



Half Yearly Report

2011

(Un-audited) June 30



SME Leasing Limited
(A subsidiary of SME Bank Ltd.)

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Corporate Information

BOARD OF DIRECTORS

Mr. Ali A. Rahim	Chairman
Mrs. Arjumand A. Qazi	Director/CEO
Mr. Ihsan ul Haq Khan	Director*
Mr. Nasser Durrani	Director
Mr. Mehboob Hussain	Director
Mr. Zubair F. Tufail	Director
Mr. Masood Naqi	Director

**Subject to approval of the SECP.*

AUDIT COMMITTEE

Mr. Zubair F. Tufail	(Non-Executive Director)
Chairman	
Mr. Mehboob Hussain	(Non-Executive Director)
Member	
Mr. Ali A. Rahim	(Non-Executive Director)
Member	
Ms. Shafque Akhtar	Committee Secretary

MANAGEMENT COMMITTEE

Mrs. Arjumand A. Qazi
Mr. Tanveer Ul Bari
Mr. Shaheen Akhtar

HUMAN RESOURCE COMMITTEE

Mr. Zubair F. Tufail
Chairman
Mrs. Arjumand A. Qazi
Member
Mr. Nasser Durrani
Member

COMPANY SECRETARY & CFO

Mr. Tanveer Ul Bari

EXTERNAL AUDITORS

KPMG Taseer Hadi & Co.,
Chartered Accountants

INTERNAL AUDITOR

Ms. Shafque Akhtar

TAX CONSULTANT

A.F. Ferguson & Co.,
Chartered Accountants

LEGAL ADVISOR

Mohsin Tayebaly & Company,
Advocate & Legal Consultant

CREDIT RATING

Long-term: BBB Short-term: A-3

REGISTERED OFFICE

40, Jang Building, A.K. Fazal-ul-Haq Road,
Blue Area, Islamabad.

MAIN OFFICE

2nd Floor, Tower-B, Finance & Trade Center (FTC),
Shahra-e-Faisal, Karachi.

Phone: 021-99204751-53 Fax: 021-99204754

REGISTRAR AND SHARE

TRANSFER OFFICE

Progressive Management Services (Pvt) Ltd.
10th Floor, Mehdi Towers, A-115, S.M.C.H.S.,
Shahra-e-Faisal, Karachi.

Phone: 021-34526983-84 Fax: 021-34526985

BANKS AND LENDING INSTITUTIONS

Allied Bank Limited
MCB Bank Limited
SME Bank Limited
United Bank Limited

Directors' Report

For the Half year ended June 30, 2011

The Board of Directors of SME Leasing Limited present their report and review of un-audited financial statements for the six months period ended June 30, 2011.

The overall economic scenario of the country remained depressed due to law and order situation, political instability, power/energy crises, etc. NBFC sector has also not witnessed any sizable improvement in the on going liquidity crises and survival of the sector is getting more difficult and challenging as time progresses. Decline in financing portfolio due to lack of fresh disbursements is affecting the operating results of the sector. Going forward the survival of the leasing sector is largely dependent upon the meaningful and tangible support from the regulatory authorities and lending institutions.

During the period under review, despite liquidity constraints the Company was able to disburse an amount of Rs. 85 million. The total assets of the Company have reduced to Rs. 925.74 from Rs. 989.63 as of December 2010 mainly due to aggressive recovery efforts and low disbursements which resulted in decline in the financing portfolio, as the recoveries were mainly diverted towards meeting of debt servicing obligations. The gross revenue of the Company has decreased to Rs. 33.69 million as compared to Rs. 48.98 million in the corresponding period of the previous year. Operating expenses have gone down to Rs. 40.01 million as against Rs. 49.53 million in the corresponding period mainly due to decrease in financial charges resulting from reduction in borrowing level as well as decline in interest rates. Loss before taxation for the period amounts to Rs. 14.54 million (2010: Rs. 12.65 million) owing to the provision against non-performing portfolio.

Despite challenging circumstances and liquidity constraints the Company has met all its financial obligations promptly. In July 2011 the Company has successfully paid the final installment of its Private Placed Term Finance Certificates, which was availed in July 2008, while throughout the tenure of the facility the Company remained prompt in repayment.

JCR-VIS Credit Rating Company has revised the entity rating of the Company to BBB (Triple B) for medium to long-term and A-3 (A-Three) for short-term with negative outlook which is also effected by risks stemming from deteriorating macro economic environment.

In continuation to its efforts for the revival of the business activities the management is also attempting funding arrangements from alternate sources and has successfully arranged a funding line from Energy Conservation Fund (ENERCON). By virtue of this arrangement SLL will be providing lease finance facility to the transport sector for Energy Efficiency (EE) and Energy Conservation (EC) equipments, at concessional mark-up rates. In addition to this, both the entities have in principle agreed to extend their cooperation to other sectors as well with specific focus on energy conservation and fuel efficiency.

