

**CONDENSED INTERIM
FINANCIAL STATEMENTS**
(UNAUDITED)

**FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2017**

Directors' Review on Operational Results for the Period
Ended September 30, 2017

On behalf of the Board of Directors, I am pleased to present the operational results of SME Bank for the period ended September 30, 2017.

Bank is still managing its operations with negative equity of Rs 114.83 million as on September 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 has decreased by Rs.216.42 million and stood at Rs 5,012 million as on September 30, 2017 as compared to Rs 5,229 million on December 31, 2016. Loan portfolio of the Bank stood at Rs 2,575 million as on September 30, 2017 as compared to Rs 2,797 million on December 31, 2016. Bank made disbursements of Rs 1,470 million during the nine months period ended on September 30, 2017 as compared to Rs 1,434 million for the correspondence period of the last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio. Bank's treasury investment portfolio has increased by Rs. 1,330 million during the nine months period and attained the level of Rs 6,200 million on September 30, 2017.

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 Bank's borrowers but despite these limitations the management of Bank made determined efforts to reduce the non-performing loans to Rs 507 million as on September 30, 2017 from Rs 540 million of the same period of previous year.

Bank has booked an operating pre-tax loss of Rs 483 million for nine months ended on September 30, 2017 as compared to Rs 320 million during the same period of 2016. Increase in loss is primarily due to decrease in net mark-up income and reversal of provisions. Bank's mark-up/return income was Rs 463 million which constitutes Rs 201 million from SME lending operations, income from RDFC portfolio, staff loans and Rs 262 million from treasury operations. During the period under review, cost of funds of the Bank was Rs 372 million (2016: Rs 325 million) at average rate of 5.75% (2016: 6.03%). Administrative expenses remained at the level of Rs 612 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. 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. Statement of Qualifications (SOQs) have been submitted by 5 potential investors.

M/S Pakistan Credit Rating Agency Limited affirmed the credit rating of the Bank at B/B with developing outlook on April 14, 2016.

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

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

As at September 30, 2017

		(Un-audited) September 30, 2017	(Audited) December 31, 2016
	Note	(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks		406,753	560,802
Balances with other banks		5,196	4,226
Lendings to financial institutions	7	300,000	445,000
Investments	8	6,199,845	4,869,535
Advances	9	2,353,887	2,771,720
Operating fixed assets	10	89,390	101,859
Deferred tax assets - net	11	427,645	256,177
Other assets	12	640,865	368,896
		10,423,581	9,378,215
LIABILITIES			
Bills payable	13	46,868	95,443
Borrowings	14	4,892,700	3,460,326
Deposits and other accounts	15	5,012,299	5,228,716
Deferred tax liabilities		-	-
Other liabilities		586,544	573,082
		10,538,411	9,357,567
NET ASSETS		(114,830)	20,648
REPRESENTED BY			
Share capital		2,392,507	2,392,507
Reserves		206,526	206,526
Unappropriated loss		(2,715,847)	(2,590,705)
		(116,814)	8,328
Surplus on revaluation of assets - net of tax		1,984	12,320
		(114,830)	20,648

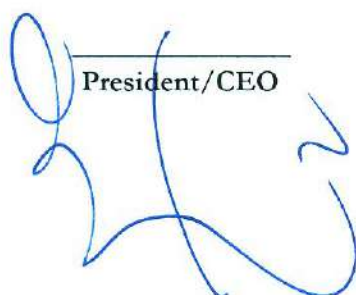
CONTINGENCIES AND COMMITMENTS

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The annexed notes from 1 to 18 form an integral part of these condensed interim unconsolidated financial information.



