Annual Report 2010

SME Leasing Limited

(A subsidiary of SME Bank Ltd.)

Mission Statement

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

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

Vision Statement

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

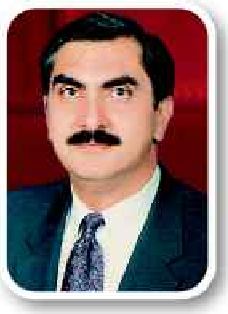
Contents

Board of Directors

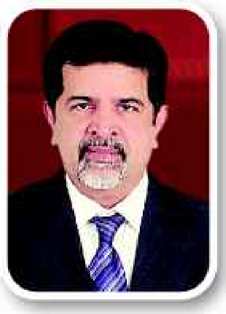
Mr. R.A. Chughtai
Chairman

Mrs. Arjumand A. Qazi
Director/Chief Executive Officer

Mr. Zubair F. Tufail
Director



Mr. Nasser Durrani
Director



Mr. Masood Naqi
Director

Mr. Mehboob Hussain
Director

Mr. Ali A. Rahim
Director

Corporate Information

BOARD OF DIRECTORS

Mr. R.A. Chughtai	Chairman
Mrs. Arjumand A. Qazi	Director/CEO
Mr. Nasser Durrani	Director
Mr. Mehboob Hussain	Director
Mr. Zubair F. Tufail	Director
Mr. Masood Naqi	Director
Mr. Ali A. Rahim	Director

AUDIT COMMITTEE

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

MANAGEMENT COMMITTEE

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

HUMAN RESOURCE COMMITTEE

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

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: BBB+ Short-term: A-3

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

MAIN OFFICE
2nd Floor, Tower-B, Finance & Trade Center (FTC),
Shahra-e-Faisal, Karachi.
Phone: 021-99204751-53 Fax: 021-99204754

REGISTRAR AND SHARE TRANSFER OFFICE
Progressive Management Services (Pvt) Ltd.
10th Floor, Mehdi Towers, A-115, S.M.C.H.S.,
Shahra-e-Faisal, Karachi.
Phone: 021-34526983-84 Fax: 021-34526985

BANKS AND LENDING INSTITUTIONS
Allied Bank Limited
Emirates Global Islamic Bank Limited
MCB Bank Limited
National Bank of Pakistan
SME Bank Limited
United Bank Limited

Corporate Information

BRANCH NETWORK

KARACHI

Main Branch:	2nd Floor, Tower "B", Finance & Trade Center (FTC), Shahra-e-Faisal. Phone: 021-99204751-53 Fax: 021-99204754
F.B. Area Branch:	Office No. 9, Rahimabad, Block-14, F.B. Area, Shahra-e-Pakistan. Phone: 021-99246458, 36807584 Fax: 021-36806940

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: 042-35714499 Fax: 042-35714499
Iqbal Town Branch:	Office No. 17, 2nd Floor, Sky Centre, Karim Block, Allama Iqbal Town Road. Phone: 042-35295423 Fax: 042-35295424

ISLAMABAD

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

ABBOTTABAD

Office No. 12/13, 2nd Floor,
Silk Plaza, Mansehra Road.
Phone: 0992-341596

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

Office No. L-21, 1st Floor,
New PRC Plaza, Malakand Chowk.
Phone: 0937-9230800
Fax: 0937-867102

MIRPURKHAS

Office No. 1572/11 Khad Plot,
Umer Kot Road.
Phone: 0233-874168
Fax: 0233-9290411

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.

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

Notice of the 9th Annual General Meeting

Notice is hereby given that the Ninth Annual General Meeting of the shareholders of SME Leasing Limited (the Company) will be held at Hotel Crown Plaza, Islamabad on Thursday, April 28, 2011 at 4:00 pm to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the 8th Annual General Meeting of the Company held on April 28, 2010.

2. To receive, consider and adopt the audited Financial Statements of the Company for the year ended December 31, 2010 together with the Directors' and Auditors' Reports thereon.

3. To appoint auditors for the year ending December 31, 2011 and fix their remuneration. The Board of Directors has recommended appointment of M/s. KPMG Taseer Hadi & Company, Chartered Accountants as auditors of the Company for the year ending December 31, 2011.

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

By Order of the Board

Tanveer Ul Bari
Company Secretary

Karachi: April 2, 2011

Notes:

1. The Register of the members of the Company will remain closed from April 21, 2011 to April 28, 2011 (both days inclusive).

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

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

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

For attending the meeting

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

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

Notice of the 9th Annual General Meeting

For appointing proxies

- In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the regulations, shall submit the proxy form as per the above requirements.
- The proxy shall be witnessed by two persons whose names, address and CNIC numbers shall be mentioned on the form.
- Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- The proxy shall produce his/her original CNIC or original passport at the time of the meeting.
- In case of corporate entity, the Board of Directors resolution /power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) along with the proxy form for the meeting.

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

Directors' Report

For the year ended December 31, 2010

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, 2010.

Financial Highlights

An analysis of the key operating results for 2010 and their comparison with the results of the previous year is given below:

	2010 Rupees	2009 Rupees
Gross revenue	**85,590,973**	119,197,306
Operating expenses	**(91,532,470)**	(140,081,915)
Loss before provisions	**(5,941,479)**	(20,884,609)
Provisions	**(41,446,818)**	(49,675,696)
Loss before taxation	**(47,363,414)**	(70,560,305)
Taxation:		
- Current	**(2,397,778)**	(2,587,144)
- Deferred	**-**	3,339,176
	(2,397,778)	812,032
Profit/(Loss) after taxation	**(49,786,093)**	(69,748,273)
Earnings per share - basic and diluted	**(1.56)**	(2.18)

