter ended March 31, 2017

	March 31, 2017	March 31, 2016
	(Rupees in '000)	
Net loss after taxation	(110,361)	(104,557)
Items that will never be reclassified subsequently to profit and loss account		
Recognition of net actuarial (loss)/gain	-	-
Comprehensive income transferred to equity	(110,361)	(104,557)
Components of comprehensive income not reflected in equity		
Net change on remeasurement of available for sale investment to fair value	16,206	35,878
Deferred tax	(9,984)	-
	6,222	35,878
Total comprehensive income	(104,139)	(68,679)

The annexed notes from 1 to 17 form an integral part of these condensed interim unconsolidated financial information.

Chief Financial Officer

President/Chief Executive **Director** **Director** **Director**

SME BANK LIMITED

Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)

For the Quarter ended March 31, 2017

	Note	March 31, 2017	March 31, 2016
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(165,127)	(102,929)
Less: Dividend income		-	-
		(165,127)	(102,929)
Adjustments for non-cash/ other items			
Depreciation		7,730	7,526
Amortization		163	194
Reversal against non-performing advances		(820)	(25,864)
Charge/(Reversal) of provision for diminution in the value of investment		70	-
Gain on sale of fixed asset		-	-
Finance charges on leased assets		-	-
Other provisions		194	616
Bad debts written off directly		-	-
		7,337	(17,528)
		(157,790)	(120,457)
(Increase)/ Decrease in operating assets			
Lendings to financial institutions		160,000	200,000
Advances		265,177	231,807
Other assets (excluding advance taxation)		(14,199)	42,787
		410,978	474,594
Increase/ (Decrease) in operating liabilities			
Bills payable		40,695	(83,515)
Borrowings from financial institutions		196,691	(469,221)
Deposits		(765,985)	(382,309)
Other liabilities (excluding current taxation)		13,048	(8,042)
		(515,551)	(943,087)
		(262,363)	(588,950)
Income tax paid		(380)	(1,628)
Net cash flow generated/(used in) from operating activities		(262,743)	(590,578)
CASH FLOW FROM INVESTING ACTIVITIES			
Net (investment)/disinvestment in available-for-sale securities		71,125	97,520
Net investment in held-to-maturity securities		-	26,687
Dividend received		-	-
Investment in operating fixed assets		(3,380)	(7,334)
Sale proceeds of property and equipment disposed-off		-	-
Net cash flow (used in)/generated from investing activities		67,745	116,873
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of lease obligations		-	-
Net cash flow used in financing activities		-	-
(Decrease) / Increase in cash and cash equivalents		(194,998)	(473,705)
Cash and cash equivalents at beginning of the period		565,028	791,750
Cash and cash equivalents at end of the period		370,030	318,045

The annexed notes from 1 to 17 form an integral part of these condensed interim unconsolidated financial information.

Chief Financial Officer

President/Chief Executive **Director** **Director** **Director**

SME BANK LIMITED

Condensed Interim Unconsolidated Statement of Changes in Equity (Un-audited)

For the Quarter ended March 31, 2017

	Share Capital	Statutory reserve	Unappropriated loss	Total
		(Rupees in '000)		
Balance as at January 01, 2016	**2,392,507**	**206,526**	**(2,296,206)**	**302,827**
Total comprehensive income for the year ended March 31, 2016				
Net loss for the period ended March 31, 2016	-	-	(104,557)	(104,557)
Effect of recognition of actuarial gain	-	-	-	-
Balance as at March 31, 2016	**2,392,507**	**206,526**	**(2,400,763)**	**198,270**
Total comprehensive income for the period ended December 31, 2016				
Net loss for the period	-	-	(94,685)	(94,685)
Effect of recognition of actuarial loss	-	-	(95,257)	(95,257)
Balance as at December 31, 2016	**2,392,507**	**206,526**	**(2,590,705)**	**8,328**
Total comprehensive income for the period ended March 31, 2017				
Net loss for the period ended March 31, 2017	-	-	(110,361)	(110,361)
Effect of recognition of actuarial loss	-	-	-	-
Balance as at March 31, 2017	**2,392,507**	**206,526**	**(2,701,066)**	**(102,033)**

The annexed notes from 1 to 17 form an integral part of these condensed interim unconsolidated financial information.

