Annual Report 2011

SME Leasing Limited

(A subsidiary of SME Bank Ltd.)

Mission Statement

To be the leading financial institution in the country that provides lease finance facilities to the SME sector on a sustainable basis.

To have a client focused strategy and develop the approach and expertise in SME's that will set an example and lead the way for the financial industry to serve the SME's on a commercial basis.

Vision Statement

In partnership with the people, empowering small and medium enterprises, strengthening the economy, towards a prosperous Pakistan.

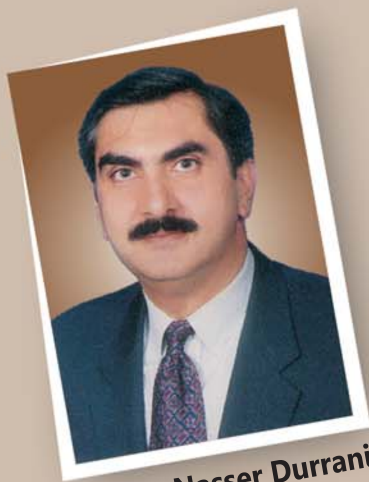
Contents

Board of Directors

Mr. Ihsan ul Haq Khan
Chairman

Mrs. Arjumand A. Qazi
Chief Executive Officer

Mr. Zubair F. Tufail
Director



Mr. Nasser Durrani
Director

Mr. Masood Naqi
Director

Mr. Ali A. Rahim
Director

Mr. Mehboob Hussain
Director

Corporate Information

BOARD OF DIRECTORS

Mr. Ihsan ul Haq Khan	Chairman
Mrs. Arjumand A. Qazi	Chief Executive Officer
Mr. Nasser Durrani	Director
Mr. Mehboob Hussain	Director
Mr. Zubair F. Tufail	Director
Mr. Masood Naqi	Director
Mr. Ali A. Rahim	Director

AUDIT COMMITTEE

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

MANAGEMENT COMMITTEE

Mr. 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

Corporate Information

COMPANY SECRETARY & CFO
Mr. Tanveer Ul Bari

EXTERNAL AUDITORS
KPMG Taseer Hadi & Co.
Chartered Accountants

INTERNAL AUDITOR
Ms. Shafque Akhter

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: 021-99225051-53
Fax: 021-99225054

REGISTRAR AND SHARE TRANSFER OFFICE
Technology Trade (Pvt.) Ltd.
241-C, Block-2, P.E.C.H.S.,
Off. Shahrah-e-Quaideen, Karachi.
Tel: (+92-21) 34391316-7 & 19, 34387960-61
Fax: (+92-21) 34391318

BANKS AND LENDING INSTITUTIONS
Allied Bank Limited
MCB Bank Limited
SME Bank Limited
United Bank Limited

Branch Network

Karachi

Main Branch:	2nd Floor, Tower "B" Finance & Trade Centre (FTC), Shahra-e-Faisal Phone : 021-99225051-53 Fax: 021-99225054
F.B. Area Branch:	Office No. 9, Rahimabad, Block-14, F.B. Area, Shara-e-Pakistan. Phone: 021-99246458, 36807584 Fax: 021-36806940

HYDERABAD

M-06, Mezzanine Floor, Rabi Shopping Centre,
Cantonment Area, Saddar.
Phone: 022-9200747
Fax: 022-9201060

LAHORE

Gulberg Branch:	13-L, Mini Market, Gulberg-II. Phone: 042-35714499 Fax: 042-35295424
Allama Iqbal Town Branch:	Office No. 03, 2nd Floor, Sky Centre, Karim Block, Allama Iqbal Town Road. Phone: 042-35295423 Fax: 042-35295424

ISLAMABAD

Office No. 2, 1st Floor, Rehmat Centre, I-8 Markaz.
Phone: 051-9257524
Fax: 051-9257520

SIALKOT

Small Industrial Estate Uggoki Road, Shahabpura.
Phone: 052-3257138
Fax: 052-3257138

PESHAWAR

34, Ground Floor, State Life Building,
The Mall, Peshawar Cantt.
Phone: 091-9211683
Fax: 091-9211683

Notice of the 10th Annual General Meeting

Notice is hereby given that the Tenth Annual General Meeting of the shareholders of SME Leasing Limited (the Company) will be held at Hotel Crown Plaza, Islamabad on Monday, April 30, 2012 at 3:30 pm to transact the following business:

ORDINARY BUSINESS.

1. To confirm the minutes of the 9th Annual General Meeting of the Company held on April 28, 2011.

2. To receive, consider and adopt the audited Financial Statements of the Company for the year ended December 31, 2011 together with the Directors' and Auditors' Reports thereon.

3. To appoint auditors for the year ending December 31, 2012 and fix their remuneration. The Board of Directors has recommended appointment of M/s.KPMG Taseer Hadi & Company, Chartered Accountants as auditors of the Company for the year ending December 31, 2012.

4. To transact any other business with the permission of the Chair.

By Order of the Board

Tanveer Ul Bari
Company Secretary

Karachi: April 02, 2012

Notes:

1. The Register of the members of the Company will remain closed from April 23, 2012 to April 30, 2012 (both days inclusive).

2. A member entitled to attend and vote at the meeting is entitled to appoint another member as proxy to attend, speak and vote in the meeting. Proxies in order to be effective must be received by the company at the main office situated at 2nd Floor ,Tower - B, Finance & Trade Centre, Shahrah-e-Faisal, Karachi not less than 48 hours before the time of holding the meeting.

3. An instrument appointing proxy and the Power of Attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney, in order to be valid must be deposited at the main office of the company not less than 48 hours before the time of the meeting.

4. CDC account holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan

For attending the meeting.

- In case of individuals, the account holder or sub - account holder shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting. The shareholders registered on CDS are also requested to bring their participants I.D. numbers and account numbers in CDS.

- In case of a corporate entity, the Board of Directors' resolution /power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.

Notice of the 10th Annual General Meeting

For appointing proxies.

- In case of individuals, the account holder or sub - account holder and /or the person whose securities are in group account and their registration details are uploaded as per the regulations, shall submit the proxy form as per the above requirements.

- The proxy shall be witnessed by two persons whose names, address and CNIC numbers shall be mentioned on the form.

- Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

- The proxy shall produce his/her original CNIC or original passport at the time of the meeting.

- In case of corporate entity, the Board of Directors resolution /power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) along with the proxy form for the meeting.

5. Shareholders are requested to notify the change of their address, if any, at our main office at 2nd Floor, Tower - B, Finance & Trade Centre, Shahra-e-Faisal, Karachi.

Directors' Report

The Board of Directors of SME Leasing Limited (the Company) is pleased to present before you, the annual report and audited financial statements for the year ended December 31, 2011.

Financial Highlights

An analysis of the key operating results for 2011 and their comparison with the results of the previous year is given below:

	2011 Rupees	2010 Rupees
Gross revenue	**59,718,636**	85,590,973
Operating Expenses		
(Loss) before provisions	**(78,018,992)**	(91,532,470)
	(18,300,356)	(5,941,497)
Provisions	**(43,642,301)**	(41,446,818)
(Loss) before taxation	**(61,942,675)**	(47,388,315)
Taxation:		
Current	**(597,244)**	(2,397,778)
	(597,244)	(2,397,778)
(Loss) after taxation	**(62,539,901)**	(49,786,093)
Earnings per share - basic and diluted	**(1.95)**	(1.56)

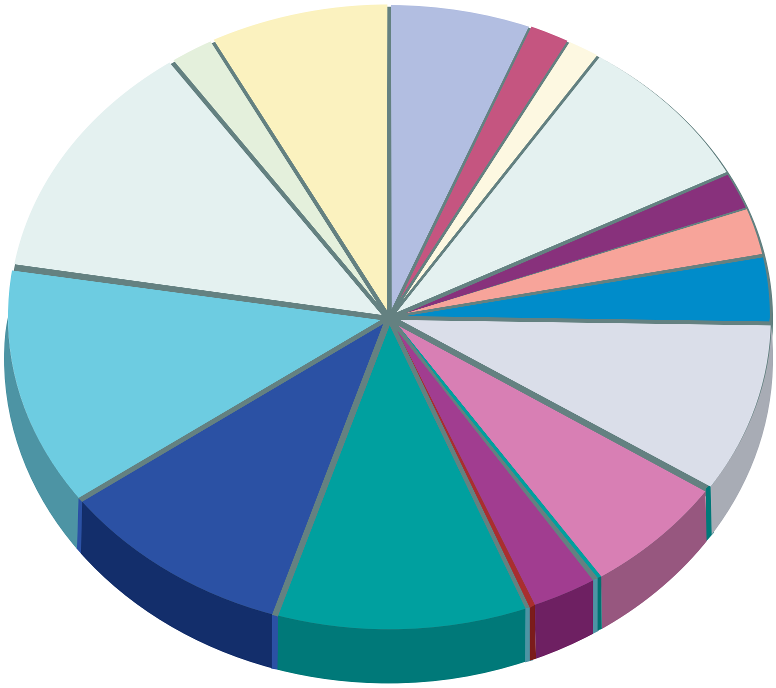
Dividend

In view of loss during the year, the Board has not recommended any dividend for the year under review.

Operating review

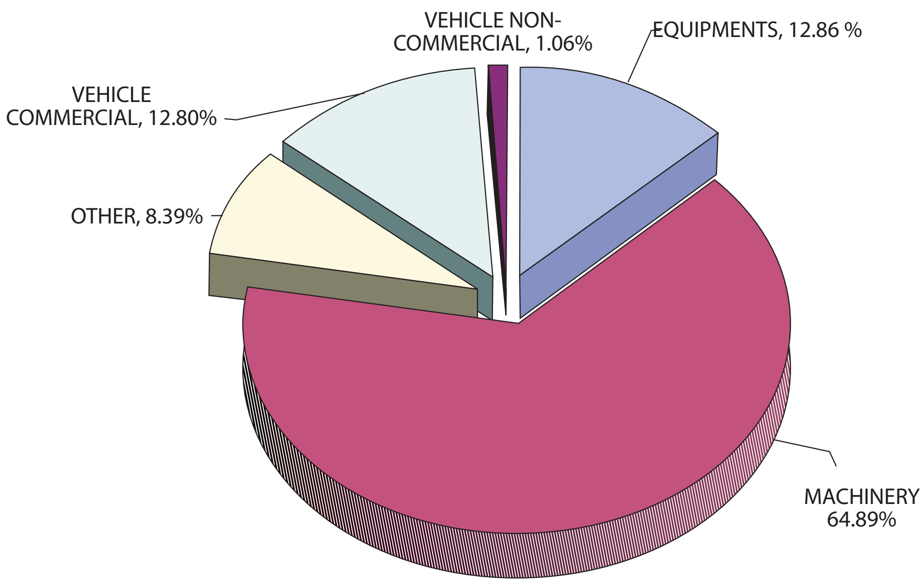
Owing to the ongoing unstable economic environment, the operational activities of leasing sector remained constrained during 2011. Non-availability of new funding lines continued to cause significant decline in business volumes, as banks and other lending institutions for the 4th consecutive year, diverted their funding to the risk-free government borrowing rather than to the private sector. Resource mobilization is the major challenge for the revival of the sector. Efforts are under way at different levels and forums to recoup the interest of the Government and other bodies to restore the role of the NBFC sector in the development of the economy.

