

DIRECTOR'S REPORT TO THE SHAREHOLDERS

We are pleased to present the 14th annual report of SME Bank Limited with the audited accounts and auditors' report thereon for the year ended December 31, 2015.

Economic Review

With year-to-date inflation at 2.06% in FY-2016, State Bank of Pakistan (SBP) slashed the benchmark interest rate effectively by 350bps, taking the policy rate to 6%. GoP also introduced a new tax of 0.3% on all banking transactions of PKR50k and above on non-filers, resulting in knee jerk withdrawals of public deposits, aggravating the already chronic liquidity situation. Worsening liquidity situation and banks' insatiable appetite for risk free securities crowded out private sector and advances only posted a meager growth of 5% in 11MCY15.

Banks are facing challenges in keeping the balance between profitability and liquidity management as the market is short by 1.4 trillion per week, which is injected by the SBP through OMOs.

As far as the interest rate scenario is concerned, we do not see the reversal in the monetary policy in the short to medium term. With a plethora of positive developments at the macro level engineered by the current finance team has left the Government with enough space to bolster the economy through easy monetary policy.

Operational Highlights

The Bank is operating with paid capital of Rs 2.39 billion since 2007. State Bank has granted exemption to meet the requirement of minimum paid up capital of Rs 10 billion by June 30, 2016. Shareholders in their meeting on October 7, 2009, advised to recapitalize the bank by increasing its paid-up capital and management has approached Ministry of Finance for the same. The Board noted that in view of impending privatization of the Bank, SBP's constraints on business expansion, and very narrow equity base of less than Rs 2 billion, it is a challenge to operate the bank on self sustainable basis.

In view of restrictions placed by State Bank of Pakistan there was no change in branch network during the year 2015 and the Bank continued to operate with 13 commercial banking branches and eight recovery offices.

Interest Rate Scenario

SBP discount rate at the beginning of the year 2015 was 9.50 percent. During the year the net decrease in discount rate was 3 percent to bring the discount rate to 6.50 percent at year end. The change in discount rate also affects KIBOR for different tenors and income of the bank as compared to previous year.

Credit Rating

The Bank was assigned a long term credit rating of BB (Double B) and short term rating of B (Single B) by PACRA credit rating agency on February 11, 2015. The credit rating company has expressed that growth in the bank's operations is restricted due to delay in injection of additional equity into the bank; that although the management is taking measures to improve business functions, operational sustainability is dependent upon equity injection by the primary sponsor.

Operational Results

In the backdrop of narrow equity base and shortage of funds, management has been able to meet day to day liquidity needs and maintenance of statutory liquidity requirements (SLR) set by the State Bank of Pakistan. Despite enormous pressure of liquidity crunch, loans and advances portfolio stood at Rs 2,990 million. During the year under review income from SME lending operations increased by an amount of Rs 28.38 million. The cost of deposits and borrowing decreased by an amount of Rs 106.314 million. The average cost of deposits decreased to 7.13% as compared to 8.29% in 2014.

The bank has booked before tax loss of Rs 275 million during the year 2015 as compared to before tax loss of Rs 378 million in 2014. In year 2015, we are able to reduce the losses over the previous year. Loss reduced mainly due to reversal of provisions on advances, investments and others by Rs.170 million and increase in net interest income over the last year. The reason for incurring losses were due to pending privatization, restructuring, limited outreach, inadequate level of equity and economic condition. In future, we expect to decrease the losses by enhancing revenues and reducing volume of our Non-performing loans.

During the year 2015, the bank reversed net provision of Rs 63 million against non-performing loans as against charged net provision of Rs 66 million in 2014. Loans and advances on account of the bank's lending operation were Rs 2,990 million in 2015 to Rs 3,215 million in 2014.

The ongoing energy crises seriously dampened the business activities in the country to a great extent, which in turn affected the repayment capacity and behaviour of the bank's borrowers but despite these hindrances the management of the bank made persistent efforts to reduce the non-performing loans of the bank resulting in decrease from Rs 732 million on December 31, 2014 to Rs 611 million on December 31, 2015.

The deposits of the bank has been increased by Rs.1,427 million and stand at Rs 4,770 million as on December 31,2015 as compared to last year Rs.3,343 million as on December 31,2014.

The Bank has investment of Rs. 215.46 million in SME Leasing Limited (SMEL) which is carried in these financial statements at Rs. 70.2 million and has outstanding running finance exposure of Rs. 127 million at the balance sheet date. The company could not build up its lease portfolio due to non-availability of funds and an increase in non-performing loans has adversely affected the financials of SMEL during last couple of years. Market value of its share has thus witnessed decline and stood at Rs 0.25 per share as on December 31, 2015. The Bank periodically reviews its investment in SMEL for evidence of any impairment. The recoverable amount of investment in SMEL is determined with reference to its value in use. The Bank uses present value techniques and financial projections of SMEL to calculate its value in use.

With regard to the exposure granted to SME Leasing Limited, SME Bank applied for exemption on per party exposure to SBP in 2015. SBP has granted relaxation to SME Bank Limited for the amount of Rs 103.03 million in single related party exposure limit under Prudential Regulation R-1 regarding the financing of Rs 150 million to SME Leasing Ltd for the period up to June 30, 2016, subject to the condition that exposure to related party be adjusted within the prescribed limit and a plan to this effect is required to be submitted to SBP.

The State Bank of Pakistan in its inspection report dated June 30, 2014 pointed out the shortfall in provision of Rs 21.56 million on account of TREC, out of which Rs 5.39 million of provision has been booked by the bank. The management is of the considered opinion that the bank has not lost its right of TREC even after the integration of Stock Exchanges. The Scheme of Integration of Karachi Stock Exchange and Lahore Stock Exchange states that "in case of dispute with regard to the status of a

person as a TREC Holder of the transferor, the Commission will determine the status of such person as a TREC Holder or otherwise”.

Paid-up Capital

The Bank is operating with paid up capital of Rs 2.39 billion since 2007. In line with the SBP guidelines banks are required to raise paid up capital to minimum capital requirements of Rs 10 billion by December 31, 2015. However the State Bank of Pakistan has granted exemption to meet the requirements of minimum paid up capital till June 30, 2016.

Financial Statements

Financial statements have been prepared in accordance with International Accounting Standards as applicable in Pakistan, SBP Prudential Regulations and Companies Ordinance 1984. The disclosures in notes to financial statements correspond to the requirement of law and guidelines issued by the regulatory authorities.

Internal Control over financial reporting

The board is fully committed to ensure the existence of an effective system of internal control in the bank and continuously reviews and evaluates the adequacy and integrity of those systems. However, the board recognizes that such systems are designed to manage rather than eliminate the risks identified to acceptable levels. Therefore, the systems implemented can provide only reasonable and not absolute assurance against the occurrence of any material misstatement and loss.

Whilst the Board has overall responsibility for the bank's system of internal controls, it has delegated the implementation of these internal control systems to the management in order to identify risk and take action to mitigate the risk. These internal control systems are subject to the board's regular review with a view towards appraising the effectiveness of these systems in the bank.

Deposits

Despite all the impediments, the deposit portfolio of the Bank was increased to Rs.4,770 million as on December 31, 2015.

Disbursements

Liquidity constraints notwithstanding, the bank was able to achieve disbursement of Rs 1,994 million during the year as compared to Rs 1,836 million in the previous year. The number of clients served during the year was 477 and total number of outstanding borrowers stood at 1,612 at the year end.

Leasing Business

SME Leasing Limited, a subsidiary of the Bank incorporated in 2002, has posted a loss before tax of Rs 21.106 million as compared to loss of Rs 10.58 million from last year. Net equity of the company is 174 million (2014: Rs 190 million). JCR-VIS has retained the long term credit rating to BB- (Double B minus) and short term rating of B (B) with stable outlook. Bank provides financing facility to SME leasing on mark-up basis as and when required.

SME Leasing disbursed Rs 45.79 million (2014: Rs 256.5 million) to 11 clients (2014: 46). Outstanding lease portfolio stands at Rs 443 million with 323 clients.

Training & HR Development

For enhancement of skill/knowledge base of human capital available for specialised tasks, necessary training and skill development activities were carried out for the staff on the basis of training need assessment.

Information Technology

SME Bank's Management is fully aware about the importance of IT enabled banking services in the success of the Bank and has invested substantially to upgrade its IT infrastructure to meet the ever changing challenges related to systems, database, application and network security; a prerequisite for launching technology driven products and offering quality services to the Bank's customers.

SMS Alert service has been rolled out after stabilization phase and has become an earning avenue for the Bank. SME Bank's website has been revamped to reflect the vibrancy in the Bank and to provide Bank's potential customers a channel to communicate with our business functions for guidance & support.

Multiple new projects are also in the pipeline to improve the business processes through use of technology and to launch advanced products to empower the bank in overcoming its handicap due to limited branch network.

Basel II & III

In 2012, State Bank of Pakistan advised all banks to submit their information for Quantitative Impact Study (QIS) – Basel III. SME Bank has applied for exemption from submission of this statement on the basis of already granted exemption from Basel II; Now State bank has granted exemption to the Bank from implementation of Basel II & III till its Restructuring/Privatization due to large investment required in software, human resource, training, etc.

Capital Adequacy Return

Bank is required to maintain CAR ratio at 10%. During the year ended on December 31, 2015 the CAR of the bank has reduced from prescribed limit. Bank has applied for exemption from maintaining the CAR below benchmark. SBP has granted the exemption in meeting the minimum CAR requirements till June 30, 2016.

Income Taxes

Tax Department served notices regarding Income Tax pertaining to tax years 2003, 2004, 2005, 2008, 2010, 2012 and 2014. Bank has filed appeals with Appellate Tribunal for the Tax years 2008 & 2010 among which tax demand for the Tax Year 2008 is in process for adjustment and settlement against tax year 2007 and 2009. Whereas for the tax years 2003, 2004 Tax Department has filed reference in The Islamabad High Court against the decisions of the Appellate Tribunal & for the tax year 2005 tax department has filed an appeal with Appellate Tribunal against the decision. For the tax year 2012 appeal filed by the bank with the Commissioner (Appeals) who remanded back the case to DCIR. Tax Year 2014 is selected for audit and DCIR has desired certain information in this regard which is in process.

Tax Department also served notices regarding sales tax pertaining to tax years 2008, 2009, 2010 and 2011-2012. Bank replied these notices and contested the cases but tax authorities passed orders against the bank. The bank filed appeal with Appellate Tribunal against these orders and obtained

stay against recovery. Tax year 2008 and 2010 have been remanded back for fresh consideration of the cases.

Risk Management Framework

To comply with SBP guidelines on Risk Management during the year 2015 risk function of the Bank was made more robust.

Whilst the State Bank has exempted the Bank from implementation of Basel-II till its privatization lending decisions are subjected to extensive and diligent credit risk evaluation and assessment process. Obligor, facility and guarantor internal credit risk rating system is in place and regular part of credit processing. Keeping in view the nature of SME lending, quick turn around time and efficiency, credit risk officers have been placed at branch level where ever feasible. Above a certain limit fixed for every branch, proposals are being reviewed at Head Office. Compliance with the State Bank's regulations, policies and Bank's own credit policies are ensured through risk review function.

The management endeavours that bank's operation and credit activities conform to the prudential regulations and SBP instructions are strictly followed and efforts are consistently made to incorporate good business practices in fulfilling the risk function.

Privatization of Bank

The Bank is on agenda of privatization by Privatization Commission (PC) since 2006. The process of privatization initiated in the year 2007. Financial Adviser was appointed by Privatization Commission in March 2007 who processed the transaction. Expression of interest was solicited in 2008. Received 18 Expression of Interests from the interested investors. Shortlisted firms/companies were in process of due diligence, when State Bank of Pakistan raised minimum Paid up Capital requirements for all locally incorporated banks to Rs. 23 billion (net of losses). The decision of the SBP adversely affected feasibility of the transaction. The interested investor could not keep remain their interest in the transaction resultantly the transaction was suspended by the Government of Pakistan.

Privatization of SME Bank reactivated in 2015 by the Privatization Commission. Financial Adviser for privatization of the bank has been appointed. Agreements are being executed with the appointed Financial Adviser.

Board of Directors

Board of Directors consists of seven directors nominated by the Federal Government; however, two positions of independent directors remained vacant during the year. Board meets frequently and ensures to meet at least every quarter.

Board held five meetings during 2015; attendance of which is given hereunder:

Directors	Meetings Attended
Mr Muhammad Adnan Jalil	5
Mr Muhammad Tanveer Butt	5
Mr Zarar Haider	5
Mr. Muhammad Alamgir Chaudhry	4
Mr Ihsan ul Haq Khan	5
Mr Badr-ul-Arifeen	- (Newly Inducted)

Board has constituted five sub-committees namely Audit Committee, Risk Management Committee, Human Resource Committee, Nomination Committee and Procurement Committee.

Audit Committee

This committee consists of three non-executive directors and has been formed to assist the Board in fulfilling its statutory and fiduciary responsibilities. This committee is advisory in nature and does not perform any management function. It assists the Board in discharging its responsibilities and in complying with good governance. During the year 2015, five meetings of Board Audit Committee were held. Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr Muhammad Adnan Jalil	5
Mr Muhammad Tanveer Butt	5
Mr Zarar Haider	5

Risk Management Committee

This Committee consists of three non-executive directors and it assists the Board in measurement and mitigation of different risks. During the year 2015, four meetings of Board Risk Management Committee were held. Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr Muhammad Adnan Jalil	4
Mr Muhammad Tanveer Butt	4
Mr Muhammad Alamgir Chaudhry	4

Human Resource Committee

Board Human Resource Committee comprising three directors has been formed to assist the Board in all staff related matters, policies and benefits including compensation. During the year 2015, four meetings of Board Human Resource Committee were held. Attendance in these meetings was as follows:

Directors	Meetings Attended
Mr Muhammad Adnan Jalil	4
Mr Muhammad Tanveer Butt	4
Mr Ihsan ul Haq Khan	4

Procurement Committee

Board procurement Committee comprising three directors has been formed to prepare, review and recommend to the Board, procurement related policies to ensure transparency in procurement transactions and in dealing with suppliers. During the year 2015, no meeting of Board Procurement Committee was held.

Nomination Committee

This Committee consists of two non-executive directors and it assists the Board in identification and recommendation of independent directors on the Board. It meets on need basis. No meeting was held of Board nomination Committee during the year 2015.

Corporate Governance and Financial Reporting Framework

SME Bank is committed to observe good corporate governance and has adopted the recently promulgated governance framework for public sector companies. The Directors have ensured that adequate arrangements are made to meet the financial recording and reporting parameters and are pleased to state that:

- proper books of accounts as required by Companies Ordinance have been maintained;
- applicable international financial reporting standards have been followed in preparation of annual accounts;
- the accounts have been prepared on going concern basis and the Bank has adopted prudent accounting policies and used sound accounting estimates;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates. Any departure has been adequately disclosed and explained;
- the financial statements prepared by the management of the Bank present fairly, state of affairs of the Bank as at December 31, 2015, the results of its operations for the period then ended, cash flow and changes in equity;
- the appointment of chairman and other members of board and the terms of their appointment along with the fee/remuneration adopted are in the best interests of the Bank as well as in line with the best practices.
- appropriate systems of internal control have been put in place for managing significant risks, with adequate arrangements for its effective implementation, continuous review and monitoring;
- the Board of Directors is satisfied with Bank's ability to continue as a going concern;
- there are no outstanding statutory payments on account of taxes, duties and levies as on December 31, 2015, except as disclosed in the financial statements;
- the value of investments held for staff funds is reflected in note 34 of notes to the accounts;
- Bank has complied with the provisions of Public Sector Companies (Corporate Governance) Rules, 2013 and there has been no material departure from the best practices of corporate Governance.
- Key Operating and financial data of last six years is available in annual Reports.

Shareholding Pattern

The statement showing pattern of shareholding as at December 31, 2015, as required under Code of Corporate Governance is annexed.

Loss per share


The basic and diluted after tax loss per share for the year 2015 is Rs. (1.18). (2014: Rs.(1.62)

Auditors

The existing auditors, M/s KPMG Taseer Hadi & Co, Chartered Accountants, will retire at conclusion of 14th Annual General Meeting.

Appreciation

While the Board appreciates the efforts of the management and staff trying to steer the Bank out of the current situation, it also highlights the need of more efforts for improving the recovery drive and for enhancing disbursements. The Board would also like to thank State Bank of Pakistan and other regulatory authorities for their continued support and guidance and the shareholders for the trust and confidence reposed in us.


Chairman
(Of the meeting)

Statement of Compliance

with Public Sector Companies (Corporate Governance) Rules, 2013

SCHEDULE I [See paragraph 2(1)]

SME Bank Limited
Year Ending December 31, 2015

- I. This statement is being presented to comply with Regulation G-1 of the Prudential Regulations for Corporate/ Commercial Banking issued by State Bank of Pakistan and the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "the Rules") issued for the purpose of establishing a framework of good governance, whereby a public sector company is managed in compliance with the best practices of public sector governance.
- II. SME Bank Ltd (the Bank) has complied with the provisions of the Rules in the following manner:

Sr. No.	Provision of the Rules	Rule No.	Y	N	Remarks												
			Tick the relevant box														
1.	The independent Directors meet the criteria of independence, as defined under the Rules.	2(d)	✓														
2.	Board has the requisite percentage of independent Directors. At present the Board includes: <table><tr><th>Category</th><th>Names</th><th>Date of Appointment</th></tr><tr><td>Independent Directors*</td><td>Mr. Muhammad Adnan Jalil</td><td>23-07-12</td></tr><tr><td>Executive Directors</td><td>Mr. Ihsan ul Haq Khan</td><td>27-05-14</td></tr><tr><td>Non-Executive Directors</td><td>Mr. Zarar Haider Mr. Muhammad Alamgir Chaudhry Mr. Badr-ul-Arifeen</td><td>16-07-2013 10-11-2014 27-10-2015</td></tr></table>	Category	Names	Date of Appointment	Independent Directors*	Mr. Muhammad Adnan Jalil	23-07-12	Executive Directors	Mr. Ihsan ul Haq Khan	27-05-14	Non-Executive Directors	Mr. Zarar Haider Mr. Muhammad Alamgir Chaudhry Mr. Badr-ul-Arifeen	16-07-2013 10-11-2014 27-10-2015	3(2)		✓	Government of Pakistan has not nominated directors as a result of which two seats of independent directors are vacant.
Category	Names	Date of Appointment															
Independent Directors*	Mr. Muhammad Adnan Jalil	23-07-12															
Executive Directors	Mr. Ihsan ul Haq Khan	27-05-14															
Non-Executive Directors	Mr. Zarar Haider Mr. Muhammad Alamgir Chaudhry Mr. Badr-ul-Arifeen	16-07-2013 10-11-2014 27-10-2015															
3.	A casual vacancy occurring on the Board was filled up by the Directors within ninety days.	3(4)		✓	Government of Pakistan (GoP) has not yet nominated Directors to fill casual vacancies.												
4.	The Directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously except their subsidiaries.	3(5)	✓														
5.	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as Board members under the provisions of the Ordinance.	3(7)	✓		All the nomination on the Board of Directors are made by the GoP.												
6.	The chairman of the Board is working separately from the chief executive of the Bank.	4(1)		✓	The Bank currently does not have Chairman of the Board of Directors.												
7.	The chairman is elected/appointed from amongst the independent Directors.	4(4)		✓	The Bank currently does not have Chairman of the Board of Directors.												