Chief Financial Officer

President/Chief Executive

Director **Director** **Director**

1. GENERAL INFORMATION

1.1 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 56-F, Nazim-ud-Din Road, F-6/1, 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 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 April 14, 2017 issued by PACRA Credit Rating Company Limited, credit rating of the Bank was "B" (Single B) in the long term and "B" (Single B) in the short term.

In terms of the provisions of the State Bank of Pakistan BSD circular No. 7 of 2009, the Bank was required to increase its paid up capital (net of losses) as at December 31, 2016 up to Rs. 10 billion. The State Bank of Pakistan (SBP) has granted exemption vide SBP letter # BPRD/BA&CP/646/1066/2017 dated January 13, 2017 from meeting Minimum Capital requirement till June 30, 2017 or completion of restructuring / privatization of the Bank, whichever is earlier.

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.

2. BASIS OF MEASUREMENT

This condensed interim unconsolidated statement of financial position, condensed interim unconsolidated profit and loss account, condensed interim unconsolidated statement of comprehensive income, condensed interim unconsolidated cash flow statement, condensed interim unconsolidated statement of changes in equity together with the explanatory notes have been prepared under the historic cost convention except that certain investments are stated at market value and certain staff retirement benefits are carried at present value.

This condensed interim unconsolidated financial information has been prepared following the accrual basis of accounting except for the cash flow information.

Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates. The condensed interim unconsolidated financial statements are presented in Pak. Rupee, which is the Bank's functional currency.

3. STATEMENT OF COMPLIANCE

This condensed interim unconsolidated financial information of the Bank for the Quarter ended March 31, 2017 has been prepared in accordance with the requirements of International Accounting Standard 34, 'Interim Financial Reporting' requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the provisions of and directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP). In case requirements differ, the provisions of Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the requirement of said directives have been followed.

The disclosures made in this condensed interim unconsolidated financial information have been limited based on the format prescribed by the SBP vide BSD circular Letter No.2 dated May 12, 2004 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting' and do not include all the information required in the annual financial statements. Accordingly, this condensed interim unconsolidated financial information should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2016.

International Accounting Standard 39, "Financial Instruments: Recognition and Measurement", International Accounting Standard 40, "Investment Property" and International Financial Reporting Standard 7,"Financial Instruments: Disclosure" are not applicable to banking companies in Pakistan. Accordingly, the requirements of these Standards have not been considered in the preparation of these unconsolidated 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The basis and method used for critical accounting estimates and judgments adopted in the condensed interim unconsolidated financial information are same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2016.

5. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this condensed interim unconsolidated financial information are the same as those applied in the preparation of the financial statements for the year ended December 31, 2016.

6. FINANCIAL RESTRUCTURING AND GOING CONCERN ASSUMPTION

6.1 The Government of Pakistan (GoP) assisted by Asian Development Bank (ADB) is working on SME Sector Development Programme (SME SDP). Loan agreement for this programme between GoP and ADB and project agreement between ADB, SBP, Small and Medium Enterprise Development Authority (SMEDA) and the Bank have been signed on February 10, 2004. This programme, apart from other aspects on policy matrix relating to SME sector of Pakistan, also envisages restructuring of SME Bank Limited. Salient features of the restructuring of the Bank are given below:

i) Adjustment of accumulated balances due from SBP on account of its share in profits and losses of the Bank against credit lines provided by SBP;

ii) Payment of Rs 3 billion to SBP before January 1, 2004 against outstanding credit lines and conversion of balance of remaining credit lines into a loan repayable in full by June 30, 2006;

iii) Raising the paid-up capital to Rs 1,100 million by issuing additional shares to GoP;

iv) The Ministry of Finance (MoF) shall ensure that SBP's shareholding in the Bank is terminated through the purchase of SBP held shares at nominal value by shareholders or otherwise;