Portfolio as at December 31, 2011

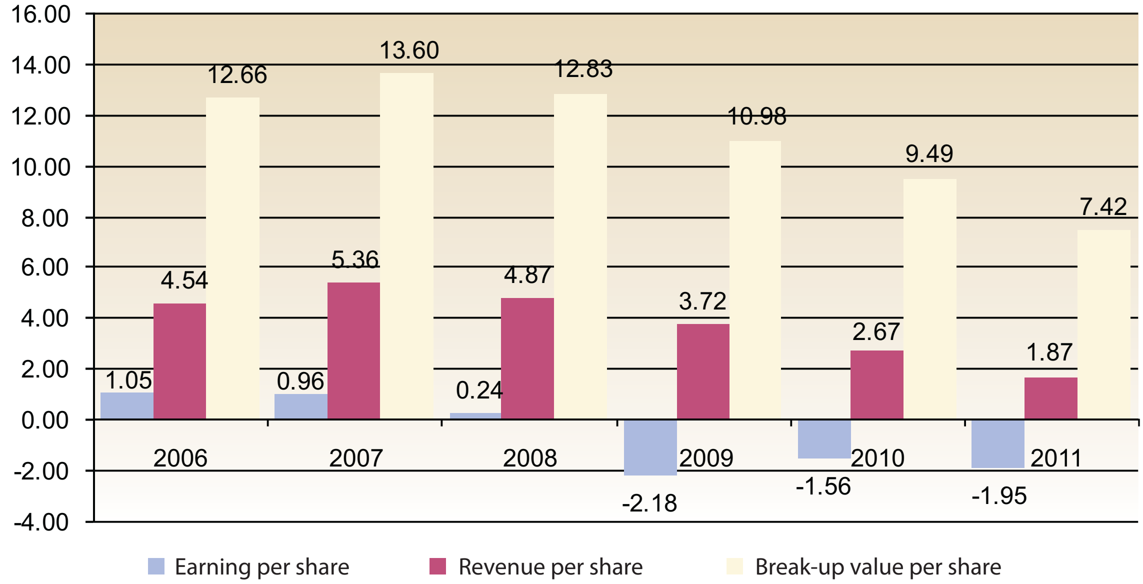


- CARGO CARRIERS 6.04
- CHEMICALS & PHARMA 1.73
- COMMUNICATION 1.40
- CONSTRUCTION AND BUILDING PRODUCTS 8.21
- EDUCATION 1.89
- ENGINEERING 2.48
- ENTERTAINMENT 3.49
- FILM PROCESSING 8.96
- FISHERIES 0.13
- FOOD AND BEVERAGES 6.39
- FURNITURE 0.06
- GEMS & JEWELERY 0.22
- HEALTH CARE 2.79
- LEATHER & TANNERY 0.23
- MISCELLANEOUS 10.88
- OIL & GAS 10.15
- PRINTING & PACKAGING 12.57
- PUBLIC TRANSPORT SERVICES 12.77
- RUBBER & PLASTIC 1.88
- TEXTILE & GARMENT 7.74

Categorywise Gross Lease Portfilio



Key Ratios



The operating activities of your company during 2011 remained low due to non-availability of fresh funding and hence, substantial fresh disbursements. However, despite this decline the good financing portfolio and recovery efforts have kept the rentals recovery strong enough for prompt discharge of all debt obligations and booking of some new assets.

The gross revenue continues to decline in comparison to the prior year due to the shrinkage of financing portfolio caused by rental recoveries and reduction in fresh disbursement. This reduction of revenue has also worsened the operating results for the year despite reduction in operating expenses. Despite strong recovery measures causing reduction in suspension of income and decline in non-performing loans, loan loss provision seems on a higher side which is mainly attributable to change in classification and decline in forced sale value of the leased assets and additional collateral. Going forward, in view of the existing recovery efforts the management is optimistic about reduction in non-performing loans position and overall loan loss provisioning status.

It would be worthwhile to mention here that despite challenging circumstances and liquidity constraints the company continued to demonstrate its promptness in discharging its financial obligations. In July 2011 the Company has successfully paid the final installment of its Private Placed Term Finance Certificates (PPTFC) which was availed in July 2008, and throughout the tenure of the facility the Company remained prompt in repayment.

Minimum equity requirements

The Securities & Exchange Commission of Pakistan(SECP) through Non-Banking Finance Companies & Notified Entities Regulations, 2008 (NBFC Regulations 2008) had revised the minimum equity requirements for the leasing companies and leasing companies were require to maintain, at all times, minimum equity of Rs. 350 million by 30 June 2011, Rs. 500 million by 30 June 2012 and Rs. 700 million by 30 June 2013.

The Company has been incurring losses since the year ended December 31, 2009 mainly on account of provision for non-performing loans and is observing decline in revenue due to liquidity constrains for fresh disbursements. As a result of which the equity of the Company as at 31 December 2011 is Rs. 237.472 million which is Rs. 112.528 million short of the minimum capital requirement.

The representatives of the NBFI & Modaraba Association of Pakistan held several meetings with SECP for relaxation or revision of the minimum equity requirements and in view of the representations made by the association the relevant clauses of equity, provisioning etc are being reviewed by the SECP in the context of problems faced by the leasing sector under current economic scenario.

However, pending foregoing the Board is considering different options to increase the equity, which includes raising of capital through right issue of shares. The shareholders will be updated for any development on the same.

Future Prospects

The satisfactory discharge of major debt obligations and substantial decline in overall debt position has created opportunity for new disbursements, which the Company is capitalizing. Although, the impact of these disbursements is not that significant on current year's financials, nevertheless, it is a step towards revival and the management is optimistic about bringing improvement in the next year's results.

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

However, despite efforts of the management the revival of the NBFC sector is largely dependent upon its access to funds for fresh disbursements for which the sector requires support from the Regulators and related Government Authorities. The existing economic and political scenario is not showing signs for any immediate positive change for the growth of business activities and requires delicate handling of the available resources.

Human Resources

The management fully understands the need and role of skilled human resources in achieving improved business results. Training and development of human resources through in-house orientations and external training programs is being implemented for capacity building of human resources.

Board of Directors

During the year, four Meetings of the Board of Directors were held. Detail of the attendance by each member of the Board is as follows:

Director	Meetings attended
Mr. Ihsan Ul Haq Khan	3
Mr. Rashid A. Chughtai	1
Mrs. Arjumand A. Qazi	4
Mr. Nasser Durrani	4
Mr. Mehboob Hussain	4
Mr. Zubair Farid Tufail	3
Mr. Ali A. Rahim	4
Mr. Masood Naqi	1

Leave of absence was granted to Directors who could not attend the Board Meetings.

During the year Mr. Rashid A. Chughtai resigned from the Board and as Chairman of the Board. Mr.Ihsan ul Haq Khan was appointed as Director and Chairman of the Board to fill the casual vacancy.

Corporate Governance

The Board of Directors is committed to uphold the highest standards of Corporate Governance. The Company has also implemented the provisions of the Code of Corporate Governance and a review report on compliance with best practices of the Code of Corporate Governance by the statutory auditors is annexed with the report.

Directors Declaration:

The Directors confirm compliance with the Corporate and Financial Reporting Framework of the Code of Corporate Governance for the following:

i)	The financial statements prepared by the management of SME Leasing Limited present fairly its statement of affairs, the results of its operations, cash flows and changes in its equity;
ii)	Proper books of accounts of the company have been maintained;
iii)	Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
iv)	International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements;
v)	The system of internal control is sound in design and has been effectively implemented and monitored;
vi)	There are no significant doubts upon the Company's ability to continue as a going concern;
vii)	There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations;
viii)	Details of significant improvements in the Company's operations during the year ended December 31, 2011 are stated in the Director's Report;
ix)	Key operating and financial data for last six years in summarized form is included in the Annual report.
x)	The value of investments of recognized provident fund as at December 31, 2011 was Rs.5.17 million (un-audited) and as at December 31, 2010 was Rs. 4.443 million (Audited).
xi)	No trading in shares of the Company was carried out by the Directors, Chief Executive, Chief Financial Officer/Company Secretary and their spouses and minor children during the year.

Credit Rating

Based on the results for the year ended December 31, 2010, the rating agency, JCR-VIS, has revised the long term entity rating to BBB (Triple B) and short term of A-3 (A minus three) with negative outlook.

Parent Company

SME Bank Limited and its nominees hold 73.14% of the shareholding in the company.

Auditors

The present auditors M/s. KPMG Taseer Hadi & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment for the year ending December 31, 2012. On the proposal of the Board Audit Committee, the Board recommends the appointment of M/s. KPMG Taseer Hadi & Company, Chartered Accountants, as statutory auditors of the company for the year 2012.

Pattern of Shareholding

The pattern of shareholding of the Company as on December 31, 2011 is annexed with this report.

Acknowledgement

We take this opportunity to place on record our appreciation to the Securities and Exchange Commission of Pakistan, Lahore Stock Exchange, other regulatory authorities and lending financial institutions for their continued support and professional guidance, and the Shareholders for the trust and confidence reposed in us.

We also would like to place on record, our thanks and appreciation to the staff for their commitment and dedication which has contributed towards supporting the organization.

On behalf of Board of Directors,

Ihsan Ul Haq Khan
Chairman

Karachi: February 27, 2012

Financial Highlights and Charts

(Rupees in 000)

Balance Sheet	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Paid-up Capital	320,000	320,000	320,000	320,000	320,000	320,000
Total Equity	237,473	303,664	351,263	410,580	435,240	404,986
Gross Lease Receivable	914,494	1,065,118	1,649,953	1,981,260	2,028,244	1,700,313
Net Investment in Lease	662,865	843,012	1,402,780	1,740,093	1,776,790	1,488,228
Long-Term Liabilities	98,820	297,074	529,821	895,906	921,757	688,594
Current Liabilities	453,190	388,898	709,693	673,422	560,362	521,202
Current Assets	582,321	519,151	633,000	757,954	656,419	524,256
Total Assets	789,483	989,636	1,590,777	1,979,908	1,917,359	1,614,782

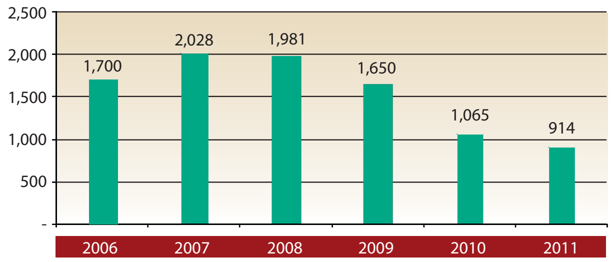
Income Statement	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Lease Income	53,376	84,512	122,427	149,359	170,083	144,168
Total Revenue	59,718	85,591	119,197	155,855	171,486	145,375
Financial Charges	30,769	46,824	92,451	101,053	86,333	73,875
Administrative Expenses	47,249	44,709	47,631	43,630	47,081	40,243
Provisions	43,642	41,447	49,676	8,896	2,963	1,385
Total Expenses	126,661	132,979	189,758	153,579	136,376	115,503
(Loss) / Profit Before Taxation	(61,943)	(47,388)	(70,560)	2,275	35,109	29,872
(Loss) / Profit After Taxation	(62,540)	(49,786)	(69,748)	7,710	30,667	24,100

Financial Indicators	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Breakup Value (Rs per share)	7.42	9.49	10.98	12.83	13.60	12.66
Current Ratio (X)	1.28	1.33	0.89	1.12	1.17	1.01
Debt-Equity Ratio (Times)	0.68	0.68	1.30	1.78	1.69	1.54
Earning Per Share (Rs.)	(1.95)	(1.56)	(2.18)	0.24	0.96	1.05
Financial Charges to Total Exps (%)	25.29	35.21	48.72	65.80	63.30	63.96
Financial Charges to Total Revenue (%)	51.52	54.71	77.56	64.84	50.34	50.82
Income Expense Ratio (Times)	0.49	0.64	0.65	0.97	1.25	1.25
(Loss) / Net Profit Margin (%)	(104.71)	(58.17)	(58.51)	4.95	17.88	16.58
Return on Average Equity (%)	(23.11)	(15.20)	(18.31)	1.82	7.30	7.06
Return to Shareholders (%)	-	-	-	7.50 *	-	-
Revenue Per Share (Rs.)	1.87	2.67	3.72	4.87	5.36	4.54

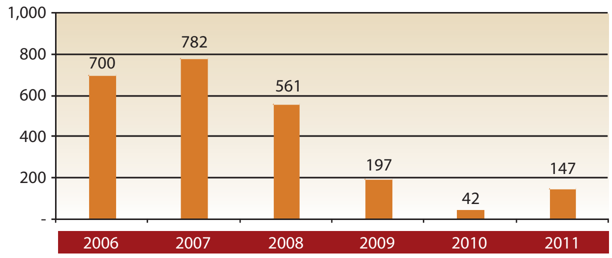
* Bonus issue

Financial Highlights and Charts

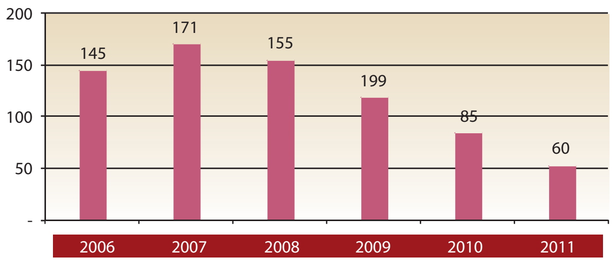
Gross Lease Receivables
(Figures in PKR mn)



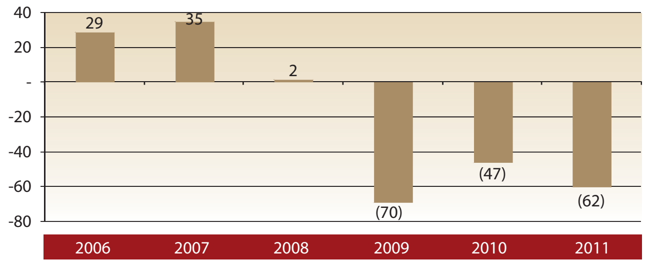
Gross Disbursements
(Figures in PKR mn)



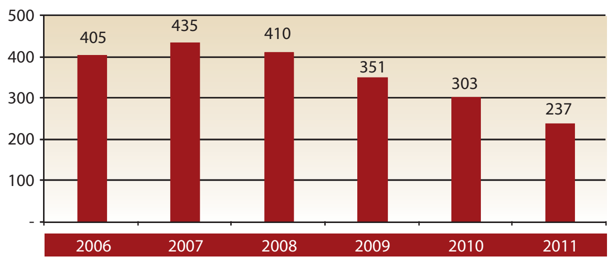
Revenues
(Figures in PKR mn)



(Loss) / Profit Before Taxation
(Figures in PKR mn)



Shareholder's Equity
(Figures in PKR mn)



Statement of Compliance

With the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of the Lahore Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes six non-executive directors and one executive Director who is also the Chief Executive Officer. All the directors have been nominated by SME Bank Limited.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. The directors of the Company have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year a casual vacancy occurred on the Board which was duly filled.