Chief Financial Officer



President/CEO



Director



Director



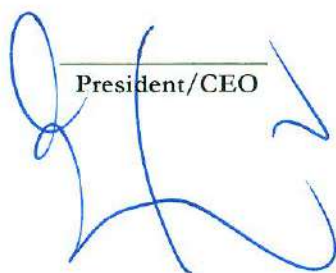
Director

SME BANK LIMITED
Condensed Interim Unconsolidated Profit and Loss Account (Un-audited)
For the Nine months ended September 30, 2017

	September 30, 2017		September 30, 2016	
	For the Quarter ended	For the Nine months ended	For the Quarter ended	For the Nine months ended
Note	(Rupees in '000)			
Mark-up/ return/ interest earned	167,910	463,111	142,236	459,033
Mark-up/ return/ interest expensed	136,566	372,234	104,903	324,575
Net mark-up/ interest income	31,344	90,877	37,333	134,458
Provision against non-performing loans and advances-net	(17,948)	(21,624)	9,839	(7,823)
Charge/ (Reversal) for diminution in the value of investments	-	70	(751)	(62,164)
Bad debts written off directly	-	-	-	-
	(17,948)	(21,554)	9,088	(69,987)
Net mark-up/ interest income after provisions	49,292	112,431	28,245	204,445
NON MARK-UP/ INTEREST INCOME				
Fee, commission and brokerage income	3,554	8,907	3,221	8,704
Dividend income	-	-	-	9
Income from dealing in foreign currencies	-	-	-	-
Gain on sale of securities	478	9,555	786	6,864
Unrealized gain on revaluation of investments classified as held for trading	-	-	-	-
Other income	73	688	(59)	481
Total non-markup/ interest income	4,105	19,150	3,948	16,058
	53,397	131,581	32,193	220,503
NON MARK-UP/ INTEREST EXPENSES				
Administrative expenses	199,309	612,078	166,904	538,445
Other provisions/ write offs	874	2,765	344	2,166
Other charges	-	-	-	-
Total non-markup/ interest expenses	200,183	614,843	167,248	540,611
LOSS BEFORE TAXATION	(146,786)	(483,262)	(135,055)	(320,108)
Taxation - Current	1,775	4,946	1,464	4,764
- Prior	-	(198,095)	-	-
- Deferred	(50,463)	(164,971)	-	-
	(48,688)	(358,120)	1,464	4,764
LOSS AFTER TAXATION	(98,098)	(125,142)	(136,519)	(324,872)
Basic/diluted Profit/ (loss) per share (Rupees)	(0.41)	(0.52)	(0.57)	(1.36)

The annexed notes from 1 to 18 form an integral part of these condensed interim unconsolidated financial information.


Chief Financial Officer


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Director

SME BANK LIMITED

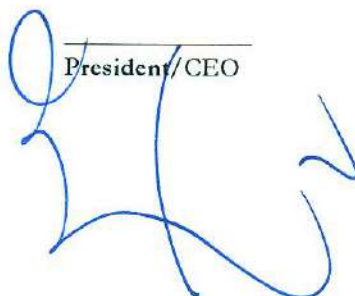
Condensed Interim Unconsolidated Statement of Comprehensive Income (Un-audited)

For the Nine months ended September 30, 2017

	September 30, 2017		September 30, 2016	
	For the Quarter ended	For the Nine months ended	For the Quarter ended	For the Nine months ended
	(Rupees in '000)			
Net loss after taxation	(98,098)	(125,142)	(136,519)	(324,872)
Items that will never be reclassified subsequently to profit and loss account				
Recognition of net actuarial (loss)/gain	-	-	-	-
Comprehensive income transferred to equity	(98,098)	(125,142)	(136,519)	(324,872)
Components of comprehensive income not reflected in equity				
Net change on remeasurement of available for sale investment to fair value	(32,003)	(16,833)	286	36,164
Deferred tax	10,884	6,497	-	-
	(21,119)	(10,336)	286	36,164
Total comprehensive income	(119,217)	(135,478)	(136,233)	(288,708)

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Chief Financial Officer


President/CEO


Director


Director


Director

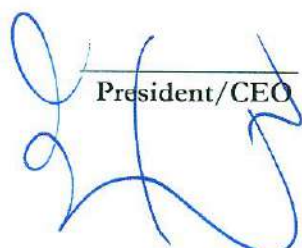
SME BANK LIMITED
Condensed Interim Unconsolidated Cash Flow Statement (Un-audited)
For the Nine months ended September 30, 2017