Dividend

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

Review of Operations

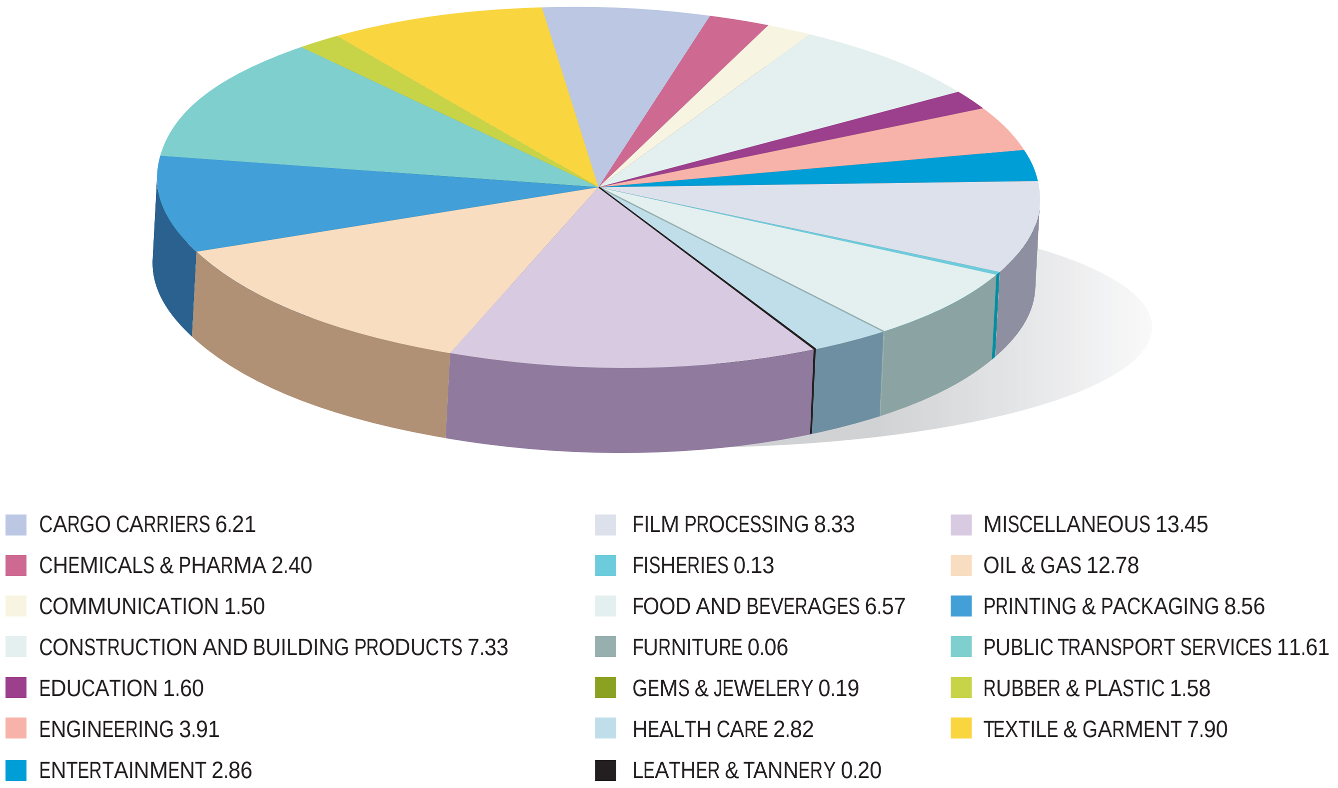
The year 2010 has remained under stress due to the economic and financial crises that emerged in the last quarter of 2008. Pakistan's economy remained unstable during the outgoing year due to numerous external and internal factors. Unstable political conditions, unprecedented flood, war on terror, law & order situation, heavy Government borrowing etc. all have held back the economic activity and growth.

Availability of funding lines for new business has been the main concern for the NBFC sector, as, since the last few years, banks and other lending institutions have diverted their funding to the risk-free government borrowing rather than to the private sector. Commercial banks have always been the prime source of funding for the NBFC sector and their reluctance has made the resource mobilization very difficult for the sector.

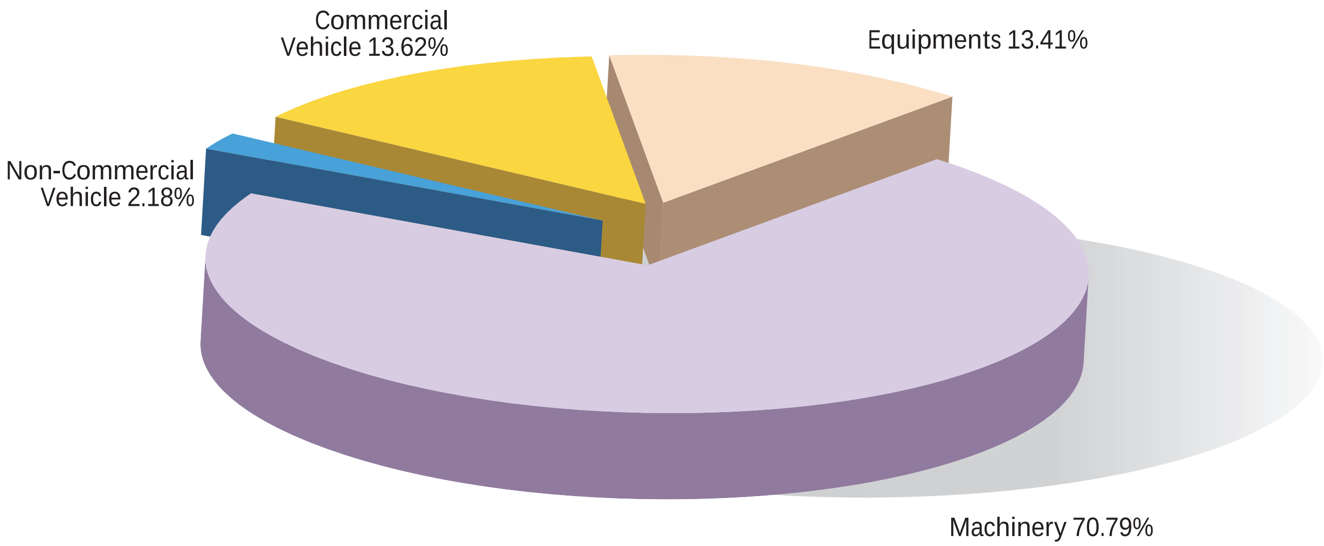
Your Company, as a member of the NBFC sector, has also witnessed decline in operating results and shrinkage of financing portfolio in 2010 due to non-availability of fresh funding and hence, substantial fresh disbursements. However, despite this decline the good financing portfolio and recovery efforts have kept the rentals recovery strong enough for prompt discharge of all debt obligations and booking of some new assets.

The gross revenue shows decline in comparison to the prior year mainly because of the shrinkage in the financing portfolio. However, the decline in revenue has been duly mitigated by offering substantial reduction in operating expenses; this has reduced the operating loss for the year as compared to the prior year. Despite strong recovery measures causing reduction in suspension of income and decline in non-performing loans, loan loss provision seems on a higher side which is mainly attributable to change in classification and decline in forced sale value of the leased assets and additional collateral. Going forward, in view of the existing recovery efforts the management is optimistic about reduction in non-performing loans position and overall loan loss provisioning status.