5. The company has adopted a "Statement of Ethics and Business Practices", which has been signed by all the Directors and the employees of the Company;

6. The Board has developed vision and mission statements, overall corporate strategy and significant policies of the Company. A complete record of significant policies along with the dates on which they were approved or amended has been maintained and amended / updated from time to time;

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.

9. The Members of the Board are well conversant with the listing regulations and corporate requirements, its policies and procedures and provisions of memorandum and articles of association and are aware of their duties and responsibilities.

10. The Board has approved the appointment of the Company Secretary who is also the Chief Financial Officer including his remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. No new appointment of Chief financial officer or Company secretary was made during the year.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by the Chief Executive Officer and the Chief Finance Officer before approval of the Board.

Statement of Compliance
With the Code of Corporate Governance

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive Directors including the Chairman of the Committee.

16. The meetings of the Audit Committee were held at least once in every quarter, prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Audit Committee have been framed and approved by the Board and have been advised to the Committee for compliance.

17. The Board in its meeting held on 22 February 2011decided to discontinue outsourcing of internal audit department and entrusted the additional task of Internal Audit function to the Head of Compliance till appointment of the Head Internal Audit. The acting Head of Internal Audit is conversant with the policies and procedures of the company.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. The related party transactions (along with details of pricing method) were placed before the Audit Committee and approved by the Board of Directors..

21. We confirm that all other material principles contained in the Code have been complied with.

For SME Leasing Limited

Arjumand A. Qazi
Chief Executive Officer

Zubair Farid Tufail
Director

Karachi : February 27, 2012

Review Report to the Members

on Statement of Compliance with Best Practices of Code of Corporate Governance

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

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of SME Leasing Limited ("the Company") to comply with the Listing Regulations of Lahore Stock Exchange, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (xiii a) of Listing Regulation No. 35 notified by The Lahore Stock Exchange (Guarantee) Limited requires the Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transaction which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 31 December 2011.

KPMG Taseer Hadi & Co.

Date: 27 February 2012
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Auditors' Report to the Members

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

Telephone + 92 (21) 3568 5847
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We have audited the annexed balance sheet of SME Leasing Limited ("the Company") as at 31 December 2011 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of the loss, its cash flows and changes in equity for the year then ended; and

d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 1.2 to the financial statements which discusses the non-compliance by the Company with the minimum capital requirements as required by the Non Banking Finance Companies and Notified Entities Regulations, 2008. Our opinion is not qualified in this respect.

The financial statements of the Company for the year ended 31 December 2010 were audited by another firm of Chartered Accountants who vide their report dated 23 February 2011 expressed an unqualified opinion thereon.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

Date: 27 February 2012
Karachi

Balance Sheet

As at 31, December 2011

	Note	2011	2010	2009
		Rupees		
ASSETS				
Current assets				
Cash and bank balances	4	**10,415,717**	11,902,663	22,447,059
Advances	5	**1,708,416**	2,173,860	1,926,959
Deposits and prepayments	6	**2,405,930**	2,330,820	1,914,483
Accrued interest on loans		**326,166**	227,214	404,440
Investments	7	**3,863,500**	28,659,977	36,473,714
Current maturity of non-current assets	8	**563,601,645**	644,775,669	1,042,942,697
		582,321,374	690,070,203	1,106,109,352
Non-current assets				
Long term finances and loans	9	**24,472,848**	13,288,628	35,344,359
Net investment in finance leases	10	**158,288,976**	261,624,131	434,341,646
Long term deposits and prepayments	11	**1,382,511**	1,205,535	939,250
Fixed Assets	12	**23,017,281**	23,447,350	14,042,060
		207,161,616	299,565,644	484,667,315
Total assets		**789,482,990**	989,635,847	1,590,776,667
LIABILITIES				
Current liabilities				
Accrued and other liabilities	13	**7,406,511**	8,369,622	11,559,297
Accrued mark-up on borrowings	14	**3,204,749**	5,012,634	12,529,336
Short term borrowings	15	**108,856,366**	108,032,762	116,739,950
Short term certificates of investment	16	**757,413**	7,244,795	3,220,781
Current maturity of non-current liabilities	17	**319,115,487**	372,176,493	715,142,608
Provision for compensated absences		**1,267,000**	922,034	785,231
Provision for income tax		**12,582,608**	13,406,665	11,121,234
		453,190,134	515,165,005	871,098,437
Non-current liabilities				
Long term finances	18	**14,111,528**	6,658,539	12,017,806
Long term certificates of investment	16	**6,000,000**	6,000,000	-
Privately placed term finance certificates		**-**	-	86,217,504
Liabilities against assets subject to finance lease	19	**2,102,921**	698,943	860,305
Long term deposits	10	**72,496,595**	154,086,207	266,911,985
Deferred liabilities	20	**4,109,106**	3,363,619	2,407,266
		98,820,150	170,807,308	368,414,866
Total liabilities		**552,010,284**	685,972,313	1,239,513,303
NET ASSETS		**237,472,706**	303,663,534	351,263,364
FINANCED BY				
Authorised share capital				
100,000,000 (31 December 2010: 100,000,000) ordinary shares of Rs. 10 each		**1,000,000,000**	1,000,000,000	662,865,114
Issued, subscribed and paid-up capital	21	**320,000,000**	320,000,000	320,000,000
Reserves		**48,466,329**	48,466,329	48,466,329
Accumulated loss		**(131,177,123)**	(68,637,222)	(18,851,129)
		237,289,206	299,829,107	349,615,200
Surplus on revaluation of available-for-sale investments - net		**183,500**	3,834,427	1,648,164
Total shareholder's equity		**237,472,706**	303,663,534	351,263,364
COMMITMENTS	22			

The annexed notes 1 to 37 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Zubair F. Tufail
Director

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

Profit and Loss Account

For the year ended 31, December 2011

	Note	2011 Rupees	2010 Rupees
INCOME			
Income from leasing operations	23	**53,376,309**	84,512,188
OTHER OPERATING INCOME			
Profit on bank accounts / return on investments	24	**6,190,179**	919,435
Other income	25	**152,148**	159,350
		6,342,327	1,078,785
		59,718,636	85,590,973
EXPENSES			
Administrative and operating expenses	26	**47,249,654**	44,708,790
Finance cost	27	**30,769,338**	46,823,680
		78,018,992	91,532,470
Operating loss before provisions		**(18,300,356)**	(5,941,497)
PROVISIONS			
Provision for potential lease losses	10.1.2	**42,541,419**	39,947,918
Provision for doubtful finances and loans	9.5	**1,100,882**	1,498,900
		43,642,301	41,446,818
Loss before taxation		**(61,942,657)**	(47,388,315)
Taxation	28	**(597,244)**	(2,397,778)
Loss after taxation		**(62,539,901)**	(49,786,093)
Loss per share - basic and diluted	29	**(1.95)**	(1.56)

The annexed notes 1 to 37 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Zubair F. Tufail
Director

Statement of Comprehensive Income

For the year ended 31, December 2011

	2011 Rupees	2010 Rupees
Loss after tax	**(62,539,901)**	(49,786,093)
Other comprehensive income		
Surplus on revaluation of available-for-sale investments	**183,500**	2,213,603
Surplus on revaluation of available-for-sale investments transferred to profit and loss account on disposal	**(3,834,427)**	(27,340)
	(3,650,927)	2,186,263
Total comprehensive loss for the year	**(66,190,828)**	(47,599,830)

The annexed notes 1 to 37 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Zubair F. Tufail
Director

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

Cash Flow Statement

For the year ended 31, December 2011

	Note	2011 Rupees	2010 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		**(61,942,657)**	(47,388,315)
Adjustments for:			
- Depreciation and amortization		**2,806,501**	2,612,648
- Gratuity		**1,164,195**	1,032,121
- Finance cost		**30,399,385**	46,634,280
- Profit on bank accounts / return on investments		**(424,318)**	(800,053)
- Gain on disposal of available-for-sale investment		**(5,765,861)**	(428,222)
- Lease finance charges		**369,953**	189,400
- Loss / (gain) on disposal of fixed assets		**104,468**	(4,930)
- Provision for potential lease losses		**42,541,419**	39,947,918
- Provision for doubtful finances and loans		**1,100,882**	1,498,900
		72,296,624	90,682,062
Operating profit before working capital changes		**10,353,967**	43,293,747
Movement in working capital			
(Increase) / decrease in operating assets			
- Accrued interest on loans		**(98,952)**	177,226
- Decrease in net investment in finance leases		**137,605,647**	519,819,816
- Deposits and prepayments		**(75,110)**	(416,337)
- Long term deposits and prepayments		**(176,976)**	(266,285)
- Advances		**465,444**	(246,901)
		137,720,053	519,067,519
Increase / (decrease) in operating liabilities			
- Provision for compensated absences		**344,966**	136,803
- Long term deposits received		**(74,613,301)**	(306,848,033)
- Accrued and other liabilities		**(963,111)**	(3,189,675)
		(75,231,446)	(309,900,905)
Cash generated from operations		**72,842,574**	252,460,361
- (Increase) / decrease in long term finances and loans		**(7,922,989)**	31,673,640
- Financial charges paid		**(32,207,270)**	(53,457,466)
- Interest received		**424,318**	823,855
- Gratuity paid		**(418,708)**	(75,768)
- Taxes paid		**(1,421,301)**	(112,347)
		(41,545,950)	(21,148,086)
Net cash flows from operating activities		**31,296,624**	231,312,275
CASH FLOW FROM INVESTING ACTIVITIES			
- Capital expenditure		**(9,500)**	(593,708)
- Re-possessed assets		**-**	(11,560,000)
- Dividend received		**-**	250,000
- Proceeds from disposal of fixed assets		**357,000**	140,700
- Investments made		**(7,000,000)**	-
- Proceeds from disposal of investments		**33,911,411**	10,000,000
Net cash flows from investing activities		**27,258,911**	(1,763,008)
CASH FLOW FROM FINANCING ACTIVITIES			
- Decrease in long-term finances		**(52,947,961)**	(240,024,889)
- (Decrease) / increase in certificates of investment		**(6,487,382)**	10,024,014
- Lease rentals paid		**(1,430,742)**	(1,385,600)
Net cash flows from financing activities		**(60,866,085)**	(231,386,475)
Net increase in cash and cash equivalents		**(2,310,550)**	(1,837,208)
Cash and cash equivalents at beginning of the period		**(96,130,099)**	(94,292,891)
Cash and cash equivalents at end of the period	31	**(98,440,649)**	(96,130,099)

The annexed notes 1 to 37 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Zubair F. Tufail
Director

Statement of Changes in Equity

For the year ended 31, December 2011

		Capital reserves		Revenue reserves			
	Issued, subscribed and paid-up capital	Share premium	Statutory reserve	Reserve against future losses	Accumu-lated loss	Surplus / (deficit) on revaluation of available-for-sale investments	Total shareholder equity
		-------------------(Refer note 3.17)-------------------					
	---------- (Rupees) ----------						
Balance as at 1 January 2010	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 year ended 31 December 2010							
Loss after taxation	-	-	-	-	(49,786,093)	-	(49,786,093)
Other comprehensive income							
Surplus on revaluation of available-for-sale investments - net	-	-	-	-	-	2,186,263	2,186,263
Balance as at 31 December 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 year ended 31 December 2011							
Loss after taxation	-	-	-	-	(62,539,901)	-	(62,539,901)
Other comprehensive income							
Deficit on revaluation of available-for-sale investments - net	-	-	-	-	-	(3,650,927)	(3,650,927)
Balance as at 31 December 2011	**320,000,000**	**10,000,000**	**28,019,277**	**10,447,052**	**(131,177,123)**	**183,500**	**237,472,706**

The annexed notes 1 to 37 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Zubair F. Tufail
Director

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

Notes to the Financial Statements

For the year ended 31, December 2011

1. STATUS AND NATURE OF BUSINESS

1.1 SME Leasing Limited (the company) was incorporated in Pakistan on 12 July 2002 as an unlisted public company and acquired the status of a listed company on 13 December 2006. The company is a subsidiary of SME Bank Limited (holding company), which holds 73.14% (31 December 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 28 January 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.

