

SME BANK LIMITED
CONDENSED INTERIM UNCONSOLIDATED
FINANCIAL INFORMATION
FOR THE HALF YEAR ENDED JUNE 30, 2017

Directors' Review on Operational Results for the Half Year
Ended June 30, 2017

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, 2017.

Bank is still managing its operations with a narrow equity base of Rs 4.387 million as on June 30, 2017. Bank has been operating with a limited branch network of 13 branches. Budgetary allocations made by the Federal Government during financial years 2011-12 to 2014-2015 for equity injection could not be released. Subsequently in previous three financial budgets, Government has not allocated any amount for the Bank. Moreover, uncertainty with regard to future corporate and operational status of the Bank continued to cast a shadow over the performance of the Bank.

Deposits of the Bank decreased by Rs 24.79 million and stood at Rs 5,204 million as on June 30, 2017 against its deposit of Rs 5,229 million as on December 31, 2016. Loan portfolio of the Bank stood at Rs 2,639 million as on June 30, 2017 as compared to Rs 2,797 million on December 31, 2016. Bank made disbursements of Rs 1,099 million during first six months of the year 2017 as compared with corresponding period of last year of Rs 1,045 million. Shortage of funds remained an impediment in building substantial level of loan portfolio. Bank's treasury investment portfolio stood at Rs 5,651 million by June 30, 2017 whereas it was of Rs 4,870 million as on December 31, 2016.

SME sector bore the burden of the energy crisis due to lack of access to alternate energy resources which in turn seriously reduced 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 limitations the management of the Bank made determined efforts to reduce non-performing loans to Rs 513 million as on June 30, 2017 from Rs 554 million as of June 30, 2016.

Bank booked an operating pre-tax loss of Rs 336 million for first half of the year 2017 as compared with corresponding period of last year when it was Rs 185 million. Increase in loss is primarily due to decrease in net mark-up income and reversal of provisions. Bank's gross mark-up/ return income was Rs 295 million which comprised on Rs 133 million from SME lending operations, income from RDFC portfolio and staff loans and Rs 162 million from treasury operations. During the period under review, cost of funds of the Bank was Rs 236 million (2016: Rs 220 million) at average rate of 5.73% (2016: 6.09%). Administrative expenses remained at the level of Rs 413 million.

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

Government of Pakistan 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 and 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. EOIs have been submitted by 5 potential investors.


M/S PACRA Limited affirmed the credit rating of the bank at “B”/”B” with developing outlook on April 14, 2017.

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 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

Board of Directors


Chairman

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim financial position of SME Bank Limited (the Bank) as at June 30, 2017 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement and condensed interim statement of changes in equity together with the notes forming part thereof for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account and the condensed statement of comprehensive income for the quarter ended June 30, 2017 and 2016 have not been reviewed and we do not express a conclusion on them, as we are required to review only the cumulative figures for the half year ended June 30, 2017.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

Based on information provided to us by management:

- a) The Bank has investment in SME Leasing Limited (SMEL), which is carried in this financial information at Rs. 128.495 million (net of provision) and has an outstanding running finance exposure of Rs. 88.463 million (including markup) at the balance sheet date. SMEL continues to operate on a net loss basis and therefore the recoverability of investment and running finance exposure appears doubtful of recovery. Accordingly, we are unable to determine the extent of impairment that might be necessary to be recorded against the current carrying values of investment and running finance and its possible effect on accumulated losses;
- b) We are unable to verify the net carrying value of Rs. 16.17 million of Trading Rights Entitlement Certificate (TREC) of Lahore Stock Exchange Limited (LSEL) because the Trading Rights in the stock exchange lapsed in the year 2014; and

- c) Deferred tax asset of Rs. 378.738 million has been recognized on the basis of expected net profits arising from future privatization of the Bank as described in Note 11.1 to the interim financial information which we have not been able to verify.