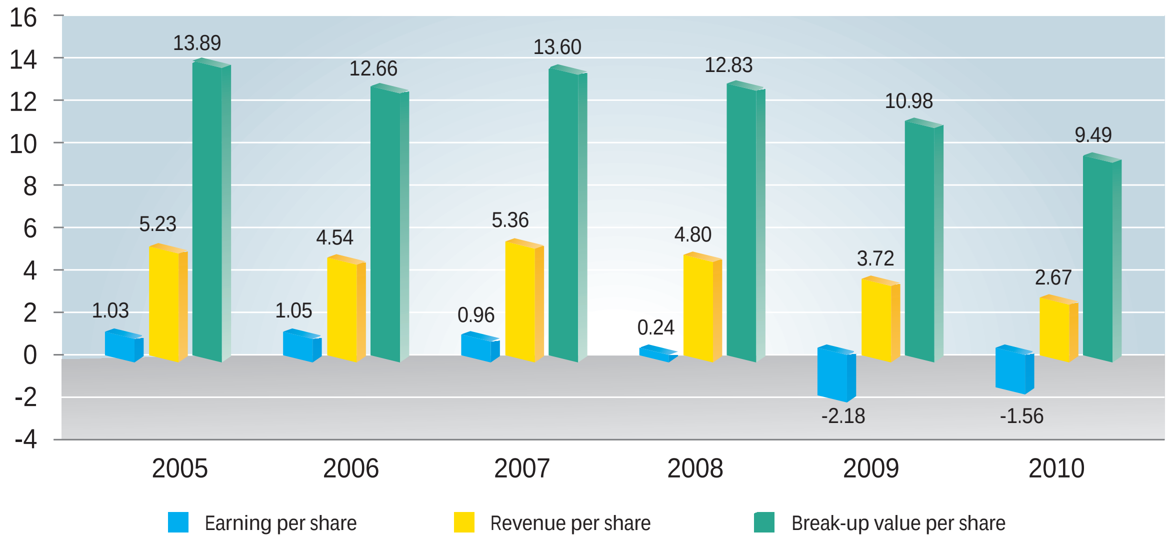
Portfolio as at December 31, 2010



Category-wise Gross Lease Portfolio



Key Ratios



It would be worthwhile to mention it here that satisfactory discharge of debt obligations and substantial decline in overall debt position has created opportunity for new disbursements and since November 2010 the Company has started booking new leases. Initially the Company will be catering to the needs of its existing clientele having good repayment history and business propositions. Although, the impact of these disbursements is not that significant on current year's financials but it is a step towards revival and the management is optimistic about bringing improvement in next year's results.

Further to the above and subsequent to the year-end, the Company has also arranged a long-term credit line from a commercial bank that would also assist in the revival process and would be exclusively utilized in generating new business.

Economy and Future Prospects

As mentioned earlier the Company has started fresh disbursements, nevertheless, the revival of the NBFC sector is largely dependent upon its access to funds for fresh disbursements for which the sector requires innovative strategy and support from the Regulators and related Government Authorities. The existing economic and political scenario is not showing signs for any immediate positive change for the growth of business activities and requires delicate handling of the available resources.

In this continuing difficult and most challenging phase, your Company has demonstrated prudent management of available resources and sustainability against odd events and intends to continue with its efforts to recover from the current situation besides consolidating its position.

Human Resources

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

Board of Directors

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

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

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

Corporate Governance

The Board of Directors 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 practices of the Code of Corporate Governance by the statutory auditors is annexed with the report.

Directors Declaration

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

i)	The financial statements prepared by the management of SME Leasing Limited present fairly its statement of affairs, the results of its operations, cash flows and changes in its equity.
ii)	Proper books of accounts of the company have been maintained.
iii)	Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
iv)	International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements.
v)	The system of internal control is sound in design and has been effectively implemented and monitored.
vi)	There are no significant doubts upon the Company's ability to continue as a going concern.
vii)	There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.
viii)	Details of significant improvements in the Company's operations during the year ended December 31, 2010 are stated in the Director's Report.
ix)	Key operating and financial data for last six years in summarized form is included in the Annual Report.
x)	The value of investments of recognized provident fund as at December 31, 2010 was Rs. 4.44 million (un-audited) and as at December 31, 2009 was Rs. 3.36 million (Audited).
xi)	No trading in shares of the Company was carried out by the Directors, Chief Executive, Chief Financial Officer/Company Secretary and their spouses and minor children during the year.

Credit Rating

Based on the results for the year ended December 31, 2009, the rating agency, JCR-VIS, has revised the long-term entity rating to BBB+ (Triple B Plus) and short-term of A-3 (A minus three) with negative outlook.

Parent Company

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

Auditors

The present auditors M/s. Anjum Asim Shahid Rahman, Chartered Accountants, have retired. On the proposal of the Board Audit Committee, the Board recommends the appointment of M/s. KPMG Taseer Hadi & Company, Chartered Accountants, as statutory auditors of the Company for the year 2011.

Pattern of Shareholding

The pattern of shareholding of the Company as on December 31, 2010 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.

On behalf of Board of Directors,

R.A. Chughtai
Chairman

Karachi: February 23, 2011

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.

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

Financial Highlights and Charts

(Rupees in 000)

Balance Sheet	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Paid-up Capital	320,000	320,000	320,000	320,000	320,000	200,000
Total Equity	303,664	351,263	410,580	435,240	404,986	277,833
Gross Lease Receivable	1,065,118	1,649,953	1,981,260	2,028,244	1,700,313	1,370,727
Net Investment in Lease	843,012	1,402,780	1,740,093	1,776,790	1,488,228	1,196,199
Long-term Liabilities	297,074	529,821	895,906	921,757	688,594	561,879
Current Liabilities	388,898	709,693	673,422	560,362	521,202	453,588
Current Assets	519,151	633,000	757,954	656,419	524,256	409,561
Total Assets	989,636	1,590,777	1,979,908	1,917,359	1,614,782	1,293,300

Income Statement	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Lease Income	84,512	122,427	149,359	170,083	144,168	103,325
Total Revenue	85,591	119,197	155,855	171,486	145,375	104,599
Financial Charges	46,824	92,451	101,053	86,333	73,875	50,018
Administrative Expenses	44,709	47,631	43,630	47,081	40,243	32,579
Provisions	41,447	49,676	8,896	2,963	1,385	603
Total Expenses	132,979	189,758	153,579	136,376	115,503	83,200
(Loss)/Profit Before Taxation	(47,388)	(70,560)	2,275	35,109	29,872	21,400
(Loss)/Profit After Taxation	(49,786)	(69,748)	7,710	30,667	24,100	22,735

