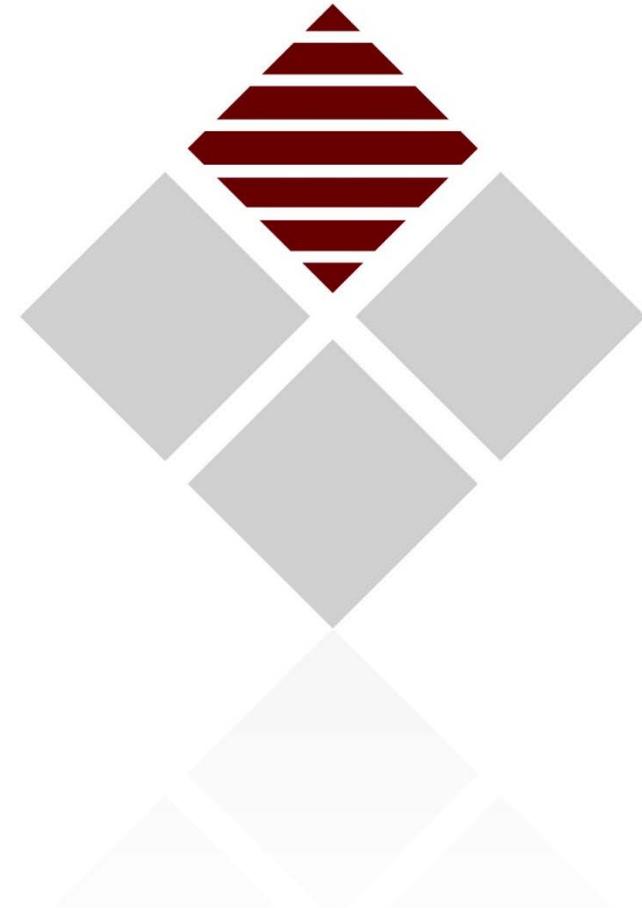


PRIVATISATION OF
SME BANK LIMITED

TRANSACTION TEASER

DECEMBER 2019





- The Government of Pakistan (“GoP”) is in the process of divesting **100% of GoP’s** equity stake in SME Bank Limited (“Bank” or the “Company” or “SMEBL”) along with management control to a strategic investor (“Transaction”). GoP holds **93.88% shares** of the Bank and the remaining shares are held by six (06) commercial banks.
- Privatisation Commission (“PC”) on behalf of GoP has appointed Financial Advisory Consortium (“FAC”) comprising of AKD Securities Limited (“AKDS” or “Financial Advisor”), Riaz Ahmed & Company (“RACO” or “Accounting/Tax Advisor”) and RIAA Barker Gillette (“RIAA” or “Legal Advisor”) to conduct the Transaction.
- The Bank was established upon amalgamation of the Regional Development Finance Corporation (“RDFC”) and Small Business Finance Corporation (“SBFC”) and incorporated in Pakistan on October 30, 2001 under the Companies Act, 2017 (Formerly Companies Ordinance 1984) having its registered office in Blue Area Islamabad.
- A banking license has been issued to the Bank on **September 13, 2004**.
- It is engaged in the business of banking, focusing specifically on the objective of supporting and developing small and medium enterprise sector in Pakistan through required financial assistance and business support services on sustainable basis.
- The Bank is operating through a network of **13 commercial branches** and **5 recovery offices** located across major cities of Pakistan.
- The Bank holds **73.14% equity** stake in SME Leasing Limited (“SMEL”).