Qualified Conclusion

Based on our review, except for the possible effects of the matters described in paragraphs 'a', 'b' and 'c' above, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended June 30, 2017 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of Matters

We draw attention to the following matters:

- i. Note 6.5 to the interim financial information indicates that during the period the Bank has incurred a net loss after tax of Rs. 27.044 million (June 30, 2016: 188.353 million) and as of the reporting date the accumulated losses stood at Rs. 2.618 billion (Dec 31, 2016: 2.591 billion). The Bank is short on cash which is indicated by waiver by State Bank of Pakistan in meeting the minimum capital requirement by 10.019 billion (Dec 31, 2016: 9.991 billion) and the fact that during the last few years GoP's budget allocation for the Bank has been negligible level. As stated in Note 6.5, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern;
- ii. Note 10.2.1 to the interim financial information describes that the resolution of the matter of ownership of plots is subject to the review by the Ministry Finance and the Capital Development Authority for finalizing the status of rights and claims associated with the referred plots so as to enable the Bank to accordingly adjust its books of accounts. As the above review is pending the outcome of the matter is undeterminable at this stage and therefore adjustments, if any in this respect, have not been recognized in financial statements; and
- iii. We draw attention to note 12 to the interim financial information which describes the status of transfer of a property.

Our opinion is not modified in respect of above matters.

GRANT THORNTON ANJUM RAHMAN
Chartered Accountants
Engagement Partner: Nadeem Tirmizi

Date:
Islamabad

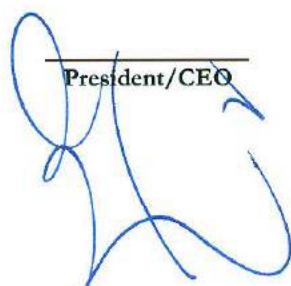
SME BANK LIMITED
Condensed Interim Unconsolidated Statement of Financial Position
As at June 30, 2017

As at June 30, 2017

		(Un-audited) June 30, 2017	(Audited) December 31, 2016
	Note	Rupees in '000	
ASSETS			
Cash and balances with treasury banks		317,529	560,802
Balances with other banks		3,012	4,226
Lendings to financial institutions	7	585,000	445,000
Investments	8	5,650,824	4,869,535
Advances	9	2,407,912	2,771,720
Operating fixed assets	10	92,873	101,859
Deferred tax assets - net	11	366,298	256,177
Other assets	12	567,529	368,896
		9,990,977	9,378,215
LIABILITIES			
Bills payable	13	77,527	95,443
Borrowings	14	4,120,121	3,460,326
Deposits and other accounts	15	5,203,923	5,228,716
Deferred tax liabilities		-	-
Other liabilities		585,019	573,082
		9,986,590	9,357,567
NET ASSETS		4,387	20,648
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves	16	206,526	206,526
Unappropriated loss		(2,617,749)	(2,590,705)
		(18,716)	8,328
Surplus on revaluation of assets - net of deferred tax	17	23,103	12,320
		4,387	20,648
CONTINGENCIES AND COMMITMENTS			
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The annexed notes from 1 to 24 form an integral part of these condensed interim unconsolidated financial information.


Chief Financial Officer


President/CEO


Director


Director


Director

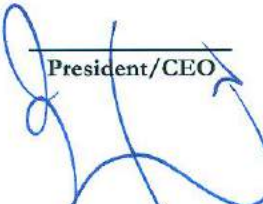
SME BANK LIMITED
Condensed Interim Unconsolidated Profit and Loss Account (Un-audited)
For the half year ended June 30, 2017

Note	June 30, 2017		June 30, 2016	
	For the	For the Half	For the Quarter	For the Half
	Quarter ended	Year ended	ended	Year ended
	Rupees in '000			
Mark-up/ return/ interest earned	143,703	295,201	160,781	316,797
Mark-up/ return/ interest expensed	115,967	235,668	111,062	219,672
Net mark-up/ interest income	27,736	59,533	49,719	97,125
Provision against non-performing loans and advances-net	(2,856)	(3,676)	8,202	(17,662)
Charge/(Reversal) for diminution in the value of investments	-	70	(61,413)	(61,413)
Bad debts written off directly	-	-	-	-
	(2,856)	(3,606)	(53,211)	(79,075)
Net mark-up/ interest income after provisions	30,592	63,139	102,930	176,200
NON MARK-UP/ INTEREST INCOME				
Fee, commission and brokerage income	2,732	5,353	2,957	5,483
Dividend income	-	-	9	9
Income from dealing in foreign currencies	-	-	-	-
Gain on sale of securities	2,456	9,077	2,190	6,078
Unrealized gain on revaluation of investments classified as held for trading	-	-	-	-
Other income	602	615	530	540
Total non-markup/ interest income	5,790	15,045	5,686	12,110
	36,382	78,184	108,616	188,310
NON MARK-UP/ INTEREST EXPENSES				
Administrative expenses	206,034	412,769	189,534	371,541
Other provisions/ write offs	1,697	1,891	1,206	1,822
Other charges	-	-	-	-
Total non-markup/ interest expenses	207,731	414,660	190,740	373,363
LOSS BEFORE TAXATION	(171,349)	(336,476)	(82,124)	(185,053)
Taxation - Current	1,527	3,171	1,672	3,300
- Prior	(198,095)	(198,095)	-	-
- Deferred	(58,098)	(114,508)	-	-
	(254,666)	(309,432)	1,672	3,300
PROFIT/(LOSS) AFTER TAXATION	83,317	(27,014)	(83,796)	(188,353)
Basic/diluted profit/(loss) per share (Rs)	0.35	(0.11)	(0.35)	(0.79)