1.2 Regulation 4 of Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations 2008) requires a leasing company to maintain, at all times, minimum equity of Rs. 350 million by 30 June 2011, Rs. 500 million by 30 June 2012 and Rs. and Rs. 700 million by 30 June 2013. The equity of the Company as at 31 December 2011 is Rs. 237.472 million which is Rs. 112.528 million short of the minimum capital requirement. The license to conduct leasing business granted to the Company by the Securities and Exchange Commission of Pakistan (SECP) dated 30 June 2010 specifically mentions that the license is subject to consistent compliance with all the requirements of NBFC Regulations 2008.

The Company has been incurring losses since the year ended 31 December 2009 which has resulted in erosion of equity. During the year ended 31 December 2011, the Company has incurred a loss of Rs. 62.540 million and the accumulated losses amounts to Rs. 131.177 million as at the year end.

In order to address the above matters the management is making efforts to generate additional equity to meet the minimum equity and working capital requirements. Further, rigorous recovery efforts are being made to ensure recovery from the non-performing loans of the Company. In addition to the aforesaid, financial support is also available to the Company in the form of financing from the holding company.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984 (the Ordinance), the requirements of the Ordinance, the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules), the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations), and the directives issued by the Securities and Exchange Commission of Pakistan (the SECP). Wherever the requirements of the Ordinance, the NBFC Rules, the NBFC Regulations, or the directives issued by the SECP differ with the requirements of IFRS, the requirements of the Ordinance, the NBFC Rules, the NBFC Regulations and the directives issued by the SECP prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that investments classified as 'available for sale' are marked to market and carried at fair value.

2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Company's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest rupee.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the Financial Statements

For the year ended 31, December 2011

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent years are as follows:

i) Classification and valuation of investments (notes 3.8, and 7).

ii) Provision for current and deferred taxation and recognition and measurement of deferred tax assets and liabilities (notes 3.13 and 28).

iii) Classification and provision of net investment in finance lease and loans and finances (notes 3.5, 3.6, 9 and 10).

iv) Determination and measurement of useful life and residual value of operating fixed assets (note 3.2 and 12).

v) Staff retirement benefits (3.4 and 20).

2.5 The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. In financial period beginning on 1 January 2013, the Company will be required to recognize unrecognized actuarial gains and losses in other comprehensive income. The unrecognized actuarial loss in aggregate amount to Rs. 0.301 million as at 31 December 2011 (2010: Rs. 0.324 million) as disclosed in note 20.4. In addition actuarial gains and losses which are currently being recognized in profit and loss account would be required to be recognized in other comprehensive income. The actuarial losses recognized for the year ended 31 December 2011 aggregate to Rs. Nil (2010: Rs. 0.027 million) as disclosed in note 20.5.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. The amendments have no impact on financial statements of the Company.

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

3.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash balances and balances in current and savings bank accounts. Short term running finance that are repayable on demand and form an integral part of the Company's cash management, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3.2 Fixed Assets

3.2.1 Property & Equipment

These are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to profit and loss accounts by applying using the straight line method at the rates specified in note 12.1 after taking into account residual value, if any. Depreciation on additions is charged from the month the assets are put to use while no depreciation is charged in the month in which the assets are disposed off. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other subsequent costs including repairs and maintenance are charged to the profit and loss account as and when incurred.

Gains or losses on sale of assets are charged to the profit and loss account in the period in which they arise.

3.2.2 Intangible

These are stated at cost less accumulated amortization and impairment losses, if any. Amortization is charged using the straight line method over its estimated useful life at the rates specified in note 12.1 and 12.2 after taking into account residual value, if any. The residual values, useful lives and amortization methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Amortization on additions is charged from the month the assets are put to use while no amortisation is charged in the month in which the assets are disposed off.

Gain and losses on disposal of such assets, if any, are included in the profit and loss account.

Notes to the Financial Statements

For the year ended 31, December 2011

3.3 Assets held under finance lease

The Company accounts for assets acquired under finance lease by recording the asset and related liability. The amounts are determined on the basis of lower of their fair value of assets and present value of minimum lease payments at the inception of lease. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Leased assets are depreciated on a basis similar to owned assets.

3.4 Staff retirement benefits

Defined contribution plan

The Company operates an approved defined contributory provident fund for all its permanent employees. Monthly contributions are made to the fund equally by the company and the employees at the rate of 8 percent of basic salary. The contributions are recognised as employee benefit expense when they become due.

Staff retirement benefits are payable to employees on completion of the prescribed qualifying period of service under the scheme.

Employees' compensated absences

The Company accounts for its liability towards accumulating compensated absences, when the employees render service that increase their entitlement to future compensated absences. An actuarial valuation has been carried out using Projected Unit Credit method to determine the amount of charge and liability to be recognised at the balance sheet date.

Defined benefit plan

The Company operates a unapproved gratuity scheme for all its permanent who have completed prescribed qualifying period of service. An actuarial valuation has been carried out using Projected Unit Credit method to determine the amount of charge and liability to be recognised at the balance sheet date. The results of current valuations are summarised in note 20 to these financial statements.

Actuarial gains / losses in excess of corridor limit (10% of the higher of fair value of assets and present value of obligation) are recognised over the average remaining service life of the employees.

3.5 Net investment in lease finance

Leases where the company transfers substantially all the risks and rewards incidental to ownership of the leased assets to the lessees, are classified as finance leases.

The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs for negotiating and arranging the lease) is recognised on the balance sheet. The difference between the gross lease receivables and the present value of the lease receivables is recognised as unearned finance income.

A receivable is recognised at an amount equal to the present value of the minimum lease payments under the lease agreements, including guaranteed residual value, if any.

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in the profit and loss account on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivables.

Initial direct costs incurred by the company in negotiating and arranging finance leases are added to finance lease receivables and are recognised as an expense in the profit and loss account over the lease term on the same basis as the finance lease income.

3.6 Provision for potential lease losses and doubtful loans and receivables

Specific provision for potential lease losses and doubtful loans and receivables are made based in the appraisal of each lease or loan on the basis of the requirements of the NBFC Regulations.

3.7 Financial assets and liabilities

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and derecognized when the Company losses control of contractual rights that comprises the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is taken to profit and loss account directly.

Financial assets carried at balance sheet date includes cash and bank balances, loans, advances and deposits and investments.

Financial liabilities carried at balance sheet date includes certificates of investment, deposits, long term finances, accrued and other payables.

3.8 Investments

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs except for held for trading investments in which case transaction costs are charged to the profit and loss account. All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investments. These are recognised and classified as follows:

Investment at fair value through profit or loss (held for trading)

At the time of acquisition, quoted investments which are acquired principally for the purpose of generating profit from short term fluctuations in price or are part of portfolio for which there is a recent actual pattern of short term profit taking are classified as held for trading.

Subsequent to initial recognition these are remeasured at fair value by reference to quoted market prices with the resulting gain or loss being included in net profit or loss for the period in which it arises.

Available for sale

These are stated at fair value, with any resultant gain or loss being recognized directly in equity. Gains or losses on revaluation of available-for-sale investments are recognized directly in equity until the investments are sold or other wise disposed off, or until the investments are determined to be impaired, at which time cumulative gain or loss previously reported in the equity is included in current year's profit and loss.

All investments classified as available-for-sale are initially recognized at cost inclusive of transaction costs and subsequently quoted investments are marked to market using the last quoted rate at the close of the financial year.

Held-to-maturity

At the time of acquisition, investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Subsequently, these are measured at amortised cost less provision for impairment in value, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition by using the effective yield method.

The difference between the redemption value and the purchase price of the held-to-maturity investments is amortised and taken to the profit and loss account over the term of the investment.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the profit and loss account.

3.9 Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

These are initially recognised at fair value plus any related transaction costs directly attributable to the acquisition. Subsequent to initial recognition, they are carried at amortised cost.

Notes to the Financial Statements
For the year ended 31, December 2011

3.10 Impairment

The carrying value of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

3.11 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value is recognised in the profit and loss account.

3.12 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amount and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.13 Taxation

Taxation charge in the profit and loss account comprises of current and deferred tax.

Current

Provisions for current taxation is based on taxability of certain income streams of the Company under presumptive / final tax regime and minimum tax under section 113 of the income tax Ordinance, 2001, wherever applicable, at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after taking into account tax credits and tax rebates available, if any.

Deferred

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.14 Provisions

A provision is recognised in the balance sheet when the Company has legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provision are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

3.15 Long term finances

Long term finances are initially recognised at cost being the fair value of the consideration received together with the associated transaction cost.

Subsequently, these are carried at amortized cost using effective interest method. Transaction cost relating to the long-term finance is being amortised over the period of agreement using the effective interest method.

3.16 Foreign currency translation

Transactions in foreign currencies are translated to Pakistani Rupees at the foreign exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at the rates of exchange approximating those prevailing on the balance sheet date. Exchange differences are taken to the profit and loss account.

3.17 Borrowing cost

Borrowing costs are recognised as an expense in the period in which they are incurred, except that those which are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use) are capitalised as part of the cost of that asset.

3.18 Revenue recognition

- The Company follows the finance lease method in accounting for the recognition of lease income. Under this method, the unearned lease income i.e. the excess of gross lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease contract, so as to produce a systematic return on the net investment in finance lease. Unrealised lease income is held in suspense account, where necessary, in accordance with the requirements of the NBFC Regulations.
- Front-end fees and documentation charges are taken to income when realised.
- Income on investments is accounted for on accrual basis.
- Dividend income is recognised when the right to receive the dividend is established.
- Income on loans and finances is accounted for on accrual basis using effective interest method.
- Unrealised lease income and unrealised income on loans and finances is held in suspense account, where necessary, in accordance with requirement of the Regulation for Non-Banking Finance Companies .
- Profit on bank deposit and short-term placements is accrued on a time proportion basis.
- Capital gain or loss arising on sale of investments are taken to income in the period in which they arise.

3.19 Earnings / (loss) per share

The Company presents basic and diluted earnings / (loss) per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary share holders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares, if any.

3.20 Dividend distribution and transfer between reserves

Dividend distribution (including stock dividend) to the Company's shareholders and transfer between reserves, except appropriations which are required under law, are recognised in the financial statements in the period in which such dividends are declared or such transfers between reserves are made.

3.21 Capital and Revenue reserves

Share premium

The share premium was recorded in the year 2006 on issue of shares in accordance with requirements of the Companies Ordinance, 1984. This premium is available for restrictive use as per section 83 of the Companies Ordinance 1984.

Statutory Reserves

In accordance with the requirements of the NBFC Regulations, an amount of not less than 20 percent of after tax profits shall be transferred to statutory reserve till such time when the reserve equals the amount of paid-up capital, and thereafter a sum of not less than 5percent shall be transferred. Consequently, during the current year the company has transferred an amount of Rs. Nil (2010: Rs. Nil) to its statutory reserve.