8.	Board has evaluated the candidates for the position of the Chief Executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission.	5(2)	✓		Federal Government has appointed CEO and SBP has cleared him under Fit and Proper Criteria.
9.	The Bank has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Bank along with its supporting policies and procedures, including posting the same on the Bank's website (www.smebank.org). The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from unethical practices.	5(4)	✓		
10.	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules.	5(5)	✓		
11.	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	5(5)(b)(ii)		✓	
12.	The Board has developed and implemented a policy on anti-corruption to minimize actual or perceived corruption in the Bank.	5(5)(b)(vi)		✓	
13.	The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service. A committee/department has been formed to investigate deviations from the Bank's code of conduct.	5(5)(c)(ii)	✓		
14.	The Board has ensured compliance with the law as well as the Bank's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services.	5(5)(c)(iii)	✓		
15.	The Board has developed a vision or mission statement, corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.	5(6)	✓		
16.	The Board has quantified the outlay of any action in respect of any Service delivered or goods sold by the Bank as a public service obligation, and has submitted its request for appropriate compensation to the Government for consideration.	5(8)			None
17.	The Board has met at least four times during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.	6(1) 6(2) 6(3)	✓ ✓ ✓		
18.	The Board has carried out performance evaluation of its members, including the chairman and the chief executive, on the basis of a process, based on specified criteria, developed by it. The Board has also monitored and assessed the performance of senior management on annual/half-yearly/quarterly basis.	8	✓ ✓		Performance of management is assessed on quarterly basis while reviewing quarterly accounts.

19.	The Board has reviewed and approved the related party Transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9	✓																				
20.	The Board has approved the profit and loss account for, and Balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end, and has placed the annual financial statements on the Bank's website. Monthly accounts were also prepared and circulated amongst the Board members.	10	✓																				
21.	All the Board members underwent an orientation course arranged by the Bank to apprise them of the material developments and information as specified in the Rules.	11		✓	Except Mr. Badr-ul-Arifeen who joined the Board on October 27, 2015.																		
22.	<p>The Board has formed the requisite committees, as specified in the Rules.</p> <p>The committees were provided with written term of reference defining their duties, authority and composition.</p> <p>The minutes of the meetings of the committees were circulated to all the Board members.</p> <p>The committees were chaired by the following non-executive Directors:</p> <table><tr><th>Committee</th><th>Number of members</th><th>Name of Chair</th></tr><tr><td>Audit Committee</td><td>3</td><td>Mr. Adnan Jalil</td></tr><tr><td>Risk Management Committee</td><td>3</td><td>Mr. Badr-ul-Arifeen</td></tr><tr><td>Human Resources Committee</td><td>3</td><td>Mr. Adnan Jalil</td></tr><tr><td>Procurement Committee</td><td>3</td><td>No meetings were held during the year</td></tr><tr><td>Nomination Committee</td><td>2</td><td>No meetings were held during the year</td></tr></table>	Committee	Number of members	Name of Chair	Audit Committee	3	Mr. Adnan Jalil	Risk Management Committee	3	Mr. Badr-ul-Arifeen	Human Resources Committee	3	Mr. Adnan Jalil	Procurement Committee	3	No meetings were held during the year	Nomination Committee	2	No meetings were held during the year	12	✓ ✓ ✓ ✓		
Committee	Number of members	Name of Chair																					
Audit Committee	3	Mr. Adnan Jalil																					
Risk Management Committee	3	Mr. Badr-ul-Arifeen																					
Human Resources Committee	3	Mr. Adnan Jalil																					
Procurement Committee	3	No meetings were held during the year																					
Nomination Committee	2	No meetings were held during the year																					
23.	The Board has approved appointment of Chief Financial Officer, Bank Secretary and Chief Internal Auditor, with their remuneration and terms and conditions of employment, and as per their prescribed qualifications.	13(1)		✓	Currently post of Chief Internal Auditor is vacant.																		
24.	The Bank has adopted International Financial Reporting Standards notified by the Commission under clause (i) of sub- section (3) of section 234 of the Ordinance.	16	✓																				
25.	The Directors' report for this year has been prepared in Compliance with the requirements of the Ordinance and the Rules and fully describes the salient matters required to be disclosed.	17	✓																				

26.	The Directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.	18	✓														
27.	A formal and transparent procedure for fixing the remuneration packages of individual Directors has been set in place. The annual report of the Bank contains criteria and details of remuneration of each director.	19	✓														
28.	The financial statements of the Bank were duly endorsed by the chief executive and chief financial officer, before approval of the Board.	20	✓														
29.	<div>The Board has formed an audit committee, with defined and written terms of reference, and having the following members:</div> <table><tr><th>Name of member</th><th>Category</th><th>Professional background</th></tr><tr><td>Muhammad Adnan Jalil</td><td>Independent</td><td>Businessman</td></tr><tr><td>Badr-ul-Arifeen</td><td>Non-Executive</td><td>Deputy Secretary – Ministry of Finance</td></tr><tr><td>Mr. Zarar Haider</td><td>Non-Executive</td><td>Joint Secretary – Ministry of Industries & Production</td></tr></table> <div>The chief executive and chairman of the Board are not members of the audit committee.</div>	Name of member	Category	Professional background	Muhammad Adnan Jalil	Independent	Businessman	Badr-ul-Arifeen	Non-Executive	Deputy Secretary – Ministry of Finance	Mr. Zarar Haider	Non-Executive	Joint Secretary – Ministry of Industries & Production	21	✓		
Name of member	Category	Professional background															
Muhammad Adnan Jalil	Independent	Businessman															
Badr-ul-Arifeen	Non-Executive	Deputy Secretary – Ministry of Finance															
Mr. Zarar Haider	Non-Executive	Joint Secretary – Ministry of Industries & Production															
30.	The Board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee, and which worked in accordance with the applicable standards.	22	✓		However as mentioned earlier currently post of Chief Internal Auditor is vacant.												
31.	The Bank has appointed its external auditors in line with the requirements envisaged under the Rules.	23	✓														
32.	The external auditors of the Bank have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	23(4)	✓														
33.	The external auditors have not been appointed to provide non-audit services and the auditors have confirmed that they have observed applicable guidelines issued by IFAC in this regard.	23(5)	✓														
34.	The Bank has complied with all the corporate and financial Reporting requirements of the Rules.		✓														

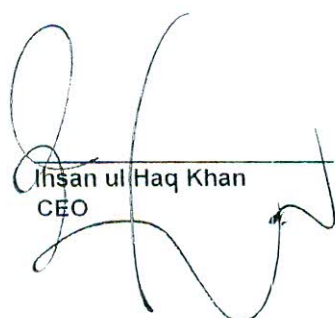
Ihsan ul Haq Khan
CEO

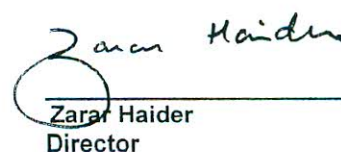
Zarar Haider
Director

**Explanation for Non-Compliance with the
Public Sector Companies (Corporate Governance) Rules, 2013**

We confirm that all other material requirements envisaged in the Rules have been complied with except for the following, toward which reasonable progress is being made by the company to seek compliance by the end of next accounting year:

Sr. No.	Rule/sub-rule no.	Reasons for non-compliance	Future course of action
1	3(2)	Government of Pakistan has not nominated directors as a result of which two seats of independent directors are vacant.	Appointment by Federal Government is awaited.
2	3(4)	Government of Pakistan has not nominated directors to fill casual vacancies.	Appointment by Federal Government is awaited.
3	4(1) & 4(4)	Government of Pakistan has not nominated a chairman of the Board of Directors of the Bank.	Appointment by Federal Government is awaited.
4	5(5)(b)(ii)	A separate policy for Conflict of Interest is not established, currently code of conduct is referred for conflict of interest.	Process to establish a separate policy is expected to be completed soon.
5	5(5)(b)(vi)	A separate anti-corruption policy for the Bank is not established.	Process to establish a separate policy is expected to be completed soon.
6	11	An orientation course of all directors was conducted on October 31, 2015. All directors attended the course on that time expect Mr. Bard-ul-Arifeen who's FPT was cleared by SBP on October 27, 2015.	Courses will be arranged in next year.
6	13(1)	Post for Chief Internal Auditor is currently vacant.	Process for appointment of Chief Internal Auditor is underway.


Ihsan ul Haq Khan
CEO


Zaraf Haider
Director

Statement of Internal Control
SME Bank Limited
Year Ended: December 31, 2015

The management of SME Bank recognizes its responsibility to establish and maintain a sound system of internal controls to provide reasonable assurance to achieve the following objectives.

- Efficiency and effectiveness of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

The internal control system encompasses policies and procedures relating to all processes, products and activities of the Bank's operations. The internal control policies and procedures are being reviewed by an independent internal audit function reporting directly to the Audit Committee of the Board of Director.

In management's assessment, these systems, policies and procedures provide reasonable assurance as to the integrity and reliability of those controls and reports produced thereon. It recognizes the fact that these system are designed to mitigate and manage, rather than eliminate the risk of failure to achieve business objectives.

The board is fully committed to ensure the existence of an effective system of internal control and risk management and continuously reviews and evaluates the adequacy and integrity of those systems.

Internal Control over Financial Reporting (ICFR) aims to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the applicable financial reporting standards. We have endeavored to follow the guidelines issued by State Bank of Pakistan on Internal Control.

State Bank of Pakistan has granted exemption to SME Bank Ltd from submitting Long Form Report by its Statutory Auditors, with the condition that if any material gap on bank's ICFR are reported by its inspection team/or Board Audit Committee ,then this exemption will be revoked. The SBP also advised to submit the Annual Assessment report on efficacy of ICFR through Board Audit committee to OSED.

Moreover SBP also advised to apprise its Board of Directors to take ownership of ICFR and Board Audit Committee to monitor progress and submit a detailed quarterly progress report regarding bridging of gaps to SBP

The Bank has revised the internal control policy in the year 2015 which emphasis that Management of the bank is responsible for maintaining a suitable system of ICFR that provides reasonable assurance regarding the reliability of financial reporting. The management should use a top down, risk-based approach, including the entity level and activity level controls in assessing financial reporting risks and the adequacy of controls


Chief Financial Officer



KPMG Taseer Hadi & Co.
Chartered Accountants
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Islamabad, Pakistan

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Fax + 92 (51) 282 2671
Internet www.kpmg.com.pk

Review Report to the Members On Statement of Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013

We have reviewed the enclosed Statement of Compliance with the best practices contained in Public Sector Companies (Corporate Governance) Rules, 2013 ("the Code") prepared by the Board of Directors of SME Bank Limited ("the Bank") for the year ended 31 December 2015 to comply with Regulation G-1 of the Prudential regulations for Corporate I Commercial Banking issued by State Bank of Pakistan and the requirements of provisions of Public Sector Companies (Corporate Governance) Rules, 2013.

The responsibility for compliance with the Code is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code and report if it does not, and to highlight any noncompliance with the requirements of the Code. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

The Code requires the Bank to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval of its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not. Moreover, the Code also requires the Board to ensure compliance with the law as well as the Bank's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services, in accordance with the PPRA Rules. We have not carried out any procedures to verify the compliance with the above stated requirements of PPRA Rules.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material aspects with the Code as applicable to the Bank for the year ended 31 December 2015.

Further, we highlight instances of non-compliance with the requirements of the Code as reflected in Schedule II to the Statement of Compliance.

**Islamabad
05 March 2016**

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner
Syed Bakhtiyar Kazmi



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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed unconsolidated statement of financial position of SME Bank Limited ("the Bank") as at December 31, 2015 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 10 branches which have been audited by us and we state that except for the matter as stated in paragraph a) below, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

Except for the matter as stated in paragraph a) below, we conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our qualified opinion and, after due verification, which in the case of loans and advances covered more than 60% of the total loans and advances of the Bank, we report that:

- a) The Bank has investment in SME Leasing Limited (SMEL) which is carried in these financial statements at Rs.70.2 million and has outstanding running finance exposure of Rs.126.8 million 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. Management has shared with us its assessment of the recoverability of investment and running finance however this does not take into account certain necessary factors. Accordingly we are unable to determine whether any impairment might be necessary against the carrying amount of the Bank's investment and running finance exposure in SMEL and its possible effect on accumulated loss and capital adequacy ratio as at 31 December 2015.
- b) Other assets include Trade Rights Entitlement Certificate (TREC) of Lahore Stock Exchange Limited having carrying amount of Rs.16.17 million. The State Bank of Pakistan had allowed the bank to record a provision of 25% against the carrying amount of TREC upto March 2015, and if the matter is not resolved to record 100% provision thereafter. However, the bank has recorded impairment only to the extent of 25% of the value of TREC. Had the provision been recorded at 100%, loss after tax for the year and accumulated losses would have increased by Rs.16.17 million; resulting in net loss after tax for the year to be Rs.298.33 million and capital adequacy ratio of the bank as at 31 December 2015 would have reduced by 0.43%.



- c) Except for the possible effects of the matters stated in paragraphs (a) and (b) above, in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- d) in our opinion:
 - i) except for the possible effects of the matters stated in paragraphs (a) and (b) above, the unconsolidated statement of financial position and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 5 to the financial statements with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- e) except for the possible effects of the matters stated in paragraphs (a) and (b) above, in our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2015 and its true balance of the loss, its cash flows and changes in equity for the year then ended; and
- f) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Without further qualifying our opinion, we draw attention to note 6.4 in the unconsolidated financial statements which indicates that the Bank continues to operate in net loss situation and notwithstanding the matters referred to in paragraphs (a) and (b) above, has incurred a net loss after tax of Rs.282.16 million and its accumulated losses stand at Rs.2.296 billion as of the reporting date. Furthermore, the Bank has a shortfall of Rs.1.904 billion on 31 December 2015 in meeting the minimum capital requirement of Rs.2 billion (net of losses) as prescribed by the State Bank of Pakistan (SBP) on the basis of amounts reported in the unconsolidated statement of financial position. These conditions, along with other matters as set forth in note 6.4, indicate the existence of material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.



KPMG Taseer Hadi & Co.

We draw attention to note 14.2 of the financial statements, wherein matter relating to recording of property amounting to Rs. 138.6 million and the status of the related legal proceedings has been explained. Our opinion is not qualified in respect of this matter.

Islamabad
05 March 2016

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner
Syed Bakhtiyar Kazmi

SME BANK LIMITED
Unconsolidated Statement of Financial Position
As at December 31, 2015

As at December 31, 2015

	Note	2015	2014
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	390,011	366,783
Balances with other banks	8	1,739	2,835
Lendings to financial institutions	9	885,000	215,000
Investments	10	4,117,491	1,446,493
Advances	11	2,751,710	2,928,737
Operating fixed assets	12	120,283	131,490
Deferred tax assets	13	-	-
Other assets	14	350,292	209,014
		8,616,526	5,300,352
LIABILITIES			
Bills payable	15	114,107	58,298
Borrowings	16	2,888,685	776,168
Deposits and other accounts	17	4,770,201	3,343,102
Other liabilities	18	487,217	433,418
		8,260,210	4,610,986
NET ASSETS		356,316	689,366
REPRESENTED BY			
Share capital	19	2,392,507	2,392,507
Reserves	20	206,526	206,526
Unappropriated loss	20	(2,296,206)	(1,972,670)
		302,827	626,363
Surplus on revaluation of assets	21	53,489	63,003
		356,316	689,366
CONTINGENCIES AND COMMITMENTS			
	22		

UPMEXA

The annexed notes from 1 to 41 and annexure form an integral part of these unconsolidated financial statements.


 Chief Financial Officer


 President/Chief Executive


 Director

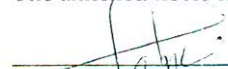

 Director


 Director


SME BANK LIMITED
Unconsolidated Profit and Loss Account
For the year ended December 31, 2015

	Note	2015	2014
		------(Rupees in '000)-----	
Mark-up/ return/ interest earned	23	705,267	788,780
Mark-up/ return/ interest expensed	24	436,280	542,594
Net mark-up/ interest income		268,987	246,186
Provision against non-performing loans and advances-net	11.5	(62,867)	66,394
Provision for diminution in the value of investments	10.4	-	11,702
Bad debts written off directly		-	-
		(62,867)	78,096
Net mark-up/ interest income after provisions		331,854	168,090
NON MARK-UP/ INTEREST INCOME			
Fee, commission and brokerage income		11,022	10,586
Dividend income		1,395	906
Income from dealing in foreign currencies		-	-
Gain on sale of securities	25	32,536	73,434
Unrealized gain on revaluation of investments classified as held for trading		-	-
Other income	26	2,981	2,602
Total non-markup/ interest income		47,934	87,528
		379,788	255,618
NON MARK-UP/ INTEREST EXPENSES			
Administrative expenses	27	645,250	596,050
Other provisions/ write offs	14.4 & 12.2	8,282	37,068
Other charges	28	826	831
Total non-markup/ interest expenses		654,358	633,949
LOSS BEFORE TAXATION		(274,570)	(378,331)
Taxation - Current	29	7,587	8,742
- Prior		-	-
- Deferred		-	-
		7,587	8,742
LOSS AFTER TAXATION		(282,157)	(387,073)
Unappropriated loss brought forward		(1,972,670)	(1,593,421)
Effect of experience adjustments of staff retirement benefits		(41,379)	7,824
Loss available for appropriation		(2,296,206)	(1,972,670)
Basic/diluted (loss) per share (Rupees)	30	(1.18)	(1.62)

The annexed notes from 1 to 41 and annexure form an integral part of these unconsolidated financial statements.