The annexed notes from 1 to 24 form an integral part of these condensed interim unconsolidated financial information.

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Chief Financial Officer


President/CEO


Director


Director


Director

SME BANK LIMITED

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

For the half year ended June 30, 2017

	June 30, 2017		June 30, 2016	
	For the Quarter ended	For the Half Year ended	For the Quarter ended	For the Half Year ended
	Rupees in '000			
Net profit/(loss) after taxation	83,317	(27,044)	(83,796)	(188,353)
Items that will never be reclassified subsequently to profit and loss account				
Recognition of net actuarial (loss)/gain	-	-	-	-
Comprehensive income transferred to equity	<u>83,317</u>	<u>(27,044)</u>	<u>(83,796)</u>	<u>(188,353)</u>
Components of comprehensive income not reflected in equity				
Net change on remeasurement of available for sale investment to fair value	(1,036)	15,170	14,322	50,200
Deferred tax	(2,456)	(4,387)	-	-
	<u>(3,492)</u>	<u>10,783</u>	<u>14,322</u>	<u>50,200</u>
Total comprehensive income	<u>79,825</u>	<u>(16,261)</u>	<u>(69,474)</u>	<u>(138,153)</u>

The annexed notes from 1 to 24 form an integral part of these condensed interim unconsolidated financial information.


Chief Financial Officer


President/CEO


Director


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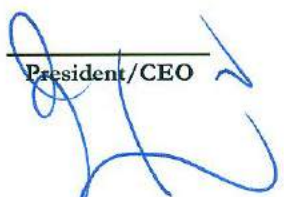
SME BANK LIMITED
Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)
For the half year ended June 30, 2017

For the half year ended June 30, 2017

	Note	June 30, 2017	June 30, 2016
		Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(336,476)	(185,053)
Less: Dividend income		-	(9)
		(336,476)	(185,062)
Adjustments for non-cash/ other items			
Depreciation		15,334	15,208
Amortization		326	388
Reversal against non-performing advances		(3,676)	(17,662)
Charge/(Reversal) of provision for diminution in the value of investment		70	(61,413)
Gain on sale of fixed asset		(14)	(26)
Other provisions		1,891	1,822
		13,931	(61,683)
		(322,545)	(246,745)
(Increase)/ Decrease in operating assets			
Lendings to financial institutions		160,000	(100,000)
Advances		367,484	173,176
Other assets (excluding advance taxation)		(4,840)	1,512
		522,644	74,688
Increase/ (Decrease) in operating liabilities			
Bills payable		(17,916)	(72,498)
Borrowings from financial institutions		659,795	(275,598)
Deposits		(24,793)	(43,137)
Other liabilities (excluding current taxation)		11,937	(10,909)
		629,023	(402,142)
		829,122	(574,199)
Income tax paid		(760)	(3,300)
Net cash flow generated/(used in) from operating activities		828,362	(577,499)
CASH FLOW FROM INVESTING ACTIVITIES			
Net (investment)/disinvestment in available-for-sale securities		(466,189)	177,096
Net (investment)/disinvestment in held-to-maturity securities		(300,000)	26,687
Dividend received		-	9
Investment in operating fixed assets		(6,679)	(10,895)
Sale proceeds of property and equipment disposed-off		19	26
Net cash flow (used in)/generated from investing activities		(772,849)	192,923
CASH FLOW FROM FINANCING ACTIVITIES			
Increase / (Decrease) in cash and cash equivalents		55,513	(384,576)
Cash and cash equivalents at beginning of the period		565,028	791,750
Cash and cash equivalents at end of the period	20	620,541	407,174

The annexed notes from 1 to 24 form an integral part of these condensed interim unconsolidated financial information.