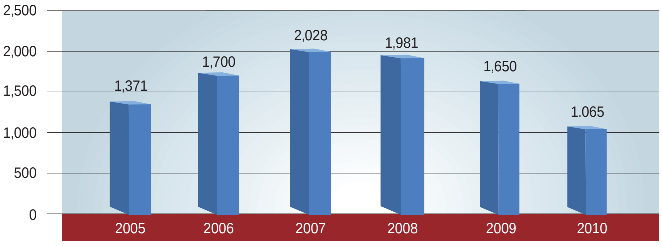
Financial Indicators	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Breakup Value (Rs. per share)	9.49	10.98	12.83	13.60	12.66	13.89
Current Ratio (X)	1.33	0.89	1.12	1.17	1.01	0.90
Debt-Equity Ratio (Times)	0.68	1.30	1.78	1.69	1.54	2.15
Earning Per Share (Rs.)	(1.56)	2.18	0.24	0.96	1.05	1.03
Financial Charges to Total Exps (%)	35.21	48.72	65.80	63.30	63.96	60.12
Financial Charges to Total Revenue (%)	54.71	77.56	64.84	50.34	50.82	47.82
Income Expense Ratio (Times)	0.64	0.65	0.97	1.25	1.25	1.24
Net Profit Margin (%)	(58.17)	(58.51)	4.95	17.88	16.58	21.74
Return on Average Assets/Fix Assets Turnover (%)	(3.86)	(3.91)	0.40	1.74	1.66	2.02
Return on Average Equity (%)	(15.20)	(18.31)	1.82	7.30	7.06	8.53
Return to Shareholders (%)	-	-	7.50	-	-	10.00*
Revenue Per Share (Rs.)	2.67	3.72	4.87	5.36	4.54	5.23

*Bonus issue

Financial Highlights and Charts

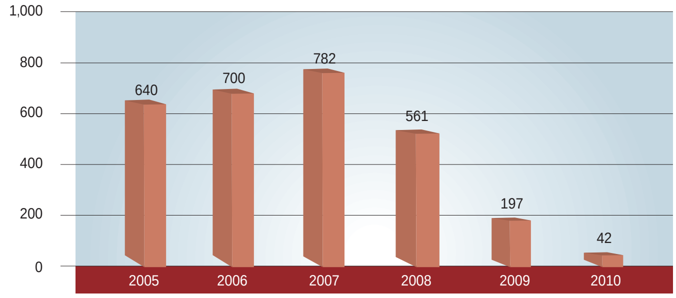
Gross Lease Receivables

(Figures in PKR mn)



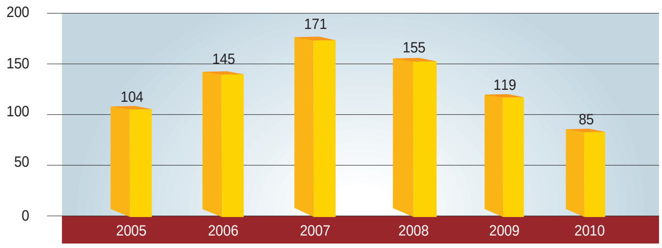
Disbursements

(Figures in PKR mn)



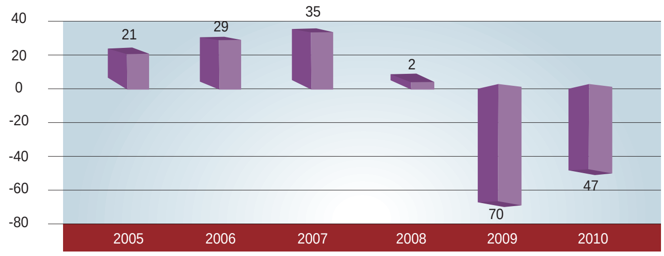
Revenues

(Figures in PKR mn)



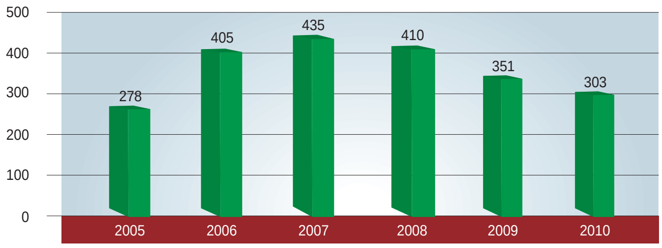
Loss/Profit Before Taxation

(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 NBFI or being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. During the year no casual vacancy was occurred on the Board.

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 Chief Financial Officer. Future appointment, if any, on statutory positions including the remuneration, terms and conditions of employment, as determined by the Chief Executive Officer,will be 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.

Statement of Compliance

With the Code of Corporate Governance

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.

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

Ali A. Rahim
Director

Karachi: February 23, 2011

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.

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

Review Report to the Members

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

Grant Thornton

Anjum Asim Shahid Rahman

1st & 3rd Floor, Modern Motors House
Beaumont Road, Karachi 75530
T 9221 35672952-56
F 9221 35688834

W: www.gtpak.com
Other offices: Islamabad and Lahore

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of SME Leasing Limited (the company) to comply with the Listing Regulation No. 35 (Chapter XI) 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 of Compliance 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii-a) of The Listing Regulation 35 of The Lahore Stock Exchange (Guarantee) Limited requires the company to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code as applicable to the company, for the year ended December 31, 2010

Anjum Asim Shahid Rahman

Anjum Asim Shahid Rahman
Chartered Accountants

Karachi
Dated: February 23, 2011

Independent Auditors' Report to the Members

Grant Thornton

Anjum Asim Shahid Rahman

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We have audited the annexed balance sheet of SME Leasing Limited as at December 31, 2010, and the related profit and loss account, statement of comprehensive income, statement of cash flows 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 conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of 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;

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, statement of cash flows 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, 2010 and of the loss, total comprehensive loss, its cash flows and changes in equity for the year then ended; and

d) in our opinion Zakat 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.

Anjum Asim Shahid Rahman

Karachi
Dated: February 23, 2011

Anjum Asim Shahid Rahman
Chartered Accountants

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 considering expanding their businesses.