Chief Financial Officer


President/Chief Executive


Director


Director


Director

SME BANK LIMITED**Unconsolidated Statement of Comprehensive Income****For the year ended December 31, 2015**

	<u>2015</u>	<u>2014</u>
	<u>(Rupees in '000)</u>	
Net loss after taxation	(282,157)	(387,073)
Items that will never be reclassified subsequently to profit and loss account		
Recognition of net actuarial (loss)/gain	<u>(41,379)</u>	<u>7,824</u>
Comprehensive income transferred to equity	<u><u>(323,536)</u></u>	<u><u>(379,249)</u></u>
Components of comprehensive income not reflected in equity		
Net change on remeasurement of available for sale investment to fair value	<u>(9,514)</u>	<u>64,497</u>
Deferred tax	<u>-</u>	<u>-</u>
	<u>(9,514)</u>	<u>64,497</u>
Total comprehensive income	<u><u>(333,050)</u></u>	<u><u>(314,752)</u></u>

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The annexed notes from 1 to 41 and annexure form an integral part of these unconsolidated financial statements.



Chief Financial Officer



President/Chief Executive



Director



Director




Director

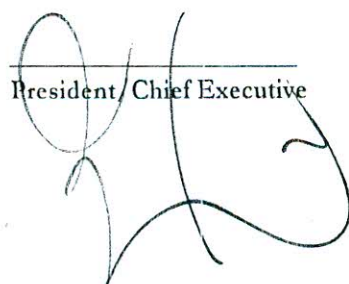
SME BANK LIMITED
Unconsolidated Cash Flow Statement
For the year ended December 31, 2015

	2015	2014
Note	(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before taxation	(274,570)	(378,331)
Less: Dividend income	(1,395)	(906)
	(275,965)	(379,237)
Adjustments for non-cash/ other items		
Depreciation	28,010	18,341
Amortization	733	1,084
(Reversal)/provision against non-performing advances	(62,867)	66,394
Charge of provision for diminution in the value of investment	-	11,702
Gain on sale of fixed asset	(1,607)	(1,156)
Finance charges on leased assets	-	104
Other provisions	8,282	37,068
Bad debts written off directly	-	-
	(27,449)	133,537
	(303,414)	(245,700)
(Increase)/ Decrease in operating assets		
Lendings to financial institutions	(285,000)	200,000
Advances	239,894	(142,756)
Other assets (excluding advance taxation)	(149,560)	58,637
	(194,666)	115,881
Increase/ (Decrease) in operating liabilities		
Bills payable	55,809	(27,477)
Borrowings from financial institutions	2,112,517	(972,792)
Deposits	1,427,099	(370,009)
Other liabilities (excluding current taxation)	17,129	(19,935)
	3,612,554	(1,390,213)
	3,114,474	(1,520,032)
Income tax paid	(12,296)	(11,888)
Net cash flow generated from / (used in) operating activities	3,102,178	(1,531,920)
CASH FLOW FROM INVESTING ACTIVITIES		
Net (investment)/disinvestment in available-for-sale securities	(2,658,825)	1,259,690
Net investment in held-to-maturity securities	(21,687)	-
Dividend received	1,395	906
Investment in operating fixed assets	(19,304)	(55,482)
Sale proceeds of property and equipment disposed-off	3,375	1,897
Net cash flow (used in) / generated from investing activities	(2,695,046)	1,207,011
CASH FLOW FROM FINANCING ACTIVITIES		
Payment of lease obligations	-	(7,639)
Net cash flow used in financing activities	-	(7,639)
Increase/(Decrease) in cash and cash equivalents	407,132	(332,548)
Cash and cash equivalents at beginning of the year	384,618	717,166
Cash and cash equivalents at end of the year	791,750	384,618

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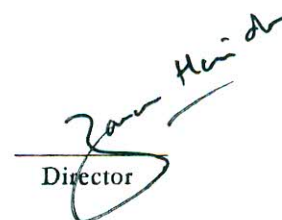
The annexed notes from 1 to 41 and annexure form an integral part of these unconsolidated financial statements.


Chief Financial Officer


President/Chief Executive


Director


Director


Director

SME BANK LIMITED


Unconsolidated Statement of Changes in Equity

For the year ended December 31, 2015

	Share Capital	Statutory reserve	Unappropriated loss	Total
	(Rupees in '000)			
Balance as at January 01, 2014	2,392,507	206,526	(1,593,421)	1,005,612
Total comprehensive income for the year ended December 31, 2014				
Net loss for the year ended December 31, 2014	-	-	(387,073)	(387,073)
Effect of recognition of actuarial gain	-	-	7,824	7,824
Balance as at December 31, 2014	2,392,507	206,526	(1,972,670)	626,363
Total comprehensive income for the year ended December 31, 2015				
Net loss for the year ended December 31, 2015	-	-	(282,157)	(282,157)
Effect of recognition of actuarial loss	-	-	(41,379)	(41,379)
Balance as at December 31, 2015	2,392,507	206,526	(2,296,206)	302,827

The annexed notes from 1 to 41 and annexure form an integral part of these unconsolidated financial statements.


Chief Financial Officer


President/Chief Executive


Director


Director


Director

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SME BANK LIMITED

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2015

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 February 11, 2015 issued by PACRA Credit Rating Company Limited, credit rating of the Bank was "BB" (Double 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, 2015 up to Rs. 10 billion. The State Bank of Pakistan (SBP) has granted exemption from meeting the enhanced Minimum Capital Requirement and the Bank is allowed to operate with minimum paid up capital (net of losses) of Rs. 2 billion till privatization of the Bank. Further State Bank of Pakistan also has granted extension to the Bank till 30 June 2016, from meeting the reduced requirement of maintaining minimum paid up capital (net of losses) of Rs. 2 billion.

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 PRESENTATION

- 2.1 These unconsolidated financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BSD Circular No. 4 dated February 17, 2006.
- 2.2 These unconsolidated financial statements are separate financial statements of the Bank in which the investment in subsidiary is stated at cost and has not been accounted for on the basis of reported results and net assets of the investees which is done in consolidated financial statements.
- 2.3 Items included in the unconsolidated financial statements are measured using the currency of the primary economic environment in which the Bank operates. The unconsolidated financial statements are presented in Pak. Rupee, which is the Bank's functional currency. Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

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SME BANK LIMITED

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2015

3 STATEMENT OF COMPLIANCE

- 3.1 These unconsolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB), provisions of and directives issued under the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and the directives issued by the State Bank of Pakistan. In case requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the State Bank of Pakistan shall prevail.

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.

- 3.2 Standards, interpretations and amendments to approved accounting standards that are not yet

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2016:

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on Company's unconsolidated financial statements.
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 – Consolidated Financial Statements and IAS 28 – Investments in Associates and Joint Ventures) [effective for annual periods beginning on or after 1 January 2016] clarifies (a) which subsidiaries of an investment entity are consolidated; (b) exemption to present consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity; and (c) how an entity that is not an investment entity should apply the equity method of accounting for its investment in an associate or joint venture that is an investment entity. The amendments are not likely to have an impact on Company's unconsolidated financial statements.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2016) clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. They require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. The amendments are not likely to have an impact on Company's unconsolidated financial statements.

Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016) allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is not likely to have an impact on Company's unconsolidated financial statements.

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SME BANK LIMITED

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2015

Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on Company's unconsolidated financial statements.

Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after 1 January 2016). The new cycle of improvements contain amendments to the following standards:

- a) - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.
- b) - IFRS 7 'Financial Instruments- Disclosures'. IFRS 7 is amended to clarify when servicing arrangements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety are in the scope of its disclosure requirements. IFRS 7 is also amended to clarify that additional disclosures required by 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS7)' are not specifically required for inclusion in condensed interim financial statements for all interim periods.
- c) - IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.
- d) - IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

The above amendments are not likely to have an impact on Company's unconsolidated financial statements.

4 BASIS OF MEASUREMENT

4.1 These unconsolidated financial statements have been prepared under the historical cost convention as modified for certain investments which are carried at fair value, and defined benefit pension and gratuity plan, defined benefit unfunded gratuity scheme, unfunded compensated absences and benevolent fund which are carried at present value of defined benefit obligations net of fair value of plan assets, wherever applicable.

4.2 Use of critical accounting estimates and judgments

The preparation of unconsolidated financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The Bank uses estimates and assumptions concerning the future. The resulting accounting estimate will, by definition, seldom equal the

Remount

SME BANK LIMITED
Notes to the Unconsolidated Financial Statements
For the year ended December 31, 2015

related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follow:

- i) classification of investments (note 5.2)
- ii) provision/ impairment against investments (note 5.2), advances (note 5.4) and other assets (note 5.6)
- iii) valuation and impairment of available for sale securities (note 5.2 and 5.6)
- iv) useful life and residual value of property and equipments, intangible assets (note 5.5)
- v) taxation (note 5.8)
- vi) staff retirement benefits (note 5.9)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The accounting policies adopted in the preparation of these unconsolidated financial statements are consistent with those of the previous financial year, except for the following standards, which became effective during the year.

IFRS 10 - 'Consolidated Financial Statements'

It replaces the current guidance on consolidation in IAS 27 - Consolidated and Separate Financial Statements. It introduces a single model of assessing control whereby an investor controls an investee when the investor has the power to control, exposure to variable returns and the ability to use its power to influence the returns of the investee.

SECP vide its notification SRO 633 (I)/2014 dated 10 July 2014, adopted IFRS 10 effective from the periods starting from 30 June 2014. However, vide its notification SRO 56 (I)/2016 dated 28 January 2016, provides the requirements of IFRS 10 will not be applicable with respect to investment in mutual funds established under Trust structure.

In light of the above, the application of IFRS 10 did not result in any additional investee being in control of the Company.

IFRS 13 - 'Fair Value Measurement'

It consolidates the guidance on how to measure fair value into one comprehensive standard. It introduces the use of an exact price, as well as extensive disclosure requirements, particularly the inclusion of non financial instruments into the fair value hierarchy. The application of IFRS 13 does not have an impact on the unconsolidated financial statements of the Company except for certain disclosures as mentioned in note 37.

5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks, balances with other banks and call money lendings.

5.2 Investments

Investments other than those categorised as held-for-trading are initially recognised at fair value which includes transactions costs associated with the investments. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

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All regular way purchases / sales of investment are recognised on the trade date, i.e., the date the Bank commits to purchase / sell the investments. Regular way purchases or sales of investment require delivery of securities within the time frame generally established by regulation or convention in the market place.

The Bank has classified its investment portfolio, except for investments in subsidiary into 'held-for-trading', 'held-to-maturity' and 'available-for-sale' as follows:

Held for trading

These are securities which are acquired with the intention to trade by taking advantage of short-term market / interest rate movements and are to be sold within 90 days. These are carried at market value, with the related unrealized gain / (loss) on revaluation being taken to profit and loss account.

Held to maturity

These represent investments acquired by the Bank with the intention and ability to hold them upto maturity. These are carried at amortized cost less impairment if any. Impairment in debt securities is determined in accordance with the requirements of Prudential Regulations issued by SBP.

Available for sale

These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value except in case of unquoted securities where market value is not available, which are carried at cost less provision for diminution in value, if any. Surplus / (deficit) on revaluation is taken to 'surplus / (deficit) on revaluation of assets' account shown below equity. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to book value of the same. On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus / (deficit) on revaluation of assets' below equity is included in the profit and loss account for the period.

Provision for diminution in values of securities (other than term finance certificates) is made after considering impairment if any in their values, where the decline in prices of available for sale equity securities is significant or prolonged, it is considered impaired and included in unconsolidated profit and loss account. Provision for diminution in the value of term finance certificates is made as per Prudential Regulations issued by State Bank of Pakistan.

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or MUFAP or the Stock Exchanges, as the case may be.

Investment in subsidiary

Investment in subsidiary is carried at cost less impairment, if any. However the investment in subsidiary is not marked to market as per prudential regulations issued by SBP.

5.3 Agreements for sale and purchase of securities (repo and reverse repo)

Securities sold under repurchase agreement (repo) are retained in the unconsolidated financial statements as investments and a liability for consideration received is included in borrowings. The difference between sale and repurchase price is treated as mark-up expense and recognized over the period of contract.

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up income and recognized over the period of the contract.

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5.4 Advances

Advances are stated net off specific and general provisions. Provisions are made in accordance with the requirements of Prudential Regulations issued by the SBP and charged to the profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances by the banks) for classification of non-performing loans and advances and computing provision / allowance there against. Such regulations also require the Bank to maintain general provision / allowance against its Small Entity (SE) advances portfolio at specified percentage of such portfolio.

Advances are written off when there is no realistic prospect of recovery.

5.5 Capital work-in-progress, operating fixed assets, depreciation and amortization

Capital work-in-progress

Capital work-in-progress is stated at cost less impairment loss, if any. These are transferred to specific assets as and when assets are available for use.

Operating fixed assets-owned

These are stated at cost less impairment losses and accumulated depreciation except for leasehold land. Land is stated at cost less impairment, if any.

Maintenance and normal repairs are charged to unconsolidated profit and loss account as and when incurred. Major renewals and improvements are capitalized.

Depreciation

Depreciation is charged on straight line method at the rates given in note 12.2, commencing from the month in which the asset is available for use. No depreciation is charged in the month of disposal of the asset. The residual value, useful life and depreciation method is reviewed and adjusted, if appropriate, at each balance sheet date.

Gains or losses on disposal of property and equipment are taken to the unconsolidated profit and loss

Assets subject to finance lease

Assets subject to finance lease are stated at cost less accumulated depreciation at the rates similar to the bank's owned assets and impairment loss (if any). The outstanding obligation under finance lease less financial charges allocated to future periods is shown as liability. Finance charges are calculated at interest rates implicit in the lease and are charged to unconsolidated profit and loss account in the period in which these are incurred.

Intangible assets

An intangible asset is recognized only if it is identifiable, the Bank has control over the asset, it is probable that economic benefits will flow to the enterprise and the cost of the asset can be measured reliably.

All amortizable intangible assets that meet the recognition criteria are initially measured at cost and are amortized on a straight line basis at the rate given in note 12.3 commencing from the month when these assets are available for use. Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. The residual value, useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

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5.6 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment, whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the unconsolidated profit and loss account. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying value that would have been determined net of depreciation/amortization, if no impairment loss had been recognized.

The available for sale equity investments are impaired when there has been a significant or prolonged decline in the value below its cost. Impairment loss is recognized in unconsolidated profit & loss account.

5.7 Deposits

Deposits are recorded at the nominal values of proceeds received. Markup accrued on deposits is recognised separately as part of other liabilities and is charged to unconsolidated profit and loss account on a time proportion basis.

5.8 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the unconsolidated profit and loss account, except to the extent that it relates to items recognised directly in other comprehensive income or below equity, in which case it is recognised in other comprehensive income or below equity.

Current

Provision for current tax is the expected tax payable on the taxable profit for the year using tax rates applicable at the date of unconsolidated statement of financial position and any adjustment to tax payable for previous years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all major temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit at the rates that are expected to apply to the period when the differences reverse based on the tax rates that have been enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax asset is reduced to the extent it is no longer probable that the related tax benefits will be realized.

The Bank also recognizes deferred tax asset/ liability on deficit/ surplus on revaluation of investments which is adjusted against the related deficit/ surplus in accordance with the requirements of International Accounting Standard on 'Income Taxes' (IAS 12). However, keeping in view the future profitable operation and uncertain status of privatization of the bank; deferred tax assets has only been recognized to the extent of deferred tax liability as at balance sheet date.

The Bank takes into account the current income tax law and decisions taken by the taxation authorities. Instances where the Bank's views differ from the views taken by the income tax department at the assessment stage and where the Bank considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

5.9 Staff retirement and other benefits

The Bank operates following staff retirement and other benefit schemes for its employees:

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Defined benefit plan- Pension and gratuity scheme

Fully funded defined benefit pension and gratuity scheme for permanent employees. Contributions are made in accordance with the actuarial valuation which is carried out periodically using 'Projected Unit Credit Method'. All actuarial gains and losses are recognized immediately through other comprehensive income.

Defined benefit unfunded gratuity scheme

The Bank operates a defined benefit unfunded gratuity scheme for its contractual employees. The obligation under the defined benefit unfunded gratuity scheme is recognized on the basis of actuarial valuation using the 'Projected Unit Credit Method'.

Benevolent fund

The Bank also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme). Contributions to this fund were made equally by the Bank and employees till March 2002. Thereafter it is wholly contributed by the Bank at the rate of 2% of basic salary with a ceiling of Rs. 200 per month per employee. Annual contribution towards the defined benefit scheme are made on the basis of actuarial advice using the Projected Unit Credit Method.

Compensated absences

The Bank provides compensated absences, an unfunded scheme, as per entitlement to all its permanent and contractual employees. For its eligible employees, related provision is made in accordance with actuarial valuation. Provision for the year is charged to unconsolidated profit and loss account. The amount recognized in unconsolidated statement of financial position represents present value of defined benefit obligation.

Defined benefit plans are provided to employees of the Bank. Calculations in this respect require assumptions to be made of future outcomes, the principal ones being in respect of increase in remuneration, the expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

5.10 Revenue recognition

5.10.1 Advances

Advances disbursed by SME Bank Limited:

Markup/ interest on performing advances is recognized on a time proportion basis over the term of loan and advances. Markup/ interest/ penal markup recoverable on non performing advances is recognized on receipt basis. Mark-up / interest on rescheduled / restructured advances and investments is recognised as permitted by the regulations of the SBP.

Advances disbursed by defunct RDFC and defunct SBFC :

Advances and related markup are suspended. Markup/ interest on advances is recognized on receipt basis.

5.10.2 Return on investments

Return on investments is recognized on a time proportion basis except on classified investment which is recognized on receipt basis. Any premium paid or discount received on purchase of securities is amortized through unconsolidated profit and loss account over the remaining period of maturity on time apportionment basis.

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5.10.3 Dividend income

Dividend income is recognized when the Bank's right to receive the dividend is established.