	Note	September 30, 2017	September 30, 2016
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(483,262)	(320,108)
Less: Dividend income		-	(9)
		(483,262)	(320,117)
Adjustments for non-cash/ other items			
Depreciation		21,899	22,759
Amortization		559	547
Reversal against non-performing advances		(21,624)	(7,823)
Charge/(Reversal) of provision for diminution in the value of investment		70	(62,164)
Gain on sale of fixed asset		(63)	(260)
Finance charges on leased assets		-	-
Other provisions		2,765	2,166
Bad debts written off directly		-	-
		3,606	(44,775)
		(479,656)	(364,892)
(Increase)/ Decrease in operating assets			
Lendings to financial institutions		445,000	-
Advances		439,457	292,191
Other assets (excluding advance taxation)		(79,933)	8,316
		804,524	300,507
Increase/ (Decrease) in operating liabilities			
Bills payable		(48,575)	40,381
Borrowings from financial institutions		1,432,374	(684,226)
Deposits		(216,417)	45,298
Other liabilities (excluding current taxation)		13,462	(27,500)
		1,180,844	(626,047)
		1,505,712	(690,432)
		(1,652)	(4,764)
Income tax paid		1,504,060	(695,196)
Net cash flow generated/(used in) from operating activities			
CASH FLOW FROM INVESTING ACTIVITIES			
Net (investment)/disinvestment in available-for-sale securities		(1,347,213)	264,219
Net investment in held-to-maturity securities		-	26,687
Dividend received		-	9
Investment in operating fixed assets		(9,994)	(13,906)
Sale proceeds of property and equipment disposed-off		68	2,141
Net cash flow (used in)/generated from investing activities			
		(1,357,139)	279,150
CASH FLOW FROM FINANCING ACTIVITIES			
Payment of lease obligation		-	-
Net cash flow used in financing activities			
		-	-
(Decrease) / Increase in cash and cash equivalents			
		146,921	(416,046)
Cash and cash equivalents at beginning of the period		565,028	791,750
Cash and cash equivalents at end of the period	18	711,949	375,704

The annexed notes from 1 to 18 form an integral part of these condensed interim unconsolidated financial information.



Chief Financial Officer



President/CEO



Director



Director



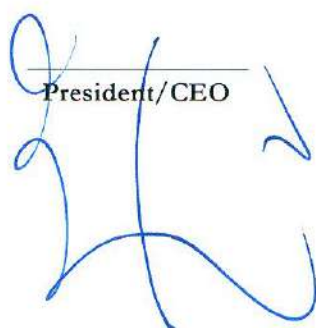
Director

SME BANK LIMITED**Condensed Interim Unconsolidated Statement of Changes in Equity (Un-audited)****For the Nine months ended September 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 for the year ended September 30, 2016				
Net loss for the period ended September 30, 2016	-	-	(324,872)	(324,872)
Effect of recognition of actuarial gain	-	-	-	-
Balance as at September 30, 2016	2,392,507	206,526	(2,621,078)	(22,045)
Total comprehensive income for the period ended December 31, 2016				
Net profit for the period	-	-	125,630	125,630
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 September 30, 2017				
Net loss for the period ended September 30, 2017	-	-	(125,142)	(125,142)
Effect of recognition of actuarial loss	-	-	-	-
Balance as at September 30, 2017	2,392,507	206,526	(2,715,847)	(116,814)

The annexed notes from 1 to 18 form an integral part of these condensed interim unconsolidated financial information.


Chief Financial Officer


President/CEO


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/646/19130/17 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 nine months ended September 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.

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.

SME Bank Limited

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

For the Nine months ended September 30, 2017

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 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 fulfillment 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.

6.5 Going concern assumption and minimum capital requirement

During the current period the Bank has incurred a net loss after tax of Rs. 125.142 million (Sep 30, 2016: 324.872 million) and as of the reporting date the accumulated losses stood at Rs. 2.716 billion (Dec 31, 2016: 2.591 billion). The Bank, due to cash deficit, is short by Rs. 10.117 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. The Bank has filed an application with SBP for extension in meeting MCR requirements due to expiry of the earlier extension. 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) September 30, 2017	(Audited) December 31, 2016
	(Rupees in '000)	
Call money lendings	300,000	-
Letter of placement	-	445,000
	<u>300,000</u>	<u>445,000</u>

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 months).