Chief Financial Officer


President/CEO


Director


Director


Director

SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Changes in Equity (Un-audited)****For the half year ended June 30, 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/(loss) for the half year ended June 30, 2016				
Net loss for the half year ended June 30, 2016	-	-	(188,353)	(188,353)
Balance as at June 30, 2016	2,392,507	206,526	(2,484,559)	114,474
Total comprehensive income/(loss) for the half year ended December 31, 2016				
Net loss for the period	-	-	(10,889)	(10,889)
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/(loss) for the half year ended June 30, 2017				
Net loss for the half year ended June 30, 2017	-	-	(27,044)	(27,044)
Balance as at June 30, 2017	2,392,507	206,526	(2,617,749)	(18,716)

The annexed notes from 1 to 24 form an integral part of these condensed interim unconsolidated financial information.

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Chief Financial Officer


President/CEO


Director


Director


Director

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2017

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/646/19130/17 dated August 15, 2017 from meeting Minimum Capital requirement till December 31, 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 half year ended June 30, 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.

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2017

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;

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2017

- 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; and
- 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.

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 has decided to divest its equity stake in the Bank along with management control to a strategic investor through Privatization Commission (PC). Accordingly PC has 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. The 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. Thereafter 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 specialized 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 fulfilment of requisite operational requirements.

Subsequently, based on SOQ's received the Transaction Steering Committee of PC has evaluated/assessed five interested parties for prequalification and the same shall shortly be made to PC Board for decision.

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SME BANK LIMITED**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)****For the half year ended June 30, 2017****6.5 Going concern assumption and minimum capital requirement**

During the current period the Bank has incurred a net loss after tax of Rs. 27.044 million (June 30, 2016: 188.353 million) and as of the reporting date the accumulated losses stood at Rs. 2.618 billion (Dec 31, 2016: 2.591 billion). The Bank, due to cash deficit, is short by Rs. 10.019 billion (Dec 31, 2016: 9.991 billion) in meeting the minimum capital requirements (MCR) of Rs. 10 billion which has been waived by SBP valid till December 31, 2017 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. As explained in note 6.4 the prequalification evaluation of interested parties by the Privatization Commission of Pakistan is currently under process. The management of the Bank strongly believes that the privatization process of the Bank will complete in due course of time that will result into injection of fresh equity enabling the Bank to expand and finance its operations. 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)	(Audited)
	June 30, 2017	December 31, 2016
	Rupees in '000	
Call money lendings	300,000	-
Letter of placement	285,000	445,000
	585,000	445,000

These lendings carry markup rate ranging between 6.15% to 6.20% (Dec 31, 2016: 6.15% to 6.30%) per annum and have maturity period upto one month (Dec 31, 2016: upto one month) from current reporting date.

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For the half year ended June 30, 2017

	(Un-audited) June 30, 2017		(Audited) December 31, 2016	
	Held by the bank	Given as collateral	Total	Total
8. INVESTMENTS				
	Rupees in '000			
8.1 Investments by types:				
Available-for-sale securities				
Market Treasury Bills (MTBs)	804,401	1,751,954	2,556,355	561,419
Pakistan Investment Bonds (PIBs)	206,210	2,362,170	2,568,380	656,720
Fully paid ordinary shares/mutual fund	65,036	-	65,036	64,936
	1,075,647	4,114,124	5,189,771	1,283,075
				3,440,507
				4,723,582
Held-to-maturity securities				
Term Deposit Receipts (TDRs)	335,000	-	335,000	35,000
Certificates of Investments (COIs)	762	-	762	762
	335,762	-	335,762	35,762
Investment in subsidiary				
SME Leasing Limited	215,457	-	215,457	215,457
Investments at cost	1,626,866	4,114,124	5,740,990	1,534,294
Less: Provision for diminution in value of investments	(125,709)	-	(125,709)	(125,639)
Investments net of impairment	1,501,157	4,114,124	5,615,281	1,408,655
Net Surplus on revaluation of available-for-sale-securities	4,958	30,585	35,543	6,002
Total investments	1,506,115	4,144,709	5,650,824	1,414,657

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Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2017

		(Un-audited)	(Audited)
9. ADVANCES	Note	June 30, 2017	December 31, 2016
Rupees in '000			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	9.1	4,375,426	4,375,964
Defunct RDFC	9.1	500,209	505,341
SME Bank Ltd		2,638,617	2,995,996
Due from ex-employees	9.1	15,641	16,214
Due from employees		128,992	133,944
		7,658,885	8,027,459
Net investment in finance lease - In Pakistan	9.1	1,253	1,253
Advances - gross		7,660,138	8,028,712
Provision for non-performing advances			
Specific provision		(5,240,739)	(5,244,601)
General provision		(11,487)	(12,391)
	9.3	(5,252,226)	(5,256,992)
Advances - net of provision		2,407,912	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:

- the non-performing loans, collateral and the debtors;
- 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;
- 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 SBFC & 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.