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

Balance Sheet

As at December 31, 2010

	Note	2010 Rupees	2009 Rupees
ASSETS			
Current assets			
Cash and bank balances	5	**11,902,663**	22,447,059
Loans and advances	6	**2,173,860**	1,926,959
Trade deposits and short-term prepayments	7	**2,330,820**	1,914,483
Interest accrued	8	**227,214**	404,440
Investments - available-for-sale	9	**28,659,977**	36,473,714
Current maturity of non-current assets	10	**473,856,737**	569,833,453
Total current assets		**519,151,271**	633,000,108
Non-current assets			
Long-term finances and loans	11	**13,288,628**	35,344,359
Net investment in leases	12	**432,543,063**	907,450,890
Long-term deposits and prepayments	13	**1,205,535**	939,250
Property and equipment	14	**23,402,334**	13,860,748
Intangibles	15	**45,016**	181,312
Total non-current assets		**470,484,576**	957,776,559
Total assets		**989,635,847**	1,590,776,667
LIABILITIES			
Current liabilities			
Accrued and other liabilities	16	**8,369,622**	11,559,297
Interest accrued	17	**5,012,634**	12,529,336
Short-term borrowings	18	**108,032,762**	116,739,950
Certificates of investment	19	**7,244,795**	3,220,781
Current maturity of non-current liabilities	20	**245,909,677**	553,736,927
Provision for compensated absences		**922,034**	785,231
Provision for income tax		**13,406,665**	11,121,234
Total current liabilities		**388,898,189**	709,692,756
Non-current liabilities			
Long-term finances	21	**6,658,539**	12,017,806
Certificates of investment	22	**6,000,000**	-
Privately placed Term Finance Certificates	23	**-**	86,217,504
Liabilities against assets subject to finance lease	24	**698,943**	860,305
Long-term deposits	25	**280,353,023**	428,317,666
Deferred liabilities	26	**3,363,619**	2,407,266
Total non-current liabilities		**297,074,124**	529,820,547
Total liabilities		**685,972,313**	1,239,513,303
NET ASSETS		**303,663,534**	351,263,364
REPRESENTED BY SHAREHOLDERS' EQUITY			
Share capital and reserves			
Issued, subscribed and paid-up share capital	27	**320,000,000**	320,000,000
Reserves	28	**(20,170,893)**	29,615,200
		299,829,107	349,615,200
Unrealised gain on remeasurement of available-for-sale investments		**3,834,427**	1,648,164
Total shareholders' equity		**303,663,534**	351,263,364
CONTINGENCIES AND COMMITMENTS	29		

The annexed notes from 1 to 46 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Ali A. Rahim
Director

Profit and Loss Account

For the year ended December 31, 2010

	Note	2010 Rupees	2009 Rupees
REVENUE			
Income from operations	30	**84,512,188**	122,426,863
Other operating income	31	**1,078,785**	1,444,893
		85,590,973	123,871,756
Impairment on investments	9	**-**	(4,674,450)
		85,590,973	119,197,306
EXPENSES			
Administrative and selling	32	**44,708,790**	47,631,162
Finance cost	33	**46,823,680**	92,450,754
Total expenses		**91,532,470**	140,081,916
Operating loss before provisions		**(5,941,497)**	(20,884,610)
PROVISIONS			
Provision / (Reversal of provision) for finance and loans	11.5	**1,498,900**	(2,711)
Provision for potential lease losses	12.5	**39,947,918**	49,678,407
Total provisions		**41,446,818**	49,675,696
Loss before taxation		**(47,388,315)**	(70,560,306)
Income tax expense			
- Current	34	**2,397,778**	2,587,144
- Deferred	27	**-**	(3,399,176)
		2,397,778	(812,032)
Loss for the year		**(49,786,093)**	(69,748,274)
Loss per share - basic and diluted	35	**(1.56)**	(2.18)

The annexed notes from 1 to 46 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Ali A. Rahim
Director

Statement of Comprehensive Income

For the year ended December 31, 2010

	2010 Rupees	2009 Rupees
Loss after tax	**(49,786,093)**	(69,748,274)
Other comprehensive income for the year		
Unrealised gain on revaluation of available-for-sale investment	**2,213,603**	5,757,051
Reclassification adjustment for gains included in profit and loss - Realized gain on available-for-sale investments on disposal	**(27,340)**	-
	2,186,263	5,757,051
Total comprehensive loss for the year	**(47,599,830)**	(63,991,223)

The annexed notes from 1 to 46 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Ali A. Rahim
Director

Statement of Cash Flows

For the year ended December 31, 2010

	Note	2010 Rupees	2009 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations after working capital changes	36	**39,909,283**	70,716,924
(Increase) / Decrease in operating assets / liabilities			
Decrease in net investment in leases	12	**519,819,816**	282,085,588
Decrease in finances and loans	11	**31,673,640**	25,783,687
Decrease in long-term deposits	25	**(306,848,033)**	(45,653,878)
Financial charges paid		**(53,457,466)**	(98,003,138)
Interest received		**823,855**	1,625,942
Gratuity paid	38.4	**(75,768)**	(192,942)
Taxes paid		**(112,347)**	(134,403)
		191,823,697	165,510,856
Net cash from operating activities		**231,732,980**	236,227,780
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure	14	**(593,708)**	(250,941)
Re-possessed assets	14	**(11,560,000)**	-
Proceed from disposal of fixed assets	14.1	**140,700**	168,000
Decrease in short-term placements		**-**	31,307,857
Decrease / (Increase) in investments	9	**10,000,000**	(10,500,000)
Dividend received		**250,000**	112,500
(Increase) in long-term loans and advances		**(246,901)**	-
(Increase) in long-term deposits and prepayments	13	**(266,285)**	(32,055)
Net cash (used-in) / from investing activities		**(2,276,194)**	20,805,361
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) in long-term finances	21	**(240,024,889)**	(320,076,037)
Increase in certificates of investments	19	**10,024,014**	3,220,781
Lease rentals paid		**(1,293,120)**	(1,393,187)
Net cash (used in) financing activities		**(231,293,995)**	(318,248,443)
Net decrease in cash and cash equivalents		**(1,837,208)**	(61,215,302)
Cash and cash equivalents at beginning of the year		**(94,292,891)**	(33,077,589)
Cash and cash equivalents at end of the year	37	**(96,130,099)**	(94,292,891)

The annexed notes from 1 to 46 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Ali A. Rahim
Director

