

FINANCIAL STATEMENTS
(Un-Audited)

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2021

Directors' Review on Operational Results for the Quarter Ended September 30, 2021

On behalf of the Board of Directors, we are pleased to present the unconsolidated condensed interim financial statements of SME Bank Limited for the quarter ended 30th September, 2021.

The country is well on its way to economic recovery following the outbreak of the COVID pandemic in Q1'20. The resumption of industrial activity across the country is supporting employment levels driven by a more favourable business environment. Grappling with the fourth COVID-19 wave, the Government, as before, implemented micro-lockdowns that successfully limited the infection spread, while permitting economic activity to continue and thereby mitigating the economic fallout. GDP growth rate was recorded at 3.5% for FY'21 (FY'20: negative 0.5%) a notable achievement in light of the challenges faced during the period. Furthermore, the country is still in the midst of an IMF program which has tough conditions, which are likely to challenge the existing growth oriented policy measures of the government. Controlling inflation levels continues to be a major challenge for the incumbent government. Policy measures require the right balance between monetary stimulus, maintaining fiscal discipline and ensuring that overall price levels remain contained. The Consumer Price Index (CPI) stood at 9% for the month of Sep'21, increased by 2.12 percent over August 2021 and increased by 8.98 percent over corresponding month of the last year i.e. September 2020, while average inflation for FY'21 was measured at 9% versus 10.7% in FY'20. During FY2021, SBP increase of 25 basis points in the benchmark policy rate taking it to 7.25 per cent. The existing stance of monetary policy remained appropriate to support the economic recovery with inflation expectations well-anchored and maintaining financial stability.

Government of Pakistan (GOP) decided in their meeting held on November 19, 2018 to re-launch the privatization transaction of the Bank through Privatization Commission (PC). Cabinet Committee on Privatization (CCOP) approved the new privatization program of the Bank on March 06, 2019 to divest the 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 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 the Bank were advertised in newspapers on December 13, 2019. The last date for submission of EOIs and Statement of Qualifications (SOQs) was February 28, 2020. Five prospective investors have submitted their SOQs against the advertisement, out of that four have been cleared by SBP. The buyers side due diligence is completed on August 24, 2020 and the final draft of share purchase agreement (SPA) has been shared with three pre-qualified bidders.

Comments from pre-qualified bidders on instructions to bidders (ITB) and SPA have been deliberated by the Transaction Committee and clarifications to this effect have been given to pre-qualified bidders. A joint meeting of the Transaction Committee, SBP and pre-qualified bidders held on December 29th, 2020 and December 30th, 2020 with reference to "Pre-Bid Conference" and "Valuation Model" wherein the queries of pre-qualified potential bidders have been clarified and some of them pertaining to license, merger and MCR have been forwarded to SBP for its clarification. Drafts of the bidding documents i.e. instruction to Bidders (ITB) and Share Purchase Agreements (SPA) are being finalised.

The highlights of the financial results of the Bank for the quarter ended 30th September, 2021 are presented as follows:

Investment portfolio of the Bank has reported Rs.5,303 million as on September 30, 2021 (December 2020: Rs.5,828 million). Major portion of investment is in government securities. The bank made fresh disbursements of Rs.373.35 million during nine months under review as compared to Rs 130.59 million of corresponding period of last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio. Non-performing loan (NPLs) was at Rs.482 million as on September 30, 2021 whereas NPLs was 499 million at end of corresponding period of last year. SME loan portfolio was at Rs.1,867 million as on September 30, 2021 with reference to position of Rs.1,816 million as on December 31, 2020.

During the period under review cost of funds of the Bank was Rs.521 million as compare to the cost of Rs.819 million for the corresponding period of last year. Operating expenses for nine months 2021 was of Rs.667 million whereas operating expenses for the corresponding period was Rs.661 million.

Limited branch network, low rating of the Bank was remained major impediments to create a wide and economical deposit base. In spite of these hindrances the deposits were at Rs.8,331 million as on September 30, 2021. The Bank reported a net loss of Rs.673 million for nine months 2021, as compared to Rs.821 million during the same period of 2020. The bank's gross income was of Rs.480 million, which comprises of Rs.194 million from SME advances, Rs.274 million from treasury operations and Rs.11.34 million from non-mark-up income.

Paid up capital of the Bank is Rs.2,392 million. The equity stood at Rs.(3,840) million as on September 30,2021.

Bank was assigned a long-term credit rating of CCC and short-term rating of B (Single B) by PACRA credit rating agency on November 22, 2018.