v) 100% provision to be made against non performing financial assistance extended by the defunct RDFC and SBFC prior to January 1, 2002 which provision to be adjusted against SBP credit lines. SBP will recover this amount from proceeds of ADB loan to GoP;

vi) Reduction in the number of recovery branches, staff rationalization through Voluntary Separation Scheme (VSS), human resource audit and hiring of new professional staff on merit;

vii) Reimbursement by GoP of costs related to VSS launched for all regular employees;

viii) SBP to issue a banking license to the Bank on compliance with all conditions of restructuring and applicable SBP regulations. The commercial banking operations will be separate from the recovery operations of the defunct RDFC and SBFC portfolio and the two operations will be run as independent units within the Bank; and

ix) Privatization of the Bank by June 2006.

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

i) Accumulated balances of Rs 3,275.752 million due from SBP on account of its share in profits and losses of the Bank have been adjusted against credit lines provided by SBP;

ii) 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. 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 in the year 2008; and

6.3 Further restructuring of SME Bank:

In compliance to the decisions taken during meeting at Ministry of Finance dated September 14, 2009 following actions have been undertaken.

i) VSS offered to the regular employees of the Bank in November 2009, wherein 138 employees opted for VSS offered vide Circular No. HO/HR&SD/2009/5385 dated October 15, 2009. These employees have been relieved at a total cost of Rs. 653 million with effect from November 14, 2009;

ii) Refer Note 9.1, for status of transfer of Old portfolio of defunct RDFC & defunct SBFC to National Bank of Pakistan ; and

iii) Government of Pakistan have allocated an amount of Rs. 2 billion in the annual budget 2012-13, Rs. 1 billion for the year 2013-14 and Rs. 0.5 billion for the year 2014-15 for equity injection into the Bank. However, same has not been materialized.

6.4 Current Status of Privatization of SME Bank

GOP decided to divest its equity stake in the Bank alongwith management control to a strategic investor through Privatization Commission (PC).

PC appointed Financial advisory consortium (FCC) comprising of Elixir Securities Pakistan (Pvt) Limited, Bridge Factor (Pvt) Limited, KPMG Taseer Hadi & Co (financial and tax advisor) and Mohsin Tayebaly & co. (Legal counsel) to conduct this transaction.

Transaction structure was approved by PC board on January 17, 2017 and recommended to Cabinet Committee on privatization (CCOP).

CCOP approved the transaction structure in its meeting held on January 27, 2017 . PC invited Expression of Interest (EOI) on February 14, 2017, from reputed local and international investors who have an interest in entering the process towards acquiring strategic shareholding in SME Bank. Last date to receive Statement of Qualification (SOQ) is March 17, 2017. Silent features of the transaction structure are as follows:

i) SBP will issue a new banking license of specialzed nature (with at least 60% advances for SME) to the investors.

ii) Investor to maintain MCR of Rs. 6 billion on staggered basis, 2 billion would be required to be injected upfront while 1 billion each year for next four years.

iii) SME Leasing limited, a majority owned listed subsidiary of SME Bank, would be the part of transaction on "as is basis".

iv) The defunct SBFC and RDFC portfolios appearing in books of SME Bank will not be part of the transaction.

v) CDA plots in G-5/2 and G-7 Islamabad appearing in the books of the Bank will not be part of the transaction.

vi) The Bank can be used as a platform for delivering Digital Finance/Fintech/Branch less banking services, subject to fulfilment of applicable requirement of SBP.

vii) The SBP has offered a variety of incentives including youth business loans scheme, credit guarantee schemes, export finance schemes, refinancing facilities amongst others to promote SME financing. The potential investor will be able to avail these incentives offered by the SBP, subject to fulfillment of requisite operational requirements.

Statement of Qualifications (SOQ's) of potential investors have been submitted to PC.

