



annual report | 2008



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

Strengthening Enterprises



SME Leasing Limited pioneers lease finance solutions for the SME sector to serve their needs on a sustainable basis to enable them to grow and create a niche for themselves in an increasingly competitive market.

Mission Statement



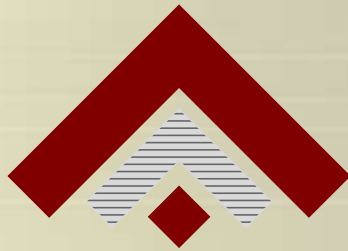
To be the leading financial institution in the country that provides lease finance facilities to the SME sector on a sustainable basis.

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

Vision Statement



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



SME Leasing Limited
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Board of Directors



Mr. S.M. Naseem
Chairman



Mrs. Arjumand A. Qazi
Chief Executive Officer



Mr. R.A. Chughtai
Director



Mr. M.A. Ghazali Marghoob
Director



Mr. Bashir A. Nadeem
Director



Mr. Hussain Ahmed Ozgen
Director



Sardar Usman Rashid
Director

Corporate Information



BOARD OF DIRECTORS

Mr. S.M. Naseem	Chairman
Mr. R.A. Chughtai	Director
Mrs. Arjumand A. Qazi	Director/CEO
Sardar Usman Rashid	Director
Mr. Bashir A. Nadeem	Director
Mr. M.A. Ghazali Marghoob	Director
Mr. Hussain Ahmad Ozgen	Director

AUDIT COMMITTEE

Mr. S.M. Naseem	(Non-Executive Director)
<i>Chairman</i>	
Mr. M.A. Ghazali Marghoob	(Non-Executive Director)
<i>Member</i>	
Sardar Usman Rashid	(Non-Executive Director)
<i>Member</i>	
Ms. Shafque Akhtar	Committee Secretary

EXECUTIVE CREDIT COMMITTEE

Mr. S.M. Naseem
Mrs. Arjumand A. Qazi
Mr. Shaheen Akhtar

MANAGEMENT COMMITTEE

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

Corporate Information

COMPANY SECRETARY & CFO

Mr. Tanveer Ul Bari

EXTERNAL AUDITORS

Anjum Asim Shahid Rahman, Chartered Accountants

INTERNAL AUDITORS

Ford Rhodes Sidat Hyder & Company, Chartered Accountants

TAX CONSULTANT

A.F. Ferguson & Co., Chartered Accountants

LEGAL ADVISOR

Mohsin Tayebaly & Company, Advocate & Legal Consultant

CREDIT RATING

Long-Term: A- Short-Term: A-2

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: 021-9204751-53 Fax: 021-9204754

REGISTRAR AND SHARE TRANSFER OFFICE

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

Phone: 021-4526983-84 Fax: 021-4526985



Corporate Information

BANKS AND LENDING INSTITUTIONS

Allied Bank Limited
Emirates Global Islamic Bank Limited
Faysal Bank Limited
MCB Bank Limited
National Bank of Pakistan
Pak Libya Holding Co. (Pvt) Limited
Pak Oman Investment Co. Limited
Saudi Pak Commercial Bank Limited
United Bank Limited

BRANCHES

KARACHI

Main Branch

2nd Floor, Tower "B",
Finance & Trade Center (FTC),
Shahra-e-Faisal.
Phone: 021-9204751-53
Fax: 021-9204754

F.B. Area Branch

Ground Floor, Gulshan-e-Amin Plaza,
Block-21, F.B. Area.
Phone: 021-9246458, 6807584
Fax: 021-6806940

HYDERABAD

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

LAHORE

Gulberg Branch

13-L, Mini Market, Gulberg-II.
Phone: 042-5714499
Fax: 042-5714499

Iqbal Town Branch

Office No. 17, 2nd Floor, Sky Centre, Karim
Block, Allama Iqbal Town Road.
Phone: 042-5295423
Fax: 042-5295424

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

MARDAN

The Mall Office No. 26, Adjacent Allied Bank
Limited,
Mardan Cantt.
Phone: 0937-9230800
Fax: 0937-9230800

MIRPURKHAS

Office No. 403/2, New Town.
Phone: 0233-9290411
Fax: 0233-9290411







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

SME **Medi Plus**

A lease finance product designed for health professionals, doctors and for others to set up hospitals, clinics, diagnostic and clinical laboratories or for the expansion of existing facilities.

Notice of the 7th Annual General Meeting



Notice is hereby given that the Seventh Annual General Meeting of the shareholders of SME Leasing Limited (the Company) will be held at Hotel Crown Plaza, 99-E, Jinnah Avenue, Blue Area, Islamabad on Thursday, April 23, 2009 at 03:30 p.m. to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the 3rd Extra Ordinary General Meeting of the Company held on December 16, 2008.
2. To receive, consider and adopt the audited Financial Statements of the Company for the year ended December 31, 2008 together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending December 31, 2009 and fix their remuneration. The Board of Directors has recommended the name of retiring auditors M/s. Anjum Asim Shahid Rahman, Chartered Accountants for consideration and re-appointment as auditors of the Company for the year ending December 31, 2009.
4. To transact any other business with the permission of the Chair.

By Order of the Board

Tanveer Ul Bari
Company Secretary

Karachi: April 01, 2009

Notes:

1. The Register of the members of the Company will remain closed from April 14, 2009 to April 23, 2009 (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 at 2nd Floor, Tower "B", Finance & Trade Centre, Shakra-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. number and account number 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.

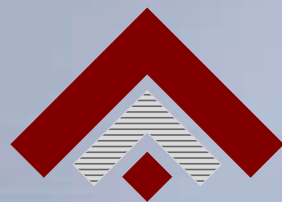
Notice of the 7th Annual General Meeting



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 number 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, Shakra-e-Faisal, Karachi.





SME Leasing Limited
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SME **Auto Plus**

Lack of transport facilities can slow down the business progress. SME Auto plus is an attempt to resolve the transport problems by making available lease assistance for commercial vehicles. It also envisages leasing to fleet operators of commercial transport.

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, 2008.

Financial Highlights

An analysis of the key operating results for 2008 and their comparison with the results of the previous year, is given below:

	2008 Rupees	2007 Rupees
Gross revenue	155,855,229	171,485,501
Profit before provisions	11,170,932	38,072,045
Provision	8,895,664	2,962,962
Profit before taxation	2,275,268	35,109,083
Taxation:		
- Current	-	2,790,598
- Deferred	(5,435,649)	1,651,616
Profit after taxation	7,710,917	4,442,214
Earnings per share - basic and diluted	0.24	0.96

Dividend

To enable the Company to further consolidate its reserves the Board has decided not to recommend any dividend for the year under review.

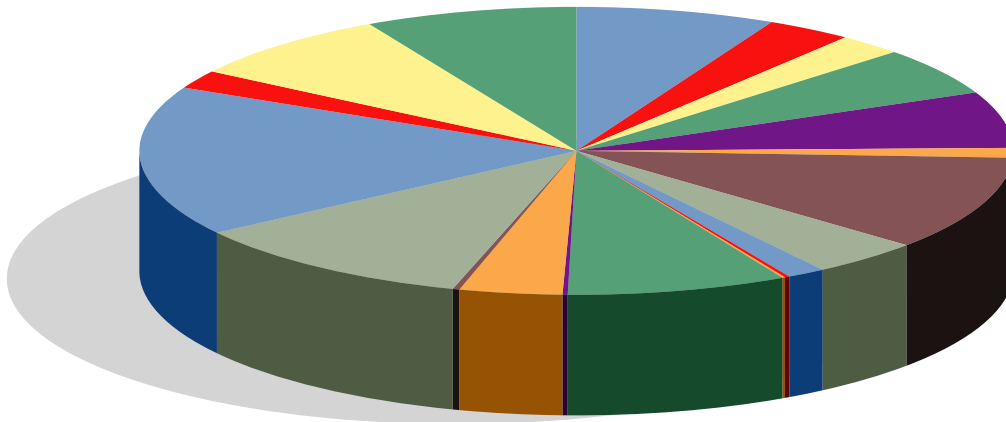
Review of Operations

The year 2008 embarked as a difficult and challenging year for the world economy. The global market meltdown has also cast its shadows on Pakistan's economy and changed it substantially. The economic condition of the country remained volatile due to uncertain political conditions. Financial markets experienced unpredicted pressure due to liquidity crises, heavy capital outflow, inflation and depleting foreign exchange reserves. All these factors have caused scarcity of funds and anomalous increase in cost of borrowing which resulted in low economic growth.

Keeping in view the challenging market conditions and socio-economic scenario your Company has adopted a more cautious and prudent approach for disbursements during 2008 and remained focused on maintaining a quality portfolio with reasonable and secure returns. The total assets have shown a marginal growth over corresponding figure of last year and stood at Rs. 1.979 billion. The gross revenue for the year amounted to Rs. 155.855 million as compared to Rs. 171.486 million of the previous year. The decline in gross revenue is mainly attributable to the changes introduced by the Securities and Exchange Commission of Pakistan in the overdue classification criteria through Non-Banking Finance Companies and Notified Entities Regulations 2008,

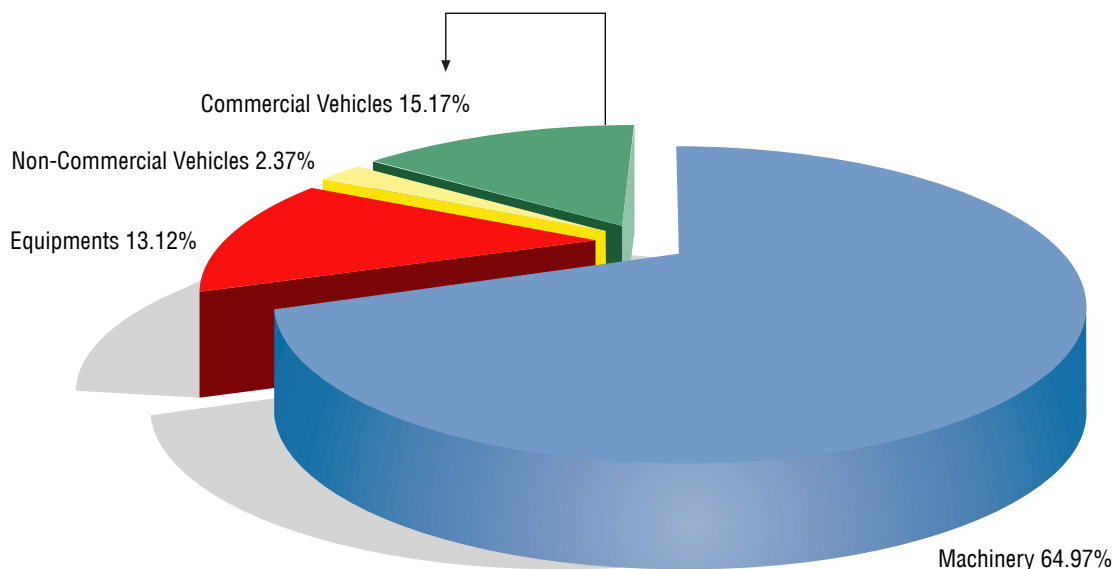


Portfolio as at December 31, 2008



■ CARGO CARRIERS 7.37%	■ ENGINEERING 4.10%	■ LEATHER & TANNERY 0.25%
■ CHEMICALS & PHARMA 3.18%	■ ENTERTAINMENT 1.43%	■ FILM PROCESSING 10.81%
■ COMMUNICATION 2.41%	■ FISHERIES 0.18%	■ OIL & GAS 16.86%
■ FOOD & BEVERAGES 5.39%	■ FURNITURE 0.11%	■ RUBBER & PLASTIC 2.06%
■ CONSTRUCTION AND BUILDING PRODUCTS 6.32%	■ TEXTILE 8.13%	■ PRINTING & PACKAGING 7.84%
■ EDUCATION 1.09%	■ GEMS & JEWELLERY 0.19%	■ PUBLIC TRANSPORT SERVICES 7.86%
■ MISCELLANEOUS 10.61%	■ HEALTHCARE 3.81%	