To strengthen the service delivery for EE and EC related products, the Company has signed an MOU with the SME - Business Support Fund (BSF) to conduct energy audits for the SME sector.

The Board recognizes and appreciates the support and role of the lending institutions, regulatory authorities, management team and all the staff members of the Company.

For and on behalf of the Board of Directors



Ali A. Rahim
Chairman

Karachi-August 25, 2011

Independent Auditors' Report on Review of Condensed Interim Financial Information to the Members of SME Leasing Ltd.



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2,
Beaumont Road,
Karachi-75530, Pakistan.

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Internet: www.kpmg.com.pk

Introduction

We have reviewed the accompanying condensed interim balance sheet of SME Leasing Limited ("the Company") as at 30 June 2011 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the accounts for the six months period then ended (here-in-after referred to as "the condensed interim financial information"). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the six months period ended 30 June 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Emphasis of matter

We draw attention to note 17 to the condensed interim financial information, which explains that the Company has not complied with the minimum equity requirement as required by the Non-Banking Finance Companies and Notified Entities Regulations, 2008 issued by the Securities and Exchange Commission of Pakistan. Our conclusion is not qualified in respect of this matter.

Other matter

The figures for the quarter ended 30 June 2010 and 30 June 2011 in the condensed interim financial information have not been reviewed and we do not express a conclusion on them.

The condensed interim financial information and financial statements of the Company for the six months period ended 30 June 2010 and for the year ended 31 December 2010, respectively were reviewed and audited by another firm of chartered accountants whose reports dated 24 August 2010 and 23 February 2011, expressed an unqualified conclusion and opinion respectively.

Karachi-August 25, 2011

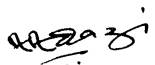

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

Condensed Interim Balance Sheet

As at June 30, 2011 (Un-audited)

	Note	(Un-Audited) June 30, 2011 Rupees	(Audited) December 31, 2010 Rupees
ASSETS			
Current assets			
Cash and bank balances	6	16,276,740	11,902,663
Loans and advances		2,222,896	2,173,860
Deposits, prepayments and other receivables		8,113,708	2,330,820
Interest accrued		167,039	227,214
Investments	7	21,855,455	28,659,977
Current maturity of non-current assets		<u>636,750,004</u>	<u>644,775,669</u>
		685,385,842	690,070,203
Non-current assets			
Long-term finances and loans	8	22,615,170	13,288,628
Net investment in finance leases	9	192,786,446	261,624,131
Long-term deposits and prepayments		1,849,968	1,205,535
Property and equipment	10	23,100,587	23,402,334
Intangibles		-	45,016
		<u>240,352,171</u>	<u>299,565,644</u>
Total assets		925,738,013	989,635,847
LIABILITIES			
Current liabilities			
Accrued and other liabilities		7,209,985	8,369,622
Interest accrued		4,370,941	5,012,634
Short-term borrowings		112,021,956	108,032,762
Short-term certificates of investment		5,048,817	7,244,795
Current maturity of non-current liabilities	11	357,413,053	372,176,493
Provision for compensated absences		1,419,194	922,034
Provision for taxation		14,412,892	13,406,665
		501,896,838	515,165,005
Non-current liabilities			
Long-term finances	12	24,898,646	6,658,539
Long-term certificates of investment		6,000,000	6,000,000
Liabilities against assets subject to finance lease		938,056	698,943
Long term deposits	13	102,075,380	154,086,207
Deferred liabilities		3,726,152	3,363,619
		137,638,234	170,807,308
Total liabilities		<u>639,535,072</u>	<u>685,972,313</u>
NET ASSETS		<u>286,202,941</u>	<u>303,663,534</u>
FINANCED BY			
Authorised share capital			
100,000,000 (December 31, 2010: 100,000,000) ordinary shares of Rs. 10 each		<u>1,000,000,000</u>	<u>1,000,000,000</u>
Issued, subscribed and paid-up capital		320,000,000	320,000,000
Reserves		48,466,329	48,466,329
Accumulated loss		<u>(84,293,790)</u>	<u>(68,637,222)</u>
		284,172,539	299,829,107
Surplus on revaluation of available-for-sale investments	7.2	2,030,402	3,834,427
Total shareholders' equity		<u>286,202,941</u>	<u>303,663,534</u>
COMMITMENTS	14		

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Arjumand A. Qazi
Chief Executive Officer

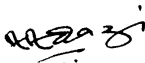

Zubair F. Tufail
Director

Condensed Interim Profit and Loss Account

For the six months period ended June 30, 2011 (Un-Audited)