6.5 Going concern assumption and minimum capital requirement

During the period the Bank has incurred a net loss after tax of Rs. 110.361 million (March 31, 2016: 104.557 million) and as of the reporting date the accumulated losses stood at Rs. 2.701 billion (Dec 31, 2016: 2.591 billion). The Bank, due to cash deficit, is short by Rs. 10.102 billion (Dec 31, 2016: 9.991 billion) in meeting the minimum capital requirements (MCR) of Rs. 10 billion which has been waived by SBP and further due to the reason that during the last few years GOP's budget allocation for the Bank has remained negligible. These conditions indicate the existence of material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the ordinary course of business. Having regard to the above, GOP being a majority shareholder of the Bank with 94% of shares has invited expression of interest from reputed local and or international investors who have an interest in entering the process towards acquiring strategic shareholding in Bank with management control. The management of the Bank strongly believes that the above will attract significant interest considering the infra structure of the Bank and because of the restrictions by State Bank of Pakistan on further issue of banking license. In view of above the management of the Bank believes that the use of going concern assumption in preparation of these financial statements is appropriate.

7. LENDINGS TO FINANCIAL INSTITUTIONS

	(Un-audited) March 31, 2017	(Audited) December 31, 2016
	(Rupees in '000)	
Call money lendings	-	-
Letter of placement	285,000	445,000
	285,000	445,000

These lendings carry markup rate 6.25% (Dec 31, 2016: 6.25% to 6.75%) per annum and have maturity period upto one month (Dec 31, 2016: upto two months).

8. INVESTMENTS

	March 31, 2017 (Un-audited)		
	Held by the bank	Given as collateral	Total
	(Rupees in '000)		
8.1 INVESTMENTS BY TYPES :			
Available-for-sale securities			
Market Treasury Bills (MTBs)	245,823	2,082,033	2,327,856
Pakistan Investment Bonds (PIBs)	719,762	1,539,803	2,259,565
Fully paid ordinary shares/mutual fund	65,036	-	65,036
	1,030,621	3,621,836	4,652,457
Held-to-maturity securities			
Term Deposit Receipts (TDRs)	35,000	-	35,000
Certificates of Investments (COIs)	762	-	762
	35,762	-	35,762
Investment in subsidiary			
SME Leasing Limited	215,457	-	215,457
Investments at cost	1,281,840	3,621,836	4,903,676
Less: Provision for diminution in value of investments	(125,709)	-	(125,709)
Investments net of impairment	1,156,131	3,621,836	4,777,967
Net Surplus on revaluation of available-for-sale-securities	3,884	24,642	28,526
Total investments	1,160,015	3,646,478	4,806,493

		(Un-audited) March 31, 2017	(Audited) December 31, 2016
9. ADVANCES	**Note**	**(Rupees in '000)**	
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	9.1	**4,375,745**	4,375,964
Defunct RDFC	9.1	**505,341**	505,341
SME Bank Ltd		**2,733,533**	2,995,996
Due from ex-employees	9.1	**16,177**	16,214
Due from employees		**131,256**	133,944
		7,762,052	8,027,459
Net investment in finance lease - In Pakistan	9.1	**1,253**	1,253
Advances - gross		**7,763,305**	8,028,712
Provision for non-performing advances			
Specific provision		**(5,244,648)**	(5,244,601)
General provision		**(11,294)**	(12,391)
	9.3	**(5,255,942)**	(5,256,992)
Advances - net of provision		**2,507,363**	2,771,720

9.1 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 members in their meeting dated May 20, 2010 has approved the transfer and assignment of fully non-performing loan portfolios of defunct SBFC & RDFC to NBP on the basis of deferred transfer price. Subsequently transfer and assignment agreement was executed between the Bank 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 acquirer with respect to:

a) the non-performing loans, collateral and the debtors;

b) 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;

c) 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.

Under the above referred arrangements, portfolio of defunct SFBC & RDFC outstanding as on June 30, 2010 (Except outstanding loans of RDFC where facility of Equity Participation Fund had also been extended) were transferred to NBP.