Statement of Changes in Equity

For the year ended December 31, 2010

	Issued, subscribed and paid-up capital	Capital reserves: Share premium	Capital reserves: Statutory reserve	Revenue reserves: Reserve against future losses	Revenue reserves: Un-appropriated profit	Surplus / Deficit on revaluation of available-for-sale investments	Total
	Rupees						
Balance as at January 1, 2009 brought forward	320,000,000	10,000,000	28,019,277	10,447,052	50,897,144	(8,783,337)	410,580,136
Change in equity for the year ended December 31, 2009							
Total comprehensive loss for the year	-	-	-	-	(69,748,273)	5,757,051	(63,991,222)
Impairment loss on available-for-sale investments	-	-	-	-	-	4,674,450	4,674,450
Balance as at December 31, 2009	320,000,000	10,000,000	28,019,277	10,447,052	(18,851,129)	1,648,164	351,263,364
Balance as at January 1, 2010 brought forward	320,000,000	10,000,000	28,019,277	10,447,052	(18,851,129)	1,648,164	351,263,364
Change in equity for the year ended December 31, 2010							
Impairment loss on available-for-sale investments	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(49,786,093)	2,186,263	(47,599,830)
Balance as at December 31, 2010	320,000,000	10,000,000	28,019,277	10,447,052	(68,637,222)	3,834,427	303,663,534

The annexed notes from 1 to 46 form an integral part of these financial statements.

Arjumand A. Qazi
Chief Executive Officer

Ali A. Rahim
Director

Notes to the Financial Statements

For the year ended December 31, 2010

1 THE COMPANY AND ITS OPERATIONS

SME Leasing Limited (the company) was incorporated in Pakistan on July 12, 2002 as an unlisted public company and acquired the status of a listed company on December 13, 2006. The company is a subsidiary of SME Bank Limited, which holds 73.14% (2009: 73.14%) of the company's shares. At the time of incorporation, the company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the company on January 28, 2003. The company is listed on Lahore Stock Exchange and its registered office is situated at 40 Jang Building, A.K. Fazal-ul-Haq Road, Blue Area, Islamabad. The core objective of the company is to extend lease and working capital financing facilities to small and medium enterprises of the country.

2 BASIS OF MEASUREMENT

These financial statements have been prepared under historical cost convention except for certain financial assets and financial liabilities which have been stated at their fair values, cost or amortized cost.

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

3 STATEMENT OF COMPLIANCE

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

3.1 Standards, interpretations and amendments to the published approved accounting standards that are effective in the current year and are relevant to the company

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

IFRS 2 Share-based Payment: Company Cash-settled Share-based Payment Transactions effective 1 January 2010

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009

IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009

IFRIC 18 Transfers Of Assets From Customers effective 1 July 2009

Improvements to IFRSs (May 2008)

Improvements to IFRSs (April 2009)

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages.

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Company.

IFRIC 18 Transfers of Assets From Customers

This interpretation provides guidance to the recipient of a transfer of property, plant and equipment from a customer where the item received must be used to connect the customer to a network and/or provide ongoing access to a supply of goods or services. The interpretation has no effect on either, the financial position nor performance of the Company.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

Issued in May 2008

IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held-for-sale, all its assets and liabilities are classified as held-for-sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Company.

Issued in April 2009

IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Company amended its disclosures in Note 8 Segment information.

IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Company's chief operating decision-maker does review segment assets and liabilities, the Company has continued to disclose this information in Note 41.

IAS 7 Statement of Cash Flows: states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

Issued in April 2009

IFRS 2 Share-based Payment
IAS 1 Presentation of Financial Statements
IAS 17 Leases
IAS 34 Interim Financial Reporting
IAS 38 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 16 Hedge of a Net Investment in a Foreign Operation

3.2 Standards and interpretations to existing standards that are not applicable to the Company

The following interpretations to existing standards have been published and is mandatory for the Company's accounting year beginning on or after the date mentioned against each of them but are not relevant for the Company's operations:

IAS - 27 - Consolidated and Separate Financial Statements (Amended)	July 01, 2009
IFRS 3 - Business Combination (Revised)	July 01, 2009
IFRIC 17 - Distributions of Non - Cash Assets to Owners	July 01, 2009
IFRIC 18 - Transfer of Assets from Customers	July 01, 2009
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010

3.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 12 Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)

The amendment to IAS 12 is effective for annual periods beginning on or after 1 January 2012. Earlier application is permitted. The limited scope amendments are relevant only when an entity elects to use the fair value model for measurement in IAS 40 Investment Property. The amendments introduce a rebuttable presumption that in such circumstances, an investment property is recovered entirely through sale.

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Company after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Company:

IFRS 3 Business Combinations
IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IAS 27 Consolidated and Separate Financial Statements
IAS 34 Interim Financial Reporting
IFRIC 13 Customer Loyalty Programmes

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, the Regulations and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

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

a) accounting for post employment benefits (note 4.2);
b) allowance for potential lease and loan losses (note 4.5);
c) provisions (note 4.7);
d) income tax and deferred tax (note 4.9);
e) determining the residual values and useful lives of depreciable assets (note 4.11);
f) impairment (note 4.11); and
g) classification of investments (note 4.12).

4.2 Staff retirement 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.

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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 note 38.

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 planed 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.

4.3 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.

4.4 Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than (a) those that the company intends to sell immediately or in the near term, which shall be classified as held-for-trading, and those that the company upon initial recognition designates as at fair value through profit or loss account; (b) those that the company upon initial recognition designates as available-for-sale; or (c) those for which the company may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

Subsequent to initial measurement loans and receivables are measured at amortized cost using the effective interest method. Gains/Losses arising on remeasurement of loans and receivables are taken to the profit and loss account.

Gain or loss is also recognized in profit and loss account when loans and receivables are derecognized or impaired, and through the amortization process.

4.5 Provision for potential lease losses and provision for doubtful loans and receivables

The provision for potential leases and provision for other doubtful loans and receivables are made based on the appraisal of each lease or loan that takes into account the Regulations issued by SECP from time to time.

4.6 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 reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit and loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 percent of the outstanding balance of the regular portfolio of leases and loans and receivables as at each period end.

4.7 Provisions

Provisions are recognized when the company has a legal or constructive obligation as a result of past event and its 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.

4.8 Long-term finances

Long-term finances 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 method. Transaction cost relating to the long-term finance is being amortized over the period of agreement using the effective interest method.

4.9 Taxation

Current

The charge of current tax is based on taxable income at the applicable rate of taxation after taking into account available tax credits and rebates or minimum tax under section 113 of the Income Tax Ordinance, 2001, which ever is higher. Income for the purpose of computing current taxation is determined under the provisions of tax laws.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of temporary timing differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4.10 Revenue recognition

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Income from finance leases is suspended if rent is past due by the minimum criteria prescribed by the Regulations.