	Note	Six months period ended		Three months period ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
		----- Rupees -----	----- Rupees -----	----- Rupees -----	----- Rupees -----
INCOME					
Income from operations	15	30,013,240	48,319,976	16,720,697	23,087,620
Other Operating Income					
Income from investments		3,488,791	419,609	2,785,222	100,000
Other income		166,542	240,358	147,108	122,828
		<u>3,655,333</u>	<u>659,967</u>	<u>2,932,330</u>	<u>222,828</u>
		33,668,573	48,979,943	19,653,027	23,310,448
EXPENSES					
Administrative and operating expenses		23,165,289	21,587,432	12,371,506	11,044,998
Finance cost	16	16,845,162	27,941,920	8,472,876	13,113,136
		<u>40,010,451</u>	<u>49,529,352</u>	<u>20,844,382</u>	<u>24,158,134</u>
Operating loss before provisions		(6,341,878)	(549,409)	(1,191,355)	(847,686)
PROVISIONS					
Provision for potential lease losses		7,529,734	11,881,010	6,493,773	2,939,249
Provision for loans and receivables		672,431	220,378	271,765	20,256
		<u>8,202,165</u>	<u>12,101,388</u>	<u>6,765,538</u>	<u>2,959,505</u>
Loss before taxation		(14,544,043)	(12,650,797)	(7,956,893)	(3,807,191)
Taxation		1,112,525	894,190	522,469	365,157
Loss after taxation		<u>(15,656,568)</u>	<u>(13,544,987)</u>	<u>(8,479,362)</u>	<u>(4,172,348)</u>
Loss per share - basic and diluted		<u>(0.49)</u>	<u>(0.42)</u>	<u>(0.26)</u>	<u>(0.13)</u>

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Arjumand A. Qazi
Chief Executive Officer


Zubair F. Tufail
Director

Condensed Interim Statement of Comprehensive Income

For the six months period ended June 30, 2011 (Un-Audited)

	Six month period ended		Three month period ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	----- Rupees -----		----- Rupees -----	
Loss after tax	(15,656,568)	(13,544,987)	(8,479,362)	(4,172,348)
Other comprehensive income				
Surplus / (Deficit) on revaluation of available-for-sale investments	826,771	(472,484)	679,011	(177,366)
Surplus on revaluation of available-for-sale investments transferred to profit and loss on disposal	(2,630,796)	(169,609)	-	-
	(1,804,025)	(642,093)	679,011	(177,366)
Total comprehensive loss for the period	<u>(17,460,593)</u>	<u>(14,187,080)</u>	<u>(7,800,351)</u>	<u>(4,349,714)</u>

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Arjumand A. Qazi
Chief Executive Officer


Zubair F. Tufail
Director

Condensed Interim Cash Flow Statement

For the six months period ended June 30, 2011 (Un-Audited)

	Note	Six months period end	
		June 30, 2011 Rupees	June 30, 2010 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(14,544,043)	(12,650,797)
Adjustments for:			
- Depreciation and amortization		1,296,163	1,269,892
- Gratuities		579,773	195,473
- Finance cost		16,740,457	27,827,218
- Interest income		(3,724,833)	(204,957)
- Financial charges on leased assets		104,705	114,702
- Loss on disposal of property and equipment		69,500	-
- Provision for potential lease losses		7,529,734	11,881,010
- Provision for loans and receivables		672,431	220,378
		<u>23,267,930</u>	<u>41,303,716</u>
Operating profit before working capital changes		8,723,887	28,652,919
Movement in working capital			
(Increase) / Decrease in operating assets			
- Interest accrued		60,175	87,298
- Deposits, prepayments and other receivables		(5,782,888)	(2,972,565)
- Loans and advances		(49,036)	(177,323)
		<u>(5,771,749)</u>	<u>(3,062,590)</u>
Increase / (Decrease) in operating liabilities			
- Provision for compensated absences		497,160	125,073
- Accrued and other liabilities		(1,159,637)	(2,651,443)
		<u>(662,477)</u>	<u>(2,526,370)</u>
Cash generated from operations		2,289,661	23,063,959
Decrease in net investment in leases			
(Increase) / Decrease in long-term finances and loans		64,567,622	351,846,684
Financial charges paid		(5,232,979)	23,080,793
Interest received		(17,486,855)	(31,898,735)
Gratuities paid		3,724,833	204,957
Taxes paid		(217,240)	(75,768)
Long-term deposits received		(106,298)	(66,973)
		<u>(33,689,563)</u>	<u>(230,337,302)</u>
		<u>11,559,520</u>	<u>112,753,656</u>
<i>Net cash flows from operating activities</i>		13,849,181	135,817,615
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(9,500)	(14,491)
Proceeds from disposal of property and equipment		195,600	-
Decrease in investments		5,000,497	11,000,000
(Increase) / Decrease in long-term deposits and prepayments		(644,433)	265,241
<i>Net cash flows from investing activities</i>		4,542,164	11,250,750
CASH FLOW FROM FINANCING ACTIVITIES			
Decrease in long-term finances		(15,287,049)	(150,442,473)
(Decrease) / Increase in certificates of investment		(2,195,978)	4,699,544
Lease rentals paid		(523,434)	(658,881)
<i>Net cash flows from financing activities</i>		<u>(18,006,461)</u>	<u>(146,401,810)</u>
Net increase in cash and cash equivalents		384,884	666,555
Cash and cash equivalents at beginning of the period		(96,130,099)	(94,292,891)
Cash and cash equivalents at end of the period	19	<u>(95,745,216)</u>	<u>(93,626,336)</u>