On request of the Bank's management the decision to transfer of the portfolio was revisited by the BoD in its 65th meeting held on July 13, 2011 and resolved that the agreement of assignment of the old portfolio to NBP should be cancelled and Board's pronouncement for revocation of agreement to Ministry of Finance to arrange retrieval/restoration of old portfolio to the Bank in the interest of recovery of public funds.

In the meeting held on March 04, 2013 the Board of Directors reconsidered the position taken earlier on this matter on grounds of related cost of recovery and infrastructure on request of then management and decided that since the Bank is still on the privatization list, BoD would be able to decide on portfolio after Bank's delisting from privatization.

The incumbent Management has again reviewed the situation and noted that no comparative analysis/study pertaining to transfer of portfolio was conducted which could justify the decision of assigning old portfolio to NBP.

In view of the above, foregoing Board was requested in its 83rd meeting, held on August 30, 2014 and the management of the Bank was allowed to proceed further in pursuance of resolution / direction passed regarding the subject matter in 64th and 65th Meeting of the Board of Directors held on May 16, 2011 and July 13, 2011 respectively by overruling to verdict of the Board of Directors given on the issue in 75th Meeting of Board of Directors held on March 04, 2013.

Pending cancellation of transfer and assignment agreement with NBP non- performing loan portfolios of defunct SBFC and RDFC stands recognised in these unconsolidated financial statements. An income of Rs. 9.408 million has been incorporated against the recorded recoveries of non-performing loan portfolios of defunct SBFC and RDFC since their transfer and assignment to NBP till March 2016. The share of income of the Bank has been determined according to transfer price mechanism agreed between the Bank and NBP. The recoveries made thereafter by the Bank from the borrowers of defunct SBFC & RDFC have been recognized as liability to NBP, while the Funds received by NBP to be apportioned in terms of this agreement have not been accounted for by the Bank.

9.2 Advances include Rs. 5,455.90 million (Dec 31, 2016: Rs. 5,418.81 million) which have been placed under non-performing status as detailed below:

	March 31, 2017 (Un-audited)				
	Classified Advances			Provision	Provision
Category of Classification	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Other Assets Especially Mentioned	21,050	-	21,050	4	4
Substandard	44,200	-	44,200	62	62
Doubtful	9,077	-	9,077	227	227
Loss	5,381,569	-	5,381,569	5,244,355	5,244,355
	5,455,896	-	5,455,896	5,244,648	5,244,648

	December 31, 2016 (Audited)				
	Classified Advances			Provision	Provision
Category of Classification	Domestic	Overseas	Total	Required	Held
	(Rupees in '000)				
Other Assets Especially Mentioned	8,767	-	8,767	25	25
Substandard	13,553	-	13,553	-	-
Doubtful	6,747	-	6,747	238	238
Loss	5,389,745	-	5,389,745	5,244,338	5,244,338
	5,418,812	-	5,418,812	5,244,601	5,244,601

9.3 Particulars of provision against non-performing advances

	March 31, 2017 (Un-audited)			December 31, 2016 (Audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	5,244,601	12,391	5,256,992	5,251,998	8,174	5,260,172
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio	(230)	-	(230)	(1,078)	-	(1,078)
Charge/(reversals)						
Charge for the period / year	6,889	876	7,765	44,394	7,088	51,482
Reversal for the period / year	(6,612)	(1,973)	(8,585)	(50,713)	(2,871)	(53,584)
	277	(1,097)	(820)	(6,319)	4,217	(2,102)
Closing balance	5,244,648	11,294	5,255,942	5,244,601	12,391	5,256,992

9.3.1 The FSV benefit availed in last years has been increased by Rs. 1,833 thousand (net of FSV benefit availed during the period), which has resulted in decreased charge for specific provision for the period ended by the same amount. The FSV benefit is not available for cash or stock dividend / bonus to employees. Had the FSV benefit not recognized, loss before and after tax for the period ended would have been higher by Rs. 1,833 thousand (Mar 31, 2016: increse by Rs. 124 thousand).