Income on loans and finances is accounted for on accrual basis using the effective interest method.

Unrealised lease income and unrealised income on loans and finances 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.

4.11 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 14 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 items of property and equipment 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.

Intangible

Expenditure incurred on intangible asset is capitalised and stated at cost less accumulated amortization and impairment in value, if any. 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 off.

Impairment

At each balance sheet date, the company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the reversal of an impairment loss is recognized immediately in profit or loss unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

4.12 Investments

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at the trade date. Trade date is the date on which the company commits to purchase or sell the 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. The investments of the company have been categorised as per the requirements of IAS 39 as follows:

At fair value through profit or loss

a) These are classified as 'held-for-trading' if (a) acquired or incurred principally for the purpose of selling or re-purchasing it in the near term; (b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or (c) a derivative (except for a derivative that is a designated and effective hedging instrument).

b) Upon initial recognition these are designated by the company as 'at fair value through profit or loss' except for equity instruments that do not have a quoted market price in an active market, and whose fair value can not be reliably measured.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity other than at fair value through profit or loss, available-for-sale and loans and receivables.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

All quoted investments except "at fair value through profit or loss" and "held-for-trading" are initially recognised at cost inclusive of transaction costs. Investments at fair value through profit or loss and held for trading are initially recognised at cost. All quoted investments are subsequently marked to market using the year end bid prices obtained from stock exchange quotations or quotes from brokers. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Investments in delisted / unquoted investments are carried at cost less impairment in value, if any. Investments other than shares are stated at their principal amounts less provision for amounts considered doubtful.

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 other comprehensive income until these are derecognized, at which time the cumulative gain or loss previously recognised in other comprehensive income is taken to profit and loss account.

Gain or loss is also recognized in profit and loss account when held-to-maturity investments are derecognized or impaired, and through the amortization process.

Impairment of investments is recognised 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 recognised directly in other comprehensive income is removed from other comprehensive income and recognised in profit and loss account even though the investments have not been derecognized. Impairment losses recognised 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.

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.

4.13 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.

4.14 Borrowing cost

Borrowing costs specific to a significant addition of a project during its construction / erection period are capitalized. Other borrowing costs are charged to the profit and loss account as and when incurred.

4.15 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.

4.16 Financial instruments

Financial assets and liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument and de-recognised when the company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on the de-recognition of the financial assets and liabilities is included in the profit and loss account currently.

At the time of initial recognition, all financial assets and financial liabilities are measured at cost, which is the fair value for the consideration given or received for it. 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 carried on the balance sheet include cash and bank balances, loans, advances and deposits. Finance leases, loans and receivables, and investments have been stated as per the policies mentioned in note 4.3, 4.4 and 4.12 respectively.

Financial liabilities carried on the balance sheet include certificates of investment, deposits, accrued and other payables. Loans and finances have been stated as per the policies mentioned in note 4.8.

4.17 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.

4.18 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.

4.19 General

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

5 CASH AND BANK BALANCES

	Note	2010 Rupees	2009 Rupees
Balance with State Bank of Pakistan in current account		25,907	36,072
Balances with other banks in:			
- Current accounts		10,720,496	16,215,337
- Saving accounts	5.1	1,100,248	6,149,121
Cash in hand		56,012	46,529
		11,902,663	22,447,059

5.1 Return on saving accounts is earned at 5 percent (2009: 0.6 percent to 11 percent) per annum.

6 LOANS AND ADVANCES

	2010 Rupees	2009 Rupees
Advances - considered good		
- To executives - related parties	182,832	129,749
- To employees	238,793	344,879
- Others	1,752,235	1,452,331
	2,173,860	1,926,959
	2,173,860	1,926,959

		Note	2010 Rupees	2009 Rupees
7	**TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS**			
	Security deposits		**214,700**	85,900
	Prepayments		**2,116,120**	1,828,583
			2,330,820	1,914,483
8	**INTEREST ACCRUED**			
	Interest accrued on :			
	- Loans and finances		**227,214**	404,440
9	**INVESTMENTS - available-for-sale**			
	Other than related party			
	Government securities			
	- Special saving certificates	9.1	**2,500,000**	500,000
	Mutual funds			
	- Open end		**21,145,550**	36,500,000
	- Close end		**1,180,000**	2,500,000
			22,325,550	39,000,000
	Less: Impairment loss		**-**	(4,674,450)
			22,325,550	34,325,550
	Less: Unrealized gain on revaluation		**3,834,427**	1,648,164
			26,159,977	35,973,714
	Fair value at the end of the year		**28,659,977**	36,473,714

9.1 Fifteen percent of the resources raised through certificates of investment other than those held by financial institutions have been invested in government securities to comply with the requirement of Regulation 14(4)(1) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008. The rate of return on this investment is 11.6 percent to 14.2 percent (2009: 11.6 percent to 14.6 percent) per annum.

		Note	2010 Rupees	2009 Rupees
10	**CURRENT MATURITY OF NON-CURRENT ASSETS**			
	Current portion of:			
	- Long-term finance and loan	11	**63,387,620**	74,504,429
	- Net investment in lease	12	**410,469,117**	495,329,024
			473,856,737	569,833,453
11	**LONG-TERM FINANCES AND LOANS - secured**			
	Related parties-considered good			
	- Executives	11.1 & 11.2	**436,853**	729,664
	- Employees	11.1	**2,085,274**	2,341,017
			2,522,127	3,070,681
	Other than related parties			
	- Customers			
	considered good	11.4	**26,418,306**	66,839,999
	considered doubtful		**49,543,098**	40,246,491
			75,961,404	107,086,490
	Less: Provision	11.5	**(1,807,283)**	(308,383)
			74,154,121	106,778,107
			76,676,248	109,848,788
	Less: Current maturity			
	Related parties			
	- Executives		**309,970**	260,525
	- Employees		**272,655**	255,743
			582,625	516,268
	Other than related parties			
	- Customers		**62,804,995**	73,988,161
		10	**(63,387,620)**	(74,504,429)
			13,288,628	35,344,359

11.1 These represent loans given to executives and employees for purchase of motor vehicles and houses. These loans are recovered through deduction from salaries over varying periods up to a maximum period of 20 years. These are granted to the employees in accordance with their terms of employment. The motor vehicle loans are secured by way of title of the motor vehicles being held in the name of the company, whereas the housing loans are secured by registered mortgage in favour of the company. Motor vehicle loans carry mark-up at the rate of 7 percent (2009: 7 percent) per annum while the housing loans carry mark-up at the rate of 5 percent (2009: 5 percent) per annum.