ATTRACTION FOR POTENTIAL INVESTORS

Only Bank in Pakistan with a dedicated license to cater to the SME Sector

Diversification into Leasing Sector via subsidiary

Reduced Paid-up Capital Requirements

Tax rate for SMEs related financing profit reduced to 20% from 35%

Significant exposure to Commercial and Retail Sectors

Opportunity for branchless banking/Fintech

PROPOSED TRANSACTION PROCESS

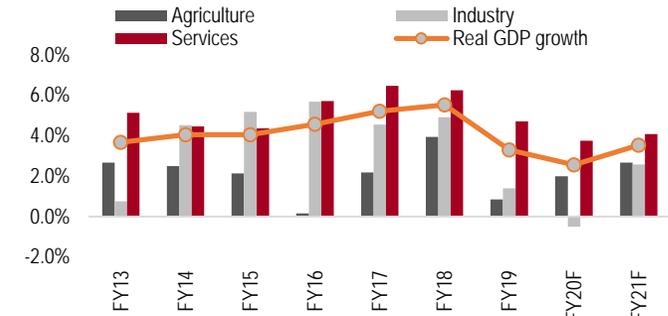


- Under prescription of the IMF, the economy has started showing signs of resuscitation post FY19's twin deficit fueled downturn.
- Beyond the headline GDP growth slowdown to a FY20F 2.6%, economic imbalances have started the recovery drive with Revenue collection up 15% in 1QFY20 to Pkr960bn; Current Account balance standing at US\$99mn surplus compared to CAD of US\$284mn in the preceding month and US\$1,280mn in Oct'18 and Central Bank Reserves at US\$8.3bn vs. US\$7.2bn at end FY19.
- The marked improvement in tax collection came as a result of:
 - Simplification of tax filing process,
 - Crackdown on tax evaders through administrative measures, and
 - Passing of 'Benami Law' as a measure to document Benami (undeclared) properties.
- Pakistan entered into the IMF program under a three year Extended Fund Facility (EFF) for an amount of ~US\$6bn (210% of quota). An upfront disbursement of ~US\$1bn had been made, with remaining to be phased in subject to quarterly reviews.
- IMF recently completed its first review, post-initiation of the program, paving way of disbursement of second tranche of US\$450mn. The country met all the quantitative benchmarks set for 1QFY20 by a wide margin.
- Government plans to shift gears now from stabilization to growth phase, indicated by,
 - Concessions accorded to traders community,
 - Relaxation on transportation of goods, and
 - Potential concessions for revival of construction sector.

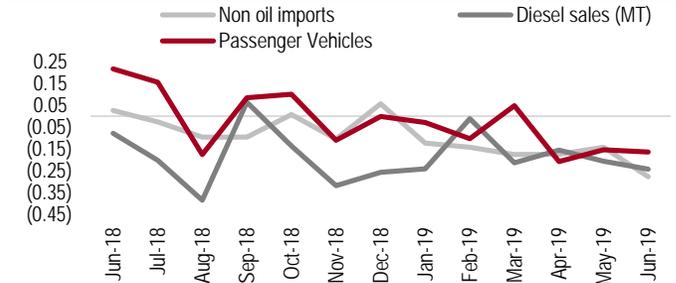
Pakistan Economy Snapshot	FY13	FY14	FY15	FY16	FY17	FY18	FY19
GDP Nominal (US\$bn)	231	245	271	279	304	314	284
Real GDP Growth(%)	3.7	4.0	4.0	4.5	5.3	5.8	3.3
Agriculture Growth (%)	2.9	2.7	2.9	0.3	3.5	3.8	0.8
Manufacturing Growth (%)	4.8	5.6	3.9	3.7	5.3	5.8	1.4
Services Growth (%)	5.1	4.4	4.3	5.6	6.0	6.4	4.7
Current Account (US\$bn)	(2.5)	(3.1)	(2.8)	(4.9)	(12.6)	(19.0)	(13.6)
Current Account (% of GDP)	-1.1	-1.3	-1.0	-1.7	-4.2	-6.0	-4.8
Trade Surplus/(Deficit) - SBP (% of GDP)	6.6	6.8	6.3	6.8	-8.8	-9.9	-9.9
Remittances (% of GDP)	5.9	6.5	6.9	7.0	6.4	6.3	7.7
Foreign Direct Investment (% of GDP)	0.6	0.6	0.4	0.8	0.9	0.9	0.9
Average Exchange Rate (PKR/US\$)	96.8	103.2	101.4	104.2	104.7	109.8	135.8
Year End Exchange Rate (PKR/US\$)	99.6	98.8	101.8	104.7	104.9	121.5	160.0

Source: Pakistan Economic Survey 2018-19 / SBP, AKD Research

Economic growth faced reality check....