Categorywise Gross Lease Portfolio

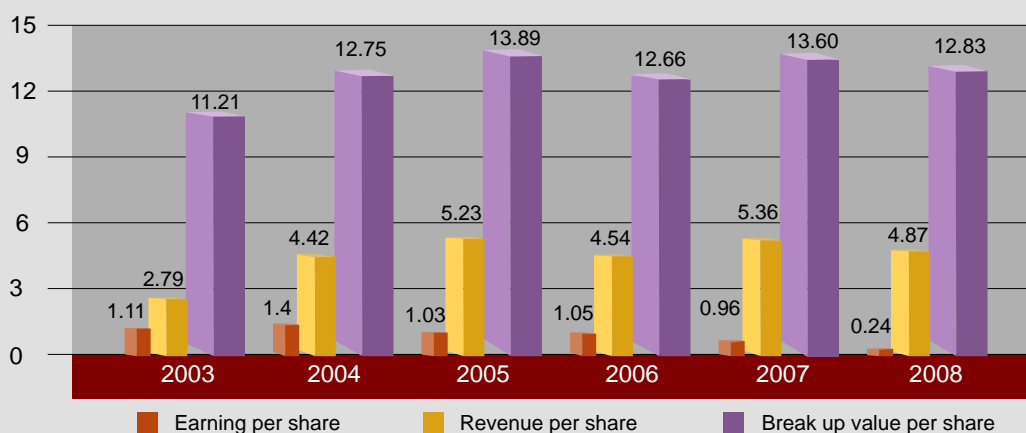




requiring suspension of overdue mark-up from 90 days instead of 180 days. Profit after tax for the period amounted to Rs. 7.711 million as compared to Rs. 30.666 million for the corresponding year. Administrative expenses have shown reduction as compared to the corresponding period, whereas, financial charges despite decline in the long-term borrowings have shown increase over the corresponding figure which is attributable to the abnormal rise in KIBOR.

Provisions made against classified portfolio also have shown increase over the corresponding year's figure. This increase is attributable to change in classification category and the reassessment of the collateral value, resulting from the ongoing review of the management to strengthen and maintain the quality of portfolio. Going forward this will enable the Company to absorb any adverse effects which may arise due to the ongoing economic downturn besides maintaining quality of the portfolio.

Key Ratios



Investments - Available-for-Sale

The Company has opted for the relaxation offered by Securities and Exchange Commission of Pakistan through Statutory Notification vide SRO 150(1)/2009 dated February 13, 2009 for the treatment of valuation of investments held as "Available-for-Sale". Accordingly, an impairment loss of Rs. 8,783,337, as given in note 9.1 of these financial statements, arising due to the valuation of investments as at December 31, 2008 has been taken to the equity. In 2009 this amount including any subsequent adjustment / effect for price shall be taken to the Profit and Loss Account on quarterly basis.

Share Capital

During the year under review the authorised share capital of the Company has been increased to PKR 1.00 billion by altering the relevant clauses of the Memorandum and Articles of the Association. This will enable the Company to consider options for increasing its equity in the coming years by issuing fresh shares and to meet the revised equity requirements for leasing companies as introduced by the Non-Banking Finance Companies and Notified Entities Regulations, 2008.



Directors' Report

Future Prospects

The unsettling political and economic conditions upward movement of KIBOR and competition with the commercial banks will be the major challenges for leasing companies in the coming year. However, your Company will continue its efforts to maintain its operational growth and would concentrate on building a sound and good quality portfolio by adopting a prudent disbursement approach.

Certificates of Investment

In the coming year Certificates of Investment would be an important tool for tackling with the rising trend of KIBOR. The Company is planning to apply more focus on resource mobilization through issuance of Certificates of Investment. This would not only enable the Company to raise necessary funds at lower cost but also provide an avenue for small savings for the clientele of SMEL.

Privately Placed Term Finance Certificates

During the year the Company has successfully floated its first Privately Placed Term Finance (PPTFC) of Rs. 350 million through United Bank Limited (Lead Arranger) and National Bank Limited as arrangers and advisers. With this issue the Company was able to reduce its borrowing cost and also replaced / repriced some costly lines.

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, changes have occurred on the Board, as Mr. Munawar Suleman and Mr. Hashim Khan resigned from the Board. The Board has appointed Sardar Usman Rashid and Mr. Bashir A. Nadeem, respectively, as Directors of the Company to fill the vacancies.

Corporate Governance

The Board of Directors acknowledges its responsibility for implementing and is committed to up hold 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 practice of the Code of Corporate Governance by the statutory auditors is annexed with the report.

Directors' Report

Statement of Corporate Governance

The Directors are pleased to state that:

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, 2008 are stated in the Directors' 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, 2008 was Rs. 2 million (un-audited) and as at December 31, 2007 was Rs. 3.6 (un-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.

Board Meetings

During the year 2008 four meetings of the Board of Directors were held that were attended as follows:

S.No.	Name of Directors	Meetings Attended
1.	Mr. S.M. Naseem	4
2.	Mr. R.A. Chughtai	3
3.	Mrs. Arjumand A. Qazi	4
4.	Mr. M.A. Ghazali Marghoob	4
5.	Mr. Munawar Suleman	1
6.	Mr. Muhammed Hashim Khan	0
7.	Mr. Hussain Ahmed Ozgen	2
8.	Mr. Bashir A. Nadeem	1
9.	Sardar Usman Rashid	2

Credit Rating

Based on the results for the year ended December 31, 2007 the rating agency, JCR-VIS, has maintained the long-term entity rating of A- (Single A minus) and short-term of A-2 (A -Two) with stable outlook.

Parent Company

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

Auditors

The present auditors M/s. Anjum Asim Shahid Rahman, Chartered Accountants retire and being eligible, offer themselves for re-appointment for the year ending December 31, 2009. On the proposal of the Board Audit Committee, the Board recommends the appointment of M/s. Anjum Asim Shahid Rahman, Chartered Accountants as statutory auditors of the Company for the year 2009.

Directors' Report

Pattern of Shareholding

The pattern of shareholding of the Company as on December 31, 2008 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 strengthening of the organization and achievement of the results presented in the annexed financial statements.

On behalf of Board of Directors,



S.M. Naseem
Chairman

Karachi-February 26, 2009

Financial Highlights

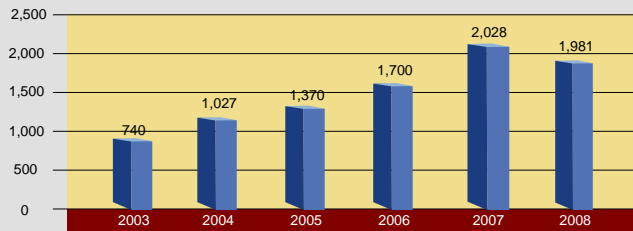
Balance Sheet	2008	2007	2006	2005	2004	2003
Paid-up Capital	320,000	320,000	320,000	200,000	200,000	200,000
Total Equity	410,580	435,240	404,986	277,833	255,097	224,231
Gross Lease Receivable	1,981,260	2,028,244	1,700,313	1,370,727	1,027,253	740,014
Net Investment in Lease	1,740,093	1,776,790	1,488,228	1,196,199	889,288	606,578
Long-term Liabilities	895,906	921,757	688,594	561,879	430,850	239,879
Current Liabilities	673,422	560,362	521,202	453,588	274,548	210,206
Current Assets	757,954	656,419	524,256	409,561	347,301	209,842
Total Assets	1,979,908	1,917,359	1,614,782	1,293,300	960,495	674,316
Income Statement	2008	2007	2006	2005	2004	2003
Lease Income	149,359	170,083	144,168	103,325	88,118	55,762
Total Revenue	155,855	171,486	145,375	104,599	88,370	55,889
Financial Charges	101,053	86,333	73,875	50,018	25,693	7,476
Administrative Expenses	43,630	47,081	40,243	32,579	27,008	18,541
Provisions	8,896	2,963	1,385	603	120	878
Total Expenses	153,579	136,376	115,503	83,200	52,821	26,895
Profit Before Taxation	2,275	35,109	29,872	21,400	35,549	28,994
Profit After Taxation	7,710	30,667	24,100	22,735	30,866	24,509
Financial Indicators	2008	2007	2006	2005	2004	2003
Break-up Value (Rs. per share)	12.83	13.60	12.66	13.89	12.75	11.21
Current Ratio (X)	1.13	1.17	1.01	0.90	1.26	1.00
Debt-Equity Ratio (times)	1.78	1.69	1.54	2.15	1.68	1.28
Earning Per Share (Rs.)	0.24	0.96	1.05	1.03	1.40	1.11
Financial Charges to Total Expenses (%)	65.80	63.30	63.96	60.12	48.64	27.80
Financial Charges to Total Revenue (%)	64.84	50.34	50.82	47.82	29.07	13.38
Income Expense Ratio (times)	0.97	1.25	1.25	1.24	1.67	2.07
Net Profit Margin (%)	4.95	17.88	16.58	21.74	34.93	43.85
Return on Average Assets / Fixed Assets Turnover (%)	0.40	1.74	1.66	2.02	3.78	3.63
Return on Average Equity (%)	1.82	7.30	7.06	8.53	12.88	10.93
Return to Shareholders (%)	7.50	-	-	10.00 *	-	-
Revenue Per Share (Rs.)	4.87	5.36	4.54	5.23	4.42	2.79

* bonus issue

Financial Highlights

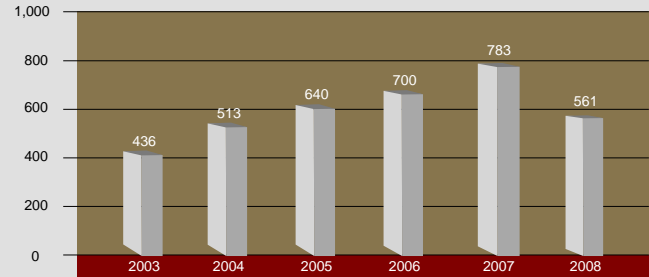
Gross Lease Receivables

(Figures in PKR mn)



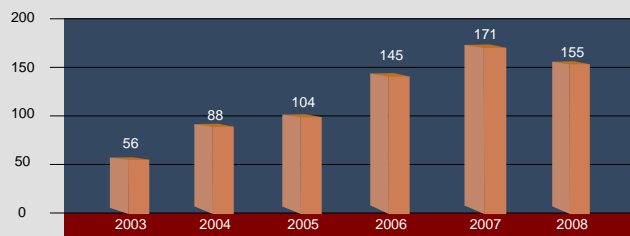
Gross Disbursements

(Figures in PKR mn)



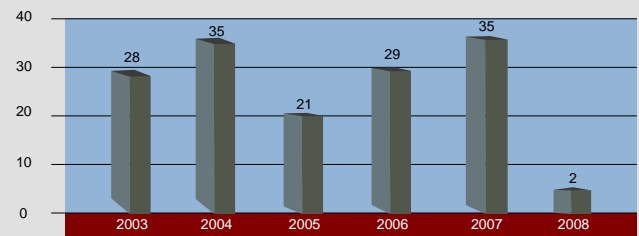
Total Revenue

(Figures in PKR mn)



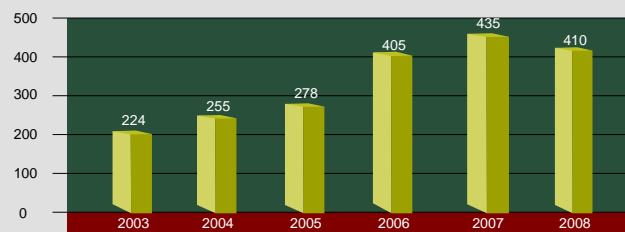
Profit Before Taxation

(Figures in PKR mn)



Shareholders' 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.