5.10.4 Interest, fee, brokerage and commission

Interest, fee, brokerage and commission, profit on other investments, bank deposits and staff loans is recognized on accrual basis. Income on non-funded facilities (fee, commission, documentation charges etc.) is recognized on receipt basis except commission on bank guarantees which is recognized on accrual basis.

5.11 Off setting

Financial assets and liabilities are off set and the net amount is reported in the unconsolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or realize the asset and settle the liability simultaneously.

5.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are capitalized. Other borrowing costs are recognized as an expense in the period in which it incurs.

5.13 Provisions

Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations. Expected recoveries are recognized by debiting customer accounts. Charge to unconsolidated profit and loss account is stated net off expected recoveries.

5.14 Financial assets and liabilities

All financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. A financial asset is derecognised where (a) the rights to receive cash flows from the asset have expired; or (b) the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Bank has transferred substantially all the risks and rewards of the asset, or (ii) the Bank has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

5.15 Segment reporting

A segment is the distinguishable component of the Bank that is subject to risks and rewards that are different from those of other segments. A business segment is one that is engaged either in providing certain products or services, whereas a geographical segment is one engaged in providing products and services within a particular economic environment. Segment information is presented as per the Bank's functional structure and the guidance of the State Bank of Pakistan. The Bank's primary format of reporting is based on business segments:

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5.15.1 Business segments

Trading and sales

This segment undertakes the Bank's treasury, money market and capital market activities.

Commercial banking

It includes loans, deposits and other transactions with individuals/ staff, small and medium enterprises and corporate customers.

5.15.2 Geographical segments

The Bank operates only in Pakistan.

5.16 Appropriation to reserves

Dividend and appropriation to reserves (except appropriation required by law) after the balance sheet date are recognized as liability in the Bank's financial statement in the year in which these are approved.

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 envisaged 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.

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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
- ix) No further progress has been made on the privatization of the Bank.

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
- ii) Refer Note 11.2, 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. 1 billion in the annual budget 2013-14 for equity injection into the Bank.

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6.4 Going concern assumption and minimum capital requirement

The Bank continues to operate in net loss situation. During the period, the Bank has incurred a net loss after tax of Rs. 282.16 million and its accumulated losses stand at Rs. 2.296 billion as of the reporting date. Further the Bank has shortfall of Rs. 1.904 billion on 31 Dec 2015 in meeting the minimum capital requirements of Rs. 2 billion (net of losses) as prescribed by the State Bank of Pakistan (SBP). These conditions indicate a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern and therefore, that it may be unable to realize its assets and discharge its liabilities in the ordinary course of business. However the Bank's management believes that going concern assumption is appropriate basis to prepare these unconsolidated financial statements since the Government of Pakistan (GoP), holds 94% shares of the Bank through Ministry of Finance (MoF). Government of Pakistan (GoP) has reduced the budget allocation, to provide further equity contribution to Bank, to nil. This allocation has been reduced from previously allocated budget of Rs. 2 billion for the year ended 2012-13 and Rs. 1 billion for the year 2013-14 and Rs. 0.5 billion for the year 2014-15. Further SBP has allowed exemption to the Bank from meeting the minimum capital requirement of Rs. 2 billion (net of losses) till June 30, 2016. With regards to reduction in budget allocation by GoP, the management is contemplating to approach MoF for increase in equity contribution, which will enable the bank to meet the minimum capital requirement of Rs. 2 billion (net of losses). Further keeping in view the past trend and the fact that the Bank is in the privatization list of GoP, the management believes that SBP will further extend the exemption in case the Bank is not able to meet the minimum capital requirement of Rs. 2 billion (net of losses) till June 30, 2016.

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	Note	2015	2014
		(Rupees in '000)	
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand - local currency		76,593	54,298
In transit - local currency		-	-
National Prize Bonds		152	157
With State Bank of Pakistan (SBP) in :			
Local currency current accounts	7.1	275,450	277,763
With National Bank of Pakistan in :			
Local currency current accounts		37,816	34,565
		<u>390,011</u>	<u>366,783</u>
7.1 Deposits with the State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.			
8. BALANCES WITH OTHER BANKS			
In Pakistan:			
On current accounts		498	501
On deposit accounts	8.1	11,241	12,334
Provision for doubtful balance with a bank	8.2	(10,000)	(10,000)
		<u>1,739</u>	<u>2,835</u>
8.1 These carry interest rate ranging from 1.50% to 6.50% (2014: 1.50 % to 7.0%) per annum.			
8.2 Provision for doubtful balance is in respect of deposit of Rs. 10 million with Indus Bank Limited which is under liquidation.			
9. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings		400,000	15,000
Letter of placement		485,000	200,000
	9.1	<u>885,000</u>	<u>215,000</u>
9.1 PARTICULARS OF LENDING			
In local currency	9.1.1	885,000	215,000
In foreign currencies		-	-
		<u>885,000</u>	<u>215,000</u>
9.1.1 These lendings carry markup rate ranging between 6.50% to 6.95% (2014: 9.25% to 10.15%) per annum and have maturity period upto 2 months (2014: upto 2 months).			

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		2015			2014		
10	INVESTMENTS	Held by the bank	Given as collateral	Total	Held by the bank	Given as collateral	Total
	Note	(Rupees in '000)			(Rupees in '000)		
10.1 INVESTMENTS BY TYPES :							
Available-for-sale securities							
Market Treasury Bills (MTBs)	10.3	872,651	1,444,602	2,317,253	416,513	-	416,513
Pakistan Investment Bonds (PIBs)	10.3	209,997	1,376,401	1,586,398	145,824	682,489	828,313
Fully paid ordinary shares/mutual fund		70,248	-	70,248	70,248	-	70,248
		1,152,896	2,821,003	3,973,899	632,585	682,489	1,315,074
Held-to-maturity securities							
Term Deposit Receipts (TDRs)		61,687	-	61,687	40,000	-	40,000
Certificates of Investments (COIs)		762	-	762	762	-	762
		62,449	-	62,449	40,762	-	40,762
Investment in subsidiary							
SME Leasing Limited	10.8	215,457	-	215,457	215,457	-	215,457
Investments at cost		1,430,802	2,821,003	4,251,805	888,804	682,489	1,571,293
Less: Provision for diminution in value of investments	10.4	(187,803)	-	(187,803)	(187,803)	-	(187,803)
Investments net of impairment		1,242,999	2,821,003	4,064,002	701,001	682,489	1,383,490
Net Surplus on revaluation of available-for-sale securities	21	2,679	50,810	53,489	16,480	46,523	63,003
Total investments		1,245,678	2,871,813	4,117,491	717,481	729,012	1,446,493

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		Note	2015	2014
			(Rupees in '000)	
10.2	INVESTMENTS BY SEGMENTS :			
	Federal Government Securities:			
	- Market Treasury Bills (MTBs)	10.3	2,317,253	416,513
	- Pakistan Investment Bonds (PIBs)	10.3	1,586,398	828,313
			3,903,651	1,244,826
	Fully paid up ordinary shares:			
	- Listed companies/mutual fund	10.6	22,805	22,805
	- Unlisted companies	10.7	47,443	47,443
			70,248	70,248
	Subsidiary company:			
	SME Leasing Limited	10.8	215,457	215,457
	Other investments:			
	- Certificates of Investment (COIs)		762	762
	- Term Deposit Receipts (TDRs)		61,687	40,000
			62,449	40,762
	Total investments at cost		4,251,805	1,571,293
	Provision for diminution in value of investments	10.4	(187,803)	(187,803)
	Investment (net of provision)		4,064,002	1,383,490
	Net Surplus on revaluation of available for sale securities - net	21	53,489	63,003
	Total investments		4,117,491	1,446,493

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10.3 Principal terms of investments in Federal Government securities

Name of investment	Maturity	Principal payment	Rate per annum	Coupon/Mark up payment
Market Treasury Bills	January 2016 to September 2016	On maturity	6.25% to 8.80%	at maturity
Pakistan Investment Bonds	July 2017 to March 2025	On maturity	7.65% to 12.52%	semi-annually

Market Treasury Bills and Pakistan Investment Bonds are securities eligible for re-discounting with the State Bank of Pakistan.

	Note	2015 (Rupees in '000)	2014 (Rupees in '000)
10.4 Particulars of provision for diminution in value of investments			
Opening balance		187,803	176,101
Charge for the year	10.8	-	11,702
Closing balance		187,803	187,803

10.4.1 Particulars of provision in respect of type and segment

Available-for-sale securities			
- Fully paid up ordinary shares			
- Quoted Companies		20,797	20,797
- Unlisted Shares		20,000	20,000
- Delisted Companies	10.7.2	1,003	1,003
Held-to-maturity securities			
- Certificates of Investment		762	762
Investment in subsidiary - SME Leasing Limited	10.8	145,241	145,241
		187,803	187,803

	Note	2015 Market value (Rupees '000)	Rating	2014 Market value (Rupees '000)	Rating
10.5 Quality of Available-for-sale securities					
Market Treasury Bill	10.5.1	2,316,915	unrated	416,362	unrated
Pakistan Investment Bonds	10.5.1	1,635,058	unrated	886,347	unrated
Fully paid up ordinary shares	10.5.2				
National Refinery Limited		3,347	AA+/A1+	2,773	AA+/A1+
PICIC Investment Fund Limited		1,573	1-Star	1,680	1-Star
Lotte Pakistan PTA Limited		519	unrated	547	unrated
Dewan Salman Fibre Limited		38	unrated	35	unrated
Pakistan Telecommunication Company Limited		142	unrated	198	unrated
Nishat Chunian Mills Limited		13	A-/A-2	17	A-/A-2
Crescent Textile Mills Limited		1	unrated	1	unrated
Invest Capital Investment Bank Limited		1,543	unrated	1,878	unrated
		7,176		7,129	
		3,959,149		1,309,838	

10.5.1 These are Government of Pakistan guaranteed securities.

10.5.2 Rating of these equity securities represent 'Entity/Funds Rating'.

10.5.3 Securities have either been rated by 'The Pakistan Credit Rating Agency Limited' (PACRA) or 'JCR-VIS Credit Rating Company Limited' (JCR-VIS). These ratings reflect independent credit risk assessment by respective credit rating entities.

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10.6 Investments in listed companies/mutual fund

No. of ordinary shares/units	Paid-up value per share/average price per unit (Rs)	Name of company/mutual fund	Note	2015	2014
				(Rupees in '000)	
2015	2014				
15,000	15,000	National Refinery Limited		5,311	5,311
137,668	137,668	PICIC Investment Fund Limited		2,494	2,494
79,775	79,775	Lotte Chemical Pakistan Limited		810	810
18,449	18,449	Dewan Salman Fibre Limited		337	337
8,600	8,600	Pakistan Telecommunication Company Limited		586	586
385	385	Nishat (Chunian) Limited		30	30
18	18	Crescent Textile Mills Limited		1	1
1,117,876	1,117,876	Invest Capital Investment Bank Limited		13,236	13,236
				22,805	22,805
		Impairment in available for sale listed shares	10.6.1	(20,797)	(20,797)
		Investment in listed shares (net of impairment)		2,008	2,008
		Surplus on revaluation of listed shares - (net)		5,167	5,120
		Market value as on December 31		7,175	7,128

10.6.1 Impairment in available for sale listed shares

National Refinery Limited	3,885	3,885
PICIC Investment Fund Limited	2,215	2,215
Lotte Chemical Pakistan Limited	683	683
Dewan Salman Fibre Limited	310	310
Pakistan Telecommunication Company Limited	441	441
Nishat (Chunian) Limited	27	27
Invest Capital Investment Bank Limited	13,236	13,236
	20,797	20,797

10.7 Particulars of investments held in unlisted companies, fund and delisted companies

Islamabad Stock Exchange Limited	10.7.1	18,000	18,000
Lahore Stock Exchange Limited	10.7.1	8,440	8,440
AKD Venture Fund	10.7.1	20,000	20,000
Companies delisted from stock exchange	10.7.2	1,003	1,003
		47,443	47,443

	% age	Number of units held	Cost/Paid-up value per unit held	Total paid up value	Break up value	Name of Chief executive
			(Rupees)	(Rupees in '000)		
10.7.1 AKD Venture Fund	8%	2,000,000	10.00	20,000	-	Sohaib Umar
Islamabad Stock Exchange Limited	1%	3,034,603	5.93	18,000	11.10	Mian Ayyaz Afzal
Lahore Stock Exchange Limited	1%	843,975	10.00	8,440	12.21	Aftab Ahmad Ch.

10.7.1.1 Management has fully provided the investment in AKD Venture Fund as irrecoverable and impaired.

10.7.1.2 Break up value per share is based on the financial statements of investees for the year ended June 30, 2015

Impairment

SME Bank Limited
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10.7.2 Particulars of investments in shares of companies delisted from stock exchange and are currently under liquidation.

	Number of shares held	Cost/Paid- up value per share (Rupees)	Total paid up value (Rupees in '000)
Mohib Exports Company Limited	4,600	23.81	109
Sunflow Citrus Limited	100,000	4.22	422
Tawakal Garments Company Limited	4,000	38.38	154
Tristar Shipping Lines Limited	5,000	23.56	118
Zahoor Textile Mills Limited	15,200	13.16	200
			<u>1,003</u>

10.8 Subsidiary company

SME Leasing Limited (SMEL) was incorporated on July 12, 2002 as a public limited company under the Companies Ordinance, 1984. Upto the year 2005, SMEL was a wholly owned subsidiary of the Bank, however, a public offering of 10 million ordinary shares was made during the year 2006 at an offer price of Rs. 11 per share. The Bank subscribed for 1,405,205 shares in SMEL and holds 73.14% shares in SMEL as at December 31, 2015. SMEL is listed on Lahore Stock Exchange. This investment is designated as a 'Strategic Investment' in terms of BPD Circular Letter No. 16 dated August 1, 2006. SMEL continue to operate on a net loss basis and the Bank maintains provision of Rs. 145.24 million (2014: Rs. 145.24 million) against the aforesaid investment of Rs. 215.457 million.

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SME Bank Limited

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2015

		2015	2014
	Note	(Rupees in '000)	
11. ADVANCES			
Loans, cash credits, running finances, etc- In Pakistan			
Extended by:			
Defunct SBFC	11.2	4,376,451	4,377,908
Defunct RDFC	11.2	505,441	505,441
SME Bank Ltd		2,990,029	3,215,436
Due from ex-employees	11.2	17,534	17,951
Due from employees		121,174	135,613
		<u>8,010,629</u>	<u>8,252,349</u>
Net investment in finance lease - In Pakistan	11.3	<u>1,253</u>	<u>1,253</u>
Advances - gross		<u>8,011,882</u>	<u>8,253,602</u>
Provision for non-performing advances			
Specific provision		(5,251,998)	(5,315,765)
General provision		(8,174)	(9,100)
	11.5	<u>(5,260,172)</u>	<u>(5,324,865)</u>
Advances - net of provision		<u><u>2,751,710</u></u>	<u><u>2,928,737</u></u>
11.1 Particulars of Advances (Gross)			
11.1.1 In local currency		8,011,882	8,253,602
In foreign currencies		-	-
		<u>8,011,882</u>	<u>8,253,602</u>
11.1.2 Short term (upto one year)		1,477,300	1,800,285
Long term (over one year)		6,534,582	6,453,317
		<u>8,011,882</u>	<u>8,253,602</u>

11.2 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;

Signature

SME Bank Limited

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c) all legal proceedings by and against the transferor with respect to the non-performing loans, the debtors and collateral, which may be pending before any court, tribunal, arbitrator or authority, without being subject to any liabilities of the transferor to any person.

The agreed transfer price is an amount equal to 50% of the net recoveries.

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

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

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

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

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

Pending cancellation of transfer and assignment agreement with NBP non- performing loan portfolios of defunct SBFC and RDFC stands recognised in these unconsolidated financial statements and accordingly the amount recovered by the Bank from the borrowers of defunct SBFC & RDFC has been recognized as liability to NBP on a prudent basis. Funds received by NBP to be apportioned in terms of this agreement have also not been accounted for by the Bank.

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		2015				2014			
		(Rupees in '000)							
11.3	NET INVESTMENT IN FINANCE LEASE	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Lease rentals receivable	973	-	-	973	973	-	-	973
	Residual value	280			280	280	-	-	280
	Minimum lease payments	1,253	-	-	1,253	1,253	-	-	1,253
	Financial charges for future periods	-	-	-	-	-	-	-	-
	Present value of minimum lease payments	1,253	-	-	1,253	1,253	-	-	1,253

11.4 Advances include Rs. 5,517,582 thousand (Dec 2014: Rs. 5,640,890 thousand) which have been placed under non-performing status as detailed below:

status as detailed below:

Category of Classification	2015				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
(Rupees in '000)					
Other Assets Especially Mentioned	2,313	-	2,313	-	-
Substandard	6,836	-	6,836	54	54
Doubtful	42,462	-	42,462	488	488
Loss	5,465,971	-	5,465,971	5,251,456	5,251,456
	5,517,582	-	5,517,582	5,251,998	5,251,998

Category of Classification	2014			Provision Required	Provision Held
	Classified Advances				
	Domestic	Overseas	Total		
(Rupees in '000)					
Other Assets Especially Mentioned	268	-	268	2	2
Substandard	22,889	-	22,889	56	56
Doubtful	16,760	-	16,760	328	328
Loss	5,600,973	-	5,600,973	5,315,379	5,315,379
	5,640,890	-	5,640,890	5,315,765	5,315,765

11.5 Particulars of provision against non-performing advances

	2015			2014		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
Opening balance	5,315,765	9,100	5,324,865	5,251,248	9,414	5,260,662
Amounts written off	(37)	-	(37)	(887)	-	(887)
Reversal of provision of transferred portfolio Charge/(reversals)	(1,789)	-	(1,789)	(1,304)	-	(1,304)
Charge for the year	50,438	2,594	53,032	84,021	3,224	87,245
Reversal for the year	(112,379)	(3,520)	(115,899)	(17,313)	(3,538)	(20,851)
	(61,941)	(926)	(62,867)	66,708	(314)	66,394
Closing balance	5,251,998	8,174	5,260,172	5,315,765	9,100	5,324,865

11.5.1 The FSV benefit availed in last years has been reduced by Rs. 62,193 thousand (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 year ended would have been lower by Rs. 62,193 thousand (December 31, 2014: lower by Rs. 8,302 thousand).