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Arjumand A. Qazi
Chief Executive Officer


Zubair F. Tufail
Director

Condensed Interim Statement of Changes in Equity

For the six months period ended June 30, 2011 (Un-Audited)

	Issued, subscribed and paid-up capital	Capital reserves		Revenue reserves			Total shareholders' equity
		Share premium	Statutory reserve	Reserve against future losses	Accumulated loss	Surplus/(Deficit) on revaluation of available-for-sale investments	
Rupees							
Balance as at December 31, 2009	320,000,000	10,000,000	28,019,277	10,447,052	(18,851,129)	1,648,164	351,263,364
Total comprehensive income for the period ended June 30, 2010							
Loss after taxation	-	-	-	-	(13,544,987)	-	(13,544,987)
Other comprehensive income							
Deficit on revaluation of available-for-sale investments - net	-	-	-	-	-	(642,093)	(642,093)
Balance as at June 30, 2010	320,000,000	10,000,000	28,019,277	10,447,052	(32,396,116)	1,006,071	337,076,284
Total comprehensive income for the period ended December 31, 2010							
Loss after taxation	-	-	-	-	(36,241,106)	-	(36,241,106)
Other comprehensive income							
Surplus on revaluation of available-for-sale investments - net	-	-	-	-	-	2,828,356	2,828,356
Balance as at December 31, 2010	320,000,000	10,000,000	28,019,277	10,447,052	(68,637,222)	3,834,427	303,663,534
Total comprehensive income for the period ended June 30, 2011							
Loss after taxation	-	-	-	-	(15,656,568)	-	(15,656,568)
Other comprehensive income							
Deficit on revaluation of available-for-sale investments - net	-	-	-	-	-	(1,804,025)	(1,804,025)
Balance as at June 30, 2011	320,000,000	10,000,000	28,019,277	10,447,052	(84,293,790)	2,030,402	286,202,941

The annexed notes 1 to 22 form an integral part of this condensed interim financial information.


Arjumand A. Qazi
Chief Executive Officer


Zubair F. Tufail
Director

Selected Notes to the Condensed Interim Financial Report

For the six months period ended June 30, 2011 (Un-Audited)

1. STATUS AND NATURE OF BUSINESS

SME Leasing Limited (the Company) was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The Company is a subsidiary of SME Bank Limited, which holds 73.14% (December 31, 2010: 73.14%) of the Company's shares. At the time of incorporation, the Company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the Company on January 28, 2003. The Company is listed on Lahore Stock Exchange and its registered office is situated at 40 Jang Building, A.K. Fazal-ul-Haq Road, Blue Area, Islamabad. The core objective of the Company is to extend lease and working capital financing facilities to small and medium enterprises of the country.

2. BASIS OF PREPARATION

This condensed interim financial information has been prepared in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. The disclosures in the condensed interim financial information do not include all the information reported for full annual financial statements and should therefore be read in conjunction with the financial statements of the Company for the year ended December 31, 2010.

This condensed interim financial information is Un-audited and is being submitted to the shareholders as required under section 245 of the Companies Ordinance, 1984 and the listing regulation of Lahore Stock Exchange. However, a limited scope review has been carried out by the auditors. Further, the figures in the condensed interim financial information for the quarter ended June 30, 2011 and June 30, 2010 have not been reviewed by the auditors.

The comparative balance sheet presented in the condensed interim financial information as at June 30, 2011 has been extracted from the audited financial statements of the Company for the year ended December 31, 2010, whereas the comparative profit and loss account, statement of comprehensive income, statement of changes in equity and the cash flow statements have been extracted from condensed interim financial information of the Company for the six months period ended June 30, 2010.

3. ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of the condensed interim financial information are the same as those applied in preparation of the financial statements of the Company as at and for the year ended December 31, 2010.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. However, actual results may differ from these estimates. In preparing this condensed interim financial information, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimates uncertainty were the same as those that applied to the financial statements of the Company for the year ended December 31, 2010.

