

**CONDENSED INTERIM
FINANCIAL STATEMENTS**
(UNAUDITED)

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2016

Directors' Review on Operational Results for the Period
Ended September 30, 2016

On behalf of the Board of Directors, I am pleased to present the operational results of SME Bank for the period ended September 30, 2016.

The bank is still managing its operations with a narrow equity base of Rs. 67.61 million as on September 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 has increased by Rs. 45.30 million and stand at Rs. 4,815 million as on September 30, 2016 as compared to Rs. 4,770 million as on December 31, 2015. SME loan portfolio was decreased by Rs. 310 million from Rs. 2,990 million as on December 31, 2015 to Rs. 2,680 million as on September 30, 2016. The bank made disbursements of Rs. 1,434 million during the nine months period ended on September 30, 2016, as compared to Rs. 1,375 million for the correspondence period of the last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio. The bank's treasury investment portfolio decreased by Rs. 193 million during the nine months period & attained the level of Rs. 3,925 million as on September 30, 2016.

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 by Rs.71 million. The non-performing loans of the bank decreased from Rs. 611 million to Rs. 540 million during the nine months of the year.

The bank has booked an operating pre-tax loss of Rs. 320 million for nine months ended on September 30, 2016, as compared to Rs. 183 million during the same period of 2015. The increase in loss is primarily due to decrease in net mark-up income and non-mark-up income. The bank's gross income was Rs. 475 million, which mainly constitutes of Rs. 217 million from lending operations, Rs. 242 million from treasury operations and Rs.16 million from non-mark up income. During the period under review, cost of funds of the bank was Rs. 325 million (September 30, 2015: Rs. 323 million) at average rate of 6.03% (September 30, 2015: 7.34%). Administrative expenses remained at the level of Rs. 538 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 Pakistan Credit Rating Agency 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