...as major leading indicators pointed to a slowdown



...however the economy is showing signs of resuscitation, under IMF's guidance

IMF Indicative Criteria (PkrBn)	Sep'19	Dec'19	Mar'20	Jun'20
Cumulative floor on:				
Targeted Cash Transfers Spending (BISP)	45	86	133	180
Govt health & education spending	349	698	1,221	1,744
FBR Tax collection	1,071	2,367	3,757	5,503
Ceiling on:				
Net acc. of tax refund arrears	(75)	(58)	(58)	(58)
Power sector arrears (cum. flow)	23	39	62	81

- Pakistan's banking industry comprises of **34 commercial banks**, out of which 5 each are Government-backed banks and foreign banks, and 4 specialized banks. **Top-5 banks** cumulatively occupy **51.1% of total assets** while contribute **53.9%** in total industry profitability (on a PBT basis).
- During 9MCY19, earnings of the industry on a PBT basis, registered a **growth 19.1%YoY** whereas on after-tax basis, it jumped 8.1%YoY as tax charge included one-off prior-year expense. Resultantly ROE pre-tax/post-tax stood at 19.7/10.8% in Sep'19 vs. 17.6/10.7% in Jun'19.
- The current advances mix for the banking sector is tilted **towards Corporate loans** (Share: 71.2% of total loan outstanding) followed by Commodity financing loans (9.8%) and consumer loans (6.5%).
- Credit to GDP ratio of Pakistan stood at 21.1%, significantly low compared to 45-50% in our regional countries.

Sustainable Performance Metrics Despite Economic Slowdown

- Loan growth have registered a **4 year CAGR of 14.6% since CY14**, however it has remained flat CY19TD as a result of higher interest rates and demand slowdown. As a result, **advances-to-deposit ratio** stands at **54.2%**.
- **Credit to private sector** was +7.1%YoY to **PkR5.8trn** in Oct'19, driven by **Textiles (+1.2%YoY to PkR973bn)**, **Consumer (+9.0%YoY to PkR685bn)** and **Utilities (+17.5%YoY to PkR497bn)**.
- Fixed Investment loans occupy 34.3% of the total loan book whereas **working capital loans' share stands at 34.8%**.

Asset Mix Inclined Towards GoP Securities

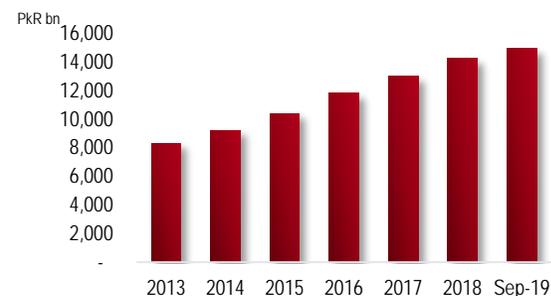
- Dependency of the Government on banking institutions for financing of fiscal deficit, provides a risk-free return to the banks. Share of **Investment in Government securities of top-5 banks** stood at **53.1% as of Sep'19**.
- Out of total investment of PkR7.3trn of the banking sector in Government Securities, **PkR2.8trn is in longer tenor bonds** whereas the rest are in shorter tenor bonds.
- Current high interest rate environment presents opportunity for the banking sector to invest in longer tenor bonds with **fixed yield on 3 year bond standing at 11.79%** in the last auction.
- Government's plan of issuing power sukuks for circular debt reduction, opens opportunities for the Islamic banks to shift to secure returns (PkR200bn sukuk already issued, with PkR200bn in pipeline).

