



**CONDENSED INTERIM
FINANCIAL STATEMENTS
(UNAUDITED)**

**FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2019**

Directors' Review on Operational Results for the Period
Ended September 30, 2019

I am pleased to present the operational results of SME Bank for the period ended September 30, 2019 on behalf of the Board of Directors.

The deposits of the bank were of Rs 6,186 million, which improved from Rs 5,721 million at December 31, 2018. Loan portfolio of the bank stood at Rs 2,193 million as on September 30, 2019 as compared to Rs 2,500 million on December 31, 2018. The bank made fresh disbursements of Rs 102.33 million during the period under review ended on September 30, 2019, as compared to Rs 349.66 million for the correspondence period of the last year. Shortage of funds remained bottleneck in expending sizeable loan portfolio. The bank's treasury investment portfolio stood at Rs 5,455 million by September 30, 2019, whereas it was of Rs 5,765 million as on December 31, 2018.

Non-performing loans of the bank were increased to Rs 547 million on September 30, 2019 as compared to Rs 501 million on September 30, 2018.

The bank is still managing its operations with negative equity of Rs (2,427) million as on September 30, 2019. The bank has been operating with a limited branch network of 13 branches. Budgetary allocations made by the government during financial years 2011-12 to 2014-2015 for equity injection could not be released. Subsequently in previous four financial budgets Government has not allocated any amount for the bank. Moreover, uncertainty with regard to the future of the bank effected the performance of the bank.

The bank has booked pre-tax loss of Rs.933 million for nine months ended on September 30, 2019, as compared to Rs.630 million during the same period of 2018. The increase in loss is primarily due to increase in net interest expense by Rs 303 million due to substantial increase in discount rate. The bank's mark-up / return income was Rs 573 million, which constitutes Rs 230 million from SME advances and Rs 343 million from treasury operations. During the period of nine months, cost of funds (Deposits & Borrowings) of the bank was reached at Rs 821 million (2018: Rs 517 million) at average rate of 10.51% (2018: 6.33%) due to increased discount rate. Administrative expenses remained at the level of Rs.656 million.

Limited branch network and low rating of the bank were remained major impediments to attract economical deposits.

The management of the Bank is making vigorous efforts to generate additional avenues of deposits / income by mobilizing available resources.

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 affirmed the credit rating of 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 of

Board of Directors



Chairman