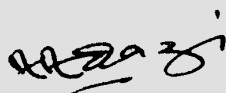
The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests 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 NBFIs or being a member of a stock exchange, has been declared as a defaulter by that stock exchange;
4. During the year casual vacancies were occurred in the Board which were properly filled in;
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;
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, CFO and Company Secretary were approved by the Board;
8. Four meetings of the Board were held during the year, at-least once in every quarter. The meetings of the Board were presided over by the Chairman and written notices of the meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated;
9. The Directors are conversant with the relevant laws applicable to the Company, 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 CFO. Future appointment, if any, on statutory positions including the remuneration, terms and conditions of employment, as determined by the Chief Executive Officer, will referred to the Board for approval;
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 CEO and the CFO before approval of the Board;
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, who all are non-executive Directors including the Chairman of the Committee;
16. Meetings of the Audit Committee were held at least once in every quarter, prior to approval of interim and final results of the Company, as required by the Code. The terms of reference of the Committee have been framed and approved by the Board and have been advised to the Committee for compliance;

Statement of Compliance with the Code of Corporate Governance

17. The Board has outsourced the internal audit function of the company to M/s Ford Rhodes Sidat Hyder & Company Chartered Accountants, who are considered suitably qualified for the purpose and are 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, 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 Company confirms that all other material principles contained in the Code have been complied with.

For SME Leasing Limited



Arjumand A. Qazi
Chief Executive Officer



M.A. Ghazali Marghoob
Director

Karachi-February 26, 2009



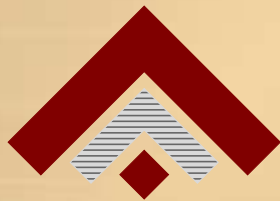
BANKING
Major regions

BANKING

FOCUS

COVER STORY

Net performing
Major regions



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

SME **Cash Plus**

Scarcity of finance can adversely influence the efforts and skills that are being applied for the expansion and growth of the business. SME Cash plus presents an easy and reliable financial support by making available working capital for the smooth running of the business without facing cash-flow problems.

Review Report to the Members

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



Anjum Asim Shahid Rahman

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Beaumont Road, Karachi 75530
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Other offices: Islamabad and Lahore


We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2008 prepared by the Board of Directors of **SME Leasing Limited** (the Company) to comply with Chapter XIII of the Listing Regulations of the Lahore Stock Exchange where the Company is listed.

The responsibility for compliance with the Code 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 reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company's 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 effectiveness of such internal controls.

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 as applicable to the Company, for the year ended December 31, 2008.

Karachi
Dated: February 26, 2009


Anjum Asim Shahid Rahman
Chartered Accountants

Auditors' Report to the Members



Anjum Asim Shahid Rahman

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We have audited the annexed balance sheet of SME Leasing Limited as at December 31, 2008 and the related profit and loss account, cash flow statement and statement of changes in equity 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 conduct 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 accounts 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 except as disclosed in note 2.14;
 - 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, 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 December 31, 2008 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat fund established under section 7 of that Ordinance.

Karachi
Dated: February 26, 2009


Anjum Asim Shahid Rahman
Chartered Accountants





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

SME **Women Owned Enterprises**

Women entrepreneurship in Pakistan is a relatively new phenomenon, and with every passing day the role of women in the economic development is increasing. SME has introduced this product for women entrepreneurs who are either considering expanding their businesses or for those women who want to start their businesses.

Balance Sheet as at December 31, 2008

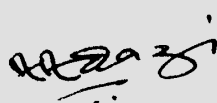
	Note	2008 Rupees	2007 Rupees
ASSETS			
Current assets			
Cash and bank balances	3	33,963,839	23,704,847
Placements with financial institutions	4	31,307,857	-
Mark-up accrued	5	905,519	2,248,669
Loans and advances	7	4,332,693	1,930,106
Deposits, prepayments and other receivables	8	3,130,304	5,520,500
Investments - available-for-sale	9	20,216,663	2,087,500
Current maturity of loans and receivables	6	70,985,032	51,085,311
Current maturity of net investment in leases	10	593,112,620	569,842,136
Total current assets		757,954,527	656,419,069
Non-current assets			
Loans and receivables	6	60,697,958	33,510,480
Net investment in leases	10	1,146,981,289	1,206,948,281
Long-term loans	11	3,339,432	8,390,719
Long-term deposits and prepayments	12	907,195	851,675
Intangibles	14	317,607	43,542
Property and equipment	13	9,710,645	11,195,967
		1,221,954,126	1,260,940,664
Total assets		1,979,908,653	1,917,359,733
LIABILITIES			
Current liabilities			
Accrued and other liabilities	15	19,417,771	21,477,474
Mark-up accrued	16	18,081,719	11,875,596
Short-term borrowings	17	67,041,428	8,556,259
Current maturity of long-term finances	18	213,884,305	300,588,787
Current maturity of privately placed Term Finance Certificates	19	139,583,334	-
Current maturity of liabilities against assets subject to finance lease	20	1,345,762	1,495,552
Current maturity of long-term deposits	21	204,768,493	207,124,430
Provision for compensated absences		630,708	474,985
Taxation payable		8,668,494	8,769,151
Total current liabilities		673,422,014	560,362,234
Non-current liabilities			
Long-term finance	18	126,601,688	423,592,687
Privately Placed Term Finance Certificates	19	181,250,000	-
Liabilities against assets subject to finance lease	20	1,229,814	1,437,186
Long-term deposits	21	580,906,614	485,454,207
Deferred liabilities	22	5,918,387	11,273,363
		895,906,503	921,757,443
Total liabilities		1,569,328,517	1,482,119,677
NET ASSETS		410,580,136	435,240,056
FINANCED BY			
Authorised share capital 100,000,000 (2007: 50,000,000) ordinary shares of Rs. 10 each		1,000,000,000	500,000,000
Issued, subscribed and paid-up capital	23	320,000,000	320,000,000
Reserves	24	48,466,329	44,831,860
Unappropriated profit	24	50,897,144	70,820,696
		419,363,473	435,652,556
Unrealized loss on available-for-sale investments		(8,783,337)	(412,500)
Total shareholders' equity		410,580,136	435,240,056
Contingencies and commitments	25		

The annexed notes 1 to 45 form an integral part of these financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.1.

Profit and Loss Account for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
REVENUE			
Income from operations	26	149,359,298	170,082,728
Income from Investments	27	5,663,444	250,000
Other operating income	28	832,487	1,152,773
Total revenue		155,855,229	171,485,501
EXPENSES			
Administrative	29	43,630,909	46,856,494
Finance cost	31	101,053,388	86,332,856
Other operating expenses	32	-	224,106
Total expenses		144,684,297	133,413,456
Operating profit before provisions		11,170,932	38,072,045
PROVISIONS			
Provision for potential lease losses	10	8,851,913	2,765,434
Provision for loans and receivables	6	43,751	197,528
Total provisions		8,895,664	2,962,962
Profit before income tax expense		2,275,268	35,109,083
Income tax expense			
Current	33	-	2,790,598
Deferred	22	(5,435,649)	1,651,616
		(5,435,649)	4,442,214
Profit for the year		7,710,917	30,666,869
Earnings per share - basic and diluted	34	0.24	0.96

The annexed notes 1 to 45 form an integral part of these financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.1.


Arjumand A. Qazi
 Chief Executive Officer

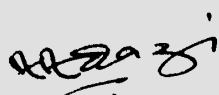

M.A. Ghazali Marghoob
 Director

Cash Flow Statement

for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations after working capital changes	35	114,396,070	122,153,190
(Increase) / Decrease in net investment in leases		27,844,595	(291,327,879)
(Increase) in loans and receivables		(47,130,950)	(3,777,966)
Mark-up paid		(93,450,894)	(84,562,402)
Mark-up received on loans to employees		321,905	589,545
Mark-up received		180,609	69,869
Financial charges paid		(1,780,649)	(1,179,042)
Gratuity paid		(720,158)	(1,731,183)
Taxes paid		(100,657)	(89,472)
Long-term deposits received		93,096,470	157,351,197
		(21,739,729)	(224,657,333)
Net cash used in operating activities		92,656,341	(102,504,143)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(762,601)	(1,153,261)
(Increase) in short-term placements	4	(31,307,857)	-
Proceeds from disposal of property and equipment		1,679,331	446,116
Decrease in long-term loans and advances		5,051,287	1,688,148
(Increase) in investments		(26,500,000)	-
(Increase) in long-term deposits and prepayments		(55,520)	(105,986)
Net cash from / (used-in) investing activities		(51,895,360)	875,017
CASH FLOW FROM FINANCING ACTIVITIES			
(Decrease) / Increase in long-term finance		(383,695,481)	208,775,296
Increase in Privately Placed Term Finance Certificates		320,833,334	-
Dividend paid		(23,432,866)	-
Lease rentals paid		(2,692,145)	(2,165,256)
Net cash from financing activities		(88,987,158)	206,610,040
Net increase / (decrease) in cash and cash equivalents		(48,226,177)	104,980,914
Cash and cash equivalents at beginning of the year		15,148,588	(89,832,326)
Cash and cash equivalents at end of the year	36	(33,077,589)	15,148,588

The annexed notes 1 to 45 form an integral part of these financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.1.



Arjumand A. Qazi
Chief Executive Officer



M.A. Ghazali Marghoob
Director

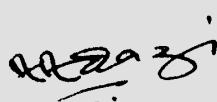
Statement of Changes in Equity

for the year ended December 31, 2008



	Capital reserves				Revenue reserves		
	Issued, subscribed and paid-up capital	Share premium	Statutory reserve	Reserve against future losses	Un-appropriated profit	Deficit on revaluation of available-for-sale investments	Total shareholder s' equity
	Rupees						
Balance as at January 1, 2007	320,000,000	10,000,000	20,343,720	7,206,049	47,435,918	-	404,985,687
<i>Changes in equity for the year ended December 31, 2007</i>							
Unrealized loss on re-measurement of available-for-sale investment	-	-	-	-	-	(412,500)	(412,500)
Profit for the year	-	-	-	-	30,666,869	-	30,666,869
Transferred to statutory reserve	-	-	6,133,374	-	(6,133,374)	-	-
Transferred to reserve against future losses	-	-	-	1,148,717	(1,148,717)	-	-
Balance as at December 31, 2007-carried forward	320,000,000	10,000,000	26,477,094	8,354,766	70,820,696	(412,500)	435,240,056
<i>Changes in equity for the year ended December 31, 2008</i>							
Unrealised loss on re-measurement of available-for-sale investment	-	-	-	-	-	(8,370,837)	(8,370,837)
Net income / expense directly recognized in equity	-	-	-	-	-	(8,370,837)	(8,370,837)
Profit for the year	-	-	-	-	7,710,917	-	7,710,917
Transferred to statutory reserve	-	-	1,542,183	-	(1,542,183)	-	-
Transferred to reserve against future losses	-	-	-	2,092,286	(2,092,286)	-	-
Final dividend for the year ended December 31, 2007 declared on March 26, 2008 and issued subsequent to year end	-	-	-	-	(24,000,000)	-	(24,000,000)
Balance as at December 31, 2008	320,000,000	10,000,000	28,019,277	10,447,052	50,897,144	(8,783,337)	410,580,136

The annexed notes 1 to 45 form an integral part of these financial statements. The details of valuation of investments, impairment and impact on profit and loss account are given in note 9.1.


Arjumand A. Qazi
 Chief Executive Officer


M.A. Ghazali Marghoob
 Director

1. THE COMPANY AND ITS OPERATIONS

SME Leasing Limited was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The company is a subsidiary of SME Bank Limited, which holds 73.14% (2007: 73.14%) of the shareholding of the company. At the time of incorporation, the company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the company on January 28, 2003. The company is listed on Lahore Stock Exchange and its registered office is situated at 40 Jang Building, A.K. Fazal-ul-Haq Road, Blue Area, Islamabad. The core objective of the company is to extend lease and working capital financing facilities to small and medium enterprises of the country.

The company is registered with the Securities and Exchange Commission of Pakistan as a leasing company under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003. These rules were amended vide SRO 1131(I)/2007 on November 21, 2007 whereby Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFC Regulations) were issued. Subsequently NBFC Regulations were amended vide SRO 1203(1) / 2008 on November 21, 2008 whereby Non-Banking Finance Companies and Entities Regulation, 2008 were issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprises International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board (IASB) as are notified under the Companies Ordinance, 1984. Where ever the requirement of Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations or directives issued by the SECP differ from the requirements of IFRS, the requirement of the Companies Ordinance, 1984, the NBFC Rules, the NBFC Regulations or the requirements of the said directive shall prevail.

