



**CONDENSED INTERIM
FINANCIAL STATEMENTS
(UNAUDITED)**

**FOR THE QUARTER ENDED
MARCH 31, 2016**

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, 2016.

Performance Review

	March Quarter	
	2016	2015
	Rs. In Million	
(Loss) before Taxation	(103)	(114)
Taxation	(2)	(2)
(Loss) after taxation	(105)	(116)

The bank's performance for the three months period ended on March 31, 2016 indicates improvements in reduction in losses before taxation by Rs. 11 million, representing a decrease of loss by 10% as against the correspondence period of last year. The reduction in loss was backed by drop in NPLs. The Bank has booked an operating pre-tax loss of Rs 103 million for the three months ended on March 31, 2016, as compared to Rs 114 million during the same period of 2015. The bank's gross income was Rs 162 million, which mainly constitutes Rs 75 million from SME Lending Operation, Rs. 81 million from treasury operations and Rs. 6 million from non-mark-up income.

During the period under review cost of funds of the Bank was Rs 109 million (March 2015: Rs 79 million) at average rate of 6.16% (March 2015: 7.49%). The increase in cost of funds was mainly due to increase in borrowing by Rs.561 million (Mar-16 Rs.2,419 million, Mar-15 Rs.1,857 million) and deposits by Rs.1,068 million (Mar-16 Rs.4,388 million, Mar-15 Rs.3,320 million) during the period as compared to corresponding period of last year. Administrative expenses increased by Rs. 23 million from Rs. 159 million on March 31,2015 to Rs.182 million on March 31,2016.

Limited branch network and credit rating of the Bank due to low equity remained major impediments to attract a wide deposit base and we remain susceptible to movement of desire level of deposit; resultantly the deposits have reduced by Rs 382 million from Rs 4,770 million as on December 31, 2015, to Rs 4,388 million as on March 31, 2016.

SME loan portfolio was decreased by Rs. 239 million from Rs. 2,990 million as on December 31, 2015 to Rs. 2,751 million as on March 31, 2016 due to substantial recovery of classified portfolio. The bank made disbursements of Rs 448 million during three months period ended on

March 31, 2016 as compared to Rs 432 million of corresponding period of last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio.

SME sector bore the brunt 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 resulting in decrease from Rs 611 million on December 31, 2015 to Rs 575 million on March 31, 2016.

Investment portfolio of the Bank has decreased by Rs 88 million during the three months period and stands at Rs 4,029 million (December 2015: Rs 4,117 million). Major portion of investment is in government securities.

Bank is operating with paid up capital of Rs. 2,392 million since 2007 and at present the bank is managing its operations with a narrow equity base of Rs 288 million as on March 31, 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. 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.

Economic Outlook

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 an 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.

Privatization of the Bank

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.