	March 31, 2017 (Un-audited)			December 31, 2016 (Audited)		
Particulars of provisions against non-performing advances	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	5,244,648	11,294	5,255,942	5,244,601	12,391	5,256,992
In foreign currencies	-	-	-	-	-	-
	5,244,648	11,294	5,255,942	5,244,601	12,391	5,256,992

	Note	(Un-audited) March 31, 2017	(Audited) December 31, 2016
		(Rupees in '000)	
10. OPERATING FIXED ASSETS			
Capital work-in-progress	10.1	-	2,092
Property and equipment	10.3	128,835	131,093
Less: Provision held against property and equipment	10.2.1	(32,044)	(32,044)
Property and equipment - net		96,791	99,049
Intangible assets	10.4	555	718
Operating Fixed Assets		97,346	101,859
10.1 Capital work-in-progress			
Advances to suppliers and contractors		-	2,092
		-	2,092
10.2 Lease hold land			
Book value at the beginning of the period/year	10.2.1	64,087	64,087
Cost of additions during the period/year		-	-
Book value of the deletions during the period/year		-	-
Less: Provision held against property and equipment	10.2.1	(32,044)	(32,044)
		32,043	32,043

10.2.1 This represents the aggregate cost of lands measuring 500 square yards and 4667 square yards located in Islamabad in sectors G-7 and G-5/2 respectively originally allotted to SBFC and RDFC respectively. CDA required payment of Rs. 3.637 million for AGR, delayed charges & extension surcharges. However, on receiving draft of the required amount, CDA returned the same in view of proposed privatization of the Bank. The management of the Bank has taken up the matter with the Privatization Commission Government of Pakistan (PC). Pursuant to which Departmental Audit Committee (DAC) of PC directed the Bank to take up the case of restoration of plots through Ministry of Finance, Government of Pakistan (MOF). Upon management's perusal and in compliance with directions of DAC, MOF vide its letter dated 12 February 2014 has advised CDA to reconsider the Bank's request for restoration of the above said land and take steps for early restoration of lands. Management believes that since the Bank is a successor of RDFC and SBFC by virtue of Section 5 of the Amalgamation and Conversion Ordinance, 2001 (the Ordinance), the Bank is legal owner of aforementioned lands and is not required to pay the market value of the plot considering the provisions of the Ordinance and the fact that the lands are in the possession of the Bank also. However, despite the provisions of the Ordinance and being in occupation of the lands, the Bank on the advice of SBP to classify these plots in doubtful category, has recorded an impairment of Rs. 32.044 million. Subsequent to the above, Cabinet Committee on Privatization (CCoP) in its meeting held on January 27, 2017 has directed CDA and MOF for resolution of matter by finalizing the status of rights and claims associated with above plots so as to enable the Bank to accordingly adjust the books of accounts, if required, prior to moving forward with the transaction of the privatization of the Bank. Thus Privatization Commission has excluded the above plots from the privatization transaction by specifically stating it in invitation for expression of interest for acquisition of the Bank's shares dated February 14, 2017. Due to the above reasons and pending outcome of above review by CDA and MOF, the financial effects of settlement and finalization of rights and claims associated with the referred plots are un-determinable at this stage and therefore adjustments, if any in this respect, have not been recognized in these financial statements.

		(Un-audited) March 31, 2017	(Audited) December 31, 2016
		(Rupees in '000)	
10.3	**Property and equipment**		
	Book value at the beginning of the period/year	99,049	117,948
	Cost of additions during the period/year	5,472	13,380
	Book value of the deletions during the period/year	-	(1,881)
	Depreciation charge during the period/year	(7,730)	(30,398)
	Book value at the end of the period/ year	96,791	99,049
10.4	**Intangible assets**		
	Book value at the beginning of the period/year	718	1,281
	Cost of additions during the period/year	-	147
	Amortization charge during the period/year	(163)	(710)
	Book value at the end of the period/year	555	718

			(Un-audited) March 31, 2017	(Audited) December 31, 2016
11.	DEFERRED TAX ASSET - NET		(Rupees in '000)	
	Deferred tax asset		320,640	264,230
	Deferred tax (liability)		(9,984)	(8,053)
		11.1	310,656	256,177

11.1 The Bank has recognized the deferred tax asset which represents management's best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward. The underlying assumption for recognition of deferred tax asset is the expected privatization of the Bank which would result in fresh equity injection from the new strategic shareholder of the Bank as detailed in Note 6.4 to the financial statements and, in view of above, the management of the Bank believes that it is probable that the Bank will be able to achieve the profits and, consequently, the deferred tax assets will be fully realized in future.