(b) The company provides for impairment in the carrying value of its net investment in finance lease based on the requirements laid down in the Regulations for Non-Banking Finance Companies(NBFCs).

2.1.1 Standards, amendments and interpretation not yet effective

Standards, amendments and interpretations not yet effective other than standards, amendments and interpretation that are mandatory for accounting periods on or after January 01, 2009 are considered not to be relevant or have any significant effect to the company's operations.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

In the process of applying the company's accounting policies, management has made the following estimates and judgment which are significant to the financial statement.

- i) provision against loans and receivables (note 6.2)
- ii) provision for potential lease losses (note 10.5)
- iii) staff retirement benefits schemes (note 30)
- iv) property and equipment (depreciation / amortization) (note 13 and 14)
- v) recognition of taxation and differed tax (note 22)

2.3 Accounting convention

These financial statements have been prepared under the 'historical cost convention' except certain financial assets and liabilities which have been stated fair value or amortized cost. Staff retirement benefits have been stated at present value (refer note 30).

The financial statements have been prepared following the accrual basis of accounting except for the cash flow information.

2.4 Employee benefits

Defined contribution plan

The company operates a recognized contributory provident fund for all its permanent employees. The company and employees make equal monthly contributions to the fund at the rate of 8 percent of basic salary.

Defined benefit plan

The company operates an unapproved gratuity scheme for all its permanent employees who complete the eligible period of service. Provision has been made in accordance with actuarial recommendations using the projected unit credit method. The results of current valuation are summarized in (refer note 30).

Recognition of actuarial gain or losses

Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses at the end of the previous reporting period exceeded ten percent of the higher of defined benefit obligation and fair value of the plan assets at that date. The excess amount of gains or losses are recognized over the expected remaining working lives of the employees participating in the plans.

Employees' compensated absences

The company provides for vested and non-vested compensated absences accumulated by its employees on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method.

2.5 Net investment in finance lease

Leases where the company transfers substantially all the risks and rewards incidental to the ownership of the asset to the lessees are classified as finance leases. Net investment in lease finance is recognized at an amount equal to the aggregate of minimum lease payments including guaranteed residual value and excluding unearned finance income, if any.

2.6 Loans and receivables

Loans and receivables are stated at amortized cost less provision, if any, for doubtful loans and receivables.

2.7 Provision for potential lease losses & provision for doubtful loans and receivables

Provisions for potential lease losses & doubtful loans and receivables are determined on the basis of the Regulations for Non-Banking Finance Companies, and its charged to profit and loss account.

2.8 Reserve against future losses

Reserve against future losses 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 the reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit or 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 period end.

2.9 Other provisions

Provisions are recognized when the company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

2.10 Long-term loans and redeemable capital

Long-term finances and loans are initially recognized at cost being the fair value of consideration received together with the associated transaction cost. Subsequently, these are carried at amortized cost using effective interest rate method. Transaction cost relating to the long-term finance is being amortized over the period of agreement using the effective interest rate method.

2.11 Taxation

Current

Income for the purpose of computing current taxation is determined under the provisions of the prevalent income tax law, whereby lease rentals receivable for a year are deemed to be income. Provision for taxation is thus based on taxable income at the current rates of taxation, in accordance with the requirements of the Income Tax Ordinance, 2001, as applicable.

Deferred

The company accounts for deferred taxation using the balance sheet liability method on temporary differences arising from using the different methods in the recognition of lease income for tax purposes and accounting purposes as well as for all other significant temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In addition, the company also recognizes deferred tax asset on unused tax losses (including unabsorbed depreciation) to the extent that they will be available for set off against future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.12 Revenue recognition

- The company follows the finance method in accounting for lease income. Under this method the unearned lease income i.e. the excess of aggregate lease rentals plus the estimated residual value over the cost of leased assets is taken to income over the term of the lease, so as to produce a systematic return on the net investment in lease.
- Income on loans and receivables is accounted for on accrual basis using the effective interest method.
- Unrealised lease income and unrealised income on loans and receivables is held in suspense account, where necessary, in accordance with the requirements of the regulations for Non-Banking Finance Companies.
- Profit on bank deposits and short-term placements is accrued on a time proportion basis.
- Front-end fee and documentation fee are taken to income when realised.
- Dividend income is recognized when the company's right to receive the dividend has been established.
- Capital gain or loss arising on sale of investments are taken to income in the period in which they arise.

2.13 Property and equipment

Tangible

Property and equipment (including assets acquired under finance lease arrangements) are stated at cost less accumulated depreciation and accumulated impairment, if any. Depreciation is charged on property and equipment using the straight-line method in accordance with the rates specified in (note 13) to the financial statements after taking into account residual value, if any. The residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on all fixed assets is charged from the month in which the asset is acquired. No depreciation is charged for the month in which the asset is disposed off.

Assets' residual values, if significant and their useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

When parts of an item of property and equipment have different useful lives, they are recognized as separate items of property and equipment.

Gains and losses on disposal of property, plant and equipment, if any, are included in income currently.

Surplus arising on revaluation is credited to surplus on revaluation of property and equipment. The surplus on revaluation of property and equipment to the extent of incremental depreciation charged on the related assets is transferred by the company to its unappropriated profit.

Intangible

Expenditure incurred on intangible asset is capitalised and stated at cost less accumulated amortization and any identified impairment loss. Intangible assets are amortized using the straight-line method over a period of 3 years.

Amortization on additions to intangible assets is charged from the month in which an asset is acquired or capitalised while no amortization is charged for the month in which that asset is disposed of.

2.14 Investments

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention, are recognized at the trade date. Trade date is the date on which the company commits to purchase or sell an asset.

The management determines the appropriate classification of its investments in accordance with the requirements of International Accounting Standard 39: Financial Instruments: Recognition and Measurement (IAS-39) at the time of purchase and re-evaluates this classification on a regular basis. As at December 31, 2008, investments of the company are categorized as 'available-for-sale'.

Investment securities held by the company which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available-for-sale. These investments are initially recognized at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognized directly in the equity under fair value reserve until sold, collected, or otherwise disposed off at which time, the cumulative gain or loss previously recognized in equity is included in profit and loss account.

Unrealised gains / losses on investments classified as at fair value through profit or loss are taken to profit and loss account while unrealised gains / losses on investments classified as available for sale are taken to equity until these are derecognized, at which time the cumulative gain or loss previously recognized in equity is taken to profit and loss account.

Impairment of investments is recognized in profit and loss account when there is a permanent diminution in their value. On impairment of available for sale investments, cumulative loss that had been recognized directly in equity is removed from equity and recognized in profit and loss account even though the investments have not been derecognized. Impairment losses recognized in profit and loss account for an investment in equity instrument classified as available for sale are not reversed through profit and loss account. Impairment loss related to investments carried at cost is not reversed.

During the year the company has taken impairment loss on available for sale investment to equity in pursuant of SRO 150(1)/2009 dated February 13, 2009 issued by Securities and Exchange Commission of Pakistan (SECP) (refer note 9.1).

Derecognition

All investments are de-recognized when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

2.15 Impairment

The company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognized as income.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

2.16 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, balances with banks, highly liquid short-term investments that are convertible to known amount of cash and are subject to insignificant risk of change in value, and short-term running finance under mark-up arrangements.

2.17 Proposed dividend and transfer between reserves

Dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are not recognized in the financial statements.

2.18 Financial instruments

Financial assets carried on the balance sheet include net investment in leases, loans and receivables, investments, loans and advances, accrued mark-up, cash and bank balances, deposits and certain other receivables. Financial liabilities carried on the balance sheet include borrowings including murabaha and musharika, deposits, liabilities against assets subject to finance lease, accrued mark-up and certain other liabilities..

At the time of initial recognition, all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Transaction costs are included in the initial measurement of all financial assets and financial liabilities except for financial assets and liabilities classified as fair value through profit or loss. The particular recognition method adopted for measurement of financial assets and financial liabilities subsequent to initial recognition are disclosed in the policy statements associated with each item.

At the time of initial recognition i.e. at the time when the company becomes a party to the contractual provisions of the instrument, all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it following trade date accounting. Transaction costs are included in the initial measurement of all financial assets and liabilities except for transaction costs incurred on financial assets and liabilities classified as 'at fair value through profit or loss' and held for trading and that may be incurred on disposal. The particular recognition methods adopted for the measurement of financial assets and liabilities subsequent to initial measurement are disclosed in the policy statements associated with each item.

Financial assets are de-recognized when the rights to receive cash flows have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial liabilities are de-recognized only when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2.19 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.20 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Pakistani Rupees, which is the company's functional and presentation currency.

2.21 Related party transactions

All transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes, as admissible, except in extremely rare circumstances where, subject to the approval of the Board of Directors, it is in the interest of the company to do so.

2.22 General

Amounts in these financial statements have been rounded off to the nearest rupee.

	Note	2008 Rupees	2007 Rupees
3. CASH AND BANK BALANCES			
With State Bank of Pakistan in current account		596	30,411
With banks:			
in current accounts		26,381,965	16,326,422
in saving accounts	3.1	7,527,266	7,301,002
Cash in hand		54,012	47,012
		<u>33,963,839</u>	<u>23,704,847</u>

3.1 Return on saving accounts is earned at rates ranging from 0.1 percent to 8.5 percent (2007: 0.1 percent to 8.5 percent) per annum.

	Note	2008 Rupees	2007 Rupees
4. PLACEMENT WITH FINANCIAL INSTITUTIONS - Un-secured			
Placement with NBFCs	4.1	31,307,857	-
		<u>31,307,857</u>	<u>-</u>

4.1 This represents short-term un secured placements of Rs. 31.307 million with NBFCs. The rate of return on these placements ranges from 19% to 20% per annum. These are repayable between January 2009 to February 2009.

Notes to the Financial Statement for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
5. MARK-UP ACCRUED			
Accrued mark-up on:			
loans to employees	5.1	5,552	13,324
loans and receivables		899,967	2,235,345
		<u>905,519</u>	<u>2,248,669</u>

5.1 Accrued mark-up on loans to employees includes an amount of Rs. 2,235 (2007: Rs. 5,143) that is receivable from key management personnel (related parties).

	Note	2008 Rupees	2007 Rupees
6. LOANS AND RECEIVABLES - Secured			
Loans to customers - considered good	6.1	97,137,442	76,001,227
Loans to customers - considered doubtful		34,856,642	8,861,907
Less: Provision for doubtful loans and receivables	6.2	311,094	267,343
		34,545,548	8,594,564
		131,682,990	84,595,791
Less: Current maturity of loans and receivables		70,985,032	51,085,311
		<u>60,697,958</u>	<u>33,510,480</u>

6.1 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 11.5 percent to 24.50 percent (2007: 11.5 percent to 23.05 percent) per annum.

	2008 Rupees	2007 Rupees
6.2 Provision for doubtful loans and receivables		
Opening balance	267,343	69,815
Charge for the year	163,212	222,528
Reversal during the year	(119,461)	(25,000)
Net charge	43,751	197,528
Balance at the end of the year	<u>311,094</u>	<u>267,343</u>

	Note	2008 Rupees	2007 Rupees
7. LOANS AND ADVANCES - considered good			
Current maturity of long-term loans to:			
- executives	11.2	-	247,906
- employees	11.2	612,764	584,010
		612,764	831,916
Advances to:			
- executives - related parties	7.1	120,834	120,664
- employees		274,733	172,613
- suppliers		-	50,490
- others		1,186,862	4,423
		1,582,429	348,190
Arrangement fee against issuance of TFCs		2,137,500	750,000
		<u>4,332,693</u>	<u>1,930,106</u>

7.1 The maximum aggregate amount of advances due from the executives at the end of any month during the year was Rs. 220,000 (2007: Rs. 343,900).