Upward Move in Total Assets



Source: AKD Research

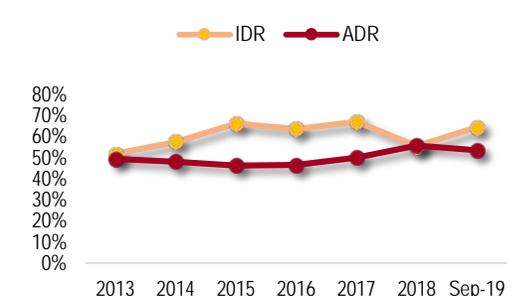
Growing Deposit Base



Investments take over Advances



Asset Mix equally distributed



Overview

- SBP broadly categorizes SMEs, one as **small enterprises (SE)** with employment size up to **50 persons** having sales turnover up to **PkR150mn** and medium enterprises (ME) with employment size up to **51-250 persons** (manufacturing & services sectors) and **51-100 persons** (trading sector) having annual sale turnover from **PkR150mn** to **PkR800mn**.
- Almost **9 out of every 10** enterprises in Pakistan are classified as Micro, Small and Medium Enterprises.
- Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries.
- Financing to SME sector stood at **PkR419bn** or **4.8%** of total financing in **Sep'19** (**significantly low compared to regional average of 18.7%**) with 61.7% of financing utilized for working capital needs.
- Government has incentivized the banking sector on lending to SMEs by **reducing tax rate to 20% from 35% previously**.
- Pakistan's lending market for businesses can be bifurcated into following:
 - **Large Corporate/Commercial Financing**
 - **SME financing**
 - **Micro Financing**
- Corporate loans occupy ~50-60% of overall lending** of major commercial.
- Microfinance banks can cater financing demand of up to PkR0.5mn. There are **11 microfinance banks** in Pakistan having a **total asset base of PkR344.1bn** with advances occupying **59.0% of total assets**. **60.1% of total clients** as of Sep'19 is based **in rural areas**.
- SME bank is the only bank** in Pakistan mandated to 'specifically' meet such demand.
- Loans outstanding between PkR1mn to PkR6mn occupies 4.8% of total private sector loans and includes 5.4% of total borrowers as of Jun'19.

Key Statistics



40%

Contribution to GDP



80%

Weightage of non agricultural employees



4.5 Mn

Number of operational SMEs in Pakistan

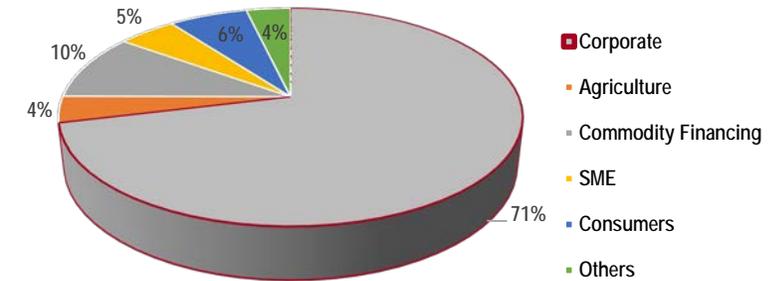


90%

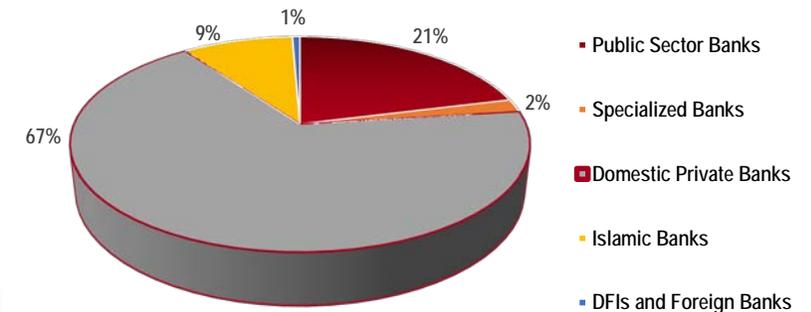
Composition of SMEs in total Enterprises