5. FINANCIAL RISK MANAGEMENT

The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements of the Company as at and for the year ended December 31, 2010.

	Note	June 30, 2011 (Un-audited) Rupees	December 31, 2010 (Audited) Rupees
6 CASH AND BANK BALANCES			
Cash in hand		32,764	56,012
Balance with State Bank of Pakistan in current account		15,474	25,907
Balances with banks in:			
- current accounts		10,556,837	10,720,496
- saving accounts	6.1	5,671,665	1,100,248
		<u>16,276,740</u>	<u>11,902,663</u>

6.1 These saving accounts carry profit rate of 5% per annum (December 31, 2010: 5% per annum).

Selected Notes to the Condensed Interim Financial Report

For the six months period ended June 30, 2011 (Un-Audited)

	Note	June 30, 2011 (Un-audited) Rupees	December 31, 2010 (Audited) Rupees
7 INVESTMENTS - available-for-sale			
Government securities			
- Special saving certificates	7.1	2,500,000	2,500,000
Mutual Funds			
- Open end mutual funds		18,150,455	25,127,477
- Close end mutual fund	7.2	<u>1,205,000</u>	<u>1,032,500</u>
		<u>19,355,455</u>	<u>26,159,977</u>
		<u>21,855,455</u>	<u>28,659,977</u>

7.1 This represents investment in government securities to comply with the requirement of Regulation 14(4)(i) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, where by the Company is required to invest in government securities at least fifteen percent of funds raised through issue of certificates of investments, excluding those held by the financial institutions. The rate of return on this investment is 11.6 percent to 14.2 percent per annum (December 31, 2010: 11.6 percent to 14.2 percent per annum).

7.2 Mutual Funds

	Number of units / certificates	Cost		Market Value		Surplus / (Deficit)	
		Jun 30, 2011 (Un-audited)	Dec 31, 2010 (Audited)	Jun 30, 2011 (Un-audited)	Dec 31, 2010 (Audited)	Jun 30, 2011 (Un-audited)	Dec 31, 2010 (Audited)
Open End Mutual Funds							
UBL Liquidity Plus Fund	(2011: 47,537) (2010: 44,849)	4,145,053	4,145,053	4,763,739	4,493,774	618,686	348,721
Meezan Capital Protected Fund-1	(2011: 126,846) (2010: 109,415)	5,000,000	5,000,000	6,342,318	6,002,529	1,342,318	1,002,529
ABL Cash Fund	(2011: 703,118) (2010: Nil)	7,000,000	-	7,044,398	-	44,398	-
NAFA Stock Fund	(2011: Nil) (2010: 192,475)	-	1,207,918	-	1,463,370	-	255,452
Pakistan Stock Market Fund	(2011: Nil) (2010: 35,068)	-	1,804,143	-	2,069,366	-	265,223
Faysal Assets Allocation Fund	(2011: Nil) (2010: 24,718)	-	1,467,178	-	1,630,646	-	163,468
United Stock Advantage Fund	(2011: Nil) (2010: 46,108)	-	1,581,459	-	1,919,921	-	338,462
Crossby Dragon Fund	(2011: Nil) (2010: 16,725)	-	1,439,799	-	1,606,594	-	166,795
Alfalah GHP, Principal Protected Fund	(2011: Nil) (2010: 46,936)	-	2,000,000	-	2,611,067	-	611,067
Namco Income Fund	(2011: Nil) (2010: 31,729)	-	2,500,000	-	3,330,210	-	830,210
		<u>16,145,053</u>	<u>21,145,550</u>	<u>18,150,455</u>	<u>25,127,477</u>	<u>2,005,402</u>	<u>3,981,927</u>
Close End Mutual Funds							
Namco Balanced Fund	(2011: 250,000) (2010: 250,000)	1,180,000	1,180,000	1,205,000	1,032,500	25,000	(147,500)
		<u>1,180,000</u>	<u>1,180,000</u>	<u>1,205,000</u>	<u>1,032,500</u>	<u>25,000</u>	<u>(147,500)</u>
		<u>17,325,053</u>	<u>22,325,550</u>	<u>19,355,455</u>	<u>26,159,977</u>	<u>2,030,402</u>	<u>3,834,427</u>

Selected Notes to the Condensed Interim Financial Report

For the six months period ended June 30, 2011 (Un-Audited)