Reserve against future losses

This reserve represents amounts set aside in view of the risks associated with the economic cyclical nature of the business and is recognized as an appropriation of retained earnings. Any credits resulting from reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit and loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 percent of the outstanding balance of the regular portfolio of leases and loans and receivables as at each year end. No such reserve has been created by the company for the year ended 31 December 2011.

Notes to the Financial Statements

For the year ended 31, December 2011

	Note	2011 Rupees	2010 Rupees
4. CASH AND BANK BALANCES			
Cash in hand		**39,991**	56,012
Balance with State Bank of Pakistan in current account		**9,264**	25,907
Balances with banks in:			
- current accounts	4.1	**6,748,146**	10,720,496
- saving accounts	4.2	**3,618,316**	1,100,248
		10,415,717	11,902,663

4.1 These include balances with related parties amounting to Rs. 5.865 million (2010: 10.006 million).

4.2 These saving accounts carry profit rate of 5% per annum (2010: 5% per annum).

	Note	2011 Rupees	2010 Rupees
5. ADVANCES - considered good			
Advances to:			
- executives		**242,499**	182,832
- employees	5.1	**422,041**	238,793
- others		**1,043,876**	1,752,235
		1,708,416	2,173,860

5.1 This represents interest free advances given to employees. These are recovered through monthly deductions from the salaries over a period of one year from the date of disbursement.

	Note	2011 Rupees	2010 Rupees
6. DEPOSITS AND PREPAYMENTS			
Security deposits		**95,200**	214,700
Prepayments		**2,310,730**	2,116,120
		2,405,930	2,330,820
7. INVESTMENTS - available-for-sale			
Government securities			
- Special saving certificates	7.1	**2,500,000**	2,500,000
Mutual Funds			
- Open end mutual funds		**-**	25,127,477
- Close end mutual fund		**1,363,500**	1,032,500
	7.2	**1,363,500**	26,159,977
Fair value at the end of the year		**3,863,500**	28,659,977

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% to 14.2% per annum (31 December 2010: 11.6% to 14.2% per annum).

7.2 Mutual Funds

2011 (Number of units)	2010 (Number of units)	Face value (Rupees)	Name of the investee entity	2011	2010
			Open End Mutual Funds		
-	44,489	100	UBL Protected Plan-1 (UPPP-1)	-	4,493,774
-	109,415	50	Meezan Capital Protected Fund-1	-	6,002,529
-	192,475	10	NAFA Stock Fund	-	1,463,370
-	35,068	50	Pakistan Stock Market Fund	-	2,069,366
-	24,718	100	Faysal Assets Allocation Fund	-	1,630,646
-	46,108	100	United Stock Advantage Fund	-	1,919,921
-	16,725	100	Crossby Dragon Fund	-	1,606,594
-	46,936	50	Alfalah GHP, Principal Protected Fund	-	2,611,067
-	31,729	100	Namco Income Fund	-	3,330,210
				-	25,127,477
(Number of certificates)			**Close End Mutual Funds**		
270,000	250,000	10	Namco Balanced Fund	**1,363,500**	1,032,500
				1,363,500	26,159,977

7.3 As at 31 December 2011, the cost of the above investments net of provision for impairment of Rs. 1.32 million (2010: Rs. 4.674 million) amounted to Rs. 1.18 million (2010: Rs. 22.325 million).

	Note	2011 Rupees	2010 Rupees
8. CURRENT MATURITY OF NON-CURRENT ASSETS			
Current portion of :			
- Long-term finance and loans	9	**59,025,507**	63,387,620
- Net investment in lease	10	**504,576,138**	581,388,049
		563,601,645	644,775,669
9. LONG TERM FINANCES AND LOANS - secured			
Related parties - considered good			
- Executives	9.1 & 9.2	-	436,853
- Employees	9.1	**1,812,616**	2,085,274
		1,812,616	2,522,127
Other than related parties			
Customers	9.4		
- considered good		**39,692,133**	26,418,306
- considered doubtful		**44,901,771**	49,543,098
		84,593,904	75,961,404
Provision for doubtful finances	9.5	**(2,908,165)**	(1,807,283)
		81,685,739	74,154,121
		83,498,355	76,676,248
Less: Current maturity	8		
Related parties			
- Executives		-	309,970
- Employees		**182,856**	272,655
		182,856	582,625
Other than related parties			
- customers		**58,842,651**	62,804,995
		(59,025,507)	(63,387,620)
		24,472,848	13,288,628

Notes to the Financial Statements

For the year ended 31, December 2011

9.1 These represent loans given to executives and employees for purchase of motor vehicles and housing loans. These loans are recovered through deduction from salaries over varying periods up to a maximum period of 20 years. These loans are granted to the employees in accordance with their terms of employment. The motor vehicle loans are secured by way of title of the motor vehicles being held in the name of the company, whereas the housing loans are secured by registered mortgage in favour of the company. Motor vehicle loans carry mark-up at 7% (2010: 7%) per annum while the housing loans carry mark-up at 5% (2010: 5%) per annum.

9.2 Reconciliation of carrying amount of long-term loans to executives is as follows:

	2011 Rupees	2010 Rupees
Opening balance	**436,853**	729,664
Disbursements	**-**	-
	436,853	729,664
Repayments	**(436,853)**	(292,811)
Closing balance	**-**	436,853

9.3 The maximum aggregate amount of loans due at the end of any during the year was :

	2011	2010
Executives	**436,853**	729,664

9.4 These represent loans to customers for a period of three to five years on mark-up basis and are secured by way of hypothecation of stock and immovable property. The rate of mark-up ranges from 13.5% to 25.19% (2010: 11.5% to 24.50%) per annum.

9.5 Provision for doubtful finances and loans

	2011 Rupees	2010 Rupees
Balance at beginning of the year	**1,807,283**	308,383
Provision for the year	**1,236,956**	1,537,704
Reversal for the year	**(136,074)**	(38,804)
	1,100,882	1,498,900
Balance at end of the year	**2,908,165**	1,807,283

10. NET INVESTMENT IN FINANCE LEASES

	2011 Rupees	2010 Rupees
Net investment in finance leases	**662,865,114**	843,012,180
Current portion shown under current assets	**(504,576,138)**	(581,388,049)
	158,288,976	261,624,131

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

10.1 Net investment in finance leases

	Note	2011 Not later than one year	2011 Later than one year and less than five years	2011 Total	2010 Not later than one year	2010 Later than one year and less than five years	2010 Total
		----- (Rupees) -----					
Minimum lease payments		**457,267,635**	**98,666,634**	**555,934,269**	515,089,794	116,855,219	631,945,013
Add: Residual value of leased assets	10.1.1	**286,063,300**	**72,496,595**	**358,559,895**	279,086,989	154,086,207	433,173,196
Gross investment in leases		**743,330,935**	**171,163,229**	**914,494,164**	794,176,783	270,941,426	1,065,118,209
Unearned lease income		**(23,432,146)**	**(12,874,253)**	**(36,306,399)**	(41,837,646)	(8,275,698)	(50,113,344)
Mark-up held in suspense		**(68,621,562)**	**-**	**(68,621,562)**	(67,833,015)	-	(67,833,015)
		(92,053,708)	**(12,874,253)**	**(104,927,961)**	(109,670,661)	(8,275,698)	(117,946,359)
		651,277,227	**158,288,976**	**809,566,203**	684,506,122	262,665,728	947,171,850
Provision for potential lease losses	10.1.2	**(146,701,089)**	**-**	**(146,701,089)**	(103,118,073)	(1,041,597)	(104,159,670)
Net investment in finance leases		**504,576,138**	**158,288,976**	**662,865,114**	581,388,049	261,624,131	843,012,180

10.1.1 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. 229.29 million (31 December 2010: Rs. 238.25 million).

	Note	2011 Rupees	2010 Rupees
10.1.2 Provision for potential lease losses			
Balance at beginning of the year		**104,159,670**	64,211,752
Provision for the year		**47,250,706**	42,330,118
Reversals for the year		**(4,709,287)**	(2,382,200)
		42,541,419	39,947,918
Balance at end of the year		**146,701,089**	104,159,670
11. LONG-TERM DEPOSITS AND PREPAYMENTS			
Security deposits against assets acquired under lease arrangements		**912,500**	227,400
Other deposits		**357,022**	546,422
Prepayments		**112,989**	431,713
		1,382,511	1,205,535
12. FIXED ASSETS			
- Property and Equipments	12.1	**23,017,281**	23,402,334
- Intangible assets	12.2	**-**	45,016
		23,017,281	23,447,350

Notes to the Financial Statements

For the year ended 31, December 2011

12.1 Property and Equipment

	Owned							Leased	
	Office premises	Building improvements	Furniture and fixtures	Office equipment & others	Computers	Vehicles	Total owned	Vehicles	Total tangible assets
	(Rupees)								
Year ended 31 December 2011									
Opening net book value	20,108,238	72,815	208,072	299,287	14,937	484,006	21,187,355	2,214,979	23,402,334
Additions	-	9,500	-	-	-	-	9,500	2,828,400	2,837,900
Transfers in / (out)	-	-	-	-	-	630,936	630,936	(630,936)	-
Disposals - net	-	-	-	(10,963)	-	(185,405)	(196,368)	(265,100)	(461,468)
Depreciation charge	(1,103,220)	(74,384)	(107,499)	(199,289)	(14,937)	(542,837)	(2,042,166)	(719,319)	(2,761,485)
Closing net book value	**19,005,018**	**7,931**	**100,573**	**89,035**	**-**	**386,700**	**19,589,257**	**3,428,024**	**23,017,281**
As at 31 December 2011									
Cost	22,064,190	1,871,941	1,914,170	981,519	1,617,210	4,374,100	32,823,130	4,281,755	37,104,885
Accumulated depreciation	(3,059,172)	(1,864,010)	(1,813,597)	(892,484)	(1,617,210)	(3,987,400)	(13,233,873)	(853,731)	(14,087,604)
Net book value	**19,005,018**	**7,931**	**100,573**	**89,035**	**-**	**386,700**	**19,589,257**	**3,428,024**	**23,017,281**
Year ended 31 December 2010									
Opening net book value	9,217,963	170,464	342,670	388,438	111,153	944,698	11,175,386	2,685,362	13,860,748
Additions/Transfers	11,560,000	-	14,490	24,663	-	-	11,599,153	554,555	12,153,708
Transfers in / (out)	-	-	-	-	-	330,569	330,569	(330,569)	-
Disposals - net	-	-	-	-	-	(135,770)	(135,770)	-	(135,770)
Depreciation charge	(669,725)	(97,649)	(149,088)	(113,814)	(96,216)	(655,491)	(1,781,983)	(694,369)	(2,476,352)
Closing net book value	20,108,238	72,815	208,072	299,287	14,937	484,006	21,187,355	2,214,979	23,402,334
As at 31 December 2010									
Cost	22,064,190	1,862,440	1,914,170	997,413	1,658,807	3,352,975	31,849,995	3,693,444	35,543,439
Accumulated depreciation	(1,955,952)	(1,789,625)	(1,706,098)	(698,126)	(1,643,870)	(2,868,969)	(10,662,640)	(1,478,465)	(12,141,105)
Net book value	20,108,238	72,815	208,072	299,287	14,937	484,006	21,187,355	2,214,979	23,402,334
Rate of depreciation (%)	5	33.33	20	15	33.33	20		20	

12.1.2 Disposal of tangible assets

Particulars	Cost	Accumulated depreciation	Net book value	Sale proceed	Loss (note 25)	Mode of disposal	Sold to
	(Rupees)						
Cultus -VXL	662,750	397,650	265,100	195,600	(69,500)	Terms of employment	Mr.Shaheen Akhtar
Suzuki Alto Car	556,214	370,809	185,405	161,400	(24,005)	Terms of employment	Mr. Asghar Maqsood
Others	57,491	52,335	10,963	-	(10,963)	Theft	Theft
	1,276,455	820,794	461,468	357,000	(104,468)		

	Note	2011 Rupees	2010 Rupees
12.2 Intangible assets			

The company's intangible assets comprise software licenses and softwares. The carrying amount as at 31 December 2011 is as follows:

	Note	2011 Rupees	2010 Rupees
Cost		**711,930**	711,930
Less: Accumulated amortization		**711,930**	666,914
		-	45,016
Carrying amount at beginning of the year		**45,016**	181,312
Amortization		**(45,016)**	(136,296)
Carrying amount at end of the year		**-**	45,016
Rate of amortization		**33.33**	33.33

13. ACCRUED AND OTHER LIABILITIES

	Note	2011 Rupees	2010 Rupees
Accrued liabilities		**127,239**	1,486,394
Rentals received in advance		**797,565**	438,114
Payable on maturity of leases		**662,682**	455,892
Insurance payable		**4,571,522**	4,472,455
Payable to SME Bank Limited - holding company	13.1	**20,872**	36,897
Unclaimed dividend		**20,629**	20,629
Others		**1,206,002**	1,459,241
		7,406,511	8,369,622

13.1 This represents rent payable to the holding company in respect of branch office of the company located in Peshawar.

14. ACCRUED MARK-UP ON BORROWINGS

Interest accrued on :

	Note	2011 Rupees	2010 Rupees
- Long term finances		**1,158,561**	542,711
- Privately placed Term Finance Certificates		**-**	2,674,054
- Short-term borrowings		**1,665,116**	1,276,429
- Certificates of investment		**381,072**	519,440
		3,204,749	5,012,634

14.1 The above balances include accrued interest payable to the holding company as follows :

	Note	2011 Rupees	2010 Rupees
- Long term finance		**252,889**	389,708
- Privately places Term Finance Certificates		**-**	764,199
- Short-term borrowings		**1,665,116**	1,276,429
		1,918,005	2,430,336

Notes to the Financial Statements
For the year ended 31, December 2011

15. SHORT-TERM BORROWING

The Company has a running finance facility available from the holding company amounting to Rs. 150 million (2010: Rs. 131 million) at mark up rates ranging between 16.46% to 16.54% (2010: 15.5%) per annum. Above arrangements are secured by way of hypothecation of the Company's specific leased assets and related receivable of the Company.

16. SHORT TERM CERTIFICATES OF INVESTMENT

	Note	2011 Rupees	2010 Rupees
Certificates of Investment		**6,757,413**	13,244,795
Less : Short term Certificates of Investment		**(757,413)**	(7,244,795)
		6,000,000	6,000,000

16.1 The company has issued certificates of investments under permission granted by the Securities and Exchange Commission of Pakistan. These certificates of investment are repayable between January 2012 to July 2013 and carries return at the rate ranging from 11.5% to 14% (2010: 9% to 13%) per annum.

17. CURRENT MATURITY OF NON-CURRENT LIABILITES

	Note	2011 Rupees	2010 Rupees
Long term finances	18	**32,021,412**	92,422,362
Liabilities against assets subject to finance lease	19	**1,030,775**	667,142
Long term deposits	10.1.1	**286,063,300**	279,086,989
		319,115,487	372,176,493

18. LONG TERM FINANCES

	Note	2011 Rupees	2010 Rupees
Long Term Loans from :			
- SME Bank Limited	18.1	**6,668,073**	10,343,953
- Other financial institutions	18.2	**39,464,867**	1,664,442
		46,132,940	12,008,395
Privately Placed Term Finance Certificates		**-**	87,072,506
		46,132,940	99,080,901
Current maturity			
- Long term loans		**(32,021,412)**	(5,349,856)
- Privately placed term finance certificates		**-**	(87,072,506)
		(32,021,412)	(92,422,362)
		14,111,528	6,658,539

18.1 The facility for long term loans from the holding company has been extended at a markup rate of 3 Months KIBOR + 2% at the date of disbursement with floor of 12 % and no cap. The repricing is scheduled to be made at the start of each quarter. The facility is secured by way of hypothecation of the company's specific leased assets and related receivables. The tenure of the loan is 3 years and is repayable in quarterly installments.

18.2 This represents financing facilities obtained during the period from United Bank limited (UBL) and Energy Conservative Fund (Enercon). The facility with UBL amounting to Rs. 50 million 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 (31 December 2010: Nil) with no floor and cap. Tenure of the loan is 2 years and is repayable in quarterly installments.

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 (31 December 2010: Nil) payable on quarterly basis subject to the condition that the Company will provide lease / finance facility to its customers at a preferential mark-up rate.

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011			2010		
	Minimum lease payments	Financial charges for future period	Principal outstanding	Minimum lease payments	Financial charges for future period	Principal outstanding
	(Rupees)			(Rupees)		
Payable not later than one year	**1,406,178**	**375,403**	**1,030,775**	833,557	166,415	667,142
Payable later than one year but not later than five years	**2,304,928**	**202,007**	**2,102,921**	798,443	99,500	698,943
	3,711,106	**577,410**	**3,133,696**	1,632,000	265,915	1,366,085

19.1 The finance lease arrangements have been entered into with Commercial Banks & Leasing Companies for vehicles. Lease rentals are payable in monthly installments at mark-up rates ranging from 21% to 23% per annum (2010: 14.23% to 16.70% per annum) These finance lease arrangements will mature in the year 2012 to 2014. At the end of lease term, the Company has the option to acquire the assets subject to adjustment of security deposit which it intends to exercise.

20. DEFFERED LIABILITIES

The company operates an unapproved and unfunded gratuity scheme for all its permanent employees. The latest actuarial valuation of the gratuity scheme was carried out on 31 December 2011 by Akhtar and Hasan (Private) Limited using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme :

	2011	2010
Discount rate	**13.00%**	14.50%
Expected long-term rate of increase in salary level	**13.00%**	14.50%
Expected long-term rate of interest	**13.00%**	14.50%

	2011 Rupees	2010 Rupees
20.1 Liability in balance sheet		
Present value of defined benefit obligation	**4,409,285**	3,687,676
Unrecognised actuarial loss	**(300,179)**	(324,057)
	4,109,106	3,363,619
20.2 Movement in liability during the year		
Opening balance	**3,363,619**	2,407,266
Charged to profit and loss account	**1,164,195**	1,032,121
Contribution made during the year / benefits paid	**(418,708)**	(75,768)
Closing balance	**4,109,106**	3,363,619
20.3 Reconciliation of the present value of defined benefit obligations		
Present value of obligations as at 1 January	**3,687,676**	3,098,353
Current service cost	**598,814**	582,546
Interest cost	**565,381**	422,343
Contribution made during the year / benefits paid	**(418,708)**	(75,768)
Actuarial gain	**(23,878)**	(339,798)
Present value of obligations as at 31 December	**4,409,285**	3,687,676

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	2011 Rupees	2010 Rupees
20.4 Movement in the unrecognised gain / (loss)		
Unrecognised loss as at 1 January	**(324,057)**	(691,087)
Recognised during the year	**-**	27,232
Actuarial gain on obligation during the year	**23,878**	339,798
Unrecognised loss as at 31 December	**(300,179)**	(324,057)
20.5 Charge for the year		
Current services cost	**598,814**	582,546
Interest cost	**565,381**	422,343
Actuarial gain recognized during the year	**-**	27,232
	1,164,195	1,032,121

20.6 Historical data of the fund

	2011	2010	2009	2008	2007
	(Rupees)				
Present value of defined benefit obligation	**4,409,285**	3,687,676	3,098,353	2,519,211	2,438,538
Fair value of plan assets	**-**	-	-	-	-
Deficit	**4,409,285**	3,687,676	3,098,353	2,519,211	2,438,538
Experience adjustments					
- Actuarial gain / (loss) on obligation	**23,878**	339,798	229,670	125,430	(1,038,216)

20.7 Expected accrual of expenses in respect of defined benefit scheme in the next financial year on the advice of the actuary is Rs. 1.227 million.

21 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2011 (Number of shares)	2010 (Number of shares)		2011 Rupees	2010 Rupees
10,100,000	10,100,000	Ordinary shares of Rs. 10 each issued as fully paid in cash	**101,000,000**	101,000,000
19,900,000	19,900,000	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	**199,000,000**	199,000,000
2,000,000	2,000,000	Ordinary shares of Rs 10 each issued as fully paid bonus shares	**20,000,000**	20,000,000
32,000,000	32,000,000		**320,000,000**	320,000,000

21.1 At 31 December 2011 SME Bank Limited (holding company) and its nominees hold 73.14% (2010: 73.14%) number of ordinary shares of Rs. 10 each.

22. COMMITMENTS

	2011 Rupees	2010 Rupees
Contingencies		
The company has contingencies of Rs. Nil (2010: Rs. Nil).	**-**	-
Commitments		
Lease disbursements	**19,418,000**	3,100,000

This represents those leases which have been approved by the company as at the year end.

23. INCOME FROM LEASING OPERATIONS

	Note	2011 Rupees	2010 Rupees
Leases			
Income from finance lease operations		**44,259,540**	73,323,836
Gain on termination of leases		**185,136**	145,053
		44,444,676	73,468,889
Income on finances and loans to customers		**8,931,633**	11,043,299
		53,376,309	84,512,188

24. PROFIT ON BANK ACCOUNTS / RETURN ON INVESTMENTS

	Note	2011 Rupees	2010 Rupees
Gain on disposal of available-for-sale investment		**5,765,861**	428,222
Mark-up on government securities		**297,200**	121,224
Dividend Income		**-**	250,000
Profit on bank accounts		**127,118**	119,989
		6,190,179	919,435

25. OTHER INCOME

	Note	2011 Rupees	2010 Rupees
Income from financial assets			
Mark-up on loans to employees		**116,695**	154,420
Other Income		**139,921**	-
		256,616	154,420
Income from non-financial assets			
(Loss) / Gain on disposal of fixed assets		**(104,468)**	4,930
		152,148	159,350

26. ADMINISTRATIVE & OPERATING EXPENSES

	Note	2011 Rupees	2010 Rupees
Salaries, allowances and other benefits	26.1 & 26.2	**25,323,444**	24,456,224
Directors' fee	26.3	**226,000**	216,000
Rent		**5,377,168**	5,023,094
Electricity, gas and water		**744,687**	682,716
Telephone and postage		**1,033,755**	1,095,921
Repairs and maintenance		**1,390,465**	1,285,515
Books and periodicals		**32,966**	34,826
Fees and subscriptions		**35,760**	33,300
Vehicle running		**311,623**	150,116
Advertising		**90,897**	65,550
Training and development		**72,950**	94,150
Travelling, conveyance and entertainment		**1,130,212**	1,038,858
Printing and stationery		**790,993**	775,165
Auditors' remuneration	26.4	**544,625**	479,500
Depreciation and amortization	12	**2,806,501**	2,612,648
Legal and professional		**5,649,345**	4,793,589
Insurance		**963,359**	1,115,175
Miscellaneous		**724,904**	756,443
		47,249,654	44,708,790

26.1 Salaries allowances and other benefits include Rs. 1.164 million (2010: Rs.1.032 million) in respect of staff gratuity scheme and Rs. 0.458 million (2010: Rs. 0.427 million) in respect of staff provident fund. In addition the amount charged to the profit and loss account in respect of compensated absences was Rs. 1.205 million (2010: Rs. 0.948 million) based on valuation done by Akhtar & Hassan actuaries (Private) Limited.

Notes to the Financial Statements

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26.2 The aggregate amount charged to in the financial statements, including all benefits, to the Chief Executive and Executives / Key Management Personnel of the Company are as follows:

	2011		2010	
	Chief Executive	**Executive**	Chief Executive	Executive
	(Rupees)			
Managerial remuneration	**2,117,642**	**2,611,202**	1,829,225	2,888,646
Housing and utilities	**1,164,708**	**1,436,366**	1,006,069	1,588,728
Provident fund	**-**	**213,389**	-	202,800
Medical and other perquisites	**317,650**	**397,540**	274,383	433,266
Leave fare assistance	**300,000**	**-**	250,000	-
Gratuity	**176,471**	**217,092**	176,471	240,721
Leave encashment	**150,000**	**178,600**	125,000	208,475
Others	**-**	**105,292**	-	92,754
	4,226,471	**5,159,481**	3,661,148	5,655,390
Number of persons	**1**	**5**	1	6

26.2.1 The chief executive and certain executives were also provided with free use of company owned and maintained cars in accordance with their terms of employment.

26.3 This represents remuneration paid to the non-executive directors of the company for attending meetings of the Board and Board's committees.