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Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)
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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 recognized in this unconsolidated financial information. 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. 5,411.77 million (Dec 31, 2016: Rs. 5,418.81 million) which have been placed under non-performing status as detailed below:**

Category of Classification	June 30, 2017 (Un-audited)				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
Rupees in '000					
Other Assets Especially Mentioned	12,998	-	12,998	98	98
Substandard	23,320	-	23,320	754	754
Doubtful	13,641	-	13,641	216	216
Loss	5,361,811	-	5,361,811	5,239,671	5,239,671
	5,411,770	-	5,411,770	5,240,739	5,240,739
December 31, 2016 (Audited)					
Category of Classification	Classified Advances			Provision	Provision
	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**

	June 30, 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
Reversal of provision of transferred portfolio	(1,090)	-	(1,090)	(1,078)	-	(1,078)
Charge/(reversals)						
Charge for the period / year	18,140	2,050	20,190	44,394	7,088	51,482
Reversal for the period / year	(20,912)	(2,954)	(23,866)	(50,713)	(2,871)	(53,584)
	(2,772)	(904)	(3,676)	(6,319)	4,217	(2,102)
Closing balance	5,240,739	11,487	5,252,226	5,244,601	12,391	5,256,992

- 9.3.1** The FSV benefit availed in last years has been reduced by Rs. 17.759 million (net of FSV benefit availed during the period), which has resulted in increased charge for specific provision for the current period 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 would have been lowered by Rs. 17.759 million (June 30, 2016: lower by Rs. 25.277 million).

Particulars of provisions against non-performing advances

	June 30, 2017 (Un-audited)			December 31, 2016 (Audited)		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
In local currency	5,240,739	11,487	5,252,226	5,244,601	12,391	5,256,992
In foreign currencies	-	-	-	-	-	-
	5,240,739	11,487	5,252,226	5,244,601	12,391	5,256,992

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Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)
For the half year ended June 30, 2017

10. OPERATING FIXED ASSETS	Note	(Un-audited) June 30, 2017	(Audited) December 31, 2016
		Rupees in '000	
Capital work-in-progress	10.1	-	2,092
Property and equipment		124,525	131,093
Less: Provision held against property and equipment	10.2.1	(32,044)	(32,044)
Property and equipment - net	10.3	92,481	99,049
Intangible assets	10.4	392	718
		<u>92,873</u>	<u>101,859</u>
10.1 Capital work-in-progress			
Advances to suppliers and contractors		-	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)
		<u>32,043</u>	<u>32,043</u>

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 this financial information.

SME BANK LIMITED**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)****For the half year ended June 30, 2017**

	Note	(Un-audited) June 30, 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		8,771	13,380
Book value of the deletions during the period/year		(5)	(1,881)
Depreciation charge during the period/year		(15,334)	(30,398)
Book value at the end of the period/ year		<u>92,481</u>	<u>99,049</u>
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		(326)	(710)
Book value at the end of the period/year		<u>392</u>	<u>718</u>
11. DEFERRED TAX ASSET - NET			
Deferred tax asset		378,738	264,230
Deferred tax (liability)		(12,440)	(8,053)
	11.1	<u>366,298</u>	<u>256,177</u>
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 information 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.		
12. OTHER ASSETS			
This includes Rs. 138.6 million being the successful bid made by SME Bank for acquiring Bungalow No. 45, Block-C/3, Gulberg III, Lahore mortgaged with the Bank as a security in a defaulted loan and Rs. 8.47 million pertaining stamps / stamps duties for registration of sale certificate issued by the High Court to SME Bank / Auction Purchaser of Bungalow No. 45, Block-C/3, Gulberg III, Lahore. The auction was carried out on 30 June 2015, subsequent to the auction, the Honourable Lahore High Court through its decision dated 14 July 2015 allowed the Bank to adjust the bid price against its outstanding dues from the borrower against the finance facilities extended to the borrower, suspended mark-up and cost of funds. The auction was confirmed by the High Court on April 19, 2016 after hearing objection raised by the Counter Party. The sale certificate was issued by the High Court on June 30, 2016 and the same has been registered with concerned registrar on July 28, 2016. Ownership of the house in record of Excise and Taxation Department has been transferred in the name of SME Bank Ltd. The Bank applied for possession of the acquired house, which has been accepted by the court after hearing both the parties. The court has issued order to bailiff for taking possession of the house to handover the Bank. Possession of the said property has not yet been handed over to the Bank. The market value of property is Rs. 171.2 million (December 2016: Rs. 171.2 million)			