	Note	June 30, 2011 (Un-audited) Rupees	December 31, 2010 (Audited) Rupees
8. LONG-TERM FINANCES AND LOANS - secured			
Related parties - considered good			
- Executives		284,077	436,853
- Employees		1,951,140	2,085,274
		<u>2,235,217</u>	<u>2,522,127</u>
Other than related parties			
- Customers		35,492,008	26,418,306
considered good		45,989,285	49,543,098
considered doubtful		81,481,293	75,961,404
Provision		(2,479,714)	(1,807,283)
		<u>79,001,579</u>	<u>74,154,121</u>
		<u>81,236,796</u>	<u>76,676,248</u>
Less: Current maturity			
Related parties			
- Executives		284,077	309,970
- Employees		231,925	272,655
		516,002	582,625
Other than related parties			
- Customers		58,105,624	62,804,995
		(58,621,626)	(63,387,620)
		<u>22,615,170</u>	<u>13,288,628</u>
9. NET INVESTMENT IN FINANCE LEASES			
Net investment in finance leases	9.1	770,914,824	843,012,180
Current portion shown under current assets	9.1	(578,128,378)	(581,388,049)
		<u>192,786,446</u>	<u>261,624,131</u>

9.1 Net investment in finance leases

	June 30, 2011 (Un-audited)			December 31, 2010 (Audited)		
	Not later than one year	Later than one year and less than five years	Total	Not later than one year	Later than one year and less than five years	Total
	Rupees					
Minimum lease payments	489,901,857	105,629,254	595,531,111	515,089,794	116,855,219	631,945,013
Add: Residual value of leased assets	297,408,253	102,075,380	399,483,633	279,086,989	154,086,207	433,173,196
Gross investment in leases	787,310,110	207,704,634	995,014,744	794,176,783	270,941,426	1,065,118,209
Unearned lease income	(30,777,956)	(13,801,294)	(44,579,250)	(41,837,646)	(8,275,698)	(50,113,344)
Mark-up held in suspense	(67,831,266)	-	(67,831,266)	(67,833,015)	-	(67,833,015)
	(98,609,222)	(13,801,294)	(112,410,516)	(109,670,661)	(8,275,698)	(117,946,359)
	688,700,888	193,903,340	882,604,228	684,506,122	262,665,728	947,171,850
Provision for potential lease losses	(110,572,510)	(1,116,894)	(111,689,404)	(103,118,073)	(1,041,597)	(104,159,670)
Net investment in finance leases	<u>578,128,378</u>	<u>192,786,446</u>	<u>770,914,824</u>	<u>581,388,049</u>	<u>261,624,131</u>	<u>843,012,180</u>

The Internal Rate of Return (IRR) on lease contract receivable ranges from 9.5 percent to 25.11 percent per annum (December 31, 2010: 9.5 percent to 25.11 percent per annum).

Selected Notes to the Condensed Interim Financial Report

For the six months period ended June 30, 2011 (Un-Audited)

	For the six months period ended June 30 (Un-audited)		
	2011 Rupees	2010 Rupees	
10. PROPERTY AND EQUIPMENTS			
Additions			
<i>Owned</i>			
Furniture and fixtures	-	14,491	
Building improvements	9,500	-	
Vehicles (transfer)	673,550	879,890	
	<u>683,050</u>	<u>894,381</u>	
<i>Leased Assets</i>			
Vehicles	1,205,000	-	
	<u>1,888,050</u>	<u>894,381</u>	
Disposals			
<i>Owned</i>			
Vehicles	265,100	-	
<i>Leased Assets</i>			
Vehicles (transfer)	673,550	879,890	
	<u>673,550</u>	<u>879,890</u>	
	Note		
	June 30, 2011 (Un-audited) Rupees	December 31, 2010 (Audited) Rupees	
11. CURRENT MATURITY OF NON-CURRENT LIABILITIES			
Long-term finances	12	58,895,206	92,422,362
Liabilities against assets subject to finance lease		1,109,594	667,142
Long-term deposits	13	297,408,253	279,086,989
		<u>357,413,053</u>	<u>372,176,493</u>
12. LONG-TERM FINANCES			
Long-term Loans			
SME Bank Limited		8,572,962	10,343,953
Other financial institutions	12.1	46,054,216	1,664,442
		<u>54,627,178</u>	<u>12,008,395</u>
Privately Placed Term Finance Certificates		29,166,674	87,072,506
		<u>83,793,852</u>	<u>99,080,901</u>
Current maturity			
- Long-term loans		(29,728,532)	(5,349,856)
- Privately placed term finance certificates		(29,166,674)	(87,072,506)
		<u>(58,895,206)</u>	<u>(92,422,362)</u>
		<u>24,898,646</u>	<u>6,658,539</u>

12.1 This represents financing facilities obtained during the period from United Bank limited (UBL) and Energy Conservative Fund (Enercon). The facility with UBL is secured against first charge by way of hypothecation over un-encumbered lease assets and related receivables and it carries mark-up at the rate of 3 months Kibor plus 1.50% per annum (December 31, 2010: Nil).