8. INVESTMENTS	September 30, 2017 (Un-audited)			December 31, 2016 (Audited)		
	Held by the bank	Given as collateral	Total	Held by the bank	Given as collateral	Total
	(Rupees in '000)			(Rupees in '000)		
8.1 INVESTMENTS BY TYPES :						
Available-for-sale securities						
Market Treasury Bills (MTBs)	471,976	1,791,556	2,263,532	561,419	1,733,403	2,294,822
Pakistan Investment Bonds (PIBs)	613,070	3,129,156	3,742,226	656,720	1,707,104	2,363,824
Fully paid ordinary shares/mutual fund	65,036	-	65,036	64,936	-	64,936
	<u>1,150,082</u>	<u>4,920,712</u>	<u>6,070,794</u>	<u>1,283,075</u>	<u>3,440,507</u>	<u>4,723,582</u>
Held-to-maturity securities						
Term Deposit Receipts (TDRs)	35,000	-	35,000	35,000	-	35,000
Certificates of Investments (COIs)	762	-	762	762	-	762
	<u>35,762</u>	<u>-</u>	<u>35,762</u>	<u>35,762</u>	<u>-</u>	<u>35,762</u>
Investment in subsidiary						
SME Leasing Limited	215,457	-	215,457	215,457	-	215,457
Investments at cost	1,401,301	4,920,712	6,322,013	1,534,294	3,440,507	4,974,801
Less: Provision for diminution in value of investments	<u>(125,709)</u>	<u>-</u>	<u>(125,709)</u>	<u>(125,639)</u>	<u>-</u>	<u>(125,639)</u>
Investments net of impairment	<u>1,275,592</u>	<u>4,920,712</u>	<u>6,196,304</u>	<u>1,408,655</u>	<u>3,440,507</u>	<u>4,849,162</u>
Net Surplus on revaluation of available-for-sale-securities	3,284	257	3,541	6,002	14,371	20,373
Total investments	<u>1,278,876</u>	<u>4,920,969</u>	<u>6,199,845</u>	<u>1,414,657</u>	<u>3,454,878</u>	<u>4,869,535</u>

SME Bank Limited

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

For the Nine months ended September 30, 2017

			(Un-audited)	(Audited)
			September 30, 2017	December 31, 2016
	Note		(Rupees in '000)	
9. ADVANCES				
Loans, cash credits, running finances, etc- In Pakistan				
Extended by:				
Defunct SBFC	9.1		4,375,314	4,375,964
Defunct RDFC	9.1		494,199	505,341
SME Bank Ltd			2,574,727	2,995,996
Due from ex-employees	9.1		15,604	16,214
Due from employees			126,945	133,944
			<u>7,586,789</u>	<u>8,027,459</u>
Net investment in finance lease - In Pakistan	9.1		1,253	1,253
Advances - gross			<u>7,588,042</u>	<u>8,028,712</u>
Provision for non-performing advances				
Specific provision			(5,223,243)	(5,244,601)
General provision			(10,912)	(12,391)
	9.3		<u>(5,234,155)</u>	<u>(5,256,992)</u>
Advances - net of provision			<u><u>2,353,887</u></u>	<u><u>2,771,720</u></u>

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 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.

SME Bank Limited
**Notes to the Condensed Interim Unconsolidated Financial Information (Un-audited)
For the Nine months ended September 30, 2017**

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. 5,399.70 million (Dec 31, 2016: Rs. 5,418.81 million) which have been placed under non-performing status as detailed below:

Category of Classification	September 30, 2017 (Un-audited)				
	Classified Advances			Provision	Provision
	Domestic	Overseas	Total	Required	Held
(Rupees in '000)					
Other Assets Especially Mentioned	13,231	-	13,231	-	-
Substandard	26,644	-	26,644	591	591
Doubtful	13,513	-	13,513	205	205
Loss	5,346,312	-	5,346,312	5,222,447	5,222,447
	5,399,700	-	5,399,700	5,223,243	5,223,243

