



**SME BANK LIMITED
CONDENSED INTERIM UNCONSOLIDATED
FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED JUNE 30, 2019**

Directors' Review on Operational Results for the Half Year **Ended June 30, 2019**

Taking the opportunity on behalf of the Board of Directors, I am pleased to present the operational results of SME Bank for the half year ended June 30, 2019.

The economic downturn resulted in increase in inflation rate in the country which have influenced adversely supply and demand chain. That eventually reduced the business activities and repayment capacity in the country. Despite these hindrances the management of the bank made persistent efforts to bring down the non-performing loans of the bank. The efforts succeeded to low down non-performing loans of the bank to Rs 494 million as on June 30, 2019 from Rs 511 million of the same period of previous year.

The deposits of the bank were improved by Rs.466 million and stood at Rs 6,187 million as on June 30, 2019. The deposit of the bank as on December 31, 2018 was of Rs.5,721 million. Loan portfolio of the bank stood at Rs 2,388 million as on June 30, 2019 as compared to Rs 2,500 million on December 31, 2018. The bank made fresh disbursements of Rs 82.17 million during first six months of the year 2019. The disbursement for the corresponding period of year 2018 was Rs 262.76 million. Shortage of funds was remained a hurdle in building substantial level of loan portfolio. The bank's treasury investment portfolio stood at Rs 5,694 million by June 30, 2019, whereas it was of Rs 5,765 million as on December 31, 2018.

The bank is still managing its operations with a negative equity base of Rs (2,230.42) million as on June 30, 2019. The bank is being operated with a limited branch network of 13 branches. Budgetary allocations made by the government during financial years 2011-12 to 2014-2015 for equity injection could not be released. Subsequently in previous four financial budgets Government has not allocated any amount for the bank. Moreover, uncertainty with regard to the future of the bank continued to affect the performance of the bank.

The bank booked an operating net loss of Rs 506 million for first half of the year 2019 in corresponding period of year 2018 it was of Rs. 373 million. The increase in loss is primarily due to substantial increase in discount rate leading to increased cost of funds. During the period under review, cost of funds of the bank was of Rs 504 million at average rate of 9.73% (2018: Rs 316 million at average rate of 5.98%). Administrative expenses were remained at the level of Rs.440 million.

The bank's gross mark-up/return income was Rs 374 million, which constitutes Rs 150 million from SME advances and Rs 224 million from treasury operations.

Government of Pakistan (GOP) decided in their meeting held on November 19, 2018 to relaunch the privatization transaction of the Bank through Privatization Commission (PC). CCOP approved the new privatization program of SME Bank Limited on March 06, 2019. The privatization program of SME Bank has been required to be completed by 30th June 2020 to divest GOPs equity stake in the Bank along with management control to a strategic investor. Accordingly, PC recommended the transaction structure for the privatization of the Bank to Cabinet Committee on privatization (CCOP) who approved the referred transaction structure on November 15, 2019. Thereafter through a due process Invitation for expression of interest for acquisition of 93.88% shares of SME Bank Limited were advertised in NEWS Papers on December 13, 2019. Five prospective investors have submitted their Statement of Qualifications (SOQs) against the advertisement, which are being scrutinized at Privatization Commission.

M/S PACRA Limited rated the bank at “CCC”/”B” with negative outlook on November 22, 2018.

We would like to place on record, our thanks and appreciation to the staff for their commitment, dedication and endeavour to enhance business activities under the unfavourable circumstances of economic depression and liquidity crunch. We would also like to thank State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their support and professional guidance.

For and on Behalf

Board of Directors



Chairman

