



FINANCIAL STATEMENTS
(Un-audited)

FOR THE QUATER ENDED
MARCH 31, 2022

Directors' Report

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 31st March, 2022.

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). 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) could not be finalized. Board of Privatization Commission in its meeting held on November 25, 2021 has recommended to be delisted SME Bank Limited from list of privatizations. As Financial Adviser (FA) of Privatization Commission has asserted that despite all efforts and iterative interactions with the pre-qualified bidders to date positive feedback from the pre-qualified bidders is not forthcoming and owing to the deteriorating financial position of the FA has recommended to shelve the Transaction. Recommendation of the Board of Privatization was presented to Cabinet Committee on Privatization (CCoP) in its meeting held on December 31, 2021. The CCoP discussed delisting of SME Bank Ltd. from the active privatization program. The meeting, after a detailed discussion constituted a committee under the chairmanship of the finance minister and representatives from SBP, SECP, Finance Division and Privatization Division to evaluate alternative options for proceeding further.

The highlights of the financial results of the Bank for the quarter ended March 31; 2022 are presented as follows:

Investment portfolio of the Bank has reported Rs. 4,604 million as on March 31, 2022 (December 2021: Rs. 4,238 million). Major portion of investment is in government securities. The bank made fresh disbursements of Rs. 53 million during the quarter under review as compared to Rs. 103 million of corresponding period of last year. Shortage of funds remained bottleneck in accumulating sizeable loan portfolio. Non-performing loan (NPLs) was at Rs. 436 million as on March 31, 2021. Whereas NPLs was 491 million at end of corresponding period of last year. SME loan portfolio was at Rs. 1,776 million as on March 31, 2022 with reference to position of Rs. 1,880 million as on December 31, 2021.

During the period under review cost of funds of the Bank was Rs. 234 million as compare to the cost of Rs. 185 million for the corresponding period of last year. Administrative expenses for 1st quarter 2022 was of Rs. 233 million whereas administrative expenses for the corresponding period was Rs. 234 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. 7,619 million by March 31, 2022. The Bank reported a net loss of Rs. 343 million for the 1st quarter 2022, as compared to Rs. 262 million during the same period of 2021. The bank's gross income was of Rs. 174 million, which comprises of Rs. 64 million from SME advances, Rs. 105 million from treasury operations and Rs. 5 million from non-mark-up income.

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. The credit rating company has expressed that the bank's operational performance is significantly under pressure because of delay in capital injection. Thus, continuation of the bank's operations going forward is dependent on fresh capital injection.

Our focus will be on harnessing digital solutions to ensure that customers' banking needs are fully met in a technologically advanced, secure and convenient manner. We aim to regain and grow our market share in deposits, consumer products and SME financing, while expanding our branch network to widen our outreach and serve our customers. Greater emphasis will be placed on increasing penetration in cash management with a focus on SME/commercial clients. To cope with changing business dynamics, we will accelerate digital transformation and focus on business process re-engineering across key segments in the Bank. At the same time, investing in human capital and creating a caring culture, will remain a key priority.

On behalf of the Board, I would like to thank the State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their support and guidance. I would also like to pay my gratitude to our shareholders for their counsel. Most importantly, I am grateful to our valued customers for their continued support. I will also like to acknowledge the dedication and hard work of our employees who continue to contribute to the organization and enable us to perform in a challenging business environment.

For and on Behalf of Board of Directors



Chairman