11.5.2 Particulars of provisions against non-performing advances	2015			2014		
	Specific	General	Total	Specific	General	Total
(Rupees in '000)						
In local currency	5,251,998	8,174	5,260,172	5,315,765	9,100	5,324,865
In foreign currencies	-	-	-	-	-	-
	5,251,998	8,174	5,260,172	5,315,765	9,100	5,324,865

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Notes to the Unconsolidated Financial Statements

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	Note	2015	2014
		(Rupees in '000)	
11.6 Particulars of Write Off:			
11.6.1 Against provisions	11.5	37	887
Directly charged to Profit & Loss account		-	-
		<u>37</u>	<u>887</u>
11.6.2 Write Offs of Rs. 500,000 and above	11.7	-	-
Write Offs of below Rs. 500,000		37	887
		<u>37</u>	<u>887</u>

11.7 Details of Loan Write Off of Rs. 500,000 and above

In terms of sub-section 3 of Section 33-A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2015 is given at Annexure-1.

11.8 Particulars of Loans and Advances to Directors, Associated Companies, Etc.	Note	2015	2014
		(Rupees in '000)	
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other			
Balance at beginning of the year		102,442	100,170
Loans granted/added during the year		60,984	25,738
Repayments - net		(34,918)	(23,466)
Balance at end of the year		128,508	102,442
Debts due by subsidiary company			
Balance at beginning of the year		155,044	43,483
Loans granted/added during the year -net		-	111,561
Repayments -net		(28,198)	-
Balance at end of the year		126,846	155,044
		<u>255,354</u>	<u>257,486</u>

	Note	2015	2014
		(Rupees in '000)	
12. OPERATING FIXED ASSETS			
Capital work-in-progress	12.1	1,054	841
Property and equipment	12.2	149,992	161,618
Intangible assets	12.3	1,281	1,075
		<u>152,327</u>	<u>163,534</u>
Less: Provision held against property and equipment	12.2	(32,044)	(32,044)
Operating Fixed Assets		<u>120,283</u>	<u>131,490</u>
12.1 Capital work-in-progress			
Advances to suppliers and contractors		1,054	841
		<u>1,054</u>	<u>841</u>

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SME Bank Limited
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12.2 PROPERTY AND EQUIPMENT

	COST		(Rupees '000) DEPRECIATION/ IMPAIRMENT				Provision Held	Net book value as at December 31, 2015	Depreciation rate per annum %
	As at January 01, 2015	Additions/ (disposals)	Adjustments	As at December 31, 2015	As at January 01, 2015	Charge for the year/ impairment	(Disposals)	As at December 31, 2015	
Lease hold land (note 12.6)	64,087	-	-	64,087	32,044	-	-	32,044	-
Lease hold improvements	32,694	1,228	-	33,101	17,518	5,486	-	22,183	33 1/3
Buildings	15,794	-	(821)	15,794	7,195	789	821	7,984	5
Office furniture and fixtures	10,091	1,738	(2,139)	9,682	9,348	316	(8)	7,517	20
Library	10	-	(10)	-	10	-	10	-	20
Office equipment	59,338	3,304	(705)	60,967	24,215	7,000	(703)	29,542	15
Computer equipment	99,117	474	(5,078)	93,399	77,495	8,332	(1,114)	79,635	33 1/3
Vehicles	51,588	11,408	(92)	52,272	36,407	5,001	5,078	32,450	20
		(10,632)					92		
	332,719	18,152	-	329,302	204,232	26,924	(10,691)	211,355	117,947
		(12,459)	(9,110)			-	9,110		
Assets held under finance lease									
Vehicles	5,926	-	-	1,547	4,839	1,086	(4,379)	1,546	1
		(4,379)							20
	338,645	18,152	-	330,849	209,071	28,010	(15,070)	212,901	117,948
		(16,838)	(9,110)			-	9,110		

12.3 INTANGIBLE ASSETS

	COST		(Rupees '000) AMORTISATION			Net book value as at December 31, 2015	Amortization rate per annum %
	As at January 01, 2014	Additions	Adjustment	As at December 31, 2015	As at January 01, 2014	As at December 31, 2015	
Computer software	28,080	939	-	26,885	27,005	25,604	33 1/3
		-	(2,134)				
	28,080	939	(2,134)	26,885	27,005	25,604	1,281
		-	(2,134)				1,281

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SME Bank Limited
Notes to the Unconsolidated Financial Statements
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12.2.1 PROPERTY AND EQUIPMENT

	COST		(Rupees '000)				DEPRECIATION		Net book value as at Dec 31, 2014	Depreciation rate per annum %
	As at January 01, 2014	As at Dec 31, 2014	As at January 01, 2014	Charge for the year	(Disposals)	As at Dec 31, 2014				
	As at January 01, 2014	As at Dec 31, 2014	As at January 01, 2014	Charge for the year	(Disposals)	As at Dec 31, 2014				
Lease hold land (note 12.6)	64,087	64,087	-	32,044	-	32,044		32,043	-	
Lease hold improvements	17,709	32,693	16,936	834	(253)	17,517		15,176	33 1/3	
Buildings	15,794	15,794	6,405	790	-	7,195		8,599	5	
Office furniture and fixtures	9,954	10,091	9,609	164	(425)	9,348		743	20	
Library	10	10	10	-	-	10		-	20	
Office equipment	29,689	59,338	23,537	2,902	(2,224)	24,215		35,123	15	
Computer equipment	89,999	99,117	85,645	6,933	(15,083)	77,495		21,622	33 1/3	
Vehicles	48,628	51,587	32,220	5,143	(957)	36,406		15,181	20	
	275,870	332,717	174,362	48,810	(18,942)	204,230		128,487		
Assets held under finance lease										
Vehicles	8,869	5,926	5,469	1,575	-	4,839		1,087	20	
	284,739	338,643	179,831	50,385	(21,147)	209,069		129,574		

12.3.1 INTANGIBLE ASSETS

	COST		(Rupees '000)				AMORTISATION		Net book value as at Dec 31, 2014	Amortization rate per annum %
	As at January 01, 2014	As at Dec 31, 2014	As at January 01, 2014	Amortization	(Disposals)	As at Dec 31, 2014				
Computer software	27,210	28,080	25,921	1,084	-	27,005		1,075	33 1/3	
	27,210	28,080	25,921	1,084	-	27,005		1,075		

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SME Bank Limited

Notes to the Unconsolidated Financial Statements

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12.4 Details of disposal of fixed assets :

Particulars of assets	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyers
------(Rupees '000)-----						
Vehicles						
Suzuki Jeep	190	190	-	243	Auction	Mr. Imran Mustafa - Auctioner
Honda CD-125	24	24	-	21	Auction	Mr. Imran Mustafa - Auctioner
Suzuki Cultus	643	643	-	64	As Per Bank Policy	Mr. Anwar Kazim - employee
Suzuki Cultus	960	576	384	480	As Per Bank Policy	Mr. Sajjad-ul-Hassan - employee
Toyota Corolla	926	926	-	2	As Per Bank Policy	Mr. Tariq Mehmood Malik - employee
Suzuki Liana	708	708	-	71	As Per Bank Policy	Mr. Sohail Ishtiaq Khan - employee
Suzuki Liana	708	708	-	71	As Per Bank Policy	Mr. Abdul Razzaq - employee
Suzuki Cultus	605	605	-	60	As Per Bank Policy	Mr. Kishwar Malik - employee
Suzuki Cultus	566	566	-	57	As Per Bank Policy	Mr. Muhammad Ayub - employee
Suzuki Cultus	563	563	-	56	As Per Bank Policy	Ms. Fakhra Jabeen - employee
Suzuki Cultus	602	602	-	60	As Per Bank Policy	Mr. Barkat Ali Lashari - employee
Toyota Corolla	946	946	-	95	As Per Bank Policy	Mr. Junaid Mohmand - employee
Toyota Corolla	555	555	-	56	As Per Bank Policy	Syed Oshaid Akhtar - employee
Toyota Corolla	873	873	-	87	As Per Bank Policy	Mr. Tariq Mehmood Cheema - employee
Honda City	873	873	-	87	As Per Bank Policy	Mr. Sabur Ahmed Khan - employee
Toyota Corolla	880	880	-	88	As Per Bank Policy	Mirza Naddem ud Din - employee
Toyota Corolla	2,048	667	1,381	1,381	As Per Bank Policy	Mr. Nasser Durrani - employee
Suzuki Cultus	879	879	-	88	As Per Bank Policy	Khawaja Laeeque Ahmed - employee
Suzuki Cultus	587	587	-	59	As Per Bank Policy	Mr. Attique ur Rehman - employee
Suzuki Swift	873	873	-	87	As Per Bank Policy	Mr. Saeed Ahmed - employee
	15,009	13,244	1,765	3,213		
Other assets having book value of less than Rs. 250,000 or cost less than of Rs.1,000,000 which ever is less	1,829	1,826	3	162		
2015	16,838	15,070	1,768	3,375		
2014	21,888	21,147	741	1,897		

12.5 Gross carrying amount of fully depreciated assets that are still in use was Rs. 148,365 thousands (2014: Rs. 163,370 thousand).

12.6 This represent cost of land measuring 500 square yards in sector G-7 and 4666.66 square yards situated in sector G-5/2 which was originally allotted to SBFC and RDFC respectively. CDA required payment of Rs. 3.637 million for transferring the plot in the name of the Group from SBFC and RDFC. However, on receiving draft of the required amount, CDA returned the same requiring payment of market value 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 land. 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 bank has inherited aforementioned land and is not required to pay the market value of the plot. Accordingly the Bank has ownership rights over this land, however on the advice of SBP to classify these plots in doubtful category, the Bank has recorded a impairment of Rs. 32.044 million against these plots.

13. DEFERRED TAX (ASSETS)/LIABILITIES

Taxable temporary differences on:

Accelerated tax depreciation and amortization

2015	2014
(Rupees in '000)	

(1,092)	(5,309)
(1,092)	(5,309)

Deductible temporary differences on:

Unused tax losses

1,092	5,309
1,092	5,309

13.1 Temporary differences for which no deferred tax is recognized due to uncertain taxable profits

582,551	503,526
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	Note	2015	2014
14. OTHER ASSETS		(Rupees in '000)	
Income/ mark-up accrued in local currency	14.1	142,479	141,414
Advances, deposits, advance rent and other prepayments		46,401	41,582
Non banking asset acquired in satisfaction of claims	14.2	138,600	-
Due from benevolent fund- unsecured	33.4.2	321	1,794
Advance Taxation		2,261	-
Receivable from subsidiary company		1,194	1,919
Receivable from Equity Participation Fund		1,354	44
Trading right entitlement certificate	14.3	21,560	21,560
Receivable from Speedway Fondmetall Pakistan Limited		19,640	19,640
Receivable against factorized portfolio		6,048	7,248
Others		66,930	61,997
		446,788	297,198
Less: Provision held against other assets	14.4	96,496	88,184
Other assets (net of provision)		350,292	209,014

14.1 This balance has been arrived at after adjusting interest in suspense of Rs. 4,052,861 thousand (2014: Rs. 4,056,996 thousand).

14.2 This represents successful bid price against auction of the property of a Bank's borrower in default. 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. However the counter party has appealed before Lahore High court against the decision which is pending adjudication. The management on the basis of legal advice strongly believes that the decision of the appeal will be in the Bank's favour. The ownership rights or possession of the said property has not yet been conveyed to the Bank, however the settlement transaction has been recognised in these financial statements as management believes that under the provision of section 65 of the Civil Procedure Code, the ownership right in the immovable property is deemed to have vested in the Bank, retrospectively from the date when auction was held i.e. 30 June 2015 and accordingly recording of property and related impacts in the financial statements is appropriate. The market value of property is Rs. 138.6 million.

14.3 Trading right entitlement certificate	Note	2015	2014
		(Rupees in '000)	
Lahore Stock Exchange Limited	14.3.1	21,560	21,560
Islamabad Stock Exchange Limited	14.3.1	-	-
		21,560	21,560

14.3.1 In accordance with the requirements of the Stock Exchanges (Corporatization, Demutualization and Integration) Act 2012 (the Act), the Bank received equity shares and one Trading Right Entitlement certificate each in Lahore Stock Exchange Limited (LSE) and Islamabad Stock Exchange Limited (ISE) in lieu of its membership cards in these exchanges during the year ended December 31, 2012.

Based on the revalued assets and liabilities of LSE and ISE, a total of 843,975 ordinary shares of Rs. 10 each and 3,034,603 ordinary shares of Rs. 10 each in the corporatized and demutualized LSE and ISE respectively were allotted to the Bank in a dematerialized form. Out of the aforementioned, 337,590 ordinary shares in LSE and 1,213,841 ordinary shares in ISE (i.e. 40 percent) have been received in the Bank's CDC participant account whereas 506, 385 ordinary shares in LSE and 1,820,762 ordinary shares in ISE (i.e. 60 percent) have been held in the blocked sub accounts maintained under LSE and ISE participant ID with Central Depository Company of Pakistan Limited. The rights attached to 60% shares held in blocked account shall be dealt with in accordance with the provisions contained in the Act. The blocked account shall be operated by the Board of Directors of the stock exchanges in the manner prescribed by the Securities and Exchange Commission of Pakistan.

In case of LSE, par value of shares received by the Bank was recognised during the year ended December 31, 2012 as available for sale investment and the excess of value of shares over the carrying value of membership card in LSE was recognised as trading right. However in case of ISE, since the par value of shares received by the Bank was more than the carrying value of membership card, investment in ISE has been recognised to the extent of the carrying value of membership card and trading right in ISE has been recognised at Nil value.

Pursuant to the requirements of the Act, during the year trading rights of the Bank in Lahore and Islamabad Stock Exchange has lapsed. However the management is considering to approach Securities and Exchange Commission of Pakistan. for extension in time and further the inspection team of the State Bank of Pakistan has allowed the Bank to record a provision of 25% against the carrying amount of TREC upto March 2015 and if the matter is not resolved to record 100% provision thereof. However the management has recorded a provision of Rs. 5.39 million against the carrying value of TREC at the year end.

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	2015	2014
	(Rupees in '000)	
14.4 Provision against other assets		
Opening balance	88,184	83,155
Charge for the year	9,482	6,024
Reversals	(1,200)	(1,000)
	8,282	5,024
Transferred to NBP	30	5
Closing balance	96,496	88,184
Provision balance is in respect of:		
Income/ mark-up accrued in local currency:		
Universal Leasing Limited	22	22
Receivable from Speedway Fondmetall Pakistan Limited	19,640	19,640
Receivable against factorized portfolio	6,048	7,248
Other receivables- SME Portfolio	39,691	36,049
Legal charges recoverable from borrowers- SBFC & RDFC	22,213	21,734
Trading right entitlement certificate - TREC	5,390	-
Others	3,492	3,491
	96,496	88,184

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	Note	2015	2014
		(Rupees in '000)	
15. BILLS PAYABLE			
In Pakistan		114,107	58,298
Outside Pakistan		-	-
		<u>114,107</u>	<u>58,298</u>
16. BORROWINGS			
In Pakistan		2,888,685	776,168
Outside Pakistan		-	-
		<u>2,888,685</u>	<u>776,168</u>
16.1 Particulars of borrowings with respect to currencies			
In local currency		2,888,685	776,168
In foreign currencies		-	-
		<u>2,888,685</u>	<u>776,168</u>
16.2 Details of borrowings secured/unsecured			
Borrowings from State Bank of Pakistan - unsecured	16.2.1	48,892	53,068
Repurchase agreement borrowings - secured	16.2.2	2,839,793	723,100
		<u>2,888,685</u>	<u>776,168</u>
16.2.1	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.		
16.2.2	These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 6.20% to 6.50% (Dec 31, 2014: 9.50% to 10.00%) per annum for period upto two month (Dec 31, 2014: upto one month). REPO transactions are secured against investment of the Bank in Government securities.		
		2015	2014
		(Rupees in '000)	
17. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		1,046,304	800,191
Savings deposits		2,505,838	1,258,358
Current accounts - non-remunerative		465,904	532,827
Margin accounts		34,946	29,612
		<u>4,052,992</u>	<u>2,620,988</u>
Financial Institutions			
Remunerative deposits	17.2	715,760	721,167
Non-remunerative deposits		1,449	947
		<u>4,770,201</u>	<u>3,343,102</u>
17.1 Particulars of deposits			
In local currency		4,770,201	3,343,102
In foreign currencies		-	-
		<u>4,770,201</u>	<u>3,343,102</u>
17.2	Remunerative deposits include Rs. 365.757 million (December 31, 2014: Rs. 346.167 million) related to Equity Participation Fund.		

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SME Bank Limited
Notes to the Unconsolidated Financial Statements
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	Note	2015	2014
18. OTHER LIABILITIES		(Rupees in '000)	
Mark-up/ return/ interest payable in local currency		58,941	43,508
Unearned commission on guarantees		1,567	1,167
Accrued expenses		8,085	18,470
Income tax payable		-	4,709
Accounts payable		12,762	5,364
Sundry creditors	18.1	117,325	115,702
Payable to NBP	11.2	5,229	5,672
Branch adjustment account		4,860	938
Payable against employees' benefit plans			
Defined benefit pension	33.1.2	112,383	79,907
Defined benefit unfunded gratuity scheme	33.2.2	53,821	44,711
Unfunded compensated absences	33.3.3	77,399	79,075
Security deposits against lease		280	280
Employees' VSS payments withheld	18.2	14,026	14,026
Payable to Equity Participation Fund - unsecured		-	-
Income tax withheld payable		18,911	18,134
Others		1,628	1,755
		<u>487,217</u>	<u>433,418</u>

18.1 This includes amount of Rs. 90.6 million (December 31, 2014: Rs. 90.6 million) payable either to SBP or FBR on VSS payments related to pension on finalization of tax assessment of financial year 2009.

18.2 Employees VSS payments of Rs. 14.026 million (December 31, 2014: Rs. 14.026 million) has been withheld due to legal cases pending in the courts against employees, filed by the Bank and customers.