The facility with Enercon is under an agreement whereby they have agreed to provide funds to the Company for granting lease / finance facility to its customers for procuring and using energy efficient equipments. The facility carries mark-up at the rate of 5% per annum (December 31, 2010: Nil) payable on quarterly basis subject to condition that the Company will provide lease / finance facility to its customers at a preferential mark-up at the rate of 10% per annum.

	Note	June 30, 2011 (Un-audited) Rupees	December 31, 2010 (Audited) Rupees
13. LONG-TERM DEPOSITS			
Lease key money	13.1	399,483,633	433,173,196
Current maturity	11	(297,408,253)	(279,086,989)
		<u>102,075,380</u>	<u>154,086,207</u>

13.1 These represent interest free security deposits received against lease contracts and are refundable / adjustable at the expiry / termination of the respective leases. The amount is net of security deposit held against matured leases amounting to Rs. 230.689 million (December 31, 2010: Rs. 238.25 million).

Selected Notes to the Condensed Interim Financial Report

For the six months period ended June 30, 2011 (Un-Audited)

14. COMMITMENTS

Leasing contracts committed but not executed at the balance sheet date amounted to Rs. 12.56 million (December 31, 2010: Rs. 3.1 million).

15. INCOME FROM OPERATIONS

	Six months period ended June 30		Three months period ended June 30	
	2011	2010	2011	2010
Leases				
Income from finance lease operations	24,935,672	40,899,144	14,263,163	19,868,893
Gain on termination of leases	146,478	133,438	8,762	90,688
	<u>25,082,150</u>	<u>41,032,582</u>	<u>14,271,925</u>	<u>19,959,581</u>
Finances and loans				
Customers	4,931,090	7,287,394	2,448,772	3,128,039
	<u>30,013,240</u>	<u>48,319,976</u>	<u>16,720,697</u>	<u>23,087,620</u>

16. FINANCE COST

Mark-up on:				
- Long-term finance	3,834,710	6,968,196	1,912,267	3,036,036
- Privately placed term finance certificates	3,626,524	11,301,005	1,296,103	3,707,391
- Short-term borrowings	7,845,175	8,634,010	4,471,596	5,837,295
- Certificates of investment	769,758	176,376	420,525	112,818
Lease finance charges	104,705	114,702	44,256	52,508
Bank charges	664,290	747,631	328,129	367,088
	<u>16,845,162</u>	<u>27,941,920</u>	<u>8,472,876</u>	<u>13,113,136</u>

17. CAPITAL MANAGEMENT

Capital requirements applicable to the Company are set and regulated by the Securities and Exchange Commission of Pakistan (SECP). These requirements are put in place to ensure sufficient solvency margins. The Company manages its capital requirements by assessing its capital structure against the required capital level on regular basis. SECP extended the minimum equity requirement as per NBFC regulations 2008 vide SRO 764(I)/2009 dated September 2, 2009 wherein the Company is required to meet the minimum equity requirements of Rs. 350 million, Rs. 500 million and Rs. 700 million by 2011, 2012 and 2013 respectively.

As at June 30, 2011, the Company has equity of Rs. 286.203 million which is not in accordance with the minimum equity requirement of Rs. 350 million.

18. TRANSACTIONS WITH RELATED PARTIES

The related parties comprises of SME Bank Limited (Holding Company), key management personnel, non-executive directors and contributory employee plan:

	June 30, 2011 (Un-audited)		December 31, 2010 (Audited)	
	Key management personnel	SME Bank Limited (Holding Company)	Key management personnel	SME Bank Limited (Holding Company)
Borrowings				
Balance as at 1 January	-	143,376,713	-	101,894,472
Borrowings during the period / year	-	-	-	175,032,756
Repayments during the period / year	-	(14,446,440)	-	(133,550,513)
Balance as at period / year end	<u>-</u>	<u>128,930,273</u>	<u>-</u>	<u>143,376,715</u>
Loans and advances				
Balance as at 1 January	182,832	-	129,749	-
Advances given during the period / year	200,000	-	335,000	-
Repayments during the period / year	(154,002)	-	(281,917)	-
Balance as at period / year end	<u>228,830</u>	<u>-</u>	<u>182,832</u>	<u>-</u>

	June 30, 2011 (Un-audited) Rupees	December 31, 2010 (Audited) Rupees
Balances		
Lease facilities to Holding Company	<u>5,052,643</u>	<u>8,164,143</u>
Deposit margin by Holding Company for the lease facility	<u>5,325,223</u>	<u>8,436,723</u>
Total rentals receivables (for the entire lease period)	<u>6,707,712</u>	<u>8,531,623</u>
Transactions during the period		
Mark-up expense against borrowings from Holding Company	<u>9,579,937</u>	<u>1,199,332</u>
Total rentals received during the period	<u>700,154</u>	<u>664,173</u>
Rent expense	<u>209,363</u>	<u>201,330</u>
Key management remuneration	<u>3,637,548</u>	<u>2,814,000</u>
Post retirement benefits	<u>1,275,701</u>	<u>852,400</u>
Provident fund - Company's contribution	<u>69,678</u>	<u>60,066</u>