Source: SMEDA, SBP & AKD Research

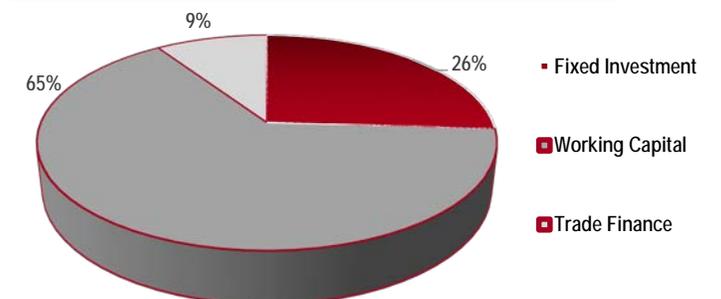
Sectoral Distribution for Advances



SME Financing Breakdown



Facility – Wise Composition for SME Financing



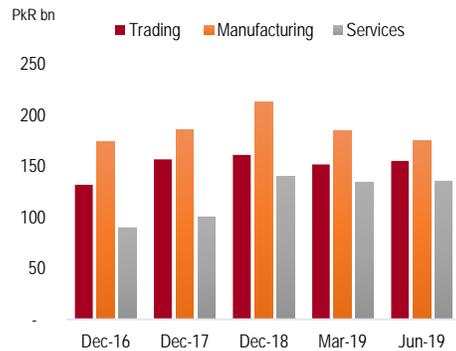
Key Trends

- SME outstanding finance was showing a declining trend up to 2013; however, since 2013 it has been increasing year on year basis rising by 3.19% from June 2014 to June 2015.
- SME sector loans have registered a CAGR of 7.6% since Dec 15 with total borrowers increasing to 183.6k in Mar'19 from 158.4k in Dec'15.
- SME NPL ratio has considerably improved, falling to 18.0% in Sep'19 from 25.2% in Dec'15. The SME NPL ratio ranged between 32-35% during Mar-11 and Sep-14. Prior to 2008, it hovered between 8-13% (FY04-08).
- Loans outstanding between Pkr1mn to Pkr6mn occupies 4.8% of total private sector loans and includes 5.4% of total borrowers as of Jun'19.
- Large corporates with loan balances >100mn occupies 69.4% of total private sector loans and includes 0.3% of total borrowers, signifying unpenetrated market for meeting financing requirement for smaller players.

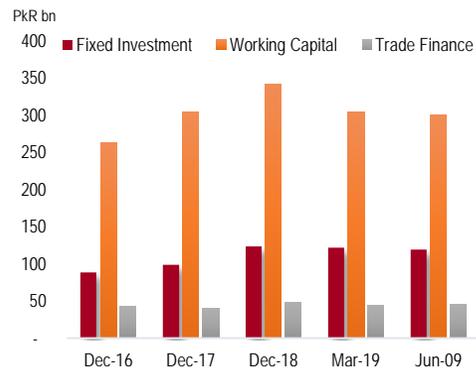
Importance of SME Sector in Pakistan



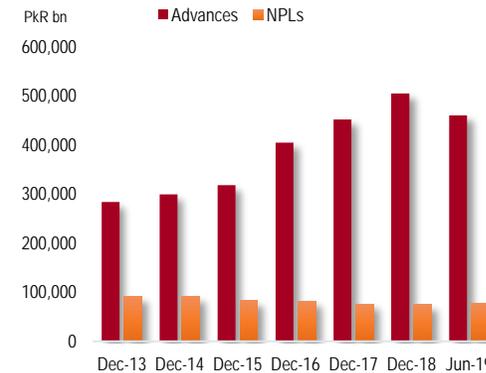
Sector Wise SME Financing



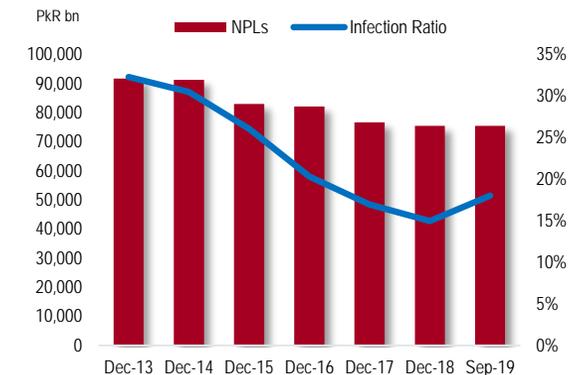
Facility Wise SME Financing



SME Financing NPLs



SME Financing Trends



History

- SMEBL is a public limited company **incorporated on October 30, 2001** under the Companies Act, 2017 (Formerly Companies Ordinance 1984) having its registered office in Blue Area Islamabad.
- The Bank was formed through the amalgamation of RDFC and SBFC.
- In pursuance to the order issued by Ministry of Finance dated December 29, 2001 entire assets and liabilities of **RDFC and SBFC were transferred to SMEBL** and both DFIs were dissolved with effect from January 1, 2002.
- A **banking license** has been issued to the Bank on **13 September 2004**.