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Notes to the Unconsolidated Financial Statements
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19. SHARE CAPITAL

19.1 Authorized Capital

2015	2014		2015	2014
			(Rupees in '000)	
1,000,000,000	1,000,000,000	Ordinary shares of Rs. 10 each	10,000,000	10,000,000

19.2 Issued, subscribed and paid up capital

2015	2014	Ordinary shares		
152,853,153	152,853,153	Fully paid in cash	1,528,532	1,528,532
50,000,000	50,000,000	Issued as bonus shares	500,000	500,000
36,397,547	36,397,547	Issued for consideration other than cash	363,975	363,975
239,250,700	239,250,700		2,392,507	2,392,507

19.3 Break-up of share capital is as follows:

	Number of shares	%		
Federal Government	224,615,978	93.89	2,246,160	2,246,160
National Bank of Pakistan	6,121,095	2.56	61,211	61,211
United Bank Limited	3,975,003	1.66	39,750	39,750
Habib Bank Limited	1,987,501	0.83	19,875	19,875
MCB Bank Limited	1,490,619	0.62	14,906	14,906
Allied Bank Limited	774,351	0.32	7,744	7,744
Industrial Development Bank Limited	286,146	0.12	2,861	2,861
Directors	7	-	-	-
	239,250,700	100	2,392,507	2,392,507

20. RESERVES

	Statutory Reserve	Un-appropriated loss	2015	2014
			(Rupees in '000)	
Balance at beginning of the year	206,526	(1,972,670)	(1,766,144)	(1,386,895)
Total comprehensive income/(loss) transferred to equity	-	(323,536)	(323,536)	(379,249)
Balance at end of the period/year	206,526	(2,296,206)	(2,089,680)	(1,766,144)

- 20.1 As at December 31, 2015, the Bank has availed net of tax benefit of Forced Sales Value (FSV) of Rs. 237,146 thousand (December 31, 2014: Rs. 299,339 thousand) 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.

21. SURPLUS ON REVALUATION OF ASSETS

	2015	2014
	(Rupees in '000)	
Surplus/(Deficit) on revaluation of available-for-sale securities		
Federal Government securities		
- Market Treasury Bills (MTBs)	(338)	(151)
- Pakistan Investment Bonds (PIBs)	48,660	58,034
	48,322	57,883
Fully paid up ordinary shares/units		
- Listed companies/mutual funds	5,167	5,120
	53,489	63,003
- Deferred tax	-	-
	53,489	63,003
Deferred tax thereon	-	-
	53,489	63,003

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SME Bank Limited
Notes to the Unconsolidated Financial Statements
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	2015	2014
	(Rupees in '000)	
22. CONTINGENCIES AND COMMITMENTS		
22.1 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	178,737	172,820
Others	-	-
22.2 Other Contingencies		
a) Claims not acknowledged as debt from various borrowers	22,826	24,972
b) Damages claim by borrower for delay in recording repayments received from borrower, not acknowledged as debt.	49,800	49,800
c) Damages claimed by an ex-employee of the then RDFC involved in Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited affairs and a director of Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited not acknowledged as debt.	15,000	15,000
d) Tax demands of Rs. 612.707 million raised by the Income Tax Authorities related to VSS staff cost (tax year-2005) has been decided in favour of the Bank. However tax authorities have filed appeal before ATIR against the decision of the Commissioner Income Tax (Appeals). The management of the Bank strongly believes and expects favourable outcome and therefore no provision has been made for this effect in the financial statements.	612,707	612,707
e) The Bank and the income tax department have filed an appeal before the Appellate Tribunal Inland Revenue against the appellate order of the Commissioner (Appeals), who had partly set aside the order of the Taxation officer, resulting in taxable income of Rs. 151,234 thousand and tax liability of Rs. 52,932 thousand against the declared tax loss of Rs. 23,489 thousand and tax liability of Rs. 4,249 thousand for the tax year 2008. Without prejudice to the appeal, the demand has been paid by the Bank; however no provision has been made in these financial statements as the management is confident of a favorable outcome.	13,505	13,505
f) The bank is in appeal before the Appellate Tribunal Inland Revenue against the amended assessment order for the tax year 2010, whereby the taxation officer had assessed income of Rs. 636,499 thousand and tax liability of Rs. 222,774 thousand as against income of Rs. 7,559 thousand and tax liability of Rs. 3,947 thousand admitted by the Bank. The CIR(A) decided the appeal partly in the Bank's favor while setting aside certain matters. the re-assessment has not yet been finalized by the taxation officer.	211,716	211,716
g) Back benefits and claims of staff/employees under litigation.	113,260	112,240
22.3 Commitments in respect of forward lending		
Commitments to extend credit	126,450	212,410
22.4 Commitments for the acquisition of operating fixed assets	9,053	2,346
22.5 Commitments against repo/reverse repo transactions		
Sale and repurchase agreements	2,871,813	729,012
22.6 Other commitments		
Undrawn facilities	151,813	138,968
22.7 Bills for collection		
Payable in Pakistan	50	66

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SME Bank Limited
Notes to the Unconsolidated Financial Statements
For the year ended December 31, 2015

		2015	2014
	Note	(Rupees in '000)	
23. MARK-UP/ RETURN/ INTEREST EARNED			
On loans and advances to			
Customers			
Extended by:			
Defunct RDFC		-	5,325
Defunct SBFC		-	-
SME Bank Limited		369,235	336,092
		369,235	341,417
Employees		4,707	5,464
Financial Institution - SME Leasing Limited - a subsidiary company		17,192	15,868
		391,134	362,749
On investments in			
Available for sale securities		283,537	371,316
Held to maturity securities		4,388	4,056
		287,925	375,372
On deposits with financial institutions		176	240
On securities purchased under resale agreements		1,157	814
On clean lending		17,156	42,803
On call money lending		7,719	6,802
		705,267	788,780
24. MARK-UP/ RETURN/ INTEREST EXPENSED			
On deposits		285,020	308,194
On securities sold under repurchase agreements		145,056	227,354
On SBP Refinance Scheme		2,802	3,970
Brokerage and commission		3,005	2,774
Bank charges		397	302
		436,280	542,594
25. GAIN ON SALE OF SECURITIES - net			
Federal Govt. Securities			
Market Treasury Bills		396	196
Pakistan Investment Bonds		32,140	68,629
Mutual Funds/Shares		-	4,609
		32,536	73,434
26. OTHER INCOME			
Gain on sale of operating fixed assets		1,607	1,156
Fee on fund managed by the Bank-EPF		1,152	1,285
Others		222	161
		2,981	2,602

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		2015	2014
27. ADMINISTRATIVE EXPENSES	Note	(Rupees in '000)	
Salaries, allowances, etc.		395,516	365,361
Charge for defined benefit plans			
- pension fund and gratuity	33.1.4	40,273	42,468
- unfunded gratuity scheme	33.2.4	10,488	12,936
- unfunded compensated absences		10,254	(303)
Contribution to defined contribution plan - benevolent fund	33.4.3	1,913	1,155
Non-executive directors' fees, allowances and other expenses		1,406	1,060
Rent, taxes, insurance, electricity, etc.		75,050	81,011
Legal and professional charges		13,993	14,479
Communications		5,739	5,537
Repairs and maintenance		23,577	16,571
Finance charges on leased assets		-	104
Stationery and printing		4,102	3,603
Advertisement and publicity		800	680
Auditors' remuneration	27.1	1,100	1,100
Depreciation	12.2	28,010	18,341
Amortization	12.3	733	1,084
Donations		-	-
Recruitment expenses		176	153
Travel and transport		3,127	3,180
Vehicle running and maintenance expenses		6,393	6,620
Entertainment		2,793	2,455
Training		422	142
Books, subscription and newspapers		2,575	2,565
Other expenses	27.2	16,810	15,748
		<u>645,250</u>	<u>596,050</u>
27.1 Auditors' remuneration			
Audit fee		900	900
Special certifications, half yearly review and audit of consolidated financial statements		200	200
		<u>1,100</u>	<u>1,100</u>
27.2 This includes Security charges of Rs. 13.08 million (2014: Rs. 11.79 million) and NIFT charges of Rs. 1.51 million (2014: Rs. 1.58 million).			
28. OTHER CHARGES		2015	2014
		(Rupees in '000)	
Penalties imposed by the State Bank of Pakistan		826	831

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		2015	2014
		(Rupees in '000)	
29.	TAXATION		
	Current	29.2 7,587	8,742
	Prior years	-	-
	Deferred	-	-
		7,587	8,742
29.1	Relationship between tax expense and accounting loss		
		2015	2014
		(Rupees in '000)	
	Loss before tax	(274,570)	(378,331)
	Applicable tax rate	35%	35%
	Tax on loss (Rupees in '000)	(96,100)	(132,416)
	Tax arising on		
	Deferred tax asset not recognised including permanent differences (Rupees in '000)	79,025	132,833
	Tax effect of income taxed at lower rate (Rupees in '000)	339	(417)
	Minimum tax (Rupees in '000)	7,248	8,742
	Tax credit for prior years (Rupees in '000)	-	-
	Other permanent differences (Rupees in '000)	17,075	-
		7,587	8,742
29.2	Provision for current year expenses is charged on minimum tax rate of 1% of the turnover due to tax losses of the Bank for the year ended December 31, 2014.		
30.	BASIC/ DILUTED LOSS PER SHARE	2015	2014
		(Rupees in '000)	
	Net loss after tax for the year	(282,157)	(387,073)
		Number of shares	
	Weighted average number of ordinary shares	239,250,700	239,250,700
		Rupees	
	Basic/ diluted loss per share	(1.18)	(1.62)
31.	CASH AND CASH EQUIVALENTS	2015	2014
		(Rupees in '000)	
	Cash and balances with treasury banks	390,011	366,783
	Balances with other banks	1,739	2,835
	Call money lendings	400,000	15,000
		791,750	384,618
32.	STAFF STRENGTH	2015	2014
		Numbers	
	Permanent	183	184
	Temporary/ on contractual basis	201	189
	Bank's own staff strength at end of the year	384	373
	Outsourced	111	89
	Total staff strength at end of the year	495	462
	Average number of employees during the year	479	470

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SME Bank Limited
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33. EMPLOYEE BENEFIT PLANS

33.1 Defined benefit pension and gratuity

33.1.1 General description

The Bank operates an approved defined benefit pension and gratuity scheme for all its eligible employees. Contributions are made in accordance with the actuarial recommendations.

The scheme entitles the members to:

- Gratuity payable to members who have completed a minimum of 5 years of service and total service on retirement or cessation of service or death is less than 10 years.
- Pension payable to members who have completed a minimum of 10 years of service with the Bank on retirement at age of sixty years or on completion of 25 years of service with the Bank or on permanent disability or on death during service.

33.1.2 The amounts recognised in the balance sheet for defined benefit pension and gratuity are as follows:

	2015	2014
	(Rupees '000)	
Present value of defined benefit obligation	834,743	721,255
Fair value of plan assets	(719,350)	(641,348)
Receivable from the fund	(3,010)	-
Deficit	112,383	79,907

33.1.3 Movement in net liability recognised in the balance sheet

Opening balance	79,907	78,613
Expense for the year	40,273	42,468
Other comprehensive income	31,846	2,451
Contribution to the fund	(36,633)	(43,625)
Receivable from the fund	(3,010)	-
Closing balance	112,383	79,907

33.1.4 The amounts recognised in the profit and loss account are as follows:

Current service cost	33,344	35,084
Net interest	6,929	7,384
Expense for the year	40,273	42,468

The expense has been recognized in administrative expenses in profit and loss account.

33.1.5 Actual return on plan assets

2015	65,570	69,410
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The expected return on plan assets is based on the market expectations and depends upon the asset portfolio of the fund at the beginning of the period, for returns over the entire life of the related obligation.

33.1.6 Changes in present value of defined benefit obligation

	2015	2014
	(Rupees '000)	
Present value of obligation at the beginning of the year	721,255	617,807
Current service cost	33,344	35,084
Interest cost	79,780	79,608
Benefits paid (existing pensioners)	(24,201)	(10,881)
Actuarial loss/(gain)	24,565	(363)
Present value of obligation at the end of the year	834,743	721,255

33.1.7 Changes in fair value of plan assets

	2015	2014
	(Rupees '000)	
Fair value of opening plan assets	641,348	539,194
Expected return on plan assets	72,851	72,224
Contributions	36,633	43,625
Benefits paid	(24,201)	(10,881)
Actuarial (loss)	(7,281)	(2,814)
Fair value of closing plan assets	719,350	641,348

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33.1.8 Break-up of category of assets

	2015		2014	
	(Rupees '000)	% age	(Rupees '000)	% age
Pakistan Investment Bonds (PIBs)	184,130	26%	182,653	28%
Term Deposits Receipts (TDRs)	535,194	74%	458,686	72%
Bank deposit accounts	26	0%	9	0%
	<u>719,350</u>	<u>100%</u>	<u>641,348</u>	<u>100%</u>

33.1.9 Principal actuarial assumptions

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at December 31, 2015 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	2015	2014
Valuation discount rate - per annum	9.00%	11.25%
Expected return on plan assets - per annum	9.00%	11.25%
Salaries increase rate - per annum	7.00%	9.25%
Pension indexation rate	5.00%	7.25%
Mortality rate	SLIC 2001-2005	SLIC 2001-2005

33.1.10 Disclosure for current and previous four annual years

	2015	2014	2013	2012	2011
	(Rupees '000)				
Present value of obligation	834,743	721,255	617,807	629,749	471,902
Fair value of plan assets	(719,350)	(641,348)	(539,194)	(442,793)	(355,551)
Deficit	<u>115,393</u>	<u>79,907</u>	<u>78,613</u>	<u>186,956</u>	<u>116,351</u>
Experience adjustments on plan liabilities-(gain)/loss	<u>24,565</u>	<u>(363)</u>	<u>(119,517)</u>	<u>78,268</u>	<u>(720)</u>
Experience adjustments on plan assets-(loss)/gain	<u>(7,281)</u>	<u>(2,814)</u>	<u>(8,331)</u>	<u>(5,724)</u>	<u>1,595</u>

33.1.11 Sensitivity analysis

Sensitivity analysis is performed by changing only one assumption at a time while keeping the other assumptions constant. Sensitivity analysis of discount rate and salary increase rate is presented in the below tables:

Assumptions	Impact on Defined Benefit Obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
	(Rupees '000)		
Discount rate	1%	(105,345)	123,625
Salary rate	1%	72,873	(58,515)
Withdrawal rate	10%	3,339	(2,504)
Mortality age	1 year	(7,513)	7,847

33.1.12 Risks Associated with Defined Benefit Plans

Investment Risks:

The risk arises when the actual performance of the investments is lower than expectation and thus creating a shortfall in the funding objectives.

Longevity Risks:

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

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Salary Increase Risk:

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

Withdrawal Risk:

The risk of actual withdrawals varying with the actuarial assumptions

33.1.13 The expected pension expense for the next financial year works out to Rs. 41.374 million (2014: Rs. 42.334 million).

33.1.14 **Maturity Profile**

	2015	2014
The weighted average duration of the obligation (in years)	14	15

33.2 **Defined benefit- unfunded gratuity scheme**

33.2.1 **General description**

The Bank operates a defined benefit unfunded gratuity scheme for all eligible employees.

33.2.2 **The amounts recognised in the balance sheet are as follows:**

	2015	2014
	(Rupees '000)	
Present value of defined benefit obligation	53,821	44,711
Net liability	53,821	44,711

33.2.3 **Movement in net liability recognised in the balance sheet**

	2015	2014
	(Rupees '000)	
Opening balance of liability	44,711	46,906
Expense for the year	10,488	12,936
Other comprehensive income	9,533	(10,275)
Benefits paid during the year	(10,911)	(4,856)
Closing balance of net liability	53,821	44,711

33.2.4 **The amounts recognised in the profit and loss account are as follows:**

	2015	2014
	(Rupees '000)	
Current service cost	6,072	7,154
Net interest	4,416	5,782
	10,488	12,936

The expense has been recognized in administrative expenses in profit and loss account.

33.2.5 **Movement in payable to defined benefit unfunded gratuity scheme**

	2015	2014
	(Rupees '000)	
Present value of obligation at the beginning of the year	44,711	46,906
Current service cost	6,072	7,154
Interest cost	4,416	5,782
Benefits paid	(10,911)	(4,856)
Actuarial loss/(gain)	9,533	(10,275)
Present value of obligation at the end of the year	53,821	44,711

33.2.6 **Significant actuarial assumptions are as follows:**

	2015	2014
Discount factor - per annum	10.25%	11.25%
Salary increase rate - per annum (short term - 1 year)	5.50%	9.25%
Salary increase rate - per annum (long term)	8.25%	9.25%
	SLIC	SLIC
Mortality rate	2001-2005	2001-2005

33.2.7 **Disclosure for current and previous four annual periods**

	2015	2014	2013	2012	2011
	(Rupees '000)				
Present value of obligation	53,821	44,711	46,906	41,654	42,517
Experience adjustments on plan liabilities (loss)/gain	9,533	(10,275)	2,497	1,511	(8,075)

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33.2.8 Sensitivity analysis

Sensitivity analysis is performed by changing only one assumption at a time while keeping the other assumptions constant. Sensitivity analysis of discount rate and salary increase rate is presented in the below tables:

Assumptions	Impact on Defined Benefit Obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
		(Rupees '000)	
Discount rate	1%	(6,273)	7,421
Salary rate	1%	7,781	(6,658)
Withdrawal rate	10%	42	(42)
Mortality age	1 Year	58	(58)

34.2.9 Maturity Profile

Particulars	Undiscounted Payments (Millions of Rupee)
Year 1	1.696
Year 2	2.835
Year 3	1.381
Year 4	1.364
Year 5	1.419
Year 6 to Year 10	14.281
Year 11 and above	239.671

33.2.10 Risks Associated with Defined Benefit Plans

Longevity Risks:

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population;

Salary Increase Risk:

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly;

Withdrawal Risk:

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way

33.2.11 The expected gratuity expense for the next financial year works out to Rs. 11.218 million (2014: Rs. 11.029 million).

33.2.12 Maturity Profile

	2015	2014
The weighted average duration of the obligation (in years)	13	12

33.3 Unfunded compensated absences

33.3.1 General description

The Bank provides compensated absences, an unfunded scheme, as per entitlement to all its permanent and contractual employees.