Notes to the Financial Statement for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
8. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Security deposits		151,000	236,500
Prepayments		1,613,526	1,834,228
Receivable from provident fund		-	1,621,244
Insurance receivable		712,449	489,779
Others		653,329	1,338,749
		3,130,304	5,520,500

9. INVESTMENTS - available-for-sale

Available-for-sale - Mutual Funds			
- Open end	9.1	26,500,000	-
- Close end	9.1	2,500,000	2,500,000
		29,000,000	2,500,000
Impairment loss	9.1	(8,783,337)	(412,500)
Fair value at the end of the period		20,216,663	2,087,500

9.1 Short-term Investment

Available-for-sale

Mutual funds

	Number of Units/ Certificates		Cost		Market Value		(Deficit) / Surplus	
	2007	2008	2007	2008	2007	2008	2007	2008
- Open end	Rupees.....							
Meezan Capital Protected Fund-1	-	97,087	-	5,000,000	-	4,461,166	-	(538,834)
UBL PPP	-	37,728	-	5,000,000	-	3,381,351	-	(1,618,649)
Alfalah GHP PPF	-	40,000	-	2,000,000	-	1,901,200	-	(98,800)
Namco Income Fund	-	25,000	-	2,500,000	-	2,557,183	-	57,183
Crosby Dragon Fund	-	13,341	-	2,000,000	-	896,672	-	(1,103,328)
United Stock Fund	-	18,315	-	2,000,000	-	866,093	-	(1,133,907)
AMZ Stock Plus Fund	-	19,683	-	2,000,000	-	1,150,871	-	(849,129)
MCB Dynamic Stock Fund	-	19,948	-	2,000,000	-	1,015,043	-	(984,957)
Pakistan Stock Fund	-	29,336	-	2,000,000	-	1,086,593	-	(913,407)
NAFA Stock Fund	-	167,580	-	2,000,000	-	1,380,492	-	(619,508)
- Close end	-	468,018	-	26,500,000	-	18,696,663	-	(7,803,337)
Namco Balanced Fund	250,000	250,000	2,500,000	2,500,000	2,087,500	1,520,000	(412,500)	(980,000)
	250,000	718,018	2,500,000	29,000,000	1,520,000	20,216,663	(412,500)	(8,783,337)

9.2 Securities and Exchange Commission of Pakistan (SECP) notification vide SRO 150(1)/2009 dated February 13, 2009 allowing that the impairment loss, if any, recognized as on December 31, 2008 due to valuation of listed equity investments held as 'Available-for-Sale' to quoted market prices may be shown under the equity.

The impairment loss based on net assets values as at December 31, 2008 has been determined at Rs. 8.7 millions.

The amount taken to equity including any adjustment / effect for price movements shall be taken to Profit and Loss Account on quarterly basis during the year ending December 31, 2009.

The amount taken to equity at December 31, 2008 shall be treated as a charge to Profit and Loss Account for the purposes of distribution as dividend.

The recognition of impairment loss based on the market values as at December 31, 2008 would have had the following effect on these financial statements:

	(Rupees in '000)
Increase in 'Impairment Loss' in Profit and Loss Account	8,783,337
Decrease in tax charge for the year	-
Decrease in profit for the year - after tax	8,783,337
Decrease in earnings per share - after tax	(0.03)
Decrease in deficit on revaluation of available-for-sale securities	8,783,337
Decrease in unappropriated profit	8,783,337

Notes to the Financial Statement for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
10. NET INVESTMENT IN LEASES			
Minimum lease payments receivable	10.2	1,195,584,398	1,335,665,852
Add: Residual value of leased assets		785,675,107	692,578,637
Lease contract receivable	10.3	1,981,259,505	2,028,244,489
Less: Unearned lease income		226,632,251	245,772,640
Less: Provision for potential lease losses	10.5	14,533,345	5,681,432
		241,165,596	251,454,072
Net investment in leases	10.4	1,740,093,909	1,776,790,417
Less: Current maturity of net investment in leases		593,112,620	569,842,136
Net investment in leases		1,146,981,289	1,206,948,281

10.1 The Internal Rate of Return (IRR) on lease contract receivable ranges from 8.25 percent to 25.106 percent (2007: 8.25 percent to 24.1 percent) per annum.

		2008 Rupees	2007 Rupees
10.2 Minimum lease payments receivable			
Less than one year		760,107,426	744,839,531
More than one year and less than five years		435,476,972	590,826,321
		1,195,584,398	1,335,665,852
10.3 Lease contract receivable			
Less than one year		797,881,113	951,963,961
More than one year and less than five years		1,183,378,392	1,076,280,528
		1,981,259,505	2,028,244,489
10.4 Net investment in leases			
Less than one year		593,112,620	569,842,136
More than one year and less than five years		1,146,981,289	1,206,948,281
		1,740,093,909	1,776,790,417
10.5 Provision for potential lease losses			
Opening balance		5,681,432	2,915,998
Charge for the year		10,365,208	4,765,965
Reversal during the year		(1,513,295)	(2,000,531)
Balance at the end of the year		14,533,345	5,681,432

Notes to the Financial Statement for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
11. LONG-TERM LOANS - considered good			
Due from executives		-	4,523,727
Less: Receivable within one year	7	-	(247,906)
		-	4,275,821
Due from employees		3,952,196	4,698,908
Less: Receivable within one year	7	(612,764)	(584,010)
		3,339,432	4,114,898
		3,339,432	8,390,719

11.1 Reconciliation of carrying amount of long-term loans to chief executive, directors and executives is as follows:

	Chief Executive		Executives	
	2008	2007	2008	2007
	Rupees			
Opening balance as at January 1	-	2,004,315	4,523,727	2,784,883
Disbursements	-	-	-	3,271,910
Repayments	-	(2,004,315)	(4,523,727)	(1,533,070)
Closing balance as at December 31	-	-	-	4,523,723

11.2 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 upto 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 favor of the company. Motor vehicle loans carry mark-up at 7 percent per annum while the housing loans carry mark-up at 5 percent per annum.

	2008 Rupees	2007 Rupees
12. LONG-TERM DEPOSITS AND PREPAYMENTS		
Security deposits against assets acquired under lease arrangements	317,600	507,500
Other deposits	546,422	261,421
Prepayments	43,173	82,754
	907,195	851,675

13. PROPERTY AND EQUIPMENT

Following is the reconciliation of property and equipment of the company at the beginning and end of the year.

	Owned assets						Leased assets		
	Tangible						Total Tangible Assets	Motor vehicles	Total
	Office premises	Building improvements	Furniture and fixtures	Office equipment & others	Computers	vehicles			
	Rupees								
As at January 1, 2007									
Cost	4,954,190	1,634,990	1,486,150	806,122	1,455,167	785,840	11,122,459	6,303,700	17,426,159
Accumulated depreciation / amortization	(334,967)	(1,355,027)	(778,746)	(237,672)	(1,044,129)	(228,094)	(3,978,635)	(1,122,729)	(5,101,364)
Net book value	4,619,223	279,963	707,404	568,450	411,038	557,746	7,143,824	5,180,971	12,324,795
Year ended December 31, 2007									
Opening net book value	4,619,223	279,963	707,404	568,450	411,038	557,746	7,143,824	5,180,971	12,324,795
Additions	-	41,451	252,495	143,278	243,208	425,329	1,105,761	895,890	2,001,561
Disposals - net	-	-	-	(48,506)	-	(13,417)	(61,923)	(608,874)	(670,797)
Depreciation charge	(247,716)	(160,247)	(312,472)	(125,361)	(286,987)	(188,129)	(1,320,912)	(1,138,770)	(2,459,682)
Closing net book value	4,371,507	161,167	647,427	537,861	367,259	781,529	6,866,750	4,329,127	11,195,967
As at December 31, 2007									
Cost	4,954,190	1,676,441	1,738,645	849,900	1,698,375	1,161,169	12,078,720	5,990,940	18,069,660
Accumulated depreciation	(582,683)	(1,515,274)	(1,091,218)	(312,039)	(1,331,116)	(379,640)	(5,211,970)	(1,661,723)	(6,873,693)
Net book value	4,371,507	161,167	647,427	537,861	367,259	781,529	6,866,750	4,329,217	11,195,967
Year ended December 31, 2008									
Opening net book value	4,371,507	161,167	647,427	537,861	367,259	781,529	6,866,750	4,329,217	11,195,967
Additions	-	46,290	106,885	78,950	41,750	37,207	311,082	2,238,089	2,549,171
Transfer	-	-	-	-	-	632,736	632,736	(632,736)	-
Disposals - net	-	-	-	-	-	(239,553)	(239,553)	(1,482,184)	(1,721,737)
Depreciation charge	(247,709)	(124,192)	(269,270)	(134,726)	(186,152)	(369,148)	(1,331,197)	(981,559)	(2,312,756)
Closing net book value	4,123,798	83,265	485,042	482,085	222,857	842,771	6,239,818	3,470,827	9,710,645
As at December 31, 2008									
Cost	4,954,190	1,722,731	1,845,530	928,850	1,645,625	1,798,275	12,895,201	4,891,979	17,787,180
Disposal	-	-	-	-	94,500	(206,716)	(112,216)	1,222,130	1,109,914
Accumulated depreciation	(830,392)	(1,639,466)	(1,360,488)	(446,765)	(1,517,268)	(748,788)	(6,543,167)	(2,643,282)	(9,186,449)
Net book value	4,123,798	83,265	485,042	482,085	222,857	842,771	6,239,818	3,470,827	9,710,645
Rate of depreciation (%)	5	33.33	20	15	33.33	20	33.33	20	20

Notes to the Financial Statement for the year ended December 31, 2008

13.1 The following assets were disposed of during the year:

Particulars	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (Loss) on disposal	Mode of disposal	Particulars of buyers
..... Rupees							
Vehicles							
Honda Civic	1,208,000	(380,520)	827,480	827,480	-	Negotiation	Munawar Suleman, House # 11, Maqboolabad, Block # 3, Shaheed-e-Millat Road, Karachi
Toyota Corolla	896,250	(274,850)	621,400	851,851	230,451	Negotiation	Syed Farhat Abbas, 142-S, Block 2, PECHS, Karachi
Suzuki Cultus	599,900	(360,348)	239,552	-	85,400	Dispose	EFU General Insurance Limited
Honda CD 70	50,490	-	50,490	-	(5,490)	Negotiation	Adamjee Insurance Company limited
Computers	94,500	(94,500)	-	-	27,385	Insurance Claim	EFU General Insurance Limited
2008	2,849,140	(1,110,218)	1,738,922	1,679,331	337,746		
2007	1,358,150	(687,928)	670,222	446,116	(224,106)		

14. INTANGIBLES

The company's intangible assets comprise acquired software licenses and software. The carrying amount for the year ended December 31, 2008 can be analyzed as follows:

	2008 Rupees	2007 Rupees
Gross carrying amount	711,930	350,500
Accumulated amortization and impairment	394,323	306,958
	317,607	43,542
Carrying amount at the beginning of the period	43,542	1,872
Additions	361,430	47,500
Amortization	(87,365)	(5,830)
Carrying amount at the end of the period	317,607	43,542
Rate of amortization	33.33%	33.33%

Notes to the Financial Statement for the year ended December 31, 2008

	2008 Rupees	2007 Rupees
15. ACCRUED AND OTHER LIABILITIES		
Accrued liabilities	674,850	2,522,918
Rentals received in advance	2,349,406	1,667,534
Payable on termination / maturity of leases	2,008,352	47,020
Payable in respect of undisbursed leases	8,475,296	12,186,744
Insurance payable	5,099,183	4,745,039
Payable to SME Bank Limited - holding company	32,080	109,190
Unclaimed Dividend	21,690	-
Others	756,914	199,029
	<u>19,417,771</u>	<u>21,477,474</u>

15.1 The maximum aggregate amount due to SME Bank Limited at the end of any month during the year was Rs. 16,055 (2007: Rs. 16,055).

	2008 Rupees	2007 Rupees
16. MARK-UP ACCRUED		
Mark-up accrued on:		
Term finance certificates	11,025,503	-
Long-term financing from SME Bank Limited (holding company) - related party	235,938	1,230,152
Borrowings from other financial institutions	6,820,278	10,645,444
	<u>18,081,719</u>	<u>11,875,596</u>

16.1 The maximum aggregate amount due to SME Bank Limited at the end of any month during the year was Rs. 974,335 (2007: Rs. 1,249,051).