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		(Un-audited) June 30, 2017	(Audited) December 31, 2016
13. BILLS PAYABLE	Note		
		Rupees in '000	
In Pakistan		77,527	95,443
Outside Pakistan		-	-
		<u>77,527</u>	<u>95,443</u>
14. BORROWINGS			
In Pakistan		4,120,121	3,460,326
Outside Pakistan		-	-
		<u>4,120,121</u>	<u>3,460,326</u>
14.1 Particulars of borrowings with respect to currencies			
In local currency		4,120,121	3,460,326
In foreign currencies		-	-
		<u>4,120,121</u>	<u>3,460,326</u>
14.2 Details of borrowings secured/unsecured			
Borrowings from State Bank of Pakistan - unsecured	14.2.1	22,827	31,515
Repurchase agreement borrowings - secured	14.2.2	4,097,294	3,428,811
		<u>4,120,121</u>	<u>3,460,326</u>
14.2.1 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 facilities carry revised mark up rate of 2.50% & 3.25% per annum respectively and is repayable in quarterly instalments.			
14.2.2 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 5.90% to 6.25% (Dec 31, 2016: 6.10% to 6.25%) per annum for period upto two month (Dec 31, 2016: upto two month). REPO transactions are secured against investment of the Bank in Government securities.			
15. DEPOSITS AND OTHER ACCOUNTS	Note	(Un-audited) June 30, 2017	(Audited) December 31, 2016
		Rupees in '000	
Customers			
Fixed deposits		1,499,961	1,001,313
Savings deposits		2,356,841	2,861,928
Current accounts - non-remunerative		563,032	596,943
Margin accounts		43,738	33,730
		<u>4,463,572</u>	<u>4,493,914</u>
Financial Institutions			
Remunerative deposits	15.2	739,197	733,061
Non-remunerative deposits		1,154	1,741
		<u>5,203,923</u>	<u>5,228,716</u>
15.1 Particulars of deposits			
In local currency		5,203,923	5,228,716
In foreign currencies		-	-
		<u>5,203,923</u>	<u>5,228,716</u>
15.2 Remunerative deposits include Rs. 386.908 million (Dec 31, 2016: Rs. 380.094 million) related to Equity Participation Fund.			

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16. RESERVES	Statutory Reserve	Un-appropriated loss	(Un-audited) June 30, 2017	(Audited) December 31, 2016
Rupees in '000				
Balance at beginning of the year	206,526	(2,590,705)	(2,384,179)	(2,089,680)
Total comprehensive income/(loss) transferred to equity	-	(27,044)	(27,044)	(294,499)
Balance at end of the period/year	206,526	(2,617,749)	(2,411,223)	(2,384,179)

16.1 As at June 30, 2017, the Bank has availed net of tax benefit of Forced Sales Value (FSV) of Rs. 135.025 million (December 31, 2016: Rs. 152.784 million) in respect of pledged stocks, mortgaged residential, commercial, industrial properties (land and building only) and plant and machinery under charge held as collateral against non-performing assets. Reserves and un-appropriated profit to that extent are not available for distribution by way of cash, stock dividend or bonus to employees.

17. SURPLUS ON REVALUATION OF ASSETS	Note	(Un-audited) June 30, 2017	(Audited) December 31, 2016
Rupees in '000			
Surplus/(Deficit) on revaluation of available-for-sale securities			
Federal Government securities			
- Market Treasury Bills (MTBs)		(578)	(2,635)
- Pakistan Investment Bonds (PIBs)		31,263	18,278
		30,685	15,643
Fully paid up ordinary shares/units			
- Listed companies/mutual funds		4,858	4,730
		35,543	20,373
- Deferred tax liability	11	(12,440)	(8,053)
		23,103	12,320