33.3.2 Principal actuarial assumptions

Actuarial valuation was carried out as at December 31, 2015 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:

	2015	2014
Discount factor - per annum	9.00%	11.25%
Salaries increase rate - per annum	7.00%	9.25%
Mortality rate	SLIC 2001-2005	SLIC 2001-2005
	2015	2014
	(Rupees '000)	
	77,399	79,075

33.3.3 The amounts recognised in the balance sheet are as follows:

Present value of defined benefit obligation

KRM/2014

	2015	2014
33.3.4 Movement in liability recognized in the balance sheet		
Balance at beginning of the year	79,075	88,127
Expense/ (reversal) for the year	10,254	(303)
Benefits paid during the year	(11,930)	(8,749)
Closing net Liability	77,399	79,075

33.3.5 Sensitivity analysis

Sensitivity analysis is performed by changing only one assumption at a time while keeping the other assumptions constant. Sensitivity analysis of discount rate and salary increase rate is presented in the below tables:

Assumptions	Impact on Defined Benefit Obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(1,038)	11,266
Salary rate	1%	11,328	(1,191)

33.3.6 Risks Associated with Defined Benefit Plans

Longevity Risks:

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary Increase Risk:

The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

Withdrawal Risk:

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

33.3.7 The expected compensated absences expense for the next financial year works out to Rs. 7.323 million (2014: Rs. 12.033 million).

33.3.8 Maturity Profile

	2015	2014
The weighted average duration of the obligation (in years)	8	8

10/11/2014

33.4 Benevolent fund

33.4.1 General description

The Bank also operates a contributory benevolent fund for all its eligible employees (defined benefit scheme). Contributions to this fund were made equally by the Bank and employees till March 2002. Thereafter it is wholly contributed by the Bank at the rate of 2% of basic salary with a ceiling of Rs. 200 per month per employee. Annual contribution towards the defined benefit scheme are made on the basis of actuarial advice using the Projected Unit Credit Method.

		2015			2014		
		(Rupees '000)					
		Officers Benevolent Fund	Staff Benevolent Fund	Total	Officers Benevolent Fund	Staff Benevolent Fund	Total
		(Rupees '000)			(Rupees '000)		
33.4.2	Actuarial liability for active employees	12,927	3,343	16,270	10,436	2,564	13,000
	Actuarial liability for beneficiaries	38	74	112	75	82	157
	Total actuarial liability	12,965	3,417	16,382	10,511	2,646	13,157
	Fair value of plan assets	(12,736)	(3,957)	(16,693)	(11,266)	(3,685)	(14,951)
	Funding surplus	229	(540)	(311)	(755)	(1,039)	(1,794)
	Receivable from fund	(10)	-	(10)	-	-	-
	Asset recognized in balance sheet	219	(540)	(321)	(755)	(1,039)	(1,794)
	Current service cost	210	77	287	356	137	493
	Net interest	(21)	(49)	(70)	(85)	(117)	(202)
	Expected benevolent expense/ (income) for the next one year commencing 01 January, 2016	189	28	217	271	20	291
33.4.3	The amount recognized in the profit and loss account is as follows:						
	Expense for the year	1,313	600	1,913	773	382	1,155
	Funding surplus	-	-	-	-	-	-
		1,313	600	1,913	773	382	1,155

33.4.4 Break-up of category of assets

2015		2014	
(Rupees '000)	% age	(Rupees '000)	% age
Pakistan Investment Bonds (PIBs)	9,277 56%	9,262 62%	
Term Deposits Receipts (TDRs)	7,315 43%	5,641 38%	
Bank deposit accounts	101 1%	48 0%	
16,693	100%	14,951	100%

33.4.5 Maturity Profile

The weighted average duration of the obligation (in years)

2015 8

2014 7

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34. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President/Chief Executive		Directors		Executives	
	2015	2014	2015	2014	2015	2014
	(Rupees in '000)					
Fees	-	-	1,000	790	-	-
Managerial remuneration	6,983	6,684	-	-	154,228	120,523
Charge for defined benefit plan	1,527	1,418	-	-	36,671	20,818
Rent and house maintenance	3,841	2,378	-	-	48,774	33,217
Utilities	698	619	-	-	15,222	12,052
Medical	1,047	711	-	-	18,843	15,285
Conveyance	52	237	-	-	8,407	5,998
Leave fare assistance	1,119	20	-	-	6,951	6,505
Others	3,026	2,494	406	270	35,424	44,820
	<u>18,293</u>	<u>14,561</u>	<u>1,406</u>	<u>1,060</u>	<u>324,520</u>	<u>259,218</u>
Number of persons	<u>1</u>	<u>2</u>	<u>4</u>	<u>8</u>	<u>188</u>	<u>153</u>

Executives mean employees, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year. The remuneration of the Directors has been fixed in accordance with the Article of Association.

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35 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

35.1 On balance sheet financial instruments

Note	2015 BOOK VALUE (Rupees in '000)						2015 FAIR VALUE (Rupees in '000)					
	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	Securities not at fair value	Total
Financial assets measured at fair value												
- Investments												
Government Securities (T bills and PIBs)	3,951,973	-	-	-	-	-	3,951,973	-	3,951,973	-	-	3,951,973
Ordinary shares of listed companies	7,175	-	-	-	-	-	7,175	7,175	-	-	-	7,175
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	35.2	-	-	-	313,418	-	313,418	-	-	-	313,418	313,418
- Balances with other banks	35.2	-	-	-	1,739	-	1,739	-	-	-	1,739	1,739
- Lending to financial institutions	35.2	-	-	-	885,000	-	885,000	-	-	-	885,000	885,000
- Advances	35.2	-	-	-	2,751,710	-	2,751,710	-	-	-	2,751,710	2,751,710
- Other assets	35.2	-	-	-	148,940	-	148,940	-	-	-	148,940	148,940
- Other Investment (COI/TDR)	35.2	61,687	-	-	-	-	61,687	-	-	-	61,687	61,687
- Subsidiary												
SME Leasing Limited	70,216	-	-	-	-	-	70,216	-	-	-	70,216	70,216
Financial liabilities not measured at fair value												
- Bills Payable	-	-	-	-	-	114,107	114,107	-	-	-	114,107	114,107
- Borrowings	-	-	-	-	-	2,888,685	2,888,685	-	-	-	2,888,685	2,888,685
- Deposits	-	-	-	-	-	4,770,201	4,770,201	-	-	-	4,770,201	4,770,201
- Other Liabilities	-	-	-	-	-	217,996	217,996	-	-	-	217,996	217,996

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SME Bank Limited
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On balance sheet financial instruments (continued)

	2014					2014					
	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	Securities not at fair value	Total
Financial assets measured at fair value											
Investments											
Government Securities (T bills and PIBs)	1,302,709	-	-	-	-	1,302,709	-	1,302,709	-	-	1,302,709
Ordinary shares of listed companies	7,128	-	-	-	-	7,128	7,128	-	-	-	7,128
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	-	-	-	312,485	-	312,485	-	-	-	312,485	312,485
Balances with other banks	-	-	-	2,835	-	2,835	-	-	-	2,835	2,835
Lending to financial institutions	-	-	215,000	-	-	215,000	-	-	-	215,000	215,000
Advances	-	-	1,446,493	-	-	1,446,493	-	-	-	1,446,493	1,446,493
Other assets	-	-	-	146,271	-	146,271	-	-	-	146,271	146,271
Other Investment (COI/TDR)	-	40,000	-	-	-	40,000	-	-	-	40,000	40,000
Subsidiary	-	-	-	-	-	-	-	-	-	-	-
SME Leasing Limited	70,216	-	-	-	-	70,216	-	-	-	70,216	70,216
Financial liabilities not measured at fair value											
Bills Payable	-	-	-	-	58,298	58,298	-	-	-	58,298	58,298
Borrowings	-	-	-	-	776,168	776,168	-	-	-	776,168	776,168
Deposits	-	-	-	-	3,343,102	3,343,102	-	-	-	3,343,102	3,343,102
Other Liabilities	-	-	-	-	204,497	204,497	-	-	-	204,497	204,497

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 measurements 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 measurements using inputs for the assets and liabilities that are not based on observable market data (i.e. unobservable inputs).

35.2 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.

35.3 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.

35.4 Currently no financial instruments are classified in level 3.

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36. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Commercial Banking (Rupees in '000)	Total
December 31, 2015			
Total income	347,906	405,295	753,201
Total expenses	303,364	724,407	1,027,771
Net income/ (loss) before tax	44,542	(319,112)	(274,570)
Segment Assets (gross)	5,604,507	8,598,534	14,203,041
Segment Non Performing Loans	-	5,517,582	5,517,582
Segment Provision Required	207,443	5,379,072	5,586,515
Segment liabilities	3,044,025	5,216,185	8,260,210
Segment Return on net Assets (ROA) (%)	0.83%	-9.91%	
Segment cost of funds (%)	9.97%	13.89%	
December 31, 2014			
Total income	500,131	376,177	876,308
Total expenses	420,036	834,603	1,254,639
Net income/ (loss) before tax	80,095	(458,426)	(378,331)
Segment assets (gross)	2,252,181	8,659,023	10,911,204
Segment non performing loans	-	5,640,890	5,640,890
Segment provision required	207,443	5,403,409	5,610,852
Segment liabilities	945,155	3,665,831	4,610,986
Segment Return on net Assets (ROA) (%)	3.92%	-14.08%	
Segment cost of funds (%)	44.44%	22.77%	

Assumptions used:

- Unallocatable assets representing 0.81% (2014: 0.97%) of the total assets have been allocated to segments based on their respective incomes.
- Unallocatable liabilities representing 5.18% (2014: 8.46%) of the total liabilities have been allocated to segments based on their respective incomes.

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37. RELATED PARTY TRANSACTIONS

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

	December 31, 2015							December 31, 2014						
	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														
Balances outstanding as at														
- Investment in subsidiary	215,457	-	-	-	-	-	-	215,457	-	-	-	-	-	-
- Advances	126,846	12,718	135,536	-	-	-	-	155,044	10,330	147,732	-	-	-	-
- Receivables/markup	1,194	6,381	46,330	-	1,354	321	-	1,919	5,087	47,041	-	44	1,794	-
- Deposits	1,449	13,317	100,480	-	365,757	-	84,405	947	1,334	58,229	17	346,167	-	2,154
- Payables/markup	-	30	636	-	1,398	243,603	633	-	12	430	-	-	203,693	7
Transactions during the year ended														
- Net mark-up / interest earned	17,192	377	4,330	-	-	-	-	15,868	354	5,110	-	-	-	-
- Net mark-up / interest expensed	-	264	4,657	-	16,156	-	4,356	-	319	4,670	2	22,979	-	107
- Total debit in running finance	57,805	-	-	-	-	-	-	253,351	-	-	-	-	-	-
- Total credits in running finance	86,003	-	-	-	-	-	-	141,790	-	-	-	-	-	-
- Payments made on behalf of	595	-	-	-	158	-	-	492	-	-	-	70	-	-
- Payments received from	595	-	-	-	-	-	-	721	-	-	-	-	-	-
- Remuneration and allowances	-	42,169	336,418	-	-	-	-	-	33,562	318,656	-	-	-	-
- Payments to employees benefit plan:	-	-	-	-	-	84,104	-	-	-	-	-	-	68,432	-
- Charge for the year relating to employees benefit plans	-	-	-	-	-	62,928	-	-	-	-	-	-	56,256	-
- Fee and commission income	-	-	-	-	1,152	-	-	-	-	-	-	1,285	-	-
Remuneration of chief executive officer, Directors and executives is disclosed in note 35 to the financial statements.														

Principal terms of loan facility to SMEL

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

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38. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy is as follows:

		2015	2014		
		(Rupees in '000)			
Regulatory capital base					
<i>Tier I capital</i>					
Shareholders capital/assigned capital		2,392,507	2,392,507		
Reserves		206,526	206,526		
Unappropriated/unremitted profits (net of losses)		(2,296,206)	(1,972,670)		
		302,827	626,363		
Less: Adjustments					
Goodwill/intangible Assets		1,281	1,075		
Investment in equity of subsidiary		70,216	70,216		
Deficit on revaluation of available for sale investments		-	151		
		71,497	71,442		
<i>Total tier I capital</i>		231,330	554,921		
<i>Tier II capital</i>		8,174	11,660		
<i>Eligible tier III capital</i>		-	-		
Total regulatory capital	(a)	239,504	566,581		
Risk-weighted exposures		2015	2014		
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
		(Rupees '000)			
<i>Credit risk</i>					
Balance sheet items:					
Cash and other liquid assets		391,750	348	369,618	567
Investments/ lending to financial institutions		5,002,491	660,302	1,661,493	276,568
Loans and advances		2,751,710	1,632,168	2,928,737	1,713,243
Fixed assets		120,283	120,283	131,490	131,490
Deferred tax assets		-	-	-	-
Other assets		350,292	292,670	209,014	164,582
		8,616,526	2,705,771	5,300,352	2,286,450
Off balance sheet items					
Weighted Non-funded exposures		167,605	83,803	161,283	80,642
		167,605	83,803	161,283	80,642
Credit risk-weighted exposures	(b)	8,784,131	2,789,574	5,461,635	2,367,092
Market risk			737,793		309,661
Market risk-weighted exposures		-	737,793	-	309,661
Total risk-weighted exposures	(c)		3,527,367		2,676,753
<i>Capital adequacy ratio credit risk</i> [(a) / (b) x 100]			8.59%		23.94%
<i>Total Capital adequacy ratio</i> [(a) / (c) x 100]			6.79%		21.17%

State Bank of Pakistan (SBP) has granted exemption to the Bank vide letter No. BSD/SU-21/220/1624/2007 dated June 08, 2007 from computing capital adequacy ratio under BASEL II till restructuring/privatization and has granted exemption from implementation of Basel III Capital Instructions till restructuring/privatization vide SBP letter # BPRD/BA&CPD/646/000886/16 dated January 12, 2016. Accordingly, the Bank computes capital adequacy ratio under BASEL I and SBP has allowed exemption in meeting the minimum CAR requirements of 10% till June 30, 2016 vide SBP letter No. BPRD/BA&CP/646/3116/2016 dated February 08, 2016.

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39. RISK MANAGEMENT

39.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Bank is not exposed to major concentration of credit risk. Written procedures for credit and risk management functions have been developed and implemented. Credit evaluation system comprise of well designed loan approval and review responsibilities and it is ensured that Bank's credit-granting activities conform to the established strategy, prudential regulations and SBP instructions are strictly followed. To ensure that credit granting activities are adequately diversified, besides fixing limits on individual credit, it is ascertained that there is no concentration in a particular industry or economic sector, geographical region and specific product. Special attention is placed on such non-performing loans and a Special Assets Management Division follows up and recovers all such loans. Recovery against certain specific non-performing loans has been outsourced to National Bank of Pakistan.

39.1.1 Segment by class of business

	2015					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	171,680	2.1%	105	0.0%	-	-
Agriculture, forestry, hunting and fishing	248,968	3.1%	-	-	-	-
Mining & quarrying	9,053	0.1%	-	-	-	-
Textile	444,915	5.6%	76,646	1.6%	-	-
Cement	20,268	0.3%	-	-	-	-
Footwear and leather	86,890	1.1%	2,804	0.1%	-	-
Automobile and transportation equipment	81,786	1.0%	143	0.0%	-	-
Financial	126,846	1.6%	717,209	15.0%	2,871,813	65.6%
Insurance	-	0.0%	19	0.0%	-	-
Electronics and electrical appliances	40,428	0.5%	1,003	0.0%	-	-
Construction	375,856	4.7%	-	-	-	-
Power (electricity), gas, water and sanitary	61,609	0.8%	1,350	0.0%	-	-
Wholesale and trade	1,941,230	24.2%	-	-	-	-
Transport, storage, and communication	74,464	0.9%	-	-	-	-
Individuals	1,644,950	20.5%	1,678,625	35.2%	391,523	9.0%
Services	110,076	1.4%	-	-	15,000	0.3%
Government	-	-	-	-	1,016,665	23.2%
Others	2,572,863	32.1%	2,292,297	48.1%	81,729	1.9%
	<u>8,011,882</u>	<u>100%</u>	<u>4,770,201</u>	<u>100%</u>	<u>4,376,730</u>	<u>100%</u>

39.1.2 Segment by sector

Public/ Government	-	-	2,471,992	52%	1,016,665	23%
Private	8,011,882	100%	2,298,209	48%	3,360,065	77%
	<u>8,011,882</u>	<u>100%</u>	<u>4,770,201</u>	<u>100%</u>	<u>4,376,730</u>	<u>100%</u>

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Segment by class of business

	2014					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	163,217	2.0%	218	0.0%	-	-
Agriculture, forestry, hunting and fishing	247,424	3.0%	-	0.0%	-	-
Mining & quarrying	9,053	0.1%	-	-	-	-
Textile	455,858	5.5%	75,074	2.3%	-	-
Cement	20,268	0.3%	42,006	1.3%	-	-
Footwear and leather garments	89,614	1.1%	583	0.0%	-	-
Automobile and transportation equipment	91,435	1.1%	23	0.0%	-	-
Financial	155,044	1.9%	722,114	21.6%	729,012	31.8%
Insurance	-	-	19	0.0%	-	-
Electronics and electrical appliances	35,246	0.4%	19	0.0%	-	-
Construction	289,426	3.5%	-	-	-	-
Power (electricity), gas, water and sanitary	85,276	1.0%	2,318	0.1%	-	-
Wholesale and trade	1,935,201	23.5%	-	-	-	-
Transport, storage, and communication	70,473	0.9%	-	-	-	-
Individuals	1,660,754	20.1%	1,569,584	47.0%	463,618	20.2%
Services	108,851	1.3%	-	-	15,000	0.7%
Government	-	-	-	-	1,010,748	44.0%
Others	2,836,462	34.4%	931,144	27.9%	77,184	3.4%
	<u>8,253,602</u>	<u>100%</u>	<u>3,343,102</u>	<u>100%</u>	<u>2,295,562</u>	<u>100%</u>
Segment by sector						
Public/ Government	-	-	1,318,187	39.4%	1,010,748	44.0%
Private	8,253,602	100%	2,024,915	60.6%	1,284,814	56.0%
	<u>8,253,602</u>	<u>100%</u>	<u>3,343,102</u>	<u>100%</u>	<u>2,295,562</u>	<u>100%</u>

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SME Bank Limited

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2015

39.1.3 Details of non-performing advances and specific provisions by class of business segment

	2015		2014	
	(Rupees in '000)			
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Chemical and pharmaceuticals	102,379	100,017	104,778	101,023
Agriculture, forestry, hunting and fishing	203,286	203,286	203,408	203,408
Mining & quarrying	9,053	9,053	9,053	9,053
Textile	366,196	355,325	374,680	357,546
Cement	20,268	20,268	20,268	20,268
Sugar	-	-	-	-
Footwear and leather garments	78,174	59,388	59,919	58,591
Automobile and transportation equipment	17,404	8,553	19,692	7,402
Electronics and electrical appliances	15,551	13,494	12,891	9,258
Construction	71,037	67,183	42,044	38,244
Power (electricity), gas, water and sanitary	13,615	10,900	23,867	12,362
Wholesale and trade	1,399,520	1,345,897	1,538,713	1,505,034
Transport, storage and communication	654	654	2,031	2,031
Individuals	1,522,679	1,522,679	1,523,166	1,523,166
Services	7,590	6,630	70,716	66,934
Others	1,690,176	1,528,671	1,635,664	1,401,445
	5,517,582	5,251,998	5,640,890	5,315,765

39.1.4 Details of non-performing advances and specific provisions by sector

Public/ Government	-	-	-	-
Private	5,517,582	5,251,998	5,640,890	5,315,765
	<u>5,517,582</u>	<u>5,251,998</u>	<u>5,640,890</u>	<u>5,315,765</u>

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39.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2015			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	(274,570)	8,616,526	356,316	4,376,730
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>(274,570)</u>	<u>8,616,526</u>	<u>356,316</u>	<u>4,376,730</u>
	2014			
	Loss before taxation	Total assets employees	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	(378,331)	5,300,352	689,366	2,295,562
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>(378,331)</u>	<u>5,300,352</u>	<u>689,366</u>	<u>2,295,562</u>

39.2 Market risk

Market risk is the risk that the value of on and off-balance sheet positions of the Bank will be adversely affected by movements in interest rates, foreign exchange rates and equity prices resulting in a loss to earnings and capital. The Bank's interest rates exposure comprises those originating from investing and lending activities. The Asset and Liability Committee of the Bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effect on the profitability of the Bank.