26.4 Auditors' remuneration

	2011 Rupees	2010 Rupees
Annual audit	**250,000**	250,000
Half yearly review	**100,000**	100,000
Other certifications	**50,000**	50,000
Out of pocket expenses	**144,625**	79,500
	544,625	479,500

27. FINANCE COST

Mark-up on:		
- Long term finance	**6,564,487**	9,124,637
- Privately placed term finance certificates	**3,806,306**	18,818,398
- Short term borrowings	**17,430,693**	16,253,608
- Certificates of investment	**1,720,920**	952,542
	29,522,406	45,149,185
Lease finance charges	**369,953**	189,400
Bank charges	**876,979**	1,485,095
	30,769,338	46,823,680

27.1 Finance cost includes mark up expense related to the holding company as follows:

Long term finance	**1,248,412**	1,638,242
Privately placed Term Finance Certificates	**1,077,408**	5,376,868
Short term borrowings	**16,913,470**	11,210,430
	19,239,290	18,225,540

28. TAXATION

28.1 The income tax assessments of the Company have deemed to be finalized up to and including Tax year 2011. Provision for the current year income tax has been made under the provisions of minimum tax under Section 113 of the Income Tax Ordinance, 2001 (Ordinance).

28.2 Deferred tax liabilities / (assets) - net

	2011 Rupees	2010 Rupees
Deductible temporary differences		
Carried forward losses	**(36,418,844)**	(59,044,413)
Provisions against potential lease losses & long term finances and loans	**(52,363,239)**	(37,088,434)
Minimum tax	**(1,450,654)**	(853,410)
Liabilities against gratuity expense	**(1,438,187)**	(1,177,267)
	(91,670,924)	(98,163,524)
Taxable temporary differences		
Net investment in lease	**239,763**	12,123,536
Liabilities against assets subject to finance lease	**103,014**	297,113
Accelerated tax depreciation on fixed assets	**3,527,263**	742,255
	3,870,040	13,162,904
	(87,800,884)	(85,000,620)

28.3 The Company has recognised deferred tax asset on deductible temporary difference only to the extent of deferred tax liability on taxable temporary difference. Deferred tax asset of Rs 87.801 million (2010: Rs. 85.001 million) has not been recognised as the Company does not foresee future taxable profits against which unused tax losses will be utilised.

29. LOSS PER SHARE - BASIC AND DILUTED

	2011 Rupees	2010 Rupees
(Loss) after taxation attributable to ordinary shareholders	**(62,539,901)**	(49,786,093)
	(Number of shares)	
Weighted average number of outstanding ordinary shares	**32,000,000**	32,000,000
	(Rupees)	
Earning per share - basic	**(1.95)**	(1.56)

29.1 No figure for diluted earnings per share has been presented as the Company has not issued any instrument which would have an impact on earnings per share when exercised.

30. TRANSACTIONS WITH RELATED PARTIES

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

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TRANSACTIONS WITH RELATED PARTIES	2011		2010	
	Key management personnel	SME Bank Limited (Holding Company)	Key management personnel	SME Bank Limited (Holding Company)
Borrowings				
Balance as at 1 January	-	143,376,715	-	101,894,472
Borrowings during the year	-	-	-	175,032,756
Repayments during the year	-	(27,852,276)	-	(133,550,513)
Balance as at year end	-	115,524,439	-	143,376,715
Loans and advances				
Balance as at 1 January	182,832	-	129,749	-
Advances given during the year	390,000	-	335,000	-
Repayments during the year	(330,333)	-	(281,917)	-
Balance as at year end	242,499	-	182,832	-

	2011 Rupees	2010 Rupees
Balances		
Lease facilities to holding company	3,224,866	8,164,143
Deposit Margin by holding Company for the lease facility	1,612,433	8,436,723
Total rentals receivables (for the entire lease period)	2,137,008	8,531,623
Transactions during the period		
Mark-up expense against borrowings from holding company	19,239,290	18,225,540
Total rentals received during the period	386,286	1,830,868
Rent expense	460,464	460,464
Key management remuneration	7,670,711	6,138,000
Post retirement benefits	1,515,602	1,202,559
Provident fund - company's contribution	128,364	122,876

31. CASH AND CASH EQUIVALENTS

	2011	2010
Cash and bank balances	10,415,717	11,902,663
Short term borrowings	(108,856,366)	(108,032,762)
	(98,440,649)	(96,130,099)

32. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Company has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing it.

32.1 Risk management framework

The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

32.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

32.2.1 Management of credit risk

The company's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the NBFC rules and regulations. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continually assessing the credit worthiness of counter parties.

32.2.2 Exposure to credit risk

In summary, compared to the maximum amount included in the balance sheet, the maximum exposure to credit risk as at 31 December 2011 is as follows:

	2011		2010	
	Balance sheet	**Maximum exposure**	Balance sheet	Maximum exposure
	(Rupees)			
Bank balances	**10,415,717**	**10,375,726**	11,902,663	11,846,651
Investments	**3,863,500**	**-**	28,659,977	25,127,477
Advances	**1,708,416**	**1,708,416**	2,173,860	2,173,860
Accrued interest on finance leases and term loans	**326,166**	**326,166**	227,214	227,214
Net Investment in finance lease	**662,865,114**	**662,865,114**	843,012,180	843,012,180
Long term finances and loans	**83,498,355**	**83,498,355**	76,676,248	76,676,248
Short term and long term deposits	**3,788,441**	**1,364,722**	3,536,355	988,522
	766,465,709	**760,138,499**	966,188,497	960,052,152

32.2.3 Credit ratings and Collaterals

Details of the credit ratings of balances with the banks (including profit receivable) as at 31 December were as follows:

Ratings	**2011**	2010
AA+	**8.50%**	4.50%
AA	**34.80%**	9.84%
BBB	**56.50%**	84.46%
AAA	**-**	0.14%
A-	**-**	0.82%
Others	**0.09%**	0.22%
	100%	100%

32.2.4 Description of Collateral held

The Company's leases are secured against assets leased out. In a few leases additional collateral is also obtained.

Details of exposures and the collateral as at 31 December 2011 against them are as follows:

	Net Exposure	Lower of collateral and gross exposure
Lease Finance		
- Regular	**297,806,829**	297,806,829
- Non Performing net of provision	**365,058,285**	365,058,285
	662,865,114	662,865,114
Working Capital Finance		
- Regular	**39,692,133**	39,692,133
- Non Performing net of provision	**41,993,606**	41,993,606
	81,685,739	81,685,739

Settlement risk

Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash or other assets as contractually agreed on sale.

This risk is addressed more or less in accordance with the parameters set out in the credit risk management above.

To reduce the exposure to credit risk the Company has developed a formal approval process whereby credit limits are applied to its customers. The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery (and also obtains security / advance payments, wherever considered necessary). Cash is held only with reputable banks with high quality credit worthiness.

32.2.5 Impairment losses and past due balances

	2011			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognised
	----------(Rupees)----------			
Not past due	**279,539,242**	**40,809,818**	**238,729,424**	**-**
1 - 89 days	**59,772,336**	**694,931**	**59,077,405**	**-**
90 days-1 year	**70,366,758**	**4,313,314**	**66,053,444**	**-**
More than 1 year	**336,685,133**	**40,588,457**	**445,705,930**	**(149,609,254)**
	746,363,469	**86,406,520**	**809,566,203**	**(149,609,254)**

	2010			
	Total	Loans and receivables	Net investment in finance lease	Impairment recognised
	----------(Rupees)----------			
Not past due	629,505,975	34,387,971	595,118,004	-
1 - 89 days	33,526,297	4,555,472	28,970,825	-
90 days-1 year	22,350,865	3,036,981	19,313,884	-
More than 1 year	234,305,291	36,503,107	303,769,137	(105,966,953)
	919,688,428	78,483,531	947,171,850	(105,966,953)

32.2.6 Concentration of credit risk - gross investment in finance lease

The Company seeks to manage its credit risk through diversification of financing activities to avoid undue concentration of credit risk with individuals or groups of customers in specific locations or business sectors. It also obtains collaterals when appropriate.

The management of the Company follows two sets of guidelines. Internally, it has its own policies and procedures duly approved by the Board of Directors whereas externally it adheres to the regulations issued by the SECP. The operating policy defines the extent of fund based exposures with reference to a particular sector or group of leases.

Details of the composition of finance lease portfolio of the Company are given below:

	2011		2010	
	Rupees	**Percentage**	Rupees	Percentage
Cargo carriers	**61,660,709**	**6.04**	71,990,194	6.21
Chemicals	**17,629,960**	**1.73**	27,863,815	2.40
Communication	**14,267,400**	**1.40**	17,388,019	1.50
Construction & building products	**83,837,256**	**8.21**	84,941,745	7.33
Education	**19,344,777**	**1.89**	18,533,602	1.60
Engineering	**25,373,925**	**2.48**	45,257,654	3.91
Entertainment	**35,688,574**	**3.49**	33,092,434	2.86
Film processing	**91,484,773**	**8.96**	96,576,028	8.33
Fisheries	**1,344,482**	**0.13**	1,543,732	0.13
Food and beverages	**65,281,627**	**6.39**	76,124,507	6.57
Furniture	**576,727**	**0.06**	705,102	0.06
Gems & jewelry	**2,202,865**	**0.22**	2,202,865	0.19
Health care	**28,496,347**	**2.79**	32,736,091	2.82
Leather & tannery	**2,307,337**	**0.23**	2,307,337	0.20
Miscellaneous	**111,072,979**	**10.88**	155,813,974	13.45
Oil & gas	**103,636,178**	**10.15**	148,110,784	12.78
Printing & packaging	**128,357,285**	**12.57**	99,237,253	8.56
Public transport services	**130,447,557**	**12.77**	134,571,250	11.61
Rubber & plastic	**19,184,601**	**1.88**	18,255,289	1.58
Textile & Garment	**79,007,457**	**7.74**	91,564,033	7.90
	1,021,202,816	**100**	1,158,815,708	100

32.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or may face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due.

32.3.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Due to nature of the business, the Company maintains flexibility in funding by maintaining committed credit lines available. The Company's liquidity management involves projecting cash flows and considering the level of liquid assets necessary to fulfill its obligation; monitoring balance sheet liquidity ratios against internal and external requirements and maintaining debt financing plans.

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32.3.2 Maturity analysis for financial liabilities

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to maturity date and represents the undiscounted cash flows. The amounts in the table are the gross nominal undiscounted cash flows (including interest payments).

	2011			
	Total	Contractual cash flow	Upto one year	More than one year
	(Rupees)			
Liabilities				
Accrued and other liabilities	7,406,511	7,406,511	7,406,511	-
Short term borrowings	108,856,366	110,521,482	110,521,482	-
Certificates of investment	6,757,413	7,138,485	1,138,485	6,000,000
Long-term financing - secured	49,266,636	50,425,197	34,342,949	16,082,248
Long-term deposits	358,559,895	358,559,895	286,063,300	72,496,595
	530,846,821	534,051,570	439,472,727	94,578,843

	2010			
	Total	Contractual cash flow	Upto one year	More than one year
	(Rupees)			
Liabilities				
Trade and other payables	8,369,622	8,369,622	8,369,622	-
Short term borrowings	108,032,762	109,309,191	108,032,762	1,276,429
Certificates of investment - unsecured	13,244,795	13,764,235	7,244,784	6,519,451
Long-term financing - secured	100,446,986	103,663,751	93,089,505	10,574,246
Long-term deposits	433,173,196	433,173,196	152,820,173	280,353,023
	663,267,361	668,279,995	369,556,846	298,723,149

32.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will effect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Company is exposed to interest rate and other price risk only.

32.4.1 Management of market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Company manages the market risk by monitoring exposure on marketable securities by following internal risk management policies and regulations laid down by the Securities and Exchange Commission of Pakistan.

32.4.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises on investment in finance lease, finance and loans, investment in government securities, bank balances and borrowing from banks. The Company carries a mix of fixed and floating rate financial instruments.

At 31 December, details of the interest rate profile of the Company's interest bearing financial instruments were as follows:

	Carrying amount	
Fixed rate instruments	**2011 (Rupees)**	2010 (Rupees)
Financial assets		
Investments	**2,500,000**	2,500,000
Financial liabilities		
Certificates of investments	**6,757,413**	13,244,795
Long term finance	**8,214,867**	-
	14,972,280	13,244,795
Variable rate instruments		
Financial assets		
Bank balances	**3,618,316**	1,100,248
Net investrments in finance lease	**662,865,114**	843,012,180
Long term finance and loans	**83,498,355**	76,676,248
	749,981,785	920,788,676
Financial liabilities		
Short term borrowings	**108,856,366**	108,032,762
Long term finance	**37,918,073**	99,080,901
Liabilities against assets subject to finance lease	**3,133,696**	1,366,085
	149,908,135	208,479,748

32.4.3 Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account.