17. SHORT-TERM BORROWING

Short-term running finance - secured

The facility for short-term running finances available from commercial banks as at December 31, 2008 amounts to Rs. 100 million (2007: Rs. 175 million). Mark-up is payable at rates 16.41 percent (2007: 14.00 percent) per annum. The finance is secured by way of hypothecation of the company's specific leased assets and related receivables.

	Note	2008 Rupees	2007 Rupees
18. LONG-TERM FINANCE - SECURED			
SME Bank Limited (holding company) - related party		5,847,258	52,654,781
Other financial institutions		334,638,735	671,526,693
		<u>340,485,993</u>	724,181,474
Less: Current maturity shown under current liabilities	18.1	213,884,305	300,588,787
Long-term loans - due after one year		<u>126,601,688</u>	<u>423,592,687</u>

Notes to the Financial Statement for the year ended December 31, 2008

18.1 Long-term finance

	Amount borrowed Rupees	Repayment period		Price	Note	2008 Rupees	2007 Rupees
		From	To				
From related party							
SME Bank Limited (Facility No. 1)	110,000,000	Jul-03	Oct-08	7% (payable quarterly)	18.2	-	25,154,102
SME Bank Limited (Facility No. 2)	60,000,000	Nov-05	Dec-08	6 months KIBOR+1.5% (floor 11% and no Cap) (payable quarterly)	18.2	5,847,251	27,500,679
Total financing from related party						5,847,251	52,654,781
From financial institutions							
Pak Oman Investment Company Limited (Facility No. II)	100,000,000	May-05	Feb-08	6 months KIBOR+2.25% (payable quarterly)	18.2	-	8,333,338
Pak Oman Investment Company Limited (Facility No. III - Tranche I)	25,000,000	Sep-06	Sep-09	6 months KIBOR+2.75% (payable quarterly)	18.2	6,250,000	14,583,335
Pak Oman Investment Company Limited (Facility No. III - Tranche II)	25,000,000	Sep-06	Sep-09	6 months KIBOR+2.75% (payable quarterly)	18.2	6,250,000	14,583,335
Pak Oman Investment Company Limited (Facility No. IV - Tranche I)	25,000,000	Aug-07	Aug-10	6 months KIBOR+2.75% (payable quarterly)	18.2	14,583,335	22,916,667
Pak Oman Investment Company Limited (Facility No. IV - Tranche II)	25,000,000	Aug-07	Aug-10	6 months KIBOR+2.75% (payable quarterly)	18.2	14,583,335	22,916,667
Pak Libya Holding Company (Private) Limited (Facility No. I)	100,000,000	Jun-07	Jun-10	6 months KIBOR+2.5% (payable quarterly)	18.2	-	83,333,333
Pak Libya Holding Company (Private) Limited (Facility no. II)	30,000,000	May-06	Feb-09	6 months KIBOR+2.5% (payable quarterly)	18.2	5,000,000	15,000,000
Saudi Pak Industrial and Agriculture Company (Private) Limited	25,000,000	Apr-05	Jan-08	6 months KIBOR+2.5% (payable quarterly)	18.2	-	2,083,337
Total financing from financial institutions						46,666,670	183,750,012
From banking companies							
National Bank of Pakistan	150,000,000	Mar-06	Mar-10	6 months KIBOR+1.85% (payable semi-annually)	18.2	56,250,000	93,750,000
United Bank Limited (Tranche I)	50,000,000	May-05	May-08	3 months KIBOR+2.3% (payable quarterly)	18.2	-	8,333,330
United Bank Limited (Tranche II)	50,000,000	Jun-05	Jun-08	3 months KIBOR+2.3% (payable quarterly)	18.2	-	8,333,330
United Bank Limited (Tranche III)	50,000,000	Sep-05	Sep-08	3 months KIBOR+2.3% (payable quarterly)	18.2	-	12,499,997
United Bank Limited (Loan III)	50,000,000	Feb-07	Feb-10	3 months KIBOR+2.6% (payable quarterly)	18.2	20,833,331	37,499,999
United Bank Limited (Loan IV)	50,000,000	Dec-07	Dec-07	6 months KIBOR+1.65% (payable semi-annually)	18.2	33,333,334	50,000,000
Saudi Pak Commercial Bank Limited (Tranche I)	25,000,000	Jun-06	Jun-09	6 month KIBOR+2.5% (payable semi-annually) (mark-up payable quarterly)	18.2	8,333,335	25,000,001
Allied Bank Limited (Tranche II)	75,000,000	Dec-07	Dec-10	6 months KIBOR+2% (payable quarterly)	18.2	91,477,272	143,750,000
Faysal Bank Limited	100,000,000	May-07	May-10	3 months KIBOR+2.75% (payable quarterly)	18.3	54,650,950	85,841,824
Emirates Global Islamic Bank Limited	100,000,000	Sep-07	Sep-10	6 months KIBOR+2.5% (payable quarterly)	18.4	23,093,850	22,768,200
Total financing from financial institutions and banking companies						287,972,072	487,776,681
						334,638,742	671,526,693
						340,485,993	724,181,474

18.2 These facilities includes long-term loans from SME Bank Limited and other financial institutions for financing lease operations of the company. These finances are secured by way of first exclusive charge on all specific leased assets and associated lease.

18.3 This represents long-term Musharika facility obtained from Faysal Bank Limited.

18.4 This represents long-term Diminishing Musharika facility obtained from Emirates Global Islamic Bank Limited.

Notes to the Financial Statement for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
19. PRIVATELY PLACED TERM FINANCE CERTIFICATES - Secured			
Privately placed Term Finance Certificates	19.1	320,833,334	-
Less: Current maturity shown under current liabilities		139,583,334	-
Due after one year		181,250,000	-

19.1 The principal and profit of Privately Placed Term Certificates is payable quarterly at a base rate plus 1.50 bps Base rate is three month ASK KIBOR.

19.2 These are secured by way of hypothecation of the company's specific leased assets and related receivables.

20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease payments	Finance charges not yet due	Present value of minimum lease payments	Minimum lease payments	Finance charges not yet due	Present value of minimum lease payments
Payable not later than one year	1,557,486	211,724	1,345,762	1,728,263	232,711	1,495,552
Payable later than one year but not later than five years	1,331,956	102,142	1,229,814	1,491,999	54,813	1,437,186
	2,889,442	313,866	2,575,576	3,220,262	287,524	2,932,738

The finance lease arrangements have been entered into with Faysal Bank Limited and Bank Al-Falah Limited for motor vehicles at mark-up rates ranging from 7.50 percent per annum to 14.50 percent per annum (2007: 7.50 percent per annum to 14.50 percent per annum) with a late payment surcharge of Rs. 100 (2007: Rs. 100) per day. These finance lease arrangements will mature in the year 2010.

	2008 Rupees	2007 Rupees
21. LONG-TERM DEPOSITS		
Lease key money	785,675,107	692,578,637
Less: Current maturity shown under current liabilities	204,768,493	207,124,430
Lease key money - due after one year	580,906,614	485,454,207

21.1 These represent security deposits received from lessees under lease contracts and are adjustable against residual values of the related leased assets on expiry of the respective lease periods of these contracts.

Notes to the Financial Statement for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
22. DEFERRED LIABILITIES			
Provision for gratuity	30	2,519,211	2,438,538
Deferred tax liability - net	22.1	3,399,176	8,834,825
		<u>5,918,387</u>	<u>11,273,363</u>
22.1 Deferred tax liabilities - net			
Deductible temporary differences			
Unabsorbed tax depreciation		(31,691,919)	(131,177,208)
Provisions against net investment in leases and loans and receivables		(5,195,554)	(3,101,804)
Liabilities against assets subject to finance lease		(901,452)	-
Minimum tax		-	(2,790,563)
Income Suspended		(629,389)	(7,144,217)
		<u>(38,418,314)</u>	<u>(144,213,792)</u>
Taxable temporary differences			
Net investment in leases		41,547,577	151,949,827
Liabilities against assets subject to finance lease		-	488,768
Accelerated tax depreciation on property and equipment - own use		269,913	610,022
Others		-	-
		<u>41,817,490</u>	<u>153,048,617</u>
		<u>3,399,176</u>	<u>8,834,825</u>

23. ISSUED SUBSCRIBED AND PAID-UP CAPITAL

Number of shares			2008 Rupees	2007 Rupees
2008	2007			
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 (refer note 1)	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
<u>32,000,000</u>	<u>32,000,000</u>		<u>320,000,000</u>	<u>320,000,000</u>

	Number of shares	
	2008	2007
Opening balance	32,000,000	20,000,000
Issue of bonus shares	-	2,000,000
Issue of shares	-	10,000,000
Closing balance	<u>32,000,000</u>	<u>32,000,000</u>

At December 31, 2008, SME Bank Limited and its nominees held 73.14% (December 31, 2007: 73.14%) ordinary shares of Rs. 10 each of the company.

23.2 Capital management policies and procedures

The company's capital management objectives are:

to ensure the company's ability to continue as a going concern; and
to provide an adequate return to shareholders

by pricing its leasing and loan products commensurately with the level of risk.

Capital requirement applicable to the company are regulated by the SECP. The SECP has revised the following minimum equity requirement for the leasing companies.

Year	Minimum capital (Rs. in million)
2009	350
2010	500
2011	700

The company sets the amount of capital in proportion to its overall financing structure i.e. equity and financial liabilities. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

	Note	2008 Rupees	2007 Rupees
Total equity		410,580,136	435,240,056
Less: Cash and cash equivalents		33,077,589	(15,148,588)
Capital		<u>443,657,725</u>	<u>420,091,468</u>
Total equity		410,580,136	435,240,056
Add: Long-term finances		661,319,327	724,181,474
Overall financing		<u>1,071,899,463</u>	<u>1,159,421,530</u>
Capital to overall financing ratio		<u>1 : 2.59</u>	<u>1 : 2.74</u>

24. RESERVES

Capital reserves

Statutory reserve	24.1	28,019,277	26,477,094
Share premium	24.2	10,000,000	10,000,000

Revenue reserves

Reserve against future losses	2.8	10,447,052	8,354,766
Deficit on revaluation of available-for-sale investment	9	(8,783,337)	(412,500)
Unappropriated profit		50,897,144	70,820,696
		<u>90,580,136</u>	<u>115,240,056</u>

24.1 Statutory reserve represents profits after tax set aside to comply with the Regulations for Non-Banking Finance Companies.

24.2 The share premium arose in the year 2006 due to issue of shares and share premium account was created 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.

Notes to the Financial Statement for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
25. CONTINGENCIES AND COMMITMENTS			
Contingencies			
None		-	-
Commitments			
Lease disbursements		47,600,000	25,570,000
26. INCOME FROM OPERATIONS			
Leases			
Income from finance lease operations		134,241,054	155,281,711
Gain / (Loss) on termination lease		338,150	271,842
		134,579,204	155,553,553
Loans and receivables			
Income on loans and receivables		14,780,094	14,529,175
		149,359,298	170,082,728
27. INCOME FROM INVESTMENTS			
Profit on investment		671,026	-
Return on short-term placements		4,960,090	-
Dividend Income		32,328	250,000
		5,663,444	250,000
28. OTHER OPERATING INCOME			
Income from financial assets			
Profit on bank accounts		180,608	69,868
Mark-up on loans to employees		314,133	589,325
Income from non-financial assets			
Liabilities no longer required written back		-	485,870
Gain on sale of equipment		337,746	-
Other income		-	7,710
		832,487	1,152,773
29. ADMINISTRATIVE			
Salaries, allowances and other benefits	29.1	24,560,682	27,713,730
Directors' fee		107,000	199,000
Rent		4,468,431	3,995,924
Electricity, gas and water		772,587	383,568
Telephone and postage		1,421,338	1,365,524
Repairs and maintenance		1,361,435	943,956
Books and periodicals		45,536	38,376
Fees and subscriptions		35,546	71,978
Vehicle running		161,988	185,610
Advertising		320,575	337,797
Training and development		144,380	111,255
Traveling, conveyance and entertainment		1,845,945	2,494,288
Printing and stationery		817,383	751,076
Auditors' remuneration	29.2	454,352	397,287
Depreciation and amortization	13-14	2,400,121	2,465,512
Legal and professional		2,917,501	3,682,419
Insurance		1,095,371	1,134,481
Miscellaneous		700,738	584,713
		43,630,909	46,856,494

29.1 Salaries, allowances and other benefits include Rs. 864,949 (2007: Rs. 2,433,788) in respect of staff retirement benefits. In addition, the amount charged to the profit and loss account in respect of compensated absences was Rs. 630,708 (2007:Rs. 763,858).