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SME Bank Limited
Notes to the Unconsolidated Financial Statements
For the year ended December 31, 2015

39.2.1 Foreign exchange risk

Presently the Bank does not deal in foreign exchange.

	2015			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	8,616,526	8,260,210	4,376,730	-
United States dollar	-	-	-	-
Great Britain pound	-	-	-	-
Deutsche mark	-	-	-	-
Japanese yen	-	-	-	-
Euro	-	-	-	-
Other currencies	-	-	-	-
	<u>8,616,526</u>	<u>8,260,210</u>	<u>4,376,730</u>	<u>-</u>

	2014			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan rupee	5,300,352	4,610,986	2,295,562	-
United States dollar	-	-	-	-
Great Britain pound	-	-	-	-
Deutsche mark	-	-	-	-
Japanese yen	-	-	-	-
Euro	-	-	-	-
Other currencies	-	-	-	-
	<u>5,300,352</u>	<u>4,610,986</u>	<u>2,295,562</u>	<u>-</u>

39.2.2 Equity position risk

The Bank's exposure in equity market is classified in available for sale category with the intent to earn profit based on fundamentals.

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SME Bank Limited
Notes to the Unconsolidated Financial Statements
For the year ended December 31, 2015

39.2.3 Mismatch of interest rate sensitive assets and liabilities

	Effective Yield/ Interest rate	2015											Non-interest bearing financial instruments
		Exposed to Yield/Interest risk											
		(Rupees in '000)											
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks		390,011	-	-	-	-	-	-	-	-	-	390,011	
Balances with other banks	4.12%	1,739	587	210	144	60	67	-	12	161	-	498	
Lending to financial institutions	7.58%	885,000	400,000	485,000	-	-	-	-	-	-	-	-	
Investments	9.23%	4,117,491	356,121	397,839	297,885	1,349,181	375,754	275,511	418,361	576,623	-	70,216	
Advances	12.99%	2,751,710	142,123	428,876	671,249	956,228	88,864	410,878	28,418	19,310	-	-	
Other assets		148,940	-	-	-	-	-	-	-	-	-	148,940	
		8,294,891	898,831	1,311,925	969,278	2,305,469	464,685	686,389	446,791	596,094	5,764	609,665	
Liabilities													
Bills payable		114,107	-	-	-	-	-	-	-	-	-	114,107	
Borrowings from financial institutions	7.22%	2,888,685	2,354,626	489,511	4,344	8,688	17,246	9,131	5,139	-	-	-	
Deposits and other accounts	7.13%	4,770,201	1,307,911	818,851	225,434	417,206	5,425	-	-	1,493,075	-	502,299	
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-	
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-	
Other liabilities		217,996	-	-	-	-	-	-	-	-	-	217,996	
		7,990,989	3,662,537	1,308,362	229,778	425,894	22,671	9,131	5,139	1,493,075	-	834,402	
		303,902	(2,763,706)	3,563	739,500	1,879,575	442,014	677,258	441,652	(896,981)	5,764	(224,737)	
On-balance sheet gap													
		278,263	278,263	-	-	-	-	-	-	-	-	-	
		2,871,813	2,384,407	487,406	-	-	-	-	-	-	-	-	
Off-balance sheet gap													
		3,150,076	2,662,670	487,406	-	-	-	-	-	-	-	-	
Off-balance sheet gap													
		(5,426,376)	(483,843)	(483,843)	739,500	1,879,575	442,014	677,258	441,652	(896,981)	5,764	-	
		(5,426,376)	(5,910,219)	(5,910,219)	(5,170,719)	(3,291,144)	(2,849,130)	(2,171,872)	(1,730,220)	(2,627,201)	(2,621,437)	-	
Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities													
		(Rupees '000)											
Total financial assets as per note 39.2.3		8,294,891	7,990,989										
Add non-financial assets:													
Operating fixed assets		120,283	269,221										
Other assets		201,352											
Balance as per Balance Sheet		8,616,526	8,260,210										
Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.													

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. Out of total financial assets of Rs. 8,294,891 thousand (2014: Rs. 5,106,119 thousand), the financial assets which were subject to interest rate risk amounted to Rs. 7,685,226 thousand (2014: Rs. 4,522,348 thousand). Investments and other assets amounting to Rs. 3,996,405 thousand (2014: Rs. 1,347,141 thousand) respectively are guaranteed by the Government of Pakistan. An Assets Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.

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SME Bank Limited
Notes to the Unconsolidated Financial Statements
For the year ended December 31, 2015

Mismatch of interest rate sensitive assets and liabilities

	Effective Yield/Interest rate	2014										Non-interest bearing financial instruments
		Exposed to Yield/Interest risk										
		Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
(Rupees in '000)												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		366,783	-	-	-	-	-	-	-	-	366,783	
Balances with other banks	6.69%	2,835	1,266	343	233	98	112	-	-	282	501	
Lending to financial institutions	10.17%	215,000	200,000	15,000	-	-	-	-	-	-	-	
Investments	11.14%	1,446,493	56,406	198,362	222,793	837	2,674	361,896	524,451	8,858	70,216	
Advances	11.34%	2,928,737	122,649	464,362	827,142	920,011	53,711	456,177	50,754	26,878	-	
Other assets		146,271	-	-	-	-	-	-	-	-	146,271	
		5,106,119	380,321	678,067	1,050,168	920,946	56,497	818,073	575,205	36,018	583,771	
Liabilities												
Bills payable		58,298	-	-	-	-	-	-	-	-	58,298	
Borrowings from financial institutions	10.11%	776,168	723,662	3,182	3,744	7,488	14,977	14,846	8,269	-	-	
Deposits and other accounts	8.29%	3,343,102	961,161	572,720	136,683	232,996	10,116	-	-	866,040	563,386	
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	
Loan from the State Bank of Pakistan		-	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease	0.00%	-	-	-	-	-	-	-	-	-	-	
Other liabilities		204,497	-	-	-	-	-	-	-	-	204,497	
		4,382,065	1,684,823	575,902	140,427	240,484	25,093	14,846	8,269	866,040	826,181	
		724,054	(1,304,502)	102,165	909,741	680,462	31,404	803,227	566,936	(830,022)	(242,410)	
On-balance sheet gap												
		351,378	351,378	-	-	-	-	-	-	-	-	
Commitments to extend credit		729,012	729,012	-	-	-	-	-	-	-	-	
Commitments against repo borrowing		-	-	-	-	-	-	-	-	-	-	
Off-balance sheet gap		1,080,390	1,080,390	-	-	-	-	-	-	-	-	
Off-balance sheet financial instruments												
Total Yield/ Interest Risk Sensitivity Gap		(2,384,892)	102,165	909,741	680,462	31,404	803,227	566,936	(830,022)	7,053	-	
Cumulative Yield/ Interest Risk Sensitivity Gap		(2,384,892)	(2,282,727)	(1,372,986)	(692,524)	(661,120)	142,107	709,043	(120,979)	(113,926)	-	
Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities												
		(Rupees '000)		(Rupees '000)								
Total financial assets as per note 40.2.3		5,106,119	Total financial liabilities as per note 40.2.3									
Add non-financial assets:		131,490	Add non-financial liabilities:									
Operating fixed assets		62,743	Other liabilities									
Other assets		-	Balance as per Balance Sheet									
Balance as per Balance Sheet		5,300,352	4,382,065									
			228,921									
			4,610,986									

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in the market interest rates. Out of total financial assets of Rs. 5,106,119 thousand (2013: Rs. 6,822,034 thousand), the financial assets which were subject to interest rate risk amounted to Rs. 4,522,348 thousand (2013: Rs. 6,225,630 thousand). Investments and other assets amounting to Rs. 1,347,141 thousand (2013: Rs. 2,572,703 thousand) respectively are guaranteed by the Government of Pakistan. An Assets Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.

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SME Bank Limited
Notes to the Unconsolidated Financial Statements
For the year ended December 31, 2015

39.3 Liquidity Risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. In order to avoid liquidity risk, the Bank has a policy to maintain sufficient liquidity. To closely watch liquidity position, the Assets Liability Committee meets periodically to ensure that adequate liquidity is maintained to meet any future financial obligation.

39.3.1 Maturities of Assets and Liabilities

	2015									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	390,011	344,131	9,331	540	1,435	-	-	-	34,574	-
Balances with other banks	1,739	1,085	210	144	60	67	-	12	161	-
Lending to financial institutions	885,000	400,000	485,000	-	-	-	-	-	-	-
Investments	4,117,491	356,121	397,839	297,885	1,349,181	375,754	275,511	418,361	646,839	-
Advances	2,751,710	81,629	298,840	571,912	601,586	357,675	590,086	156,011	88,207	5,764
Operating fixed assets	120,283	2,522	6,074	7,407	14,528	23,153	10,435	17,505	6,616	32,043
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	350,292	237,982	5,808	8,045	1,698	99	250	247	96,163	-
	8,616,526	1,423,470	1,203,102	885,933	1,968,488	756,748	876,282	592,136	872,560	37,807
Liabilities										
Bills payable	114,107	98,840	-	-	-	-	-	-	15,267	-
Borrowings from financial institutions	2,888,685	2,354,626	489,511	4,344	8,688	17,246	9,131	5,139	-	-
Deposits and other accounts	4,770,201	1,581,268	821,011	226,362	422,329	5,425	-	-	1,713,806	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	487,217	202,886	1,688	1,479	2,163	1,044	2	2,043	275,912	-
	8,260,210	4,237,620	1,312,210	232,185	433,180	23,715	9,133	7,182	2,004,985	-
Net assets	356,316	(2,814,150)	(109,108)	653,748	1,535,308	733,033	867,149	584,954	(1,132,425)	37,807
Share capital	2,392,507									
Reserves	206,526									
Unappropriated profit	(2,296,206)									
Surplus on revaluation of assets	53,489									
	356,316									

In compliance with the BSD circular letter No. 03 of 2011 dated February 22, 2011, all assets and liabilities with contractual maturities have been reported as per their remaining maturities, and where contractual maturities are not available, such assets and liabilities have been reported as per their expected maturities, determined on the basis of behavior study of previous six years' historic data under volatility methodology. These bases have also been approved by the Asset and Liability Committee (ALCO) of the Bank.

39.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

Operational risks are managed through Bank-wide or line of business specific policies and procedures, controls and monitoring tools. Examples of these include personnel management practices, data reconciliation processes, fraud management units, transaction processing monitoring and analysis and business continuity planning.

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SME Bank Limited
Notes to the Financial Statements
For the year ended December 31, 2015

Maturities of Assets and Liabilities

	2014							
	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years
(Rupees in '000)								
Assets								
Cash and balances with treasury banks	366,783	319,206	1,212	1,649	-	-	-	-
Balances with other banks	2,835	1,767	233	98	112	-	-	-
Lending to financial institutions	215,000	200,000	-	-	-	-	-	-
Investments	1,446,493	56,406	222,793	837	2,674	361,896	79,074	-
Advances	2,928,737	79,407	661,018	576,788	320,478	669,064	107,305	7,053
Operating fixed assets	131,490	2,447	7,090	14,029	26,774	19,362	10,682	32,625
Deferred tax assets	-	-	-	-	-	-	-	-
Other assets	209,014	97,739	9,979	1,435	-	2	94,674	-
	5,300,352	756,972	902,325	594,836	350,038	1,050,324	326,584	39,678
Liabilities								
Bills payable	58,298	50,498	-	-	-	-	7,800	-
Borrowings from financial institutions	776,168	723,662	3,744	7,488	14,977	14,846	8,269	-
Deposits and other accounts	3,343,102	1,263,769	138,147	235,111	12,566	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-
Other liabilities	433,418	194,922	1,904	2,194	710	2	1,511	-
	4,610,986	2,232,851	143,795	244,793	28,253	14,848	9,780	-
Net assets	689,366	(1,475,879)	758,530	350,043	321,785	1,035,476	700,426	39,678
Share capital	2,392,507							
Reserves	206,526							
Unappropriated profit	(1,972,670)							
Surplus on revaluation of assets	63,003							
	689,366							

In compliance with the BSD circular letter No. 03 of 2011 dated February 22, 2011, all assets and liabilities with contractual maturities have been reported as per their remaining maturities, and where contractual maturities are not available, such assets and liabilities have been reported as per their expected maturities, determined on the basis of behavior study of previous six years' historic data under volatility methodology. These bases have also been approved by the Asset and Liability Committee (ALCO) of the Bank.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

Operational risks are managed through Bank-wide or line of business specific policies and procedures, controls and monitoring tools. Examples of these include personnel management practices, data reconciliation processes, fraud management units, transaction processing monitoring and analysis and business continuity planning.

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SME Bank Limited

Notes to the Unconsolidated Financial Statements

For the year ended December 31, 2015

40	EMPLOYEES PROVIDENT FUND TRUST	2015	2014
		(Rupees in '000)	
	Size of the Fund	191,657	169,761
	Cost of investments made	141,295	123,836
	Percentage of investments made	74%	73%
	Fair value of investments	141,295	123,836

Breakup of investments is as follows:

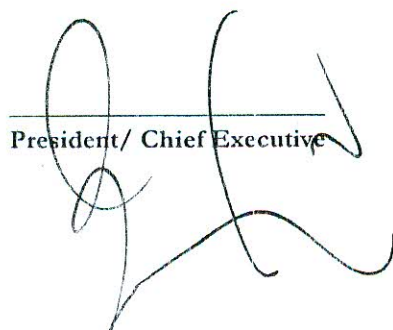
	2,015		2,014	
	Rupees (000)	%	Rupees (000)	%
Term Deposits Receipts (TDRs)	12,663	9%	77,456	63%
Pakistan Investment Bonds (PIBs)	44,226	31%	44,226	35%
Bank deposit accounts	84,406	60%	2,154	2%

All investments out of provident fund trust have been made in accordance with Section 227 of the Companies Ordinance, 1984 and rules formulated for this purpose.

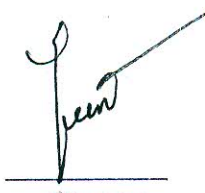
41 DATE OF AUTHORIZATION

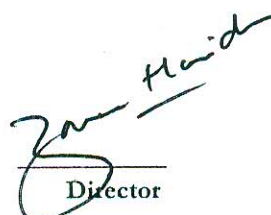
These financial statements were authorized for issue by the Board of Directors of the Bank on March____, 2016.


Chief Financial Officer


President/ Chief Executive


Director


Director


Director

Rs. In thousands

Annex-1 referred to Note 11.7 to these financial statements,
in terms of sub section 3 of section 23-A of the Banking Companies Ordinance 1962 the statement in respect of written off loans or any other financial relief of Rs. 500,000 or above allowed to:

Sr. No	Name and Address of Borrower	Name of Individual/ Partner/Directors (with NTC No.)	Father's/Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/Mark-up written-off	Other financial relief/waiver provided	TOTAL
				Principal	Interest/Mark-up	Others	Total				
1	M/s Al-Haddada Pipe (Pvt) Ltd 28.5 Km Multan Road, Lahore	Mr. Saleem Khan (35202-0974231-7) Mr. Mehroz Khan (35202-0477163-9)	Mr. Abdul Rasheed Khan Mr. Saleem Khan	16,000	3,303	347	19,650	-	-	1,194	1,194
2	M/s Estate Castle Plot No. 1-3 Korang Town, Islamabad	Mr. Amir Shah (61101-1914135-9)	Mr. Rafique Shah	1,956	76	969	3,001	-	-	969	969
3	M/s Millat PVC Pipes Industries House No. CB-25/6/4, Lane#2, Ilvar colony, Minval Road, Rawalpindi.	Mr. Shabir Hussain (37405-4917557-5)	Mr. Ali Khan	792	662	210	1,664	-	680	176	856
4	M/s Saeed Cotton Waste Merchant Samundri Road By Pass, 1 KM, Saitana Road, Faisalabad	Muhammad Saeed (33100-0903728-3) Muhammad Naveed Akhtar (33100-0964519)	Muhammad Saddique Muhammad Saddique	3,496	747	87	4,330	-	542	-	542
5	M/s Seven Star Sizing Industries Backside Rescue 1122, Kaysar Abad Jhang Road, Faisalabad	Haji Talib Hussain (3500-5894775-3)	Rana Khushi Muhammad	8,000	2,510	62	10,572	-	928	-	928
Total				30,244	7,298	1,675	39,217	-	2,150	2,339	4,489

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