Selected Notes to the Condensed Interim Financial Report

For the six months period ended June 30, 2011 (Un-Audited)

	June 30, 2011 (Un-audited) Rupees	June 30, 2010 (Un-audited) Rupees
19. CASH AND CASH EQUIVALENTS		
Cash and bank balances	16,276,740	13,732,856
Short-term borrowings	<u>(112,021,956)</u>	<u>(107,359,192)</u>
	<u>(95,745,216)</u>	<u>(93,626,336)</u>

20. SEGMENT INFORMATION

A segment is a distinguishable component of the company that is engaged in business activities from which the company earns revenues and incur expenses and its results are regularly reviewed by the company's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance. Further, discrete financial information is available for each segment.

The company's reportable segments under IFRS 8 are therefore finance lease, loans and receivables, and investments. Other operations, which are not deemed by the management to be sufficiently significant to disclose as separate items are reported under Others.

All assets and liabilities are allocated to reportable segments other than assets and liabilities not directly related to the particular segment.

	June 30, 2011 (Un-audited)				Total
	Finance lease	Loans and receivables	Investment	Others	
	Rupees				
Segment revenue	<u>25,082,150</u>	<u>4,995,666</u>	<u>3,488,791</u>	<u>101,966</u>	<u>33,668,573</u>
Segment profit	<u>17,552,416</u>	<u>4,323,235</u>	<u>3,488,791</u>	<u>101,966</u>	<u>25,466,408</u>
Segment result					25,466,408
Unallocated cost					
Finance cost					16,845,162
Administrative and operating expenses					<u>23,165,289</u>
					40,010,451
Loss before tax					(14,544,043)
Taxation					<u>1,112,525</u>
Loss after tax					<u>(15,656,568)</u>
Other information					
Segment assets	770,914,824	79,001,579	21,855,455	-	871,771,858
Unallocated assets				53,966,155	<u>53,966,155</u>
Total assets					<u>925,738,013</u>
Segment liabilities	404,831,942	-	-	-	404,831,942
Unallocated liabilities				234,703,130	<u>234,703,130</u>
Total liabilities					<u>639,535,072</u>
Net assets					<u>286,202,941</u>
Capital expenditure	-	-	-	274,600	<u>274,600</u>

20.1 Revenue reported above represents revenue from external customers. There are no intersegment sales.

Selected Notes to the Condensed Interim Financial Report

For the six months period ended June 30, 2011 (Un-Audited)

20.2 Revenue from finance lease includes income from finance lease operations and gain/loss on termination of lease. Revenue from loans and receivable includes mark-up income on loans to customers and employees, and revenue from investments include gain on disposal of investments, dividend income and mark-up on government securities.

	June 30, 2010 (Un-audited)				Total
	Finance lease	Loans and receivables	Investment	Others	
	----- Rupees -----				
Segment revenue	<u>41,032,582</u>	<u>7,368,693</u>	<u>419,609</u>	<u>159,059</u>	<u>48,979,943</u>
Segment profit	<u>29,151,572</u>	<u>7,148,315</u>	<u>419,609</u>	<u>159,059</u>	<u>36,878,555</u>
Segment result					36,878,555
Unallocated cost					
Finance cost					27,941,920
Administrative and operating expenses					<u>21,587,432</u>
					49,529,352
Loss before tax					(12,650,797)
Taxation					<u>894,190</u>
Loss after tax					<u>(13,544,987)</u>
	December 31, 2010 (Audited)				
Other information					
Segment assets	843,012,180	74,154,121	28,659,977	-	945,826,278
Unallocated assets				43,809,569	<u>43,809,569</u>
Total assets					989,635,847
Segment liabilities	438,539,657	-	-	-	438,539,657
Unallocated liabilities				247,432,656	<u>247,432,656</u>
Total liabilities					<u>685,972,313</u>
Net assets					<u>303,663,534</u>
Capital expenditure	-	-	-	13,243,116	<u>13,243,116</u>

21. GENERAL

Reclassification

Following reclassifications to the corresponding figures have been made in the financial statements for the six months period ended June 30, 2011:

Reclassification from	Reclassification to	(Rupees)
Net investment in lease	Current maturity of non-current assets	170,918,932
Long term deposits	Current maturity of non-current liabilities	126,266,816

22. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorized for issue by the Board of Directors of the Company on August 25, 2011.


Arjumand A. Qazi
Chief Executive Officer


Zubair F. Tufail
Director

Branch Network

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