Notes to the Financial Statement for the year ended December 31, 2008



	2008 Rupees	2007 Rupees
29.2 Auditors' remuneration		
Statutory audit fee	210,000	210,000
Half-yearly review	100,000	100,000
Out of pocket expenses	144,352	87,287
	454,352	397,287

30. STAFF RETIREMENT BENEFIT SCHEMES

30.1 Staff gratuity scheme

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 as at December 31, 2008 using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

	2008	2007
30.2 Principal actuarial assumption		
- Expected rate of increase in salary level	15%	10%
- Valuation discount rate	15%	10%
- Expected return on plan assets	-	-

	2008 Rupees	2007 Rupees
30.3 Reconciliation of provision for gratuity scheme		
Present value of defined benefit obligation	2,519,211	2,438,538
Fair value of plan assets	-	-
Deficit in scheme's assets	2,519,211	2,438,538

	2008 Rupees	2007 Rupees
30.4 Movement in the balance sheet liability		
Opening	2,438,538	2,276,284
Charge for the year	800,831	1,893,437
Less: Payments made during the period	(720,158)	(1,731,183)
Closing	2,519,211	2,438,538

	2008 Rupees	2007 Rupees
30.5 Gratuity scheme expense		
Current services cost	655,762	602,602
Interest cost	270,499	252,619
Actuarial loss recognized during the period	(125,430)	1,038,216
	800,831	1,893,437

Data on experience adjustments in respect of defined benefit obligation is as follows:

	2008	2007
Experience adjustments on obligation*	(125,430)	1,038,216

*The gratuity scheme was introduced in 2004, hence the data on experience adjustments has been given only for the current and prior year.

Notes to the Financial Statement for the year ended December 31, 2008

Historical Information

	2008	2007	Rupees	2008	2007
Present value of defined benefit obligation	2,519,211	2,438,538		2,276,281	1,669,653
Experience adjustments arising on plan liabilities	(125,430)	1,038,216		(125,096)	-

30.6 During the year an amount of Rs. 450,870 (2007: Rs. 609,763) has been charged to profit and loss account in respect of company's contribution to Provident Fund.

	2008 Rupees	2007 Rupees
31. FINANCE COST		
Mark-up on:		
Long-term borrowings	26,026,769	-
Long-term finance from SME Bank Limited (holding company) - related party	2,498,102	6,503,151
Long-term Murahaba finance from Emirates Global Islamic Bank Limited	3,480,131	758,146
Long-term finance from banking companies and financial institutions	65,109,425	63,751,254
Short-term borrowings	2,542,590	11,806,639
	99,657,017	82,819,190
Lease finance charges	393,149	429,042
Bank charges	894,159	1,769,279
Processing fee	109,063	1,315,345
	101,053,388	86,332,856
32. OTHER OPERATING EXPENSES		
Loss on disposal of property and equipment	-	224,106
33. TAXATION		
33.1 Current	-	2,790,598

No provision for current year taxation is made in these accounts due to carry forward of un-absorbed tax losses.

33.2 Relationship between tax expense and accounting profit

Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as provision for current year income tax has been made under the Income Tax Ordinance, 2001. The company's tax computation gives rise to a tax loss due to unabsorbed tax depreciation.

	2008 Rupees	2007 Rupees
34. EARNINGS PER SHARE - basic and diluted		
Profit for the year	7,710,917	30,666,869
	Number of shares	
Weighted average number of ordinary shares outstanding during the year	32,000,000	32,000,000
Earnings per share - basic and diluted (Rupees)	0.24	0.96

Notes to the Financial Statement for the year ended December 31, 2008

	Note	2008 Rupees	2007 Rupees
35. CASH GENERATED FROM OPERATIONS AFTER WORKING CAPITAL CHANGES			
Profit before income tax expense		2,275,268	35,109,083
Adjustment for non-cash charges and other items			
Depreciation	29	2,400,121	2,466,086
Gratuity expense		800,831	1,893,437
Mark-up expense	31	99,657,017	82,819,190
Mark-up income		(180,608)	(69,868)
Financial charges on leased assets	31	393,149	429,042
Loss on disposal of property and equipment		(337,746)	224,106
Interest income on loans to employees		(314,133)	(589,325)
Provision for potential lease losses	10.5	8,851,913	2,765,434
Provision for loans and receivables	6.2	43,751	197,528
Total adjustments for non-cash charges and other items		111,314,295	90,135,630
Cash generated from operations before working capital changes		113,589,563	125,244,713
Working capital changes			
(Increase) / Decrease in current assets			
Mark-up accrued		1,335,378	(820,441)
Deposits, prepayments and other receivables		2,390,196	(1,173,550)
Loans and advances		(2,402,587)	(842,330)
Arrangement fee for TFCs		1,387,500	750,000
		2,710,487	(2,086,321)
Increase / (Decrease) in current liabilities			
Trade and other payables		(2,059,703)	(968,308)
Provision for compensated absences		155,723	(36,894)
		(1,903,980)	(1,005,202)
Total working capital changes		806,507	(3,091,523)
Cash generated from operations after working capital changes		114,396,070	122,153,190
36. CASH AND CASH EQUIVALENTS			
Cash and bank balances		33,963,839	23,704,847
Short-term borrowings		(67,041,428)	(8,556,259)
		(33,077,589)	15,148,588

Notes to the Financial Statement for the year ended December 31, 2008

37. TRANSACTIONS WITH RELATED PARTIES

SME Leasing Limited is a subsidiary of SME Bank Limited. During the year, the following transactions were undertaken by the company with SME Bank Limited:

	2008			2007		
	Key management personnel	SME Bank Limited (Holding Company)	Others	Key management personnel	SME Bank Limited (Holding Company)	Others
Rupees.....						
Borrowings						
Balance as at January 1	-	52,654,781	-	-	95,406,175	-
Add: Borrowings during the year	-	-	-	-	30,000,000	-
Less: Repayments during the year	-	(46,807,530)	-	-	(72,751,394)	-
Balance as at December 31	-	5,847,251	-	-	52,654,781	-
Loans and advances						
Balance as at January 1	4,644,391	-	-	7,860,554	-	-
Add: Advances given during the year	220,000	-	-	699,450	-	-
Less: Repayments during the year	(4,743,557)	-	-	(3,915,613)	-	-
Balance as at December 31	120,834	-	-	4,644,391	-	-
Mark-up expense for the year	-	2,498,102	-	-	6,503,151	-
Mark-up income for the year	314,133	-	-	589,325	-	-
Other transactions						
Lease facility provided to holding company	-	24,781,881	-	-	24,955,200	-
Deposit margin (50%) by holding company for the lease facility	-	13,579,223	-	-	12,759,290	-
Total rentals receivables (for the entire lease period)	-	7,806,230	-	-	15,694,345	-
Total rentals received during the year	-	8,388,775	-	-	2,842,307	-
Rent expense	-	302,550	-	-	380,784	-
Remuneration and salaries paid	4,328,187	-	-	9,974,146	-	-
Post retirement benefits	779,734	-	-	1,182,779	-	-
Provident fund - company's contribution	120,132	-	-	375,030	-	-

All transactions with the holding company are carried out on commercial terms and conditions.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The company considers all departmental heads, chief executives and directors to be key management personnel.

Balances that have been specifically identified as related party balances in the relevant foot notes to these financial statements have not been given in this note.

38. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amount charged in these financial statements for remuneration including all benefits, to chief executive and executives are as follows:

	Chief Executive		Executives		Total	
	2008	2007	2008	2007	2008	2007
Rupees.....						
Managerial remuneration	1,764,696	1,849,401	2,161,392	2,564,979	3,926,088	4,414,380
Bonus	-	555,075	397,000	48,000	397,000	603,075
House rent, utilities, etc.	794,112	295,622	1,188,780	1,146,654	1,982,892	1,442,276
Retirement benefits	-	165,992	172,896	1,182,779	172,896	1,348,771
Medical	264,696	58,824	324,204	388,830	588,900	447,654
Club membership	-	31,500	-	-	-	31,500
Leave fare assistance	250,000	253,870	-	-	250,000	253,870
Gratuity	180,748	1,493,548	729,684	836,953	910,432	2,330,501
Leave encashment	70,833	125,185	184,467	194,538	255,300	319,723
Others	-	10,500	90,012	14,337	90,012	24,837
	3,325,085	4,839,517	5,248,435	6,377,070	8,573,520	11,216,587
Number of persons	1	1	2	5	3	6

The chief executive and the executives are also provided with free use of company maintained cars.

Notes to the Financial Statement for the year ended December 31, 2008

39. MATURITIES OF ASSETS AND LIABILITIES

	2008				
	Total	Up to 3 months	Over 3 months	Over 1 year	Over 5 year
Rupees					
Assets					
Cash and bank balances	33,963,839	33,963,839	-	-	-
Placements with financial institutions	31,307,857	31,307,857	-	-	-
Mark-up accrued	905,519	905,519	-	-	-
Loans and receivables	131,682,990	17,746,258	53,238,774	60,697,958	-
Deposits, prepayments and other receivables	3,130,304	2,979,304	151,000	-	-
Net investment in leases	1,740,093,909	148,278,155	444,834,465	1,146,981,289	-
Loans and advances	7,672,125	395,567	612,764	3,324,362	3,339,432
Long-term deposits and prepayments	907,195	43,173	546,422	317,600	-
Investments - available-for-sale	20,216,663	20,216,663	-	-	-
Property and equipment	10,028,252	1,652,525	4,957,574	3,418,153	-
	1,979,908,653	257,488,860	504,340,999	1,214,739,362	3,339,432
Liabilities					
Trade and other payables	19,417,771	19,417,771	-	-	-
Mark-up accrued	18,081,719	18,081,719	-	-	-
Short term borrowings	67,041,428	67,041,428	-	-	-
Long term finance	340,485,993	60,284,903	153,599,402	126,601,688	-
Term Finance Certificates	320,833,334	29,166,666	110,416,668	181,250,000	-
Liabilities against assets subject to finance lease	2,575,576	763,380	414,376	1,397,820	-
Long-term deposits	785,675,107	175,745,539	29,022,954	580,906,614	-
Taxation payable	8,668,494	8,668,494	-	-	-
Provision for compensated absences	630,708	-	-	630,708	-
Deferred liabilities	5,918,387	-	-	-	5,918,387
	1,569,328,517	379,169,900	293,453,400	890,786,830	5,918,387
Net assets	410,580,136	(121,681,040)	210,887,599	323,952,532	(2,578,955)
Represented by:					
Share capital	320,000,000				
Reserves	90,580,136				
	410,580,136				

	2007				
	Total	Up to 3 months	Over 3 months	Over 1 year	Over 5 year
Rupees					
Assets					
Cash and bank balances	23,704,847	23,704,847	-	-	-
Mark-up accrued	2,248,669	2,248,669	-	-	-
Loans and receivables	84,595,791	12,771,328	38,313,983	33,510,480	-
Deposits, prepayments and other receivables	5,030,721	4,794,221	236,500	-	-
Net investment in leases	1,776,790,417	142,460,534	427,381,602	1,206,948,281	-
Loans and advances	10,320,825	556,169	623,937	4,284,247	4,856,472
Long-term deposits and prepayments	851,675	-	-	600,074	251,601
Investments	2,087,500	2,087,500	-	-	-
Property and equipment	11,239,509	1,687,907	7,896,849	3,300,900	-
	1,916,869,954	190,311,175	474,452,871	1,248,643,982	5,108,073
Liabilities					
Trade and other payables	20,987,695	20,987,695	-	-	-
Mark-up accrued	11,875,596	11,875,596	-	-	-
Short-term borrowings	8,556,259	8,556,259	-	-	-
Long-term finance	724,181,474	57,722,659	242,866,128	423,592,687	-
Long-term deposits	2,932,738	763,380	732,172	1,437,186	-
Liabilities against assets subject to finance lease	692,578,637	51,781,108	155,343,322	485,454,207	-
Provision for compensated absences	8,769,151	8,769,151	-	-	-
Taxation payable	474,985	-	474,985	-	-
Deferred liabilities	11,273,363	33,166,210	97,610,884	9,234,939	(128,738,670)
	1,481,629,898	193,622,058	497,027,491	919,719,019	(128,738,670)
Net assets	435,240,056	(3,310,883)	(22,574,620)	328,924,963	133,846,743
Represented by:					
Share capital	320,000,000				
Reserves	115,240,056				
	435,240,056				