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18. CONTINGENCIES AND COMMITMENTS	Note	(Un-audited) June 30, 2017	(Audited) December 31, 2016
		Rupees in '000	
18.1 Transaction-related contingent liabilities			
Guarantees in favour of:			
Government	18.1.1	203,030	153,246
Others		-	-
		<u>203,030</u>	<u>153,246</u>
18.1.1 This includes expired Letter of guarantees/performance aggregating to Rs. 31.854 million (Dec 31 2016: 18.866 million) for which formalities for return of original documents are in process.			
18.2 Other Contingencies			
a) Claims not acknowledged as debt from various borrowers		54,711	56,857
b) Damages claim by borrower for delay in recording repayments received from borrower, not acknowledged as debt.		-	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 million and tax liability of Rs. 52.932 million against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4.249 million 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 million and tax liability of Rs. 222.774 million as against income of Rs. 7.559 million and tax liability of Rs. 3.947 million 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.		128,470	130,310
18.3 Commitments in respect of forward lending			
Commitments to extend credit		124,000	40,700
18.4 Commitments for the acquisition of operating fixed assets		14,631	13,963
18.5 Commitments against repo/reverse repo transactions			
Sale and repurchase agreements		4,144,709	3,454,878
18.6 Other commitments			
Undrawn facilities		382,640	106,375
18.7 Bills for collection			
Payable in Pakistan		-	-

SME BANK LIMITED**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)****For the half year ended June 30, 2017****19. TAXATION**

During the current period an alleged tax demand of Rs. 34.506 million relating to payments under Voluntary Separation Scheme was created. The tax authorities have agreed to adjust the tax demand against refunds aggregating to Rs. 232.6 million for tax years 2003 and 2004. The refund has matured after due verification by tax authorities who have issued appeal effects in pursuance to the Appellate Tribunal Order dated February 10, 2011. The amount in profit and loss account is the net amount of refund after adjustment of the tax demand i.e Rs 34.506 million tax demand less gross refund of Rs 232.6 million.

	(Un-audited) June 30, 2017	(Audited) December 31, 2016
20. CASH AND CASH EQUIVALENTS	Rupees in '000	
Cash and cash equivalents comprise of the following:		
Cash and balances with treasury banks	317,529	405,717
Balances with other banks	3,012	1,457
Call money lendings	300,000	-
	<u>620,541</u>	<u>407,174</u>

21. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

	Trading & Sales	Commercial Banking	Total
	Rupees in '000		
June 30, 2017 (Un-audited)			
Total income	171,185	139,061	310,246
Total expenses	172,145	474,577	646,722
Net income/ (loss) before tax	(960)	(335,516)	(336,476)
Segment Assets (gross)	7,044,216	8,454,627	15,498,843
Segment Non Performing Loans	-	5,411,770	5,411,770
Segment Provision Required	132,909	5,374,957	5,507,866
Segment liabilities	4,400,008	5,586,582	9,986,590
Segment Return on net Assets (ROA) (%)	-0.01%	-10.89%	
Segment cost of funds (%)	3.91%	8.49%	
June 30, 2016 (Un-audited)			
Total income	170,974	157,933	328,907
Total expenses	101,223	412,737	513,960
Net income/ (loss) before tax	69,751	(254,804)	(185,053)
Segment assets (gross)	5,185,976	8,394,846	13,580,822
Segment non performing loans	-	5,459,649	5,459,649
Segment provision required	146,030	5,362,966	5,508,996
Segment liabilities	2,800,721	5,057,347	7,858,068
Segment Return on net Assets (ROA) (%)	1.38%	-8.40%	
Segment cost of funds (%)	3.61%	8.16%	

Assumptions used:

- Unallocatable assets representing 4.49% (June 30, 2016: 0.82%) of the total assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.27% (June 30, 2016: 5.27%) of the total liabilities have been allocated to segments based on their respective incomes.

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Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2017

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity as carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings can not be calculated with sufficient reliability due to the absence of current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values. Since these are either short term in nature or, in the case of deposits, are frequently pre-priced.