		Note	(Un-audited) March 31, 2017	Audited December 31, 2016
12.	**BILLS PAYABLE**		(Rupees in '000)	
	In Pakistan		**136,138**	95,443
	Outside Pakistan		-	-
			136,138	95,443
13.	**BORROWINGS**			
	In Pakistan		**3,657,017**	3,460,326
	Outside Pakistan		-	-
			3,657,017	3,460,326
13.1	**Particulars of borrowings with respect to currencies**			
	In local currency		**3,657,017**	3,460,326
	In foreign currencies		-	-
			3,657,017	3,460,326
13.2	**Details of borrowings secured/unsecured**			
	Borrowings from State Bank of Pakistan - unsecured	13.2.1	**27,171**	31,515
	Repurchase agreement borrowings - secured	13.2.2	**3,629,846**	3,428,811
			3,657,017	3,460,326

13.2.1 This represents financing facility obtained from State Bank of Pakistan under the scheme "Financing Facility For Storage of Agri Produce (FFSAP)" vide SMEFD circular No. 08 dated June 04, 2010 & IH&SSMEFD circular No. 05 dated Feb 23, 2015. These carries revised mark up rate of 2.50 % & 3.25% respectively and is repayable in quarterly instalments.

13.2.2 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 6.00% to 6.25% (Dec 31, 2016: 6.10% to 6.25%) per annum for period upto three month (Dec 31, 2016: upto two month). REPO transactions are secured against investment of the Bank in Government securities.

			(Un-audited) March 31, 2017	Audited December 31, 2016
14.	**DEPOSITS AND OTHER ACCOUNTS**		(Rupees in '000)	
	Customers			
	Fixed deposits		**953,724**	1,001,313
	Savings deposits		**2,080,121**	2,861,928
	Current accounts - non-remunerative		**650,887**	596,943
	Margin accounts		**41,386**	33,730
			3,726,118	4,493,914
	Financial Institutions			
	Remunerative deposits	14.2	**736,613**	733,061
	Non-remunerative deposits		-	1,741
			4,462,731	5,228,716
14.1	**Particulars of deposits**			
	In local currency		**4,462,731**	5,228,716
	In foreign currencies		-	-
			4,462,731	5,228,716

14.2 Remunerative deposits include Rs. 383.62 million (Dec 31, 2016: Rs. 380.09 million) related to Equity Participation Fund.