Notes to the Financial Statement for the year ended December 31, 2008

40. FINANCIAL INSTRUMENTS

		2008					
Effective yield / Interest rate %	Total	Exposed to Yield / Interest risk				Not exposed to yield / Interest risk	
		Up to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years		
Rupees							
Assets							
Cash and bank balances	5.0-8.0	33,963,839	7,527,266	-	-	-	26,436,573
Placements with financial institutions	19-20	31,307,857	-	-	-	-	31,307,857
Mark-up accrued		905,519	-	-	-	-	905,519
Loans and receivables	11.5-24.5	131,682,990	17,746,258	53,238,774	60,697,958	-	-
Loans and advances	5-7	7,672,125	-	612,764	3,324,362	3,339,432	395,567
Deposits and other receivables		1,516,778	-	-	-	-	1,516,778
Net investment in leases	8.25-25.1	1,740,093,909	148,278,155	444,834,465	1,146,981,289	-	-
Investments		20,216,663	-	-	-	-	20,216,663
Long-term deposits		864,022	-	-	-	-	864,022
		<u>1,968,223,702</u>	<u>173,551,679</u>	<u>498,686,003</u>	<u>1,211,003,609</u>	<u>3,339,432</u>	<u>81,642,979</u>
Liabilities							
Trade and other payables		19,417,771	-	-	-	-	19,417,771
Mark-up accrued		18,081,719	-	-	-	-	18,081,719
Short-term borrowings	16.40	67,041,428	67,041,428	-	-	-	-
Long-term loans	15.46-18.19	340,485,993	60,284,903	153,599,402	126,601,688	-	-
Term Finance Certificates	16.77	320,833,334	29,166,666	110,416,668	181,250,000	-	-
Liabilities against assets subject to finance lease	7.5-14.5	2,575,576	763,380	414,376	1,397,820	-	-
Long-term deposits		785,675,107	-	-	-	-	785,675,107
		<u>1,554,110,928</u>	<u>157,256,377</u>	<u>264,430,446</u>	<u>309,249,508</u>	<u>-</u>	<u>823,174,597</u>
Total financial assets as on December 31, 2008		<u>1,968,223,702</u>	<u>173,551,679</u>	<u>498,686,003</u>	<u>1,211,003,609</u>	<u>3,339,432</u>	<u>81,642,979</u>
Total financial liabilities as on December 31, 2008		<u>1,554,110,928</u>	<u>157,256,377</u>	<u>264,430,446</u>	<u>309,249,508</u>	<u>-</u>	<u>823,174,597</u>
On balance sheet gap		<u>414,112,774</u>	<u>16,295,302</u>	<u>234,255,557</u>	<u>901,754,101</u>	<u>3,339,432</u>	<u>(741,531,618)</u>
Off balance sheet items							
Commitments		<u>47,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,600,000</u>

		2007					
Effective yield / Interest rate %	Total	Exposed to Yield / Interest risk				Not exposed to yield / Interest risk	
		Up to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years		
Rupees							
Assets							
Cash and bank balances	0.1-8.5	23,704,847	7,301,002	-	-	-	16,403,845
Mark-up accrued		2,248,669	-	-	-	-	2,248,669
Loans and receivables	17-24	84,595,791	12,771,328	38,313,983	33,510,480	-	-
Loans and advances	5-7	10,320,825	207,979	623,937	4,284,247	4,856,472	348,190
Deposits and other receivables		3,196,493	-	-	-	-	3,196,493
Net investment in leases	13.5-25.07	1,776,790,417	142,460,534	427,381,602	1,206,948,281	-	-
Investments		2,087,500	-	-	-	-	2,087,500
Long-term deposits		768,921	-	-	-	-	768,921
		<u>1,903,713,463</u>	<u>162,740,843</u>	<u>466,319,522</u>	<u>1,244,743,008</u>	<u>4,856,472</u>	<u>25,053,618</u>
Liabilities							
Trade and other payables		20,987,695	-	-	-	-	20,987,695
Mark-up accrued		11,875,596	-	-	-	-	11,875,596
Short-term borrowings	11.79-14	8,556,259	8,556,259	-	-	-	-
Long-term finances	11.98-12.21	724,181,474	57,722,659	242,866,128	423,592,687	-	-
Liabilities against assets subject to finance lease	7.5-14.5	2,932,738	763,380	732,172	1,437,186	-	-
Long-term deposits		692,578,637	-	-	-	-	692,578,637
		<u>1,461,112,399</u>	<u>67,042,298</u>	<u>243,598,300</u>	<u>425,029,873</u>	<u>-</u>	<u>725,441,928</u>
Total financial assets as on December 31, 2007		<u>1,903,713,463</u>	<u>162,740,843</u>	<u>466,319,522</u>	<u>1,244,743,008</u>	<u>4,856,472</u>	<u>25,053,618</u>
Total financial liabilities as on December 31, 2007		<u>1,461,112,399</u>	<u>67,042,298</u>	<u>243,598,300</u>	<u>425,029,873</u>	<u>-</u>	<u>725,441,928</u>
On balance sheet gap		<u>442,601,064</u>	<u>95,698,545</u>	<u>222,721,222</u>	<u>819,713,135</u>	<u>4,856,472</u>	<u>(700,388,310)</u>
Off balance sheet items							
Commitments		<u>25,570,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,570,000</u>

41. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts of the financial assets and financial liabilities approximate their fair values.

42. RISK MANAGEMENT

The company's activities are primarily subject to market risk, interest rate price risk, credit risk and liquidity risk. The company is not exposed to any foreign exchange risk as currently the company has no transactions or balances that are denominated in foreign currency. The company has designed and implemented of frame work of controls to identify, monitor and managed these risk as follows:

42.1 Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The company's market risk is managed by following the internal guidelines established by the management.

42.2 Interest rate price risk

Yield rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market yield. The company has adopted appropriate policies to minimize its exposure to this risk.

42.3 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. All financial assets of the company except Rs. 14,844,439 (2007: Rs. 5,984,775) are exposed to credit. The company control credit risk by monitoring credit exposure, limiting transaction with specific counter parties, obtaining collaterals and continually assessing credit worthiness of credit parties.

42.4 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The company manages liquidity risk by following the internal guidelines of the management, such as monitoring maturities of financial assets and financial liabilities.

42.5 Interest rate cash flow risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. The company has adopted appropriate policies to minimize its exposure to this risk.

43. CONCENTRATION OF 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. The company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties and continually assessing credit worthiness of counter parties.

The company seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Concentrations of credit risk arise when a number of counterparties 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 economic, political or other conditions. Concentration of credit risk indicate the relative sensitivity of the company's performance to developments affecting a particular industry.

Notes to the Financial Statement for the year ended December 31, 2008

An analysis of class of business of the company's net investment in finance leases is as follows:

	2008		2007	
	Rupees	%	Rupees	%
Cargo carriers	158,038,578	7.37	119,801,629	5.62
Chemicals & pharma	68,131,288	3.18	69,606,112	3.27
Communication	51,742,718	2.41	25,441,093	1.19
Construction & building product	135,607,660	6.32	106,675,832	5.01
Education	23,337,894	1.09	28,266,016	1.33
Engineering	88,044,236	4.10	70,728,946	3.32
Entertainment	30,644,937	1.43	30,147,273	1.41
Film processing	231,996,003	10.81	263,548,914	12.37
Fisheries	3,924,437	0.18	3,716,318	0.17
Foods & beverages	115,573,511	5.39	96,831,144	4.54
Furniture	2,345,901	0.11	5,879,777	0.28
Gems & jewellery	3,972,655	0.19	6,041,845	0.28
Healthcare	81,820,688	3.81	100,869,271	4.73
Leather & tannery	5,363,762	0.25	3,425,992	0.16
Miscellaneous	227,555,919	10.61	213,121,258	10.00
Oil & gas	361,776,781	16.86	482,732,106	22.66
Printing & package	168,245,508	7.84	137,402,832	6.45
Public transport services	168,929,095	7.87	163,626,692	7.68
Rubber & plastic	44,127,520	2.06	49,365,503	2.32
Textile	174,322,166	8.13	153,488,599	7.20
	<u>2,145,501,257</u>	<u>100.00</u>	<u>2,130,717,152</u>	<u>100.00</u>

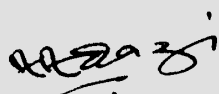
44. RECLASSIFICATION

Intangible asset has been reclassified from "property and equipment" to a separate line item on the face of the balance sheet. Corresponding figures have also been reclassified. This reclassification has no other effects.

Insurance receivable and payable which was previously reflected in balance sheet after netting of each and other, now it has been reclassified as insurance receivable and insurance payable' to a separate line item on the face of the balance sheet. Corresponding figures have also been reclassified. This reclassification has no other effects.

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 26, 2009 by the Board of Directors of the company.



Arjumand A. Qazi
Chief Executive Officer



M.A. Ghazali Marghoob
Director

Pattern of Shareholding as at December 31, 2008



NUMBER OF SHAREHOLDERS	SHAREHOLDING		TOTAL SHARES HELD
	FROM	TO	
7	1	100	7
188	101	500	94,000
36	501	1,000	35,525
42	1,001	5,000	120,000
3	5,001	10,000	27,500
2	10,001	15,000	25,500
2	15,001	20,000	40,000
1	20,001	25,000	22,500
1	25,001	30,000	30,000
3	45,001	50,000	146,000
1	50,001	55,000	51,000
1	150,001	155,000	155,000
1	220,001	225,000	225,000
2	410,001	415,000	820,318
1	455,001	460,000	456,675
3	600,001	1,100,000	2,409,275
3	1,100,001	1,600,000	3,936,502
1	23,100,001	23,600,000	23,405,198
298			32,000,000

Categories of Shareholders as at December 31, 2008

	Numbers of Shareholders	Shares Held	Percentage
1 Individuals	271	895,659	2.80%
2 Joint Stock Companies	12	4,299,534	13.44%
3 Banks	1	902,350	2.82%
4 Public Sector Companies and Corporations	1	525	0.00%
5 Leasing Companies	1	604,575	1.89%
6 Associated Companies (SME Bank Limited)*	1	23,405,198	73.14%
7 National Bank of Pakistan	1	1,230,477	3.85%
8 Insurance Companies	1	155,000	0.48%
9 Others	2	506,675	1.58%
10 Directors, CEO and their spouses and minor children			
S.M. Naseem	1	1	0%
R.A. Chughtai	1	1	0%
Arjumand A. Qazi	1	1	0%
M.A. Ghazali Marghoob	1	1	0%
Sardar Usman Rashid	1	1	0%
Hussain Ahmed Ozgen	1	1	0%
Bashir A. Nadeem	1	1	0%
	298	32,000,000	100.00%

* Represents shareholders holding ten percent or more voting interest in the company.

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 5th Annual General Meeting of the
Company to be held on _____, 2009 and at any adjournment thereof.

Signed this _____ of _____ 2009.
(day) (date, month)

Signature of Member: _____

Folio Number: _____

Number of shares held : _____

Witnesses:

1. _____

2. _____

Please affix
Revenue Stamp
of Rs. 5/-

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 2nd Floor, Tower-B, Finance & Trade Center, Shakra-e-Faisal, Karachi.
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, Shakra-e-Faisal, Karachi.
Tel: (021) 9204751-53



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) 9204751-53 Fax: (021) 9204754
Website: www.smelease.com