32.4.4 Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by Rs. 6.001 million (2010: Rs.7.123 million). This analysis assumes that all other variables, remain constant. The analysis is performed on the same basis which were used for the year ended 31 December 2010.

The sensitivity analysis prepared as of 31 December 2011 is not necessarily indicative of the impact on the Company's net assets of future movements in interest rates and profit for the year and assets / liabilities of the Company.

32.4.5 Interest rate gap position

Yield / interest rate sensitivity position for on balance sheet financial instruments based on the earlier of contractual repricing or maturity date is as follows:

Notes to the Financial Statements

For the year ended 31, December 2011

	2011				
	Effective mark-up / interest / profit rate	Total	Exposed to mark-up / interest / profit rate risk		
			Upto three months	More than three months and upto one year	More than one year
Financial assets	%	-------------------------------(Rupees)-------------------------------			
Cash and bank balances	5	**3,618,316**	**3,618,316**	**-**	**-**
Investments	11.60 -12	**2,500,000**	**2,500,000**	**-**	**-**
Long term finances and loans	11.50 -24.51	**83,498,355**	**44,205,158**	**14,820,349**	**24,472,848**
Net investment in finance lease	9.5 - 25.11	**662,865,114**	**387,633,147**	**116,942,991**	**158,288,976**
		752,481,785	**437,956,621**	**131,763,340**	**182,761,824**
Financial liabilities					
Short term borrowings	16.57 - 15.50	**108,856,366**	**-**	**108,856,366**	**-**
Certificates of investment	11.5 - 14	**6,757,413**	**100,000**	**657,413**	**6,000,000**
Long-term finances	5-14.98	**46,132,940**	**8,005,353**	**24,016,059**	**14,111,528**
Liabilities against asset subject to finance lease	21-23	**3,133,696**	**581,488**	**581,488**	**1,970,720**
		164,880,415	**8,686,841**	**134,111,326**	**22,082,248**
On balance sheet gap		**587,601,370**	**429,269,780**	**(2,347,986)**	**160,679,576**
Total interest rate sensitivity gap		**587,601,370**	**429,269,780**	**426,921,794**	**587,601,370**

	2010				
	Effective mark-up / interest / profit rate	Total	Exposed to mark-up / interest / profit rate risk		
			Upto three months	More than three months and upto one year	More than one year
Financial assets	%	-------------------------------(Rupees)-------------------------------			
Cash and bank balances	5	1,100,248	1,100,248	-	-
Investments	11.6 - 12	2,500,000	2,500,000	-	-
Long term finances and loans	5 - 24.5	76,676,248	43,431,848	19,955,772	13,288,628
Net investment in finance lease	9.5 - 25.11	843,012,180	313,719,467	267,668,582	261,624,131
Total financial assets as on 31 December 2010		923,288,676	360,751,563	287,624,354	274,912,759
Financial liabilities					
Short-term borrowings	16.4	108,032,762	-	108,032,762	-
Certificate of investment	9 - 13	13,244,795	600,000	6,644,784	6,000,000
Long-term finances	15.46 -19	99,080,901	30,869,778	61,552,584	6,658,539
Liabilities against asset subject to finance lease	14.23 - 16.70	1,366,085	166,786	500,357	698,943
Total financial liabilities as on 31 December 2010		221,724,543	31,636,564	176,730,487	13,357,482
On balance sheet gap		701,564,133	329,114,999	110,893,867	261,555,277
Total interest rate sensitivity gap		701,564,133	329,114,999	440,008,866	701,564,143

32.5 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Company is not exposed to equity securities price risk as the Company does not hold any equity securities as at 31 December 2011.

A change in one percent increase / decrease in the price of such certificates as on 31 December 2011, with all other variables held constant, the equity of the Company for the year would have been higher / lower by Rs. 13,635 (2010: Rs. 261,600).

33. CAPITAL RISK MANAGEMENT

33.1 The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders and benefits for otherstakeholders and to maintain an optimal capital structure to reduce its cost of capital.

33.2 Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital employed:

	2011 Rupees	2010 Rupees
Total debt	**52,890,353**	112,325,696
Total equity	**237,289,206**	299,829,107
Total capital employed	**290,179,559**	412,154,803
Gearing ratio	**18.23%**	27.25%

33.3 Financial risk management objectives and policies

The Company finances its operations through equity, borrowings and management of its working capital with a view to maintaining an appropriate mix between various sources of finance to minimise liquidity risk. Taken as a whole, the Company's risk arising from financial instruments is limited as there is no significant exposure to price and cash flow risk in respect of such instruments.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of the financial assets and financial liabilities approximate their fair values except for investments held to maturity and leases at fixed rate of return.

The Company's accounting policy on fair value measurements is discussed in note 3.8.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

Notes to the Financial Statements

For the year ended 31, December 2011

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale investments				
Government Securities - Special saving certificates	**-**	**2,500,000**	**-**	**2,500,000**
Units of Closed end Fund	**1,363,500**	**-**	**-**	**1,363,500**
	1,363,500	**2,500,000**	**-**	**3,863,500**

31 December 2010	Level 1	Level 2	Level 3	Total
Available for sale investments				
Government Securities - Special saving certificates	-	2,500,000	-	2,500,000
Units / Certificates of Mutual Fund	26,159,977	-	-	26,159,977
	26,159,977	2,500,000	-	28,659,977

35. 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.

	2011				
	Finance lease	**Loans and receivables**	**Investment**	**Others**	**Total**
	(Rupees)				
Segment revenue	**44,444,676**	**8,931,633**	**6,063,061**	**279,266**	**59,718,636**
Segment profit	**1,903,257**	**7,830,751**	**6,063,061**	**279,266**	**16,076,335**
Segment result					**16,076,335**
Unallocated cost					
Finance cost					**30,769,338**
Administrative and operating expenses					**47,249,654**
					78,018,992
Loss before tax					**(61,942,657)**
Taxation					**(597,244)**
Loss after tax					**(62,539,901)**
Other information					
Segment assets	**662,865,114**	**81,685,739**	**3,863,500**	**-**	**748,414,353**
Unallocated assets					**41,068,637**
Total assets					**789,482,990**
Segment liabilities	**364,591,664**	**-**	**-**	**-**	**364,591,664**
Unallocated liabilities					**187,418,620**
Total liabilities					**552,010,284**
Net assets					**237,472,706**
Capital expenditure	**-**	**-**	**-**	**2,837,900**	**2,837,900**

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

35.2 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.

	2010				
	Finance lease	Loans and receivables	Investment	Others	Total
	(Rupees)				
Segment Revenue	73,468,889	11,197,719	799,446	124,919	85,590,973
Segment profit	33,520,971	9,544,399	799,446	279,339	44,144,155
Segment Result					44,144,155
Unallocated cost					
Finance cost					46,823,680
Administrative and operating expenses					44,708,790
					91,532,470
Loss before tax					(47,388,315)
Taxation					(2,397,778)
Loss after tax					(49,786,093)
Other information					
Segment assets	843,012,180	74,154,121	28,659,977	-	945,826,278
Unallocated assets				43,809,569	43,809,569
Total assets					989,635,847
Segment liabilities	438,539,657	-	-	-	438,539,657
Unallocated liabilities	-	-	-	247,432,656	247,432,656
Total liabilities					685,972,313
Net assets					303,663,534
Capital expenditure	-	-	-	13,243,116	13,243,116

36. RECLASSIFICATION

Following reclassifications have been made in these financial statements in order to give better and more appropriate presentation:

	From	To	2010 (Rupees)	2009 (Rupees)
Minimum lease payments	Net investment in finance leases	Current maturity of non-current assets	170,918,932	473,109,244
Security deposits	Long term deposits	Current maturity of non-current liabilities	126,266,816	161,405,681

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 27 February, 2012 by the Board of Directors of the Company.

Arjumand A. Qazi
Chief Executive Officer

Zubair F. Tufail
Director

Pattern of Shareholding
As at December 31, 2011

Shareholding From		Shareholding To	Number of Shareholders	Total Shares Held	Percentage %
1	-	100	13	131	0.00%
101	-	500	193	96,299	0.30%
501	-	1,000	37	36,525	0.12%
1,001	-	5,000	41	117,992	0.37%
5,001	-	10,000	3	26,999	0.08%
10,001	-	15,000	2	25,500	0.08%
15,001	-	20,000	2	40,000	0.13%
20,001	-	25,000	1	22,500	0.07%
25,001	-	30,000	1	30,000	0.09%
45,001	-	50,000	3	146,000	0.46%
50,001	-	55,000	1	51,000	0.16%
150,001	-	155,000	1	155,000	0.48%
220,001	-	225,000	1	225,000	0.70%
410,001	-	415,000	2	820,318	2.56%
455,001	-	460,000	1	457,761	1.43%
600,001	-	1,100,000	3	2,407,275	7.52%
1,100,001	-	1,600,000	3	3,936,502	12.30%
23,100,001	-	23,600,000	1	23,405,198	73.14%
			309	**32,000,000**	**100%**

Categories of Shareholders
As at December 31, 2011

Category No.	Categories of	Numbers of Share Held	Category wise No.of Shareholders	Category wise Share Held	Percentage %
1	Individuals		284	898,573	2.81%
2	Joint Stock Companies		10	4,295,534	13.42%
3	Banks		2	24,307,548	75.96%
4	Public Sector Companies and Corporations		1	525	0.00%
5	Leasing Companies		1	604,575	1.89%
6	National Investment Trust		1	1,230,477	3.85%
7	Insurance Companies		1	155,000	0.48%
8	Others		2	507,761	1.59%
9	Directors, CEO, their spouses and minor Children		7	7	0.00%
	Mr. Ihsan-ul-Haq Khan	1			0%
	Mrs. Arjumand A. Qazi	1			0%
	Mr. Nasser Durrani	1			0%
	Mr. Mehboob Hussain	1			0%
	Mr. Zubair Farid Tufail	1			0%
	Mr. Masood Naqi	1			0%
	Mr. Ali A. Rahim	1			0%
	Total		**309**	**32,000,000**	**100%**

Proxy Form

I/We ____

of ____ (full address)

being a member of SME Leasing Limited hereby appoint ______________________________

of ____

____ (full address)

or failing him/her ____

of ____ (full address)

as my / our Proxy to attend and vote for me / us and on my / our behalf at the 10th Annual General Meeting of the Company to be held on April 30, 2012 and at any adjournment thereof.

Signed this ____________________ of ____________________ 2012.
(day) (date, month)

Signature of Member: ____________________

Folio Number: ____________________

Number of shares held : ____________________

Witnesses:

1. ______________________________

2. ______________________________

Please affix
Revenue Stamp

Signature and Company Seal

1. A member entitled to attend and vote at a General meeting is entitled to appoint a Proxy to attend and vote instead of him / her.

2. The instrument appointing a Proxy shall be in writing under the hand of the appointer or of his / her attorney duly authorized in writing, if the appointer is a corporation, under its common seal or the hand of an officer or attorney duly authorized. A Proxy need not be a Member of the Company.

3. The instrument appointing a Proxy, together with the Power of attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited at the Main Office of the Company at least 48 hours before the time of the meeting.

4. Any individual Beneficial Owner of the Central Depository Company, entitled to vote at this meeting must bring his / her National Identity Card with him / her as proof of his / her identity, and in case of Proxy, must enclose an attested copy of his / her National Identity Card. Representative of corporate entity, shall submit Board of Directors resolutions / power of attorney with specimen signature (unless it has been provided earlier) along with proxy form of the Company.

Affix
Correct
Postage

To:
SME Leasing Limited
2nd Floor, Tower"B",
Finance & Trade Center, Shahra-e-Faisal, Karachi.
Tel: (021) 99225051-53

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

SME Leasing Limited

(A subsidiary of SME Bank Ltd.)

Main Office: 2nd Floor, Tower "B" Finance & Trade Centre, Shahra-e-Faisal, Karachi.
Tel : 021-99225051-53 Fax : 021-99225054

CORPORATE

w w w . s m e l e a s e . c o m