22.1 On balance sheet financial instruments

Note	June 30, 2017 (Un-audited)					June 30, 2017 (Un-audited)						
	BOOK VALUE					FAIR VALUE						
	Available for sale	Held to maturity	Held for trading	Loans and receivables	Other financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Carrying/ Notional Value	Total
Rupees in '000												
Financial assets measured at fair value												
- Investments	5,124,735	-	-	-	-	-	5,124,735	-	5,155,420	-	-	5,155,420
Government Securities (T bills and PIBs)	582	-	-	-	-	-	582	5,440	-	-	-	5,440
Ordinary shares of listed companies	26,469	-	-	-	-	-	26,469	-	-	-	26,469	26,469
Ordinary shares of unlisted companies												
Financial assets not measured at fair value												
- Bank balances with treasury banks	-	-	-	-	250,944	-	250,944	-	-	-	250,944	250,944
- Balances with other banks	-	-	-	-	3,012	-	3,012	-	-	-	3,012	3,012
- Lending to financial institutions	-	-	-	585,000	-	-	585,000	-	-	-	585,000	585,000
- Advances	-	-	-	2,407,912	-	-	2,407,912	-	-	-	2,407,912	2,407,912
- Other assets	-	-	-	-	152,336	-	152,336	-	-	-	152,336	152,336
- Other Investment (COI/TDR)	-	335,000	-	-	-	-	335,000	-	-	-	335,000	335,000
Subsidiary												
- SME Leasing Limited	128,495	-	-	-	-	-	128,495	-	-	-	128,495	128,495
Financial liabilities not measured at fair value												
- Bills Payable	-	-	-	-	-	77,527	77,527	-	-	-	77,527	77,527
- Borrowings	-	-	-	-	-	4,120,121	4,120,121	-	-	-	4,120,121	4,120,121
- Deposits	-	-	-	-	-	5,203,923	5,203,923	-	-	-	5,203,923	5,203,923
- Other Liabilities	-	-	-	-	-	203,547	203,547	-	-	-	203,547	203,547

SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2017

On balance sheet financial instruments (continued)

	December 31, 2016 (Audited)					December 31, 2016 (Audited)						
	BOOK VALUE					FAIR VALUE						
	Available for sale	Held to maturity	Held for trading	Loans and receivables	Other financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Carrying/ Notional Value	Total
	Rupees in '000											
Financial assets measured at fair value												
- Investments												
Government Securities (T-bills and PIBs)	4,658,646	-	-	-	-	-	4,658,646	-	4,674,288	-	-	4,674,288
Ordinary shares of listed companies	582	-	-	-	-	-	582	5,312	-	-	-	5,312
Ordinary shares of unlisted companies	26,440	-	-	-	-	-	26,440	-	-	-	26,440	26,440
Financial assets not measured at fair value												
- Bank balances with treasury banks	-	-	-	-	488,808	-	488,808	-	-	-	488,808	488,808
- Balances with other banks	-	-	-	-	4,226	-	4,226	-	-	-	4,226	4,226
- Lending to financial institutions	-	-	-	445,000	-	-	445,000	-	-	-	445,000	445,000
- Advances	-	-	-	2,771,720	-	-	2,771,720	-	-	-	2,771,720	2,771,720
- Other assets	-	-	-	-	152,247	-	152,247	-	-	-	152,247	152,247
- Other Investment (COI/TDR)	-	35,000	-	-	-	-	35,000	-	-	-	35,000	35,000
Subsidiary												
- SME Leasing Limited	128,495	-	-	-	-	-	128,495	-	-	-	128,495	128,495
Financial liabilities not measured at fair value												
- Bills Payable	-	-	-	-	-	95,443	95,443	-	-	-	95,443	95,443
- Borrowings	-	-	-	-	-	3,460,326	3,460,326	-	-	-	3,460,326	3,460,326
- Deposits	-	-	-	-	-	5,228,716	5,228,716	-	-	-	5,228,716	5,228,716
- Other Liabilities	-	-	-	-	-	200,939	200,939	-	-	-	200,939	200,939

On Balance sheet financial instruments

The bank measures fair values using the following fair values hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Fair value measurement using quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Fair value measurement using inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurement using inputs for the assets and liabilities that are not based on observable market data (i.e. unobservable inputs).

22.2 The bank has not disclosed the fair value for these financial assets and liabilities, as these are for short term and or re-priced over short term. Therefore their carrying amounts are reasonable approximation of fair value.

22.3 The bank's policy is to recognise transfer into and out of the different fair value hierarchy levels at the date, the event or change in circumstances, that caused the transfer occurred. There were no transfers between level 1 and level 2 during the year.

22.4 Currently no financial instruments are classified in level 3.

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SME BANK LIMITED

Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)

For the half year ended June 30, 2017

24. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on Aug 26, 2017.

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Chief Financial Officer



President/CEO



Director



Director



Director