Category of Classification	December 31, 2016 (Audited)				
	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

	September 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
Amounts written off	-	-	-	-	-	-
Reversal of provision of transferred portfolio Charge/(Reversal)	(1,213)	-	(1,213)	(1,078)	-	(1,078)
Charge for the period / year	26,308	2,440	28,748	44,394	7,088	51,482
Reversal for the period / year	(46,453)	(3,919)	(50,372)	(50,713)	(2,871)	(53,584)
	(20,145)	(1,479)	(21,624)	(6,319)	4,217	(2,102)
Closing balance	5,223,243	10,912	5,234,155	5,244,601	12,391	5,256,992

- 9.3.1 The FSV benefit availed in last years has been reduced by Rs. 14.972 million (net of FSV benefit availed during the period), which has resulted in increased 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 lowered by Rs. 14.972 million (Sep 30, 2016: lower by Rs. 63.818 million).

Particulars of provisions against non-performing advances	September 30, 2017 (Un-audited)			December 31, 2016 (Audited)		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	5,223,243	10,912	5,234,155	5,244,601	12,391	5,256,992
In foreign currencies	-	-	-	-	-	-
	5,223,243	10,912	5,234,155	5,244,601	12,391	5,256,992

SME Bank Limited

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

For the Nine months ended September 30, 2017

	Note	(Un-audited) September 30, 2017 (Rupees in '000)	(Audited) December 31, 2016 (Rupees in '000)
10. OPERATING FIXED ASSETS			
Capital work-in-progress	10.1	-	2,092
Property and equipment		120,145	131,093
Less: Provision held against property and equipment	10.2.1	(32,044)	(32,044)
Property and equipment - net	10.3	88,101	99,049
Intangible assets	10.4	1,289	718
Operating Fixed Assets		89,390	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 undeterminable at this stage and therefore adjustments, if any in this respect, have not been recognized in these financial statements.

SME Bank Limited

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

For the Nine months ended September 30, 2017

	(Un-audited) September 30, 2017 (Rupees in '000)	(Audited) December 31, 2016
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	10,956	13,380
Book value of the deletions during the period/year	(5)	(1,881)
Depreciation charge during the period/year	(21,899)	(30,398)
Book value at the end of the period/ year	<u>88,101</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	1,130	147
Amortization charge during the period/year	(559)	(710)
Book value at the end of the period/year	<u>1,289</u>	<u>718</u>
11. DEFERRED TAX ASSET - NET	(Un-audited) September 30, 2017 (Rupees in '000)	(Audited) December 31, 2016
Deferred tax asset	429,201	264,230
Deferred tax (liability)	(1,556)	(8,053)
11.1	<u>427,645</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 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.

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 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)

SME Bank Limited

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

For the Nine months ended September 30, 2017

	Note	(Un-audited) September 30, 2017	Audited December 31, 2016
		(Rupees in '000)	
13. BILLS PAYABLE			
In Pakistan		46,868	95,443
Outside Pakistan		-	-
		<u>46,868</u>	<u>95,443</u>
14. BORROWINGS			
In Pakistan		4,892,700	3,460,326
Outside Pakistan		-	-
		<u>4,892,700</u>	<u>3,460,326</u>
14.1 Particulars of borrowings with respect to currencies			
In local currency		4,892,700	3,460,326
In foreign currencies		-	-
		<u>4,892,700</u>	<u>3,460,326</u>
14.2 Details of borrowings secured/unsecured			
Borrowings from State Bank of Pakistan - unsecured	14.2.1	18,248	31,515
Repurchase agreement borrowings - secured	14.2.2	4,874,452	3,428,811
		<u>4,892,700</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 carries revised mark up rate of 2.50 % & 3.25% 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 5.82% 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.			
		(Un-audited) September 30, 2017	Audited December 31, 2016
		(Rupees in '000)	
15. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		1,343,205	1,001,313
Savings deposits		2,358,270	2,861,928
Current accounts - non-remunerative		668,363	596,943
Margin accounts		48,120	33,730
		<u>4,417,958</u>	<u>4,493,914</u>
Financial Institutions			
Remunerative deposits	15.2	592,919	733,061
Non-remunerative deposits		1,422	1,741
		<u>5,012,299</u>	<u>5,228,716</u>
15.1 Particulars of deposits			
In local currency		5,012,299	5,228,716
In foreign currencies		-	-
		<u>5,012,299</u>	<u>5,228,716</u>
15.2 Remunerative deposits include Rs. 390.577 million (Dec 31, 2016: Rs. 380.094 million) related to Equity Participation Fund.			