Objectives

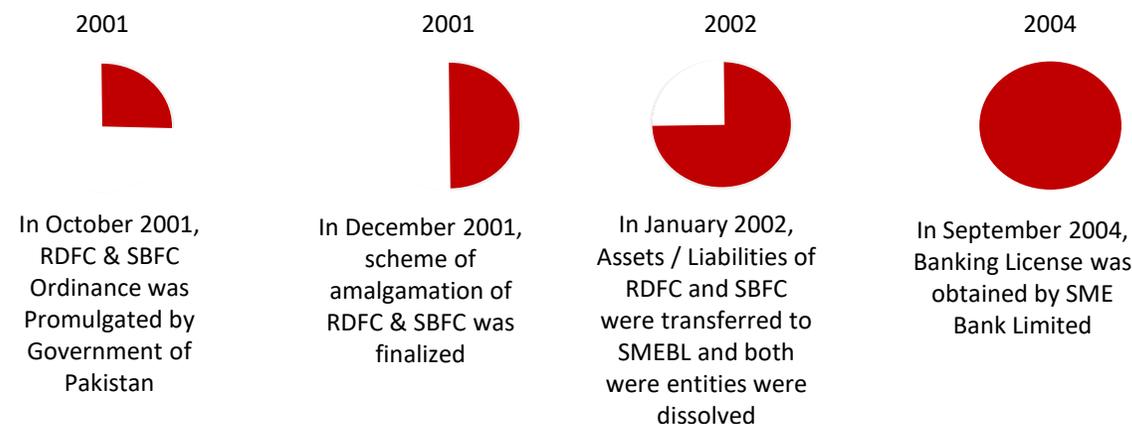
SME Bank was formed with a very clear narrative to achieve the following:

- To support, develop and promote SMEs by providing them necessary technical and financial assistance.
- To concentrate on value addition and export oriented SMEs.
- To enable SMEs to play a vital role in stimulating GDP growth, creating job opportunities and reducing poverty.

Ownership and Control

- Total Shares 239.25 mn.
- Government of Pakistan's shareholding 224.62 mn shares / **93.88%**
- NBP, UBL, HBL, ABL, MCB, IDBL that collectively hold 14.63 mn shares / **6.12%**

Amalgamation of RDFC & SBFC



PkR Million	2015	2016	2017	2018	June 2019*
Net Equity	356	21	-434	-1,694	-2,210
Deposits	4,770	5,229	5,344	5,721	6,187
Total Liabilities	8,260	9,358	11,429	11,332	11,674
Net Advances	2,752	2,772	2,506	2,231	2,086
Investment	4,118	4,869	6,911	5,765	5,694
Total Assets	8,617	9,378	10,995	9,638	9,463
Interest Income	705	615	649	741	374
Total Income	753	662	674	754	378

Source: Unconsolidated Annual Accounts of SME Bank Limited & Management Accounts as of June 30, 2019

DISCLAIMER

This Transaction Teaser (the “Teaser” or the “Document”) describes and summarizes the key highlights of SME Bank Limited (the “Bank”) and has been prepared by the Financial Advisor (“FA”) AKD Securities Limited (“AKDS”), on behalf of the Privatisation Commission (the “PC”), solely for informational purposes and to be used by prospective investors in considering their interest in the privatisation process of the Bank.

This Teaser has been prepared to assist prospective investors in making their own evaluation of the Bank and does not purport to contain all the information which a prospective investor may desire. In all cases, prospective investors should conduct their own investigation/due diligence and analysis of the Bank and the data set forth in this Document. The PC, the Bank or FA do not make any representation or warranty as to the accuracy or completeness of the information contained in this Document or made available in connection with any further investigation of the Bank, including estimates or forecasts, and neither shall have any liability for any representations, expressed or implied, contained in, or omitted from, this Document or any other written or oral communications transmitted to the recipient in the course of the evaluation of the Bank.

Riaz Ahmed & Company (“RACO”) and RIAA Barker Gillette (“RIAA”) (“Sub-Contractors”), Sub-Contractors for this transaction, along with FA and any of their associated companies express no opinion on any of the financial statements or other data included in this Document.

This Document contains forward looking statements which appear in a number of places in this Document based on professional judgment, estimates, knowledge and experience of historical trends, current condition of the market and expected future development, as well as other factors believed to be appropriate in the circumstances. Recipients are cautioned that any such forward looking statements are not guarantees of future performance and involve risks & uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. With respect to the management of the Bank, any estimated financial information presented by the Bank in this Document, it is clarified that FA did not audit, compile, or apply agreed-upon procedures to such information. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

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All inquiries regarding the Bank and any requests for additional information should be directed to Key Contacts of PC & FA.



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