			(Un-audited) March 31, 2017	(Audited) December 31, 2016
15.	**CONTINGENCIES AND COMMITMENTS**		**(Rupees in '000)**	
15.1	**Transaction-related contingent liabilities**			
	Guarantees in favour of:			
	Government	15.1.1	**172,402**	153,246
	Others		**-**	-
			172,402	153,246
15.1.1	This includes expired Letter of guarantees/performance aggregating to Rs. 26.466 million (Dec 31 2016: 18.866 million) for which formalities for return of original documents are in process.			
15.2	**Other Contingencies**			
	a) Claims not acknowledged as debt from various borrowers		**56,857**	56,857
	b) Damages claim by borrower for delay in recording repayments received from borrower, not acknowledged as debt.		**49,800**	49,800
	c) Damages claimed by an ex-employee of the then RDFC involved in Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited affairs and a director of Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited not acknowledged as debt.		**10,000**	10,000
	d) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals). The management of the Bank strongly believes and expects favourable outcome and therefore no provision has been made for this effect in the financial statements.		**612,707**	612,707
	e) The Bank and the income tax department have filed an appeal before the Appellate Tribunal Inland Revenue against the appellate order of the Commissioner (Appeals), who had partly set aside the order of the Taxation officer, resulting in taxable income of Rs. 151,234 thousand and tax liability of Rs. 52,932 thousand against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4,249 thousand for the tax year 2008. Without prejudice to the appeal, the demand has been paid by the Bank; however no provision has been made in these financial statements as the management is confident of a favorable outcome.		**6,163**	6,163
	f) The bank is in appeal before the Appellate Tribunal Inland Revenue against the amended assessment order for the tax year 2010, whereby the taxation officer had assessed income of Rs. 636,499 thousand and tax liability of Rs. 222,774 thousand as against income of Rs. 7,559 thousand and tax liability of Rs. 3,947 thousand admitted by the Bank. The CIR(A) decided the appeal partly in the Bank's favor while setting aside certain matters. the re-assessment has not yet been finalized by the taxation officer.		**211,716**	211,716
	g) Back benefits and claims of staff/employees under litigation.		**130,310**	130,310
15.3	**Commitments in respect of forward lending**			
	Commitments to extend credit		**23,500**	40,700
15.4	**Commitments for the acquisition of operating fixed assets**		**13,946**	13,963
15.5	**Commitments against repo/reverse repo transactions**			
	Sale and repurchase agreements		**3,646,478**	3,454,878
15.6	**Other commitments**			
	Undrawn facilities		**265,641**	106,375
15.7	**Bills for collection**			
	Payable in Pakistan		**60**	91

16. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its majority shareholder (Government of Pakistan) subsidiary, directors, key management personnel and staff retirement benefit plan.

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

	March 31, 2017 (Un-audited)							December 31, 2016 (Audited)						
	Subsidiary SMEL	Key Management Personnel	Other Employees	Directors	Equity Participation Fund	Employees benefit plans	Employees Provident Trust	Subsidiary SMEL	Key Management Personnel	Other Employees	Directors	Equity Participation Fund	Employees benefit plans	Employees Provident Trust
	Rupees in '000							Rupees in '000						
Balances outstanding as at														
- Investment in subsidiary	215,457	-	-	-	-	-	-	215,457	-	-	-	-	-	-
- Advances	97,988	15,767	137,419	-	-	-	-	126,580	15,840	146,536	-	-	-	-
- Receivables/markup	998	7,373	48,432	-	2,584	1,658	-	994	7,364	47,834	-	2,561	1,658	-
- Deposits	-	8,807	61,774	-	383,619	-	99,398	1,741	7,048	63,979	-	380,094	-	94,959
- Payables/markup	-	37	292	-	1,222	347,088	631	-	36	356	-	1,211	351,298	596

	March 31, 2017 (Un-audited)							March 31, 2016 (Un-audited)						
Transactions during the period	Rupees in '000							Rupees in '000						
Transactions during the year ended														
- Net mark-up / interest earned	2,608	152	1,312	-	-	-	-	3,432	85	1,120	-	-	-	-
- Net mark-up / interest expensed	-	113	859	-	3,525	-	1,772	-	171	1,648	-	3,676	-	1,631
- Total debit in running finance	10,313	-	-	-	-	-	-	23,250	-	-	-	-	-	-
- Total credits in running finance	38,905	-	-	-	-	-	-	31,323	-	-	-	-	-	-
- Payments made on behalf of	98	-	-	-	23	-	-	98	-	-	-	43	-	-
- Payments received from	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Remuneration and others	-	19,886	110,282	239	-	-	-	-	14,850	98,527	227	-	-	-
- Contribution to employees benefit pl	-	-	-	-	-	26,284	-	-	-	-	-	-	19,976	-
- Charge for the year relating to	-	-	-	-	-	-	-						-	-
employees benefit plans	-	-	-	-	-	21,998	-	-	-	-	-	-	15,087	-
- Fee and commission income	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Principal terms of loan facility to SMEL

Amount (Rs. in 000)	Term	Interest rate
150,000	Running finance facility (reviewable annually)	1 year Kibor + 3.50%

17 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on April____, 2017.

Chief Financial Officer

President/ Chief Executive

Director

Director

Director