SME Bank Limited

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

For the Nine months ended September 30, 2017

		(Un-audited) September 30, 2017	(Audited) December 31, 2016
		(Rupees in '000)	
16.	CONTINGENCIES AND COMMITMENTS		
16.1	Transaction-related contingent liabilities		
	Guarantees in favour of:		
	Government	16.1.1 212,419	153,246
	Others	-	-
		<u>212,419</u>	<u>153,246</u>
16.1.1	This includes expired Letter of guarantees/performance aggregating to Rs. 46.633 million (Dec 31 2016: 18.866 million) for which formalities for return of original documents are in process.		
16.2	Other Contingencies		
a)	Claims not acknowledged as debt from various borrowers	53,711	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
16.3	Commitments in respect of forward lending		
	Commitments to extend credit	103,050	40,700
16.4	Commitments for the acquisition of operating fixed assets	9,211	13,963
16.5	Commitments against repo/reverse repo transactions		
	Sale and repurchase agreements	4,920,969	3,454,878
16.6	Other commitments		
	Undrawn facilities	275,696	106,375
16.7	Bills for collection		
	Payable in Pakistan	66	91

For the Nine months ended September 30, 2017

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:

	September 30, 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	106,244	20,780	148,778	-	-	-	-	126,580	15,840	146,536	-	-	-	-
- Receivables/markup	1,059	7,482	50,426	-	-	1,697	-	994	7,364	47,834	-	2,561	1,658	-
- Deposits	1,422	11,951	63,092	-	390,577	531,632	54,678	1,741	7,048	63,979	-	380,094	-	94,959
- Payables/markup	-	54	265	-	3,531	361,815	334	-	36	356	-	1,211	351,298	596
Transactions during the period														
	September 30, 2017 (Un-audited)							September 30, 2016 (Un-audited)						
	Rupees in '000							Rupees in '000						
Transactions during the year ended														
- Net mark-up / interest earned	7,499	487	3,875	-	-	-	-	10,091	357	3,774	-	-	-	-
- Net mark-up / interest expensed	-	380	2,397	-	10,820	12,833	5,061	-	495	3,585	-	10,855	-	5,006
- Total debit in running finance	63,052	-	-	-	-	-	-	62,297	-	-	-	-	-	-
- Total credits in running finance	83,388	-	-	-	-	-	-	75,360	-	-	-	-	-	-
- Payments made on behalf of	382	-	-	-	48	-	-	267	-	-	-	74	-	-
- Payments received	239	-	-	-	5,499	-	-	215	-	-	-	-	-	-
- Remuneration and others	-	56,589	319,309	715	-	-	-	-	44,904	287,283	969	-	-	-
- Contribution to employees benefit p	-	-	-	-	-	68,538	-	-	-	-	-	-	41,908	-
- Charge for the year relating to employees benefit plans	-	-	-	-	-	66,148	-	-	-	-	-	-	36,686	-
- Fee and commission income	-	-	-	-	559	-	-	-	-	-	-	565	-	-

Running finance facility (reviewable annually)

Interest rate
1 year Kibor + 3.50%

SME Bank Limited

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

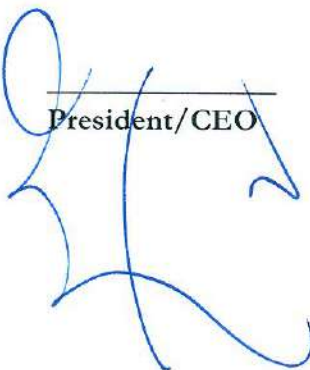
For the Nine months ended September 30, 2017

18. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on October 28, 2017.



Chief Financial Officer



President/CEO



Director



Director



Director