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

	Executives	
	2010 Rupees	2009 Rupees
Opening balance	**729,664**	1,006,293
Disbursements	**-**	-
	729,664	1,006,293
Repayments	**(292,811)**	(276,629)
Closing balance	**436,853**	729,664

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

	2010 Rupees	2009 Rupees
Executives	**729,664**	1,006,293

11.4 These represent loans to customers for a period of three to five years on mark-up basis and are secured by way of hypothecation of stock and immovable property. The rate of mark-up ranges from 11.5 percent to 24.50 percent (2009: 11.5 percent to 24.50 percent) per annum.

	Note	**2010 Rupees**	2009 Rupees
11.5 Provision for doubtful finances and loans			
Balance at beginning of the year		**308,383**	311,094
Provision for the year		**1,537,704**	234,227
Reversed for the year		**(38,804)**	(236,938)
Net charge		**1,498,900**	(2,711)
Balance at end of the year		**1,807,283**	308,383
12 NET INVESTMENT IN LEASES			
Lease rentals receivable	12.2	**631,945,013**	909,931,436
Add: Residual value of leased assets		**433,173,196**	740,021,229
Gross investment in finance leases	12.3	**1,065,118,209**	1,649,952,665
Less: Unearned lease income		**117,946,359**	182,960,999
Provision for potential lease losses	12.5	**104,159,670**	64,211,752
		222,106,029	247,172,751
Net investment in leases	12.4	**843,012,180**	1,402,779,914
Less: Current maturity of net investment in leases	10	**410,469,117**	495,329,024
		432,543,063	907,450,890

12.1 The internal rate of return on leases contract receivable ranges from 9.5 percent to 25.11 percent (2009: 8.42 percent to 25.11 percent) per annum.

	2010 Rupees	2009 Rupees
12.2 Lease rentals receivable		
Less than one year	**515,089,794**	643,451,737
More than one year and less than five years	**116,855,219**	266,479,699
	631,945,013	909,931,436
12.3 Gross investment in finance leases		
Less than one year	**667,909,967**	955,155,300
More than one year and less than five years	**397,208,242**	694,797,365
	1,065,118,209	1,649,952,665
12.4 Net investment in leases		
Less than one year	**410,469,117**	495,329,024
More than one year and less than five years	**432,543,063**	907,450,890
	843,012,180	1,402,779,914
12.5 Provision for potential lease losses		
Opening balance	**64,211,752**	14,533,345
Provision for the year	**42,330,118**	53,646,522
Reversed for the year	**(2,382,200)**	(3,968,115)
Net charge	**39,947,918**	49,678,407
Balance at the end of the year	**104,159,670**	64,211,752

13 LONG-TERM DEPOSITS AND PREPAYMENTS

	2010 Rupees	2009 Rupees
Security deposits against assets acquired under lease arrangements	**227,400**	309,900
Other deposits	**546,422**	604,422
Prepayments	**431,713**	24,928
	1,205,535	939,250

14. PROPERTY AND EQUIPMENT

Following is the schedule of property and equipment of the company:

	Owned assets							Leased assets	
	Tangible						Sub Total		
	Office premises	Building improvements	Furniture and fixtures	Office equipment & others	Computers	Vehicles		Vehicles	Total
	Rupees								
As at January 1, 2009									
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
Accumulated depreciation	(830,392)	(1,639,466)	(1,360,488)	(446,765)	(1,422,768)	(955,504)	(6,655,383)	(1,421,152)	(8,076,535)
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
Year ended December 31, 2009									
Opening 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
Additions	5,550,000	139,709	54,150	43,900	13,182	-	5,800,941	898,800	6,699,741
Transfers									
Cost	-	-	-	-	-	1,155,000	1,155,000	(1,155,000)	-
Accumulated depreciation	-	-	-	-	-	(583,098)	(583,098)	583,098	-
	-	-	-	-	-	571,902	571,902	(571,902)	-
Disposals - net									
Cost	-	-	-	-	-		-	(560,000)	(560,000)
Accumulated depreciation	-	-	-	-	-		-	336,000	336,000
								(224,000)	(224,000)
Adjustment cost	-	-	-	-	-		-	(58,000)	(58,000)
Depreciation charge	(455,835)	(52,510)	(196,522)	(137,547)	(124,886)	(469,975)	(1,437,275)	(830,362)	(2,267,638)
Closing net book value	9,217,963	170,464	342,670	388,438	111,153	944,698	11,175,386	2,685,362	13,860,748
As at January 1, 2010									
Cost	10,504,190	1,862,440	1,899,680	972,750	1,658,807	2,953,275	19,851,142	4,017,779	23,868,921
Accumulated depreciation	(1,286,227)	(1,691,976)	(1,557,010)	(584,312)	(1,547,654)	(2,008,577)	(8,675,756)	(1,332,417)	(10,008,173)
Net book value	9,217,963	170,464	342,670	388,438	111,153	944,698	11,175,386	2,685,362	13,860,748
Year ended December 31, 2010									
Opening net book value	9,217,963	170,464	342,670	388,438	111,153	944,698	11,175,386	2,685,362	13,860,748
Additions	-	-	14,490	24,663	-	-	39,153	554,555	593,708
Repossessed assets	11,560,000	-	-	-	-	-	11,560,000	-	11,560,000
Transfers									
Cost	-	-	-	-	-	878,890	878,890	(878,890)	-
Accumulated depreciation	-	-	-	-	-	(548,321)	(548,321)	548,321	-
	-	-	-	-	-	330,569	330,569	(330,569)	-
Disposals - net									
Cost	-	-	-	-	-	(479,190)	(479,190)	-	(479,190)
Accumulated depreciation	-	-	-	-	-	343,420	343,420		343,420
	-	-	-	-	-	(135,770)	(135,770)	-	(135,770)
Adjustment cost	-	-	-	-	-	-	-	-	-
Depreciation charge	(669,725)	(97,649)	(149,088)	(113,814)	(96,216)	(655,491)	(1,781,983)	(694,369)	(2,476,352)
Closing net book value	8,548,238	72,815	208,072	299,287	14,937	484,006	9,627,355	2,214,979	23,402,334
As at December 31, 2010									
Cost	22,064,190	1,862,440	1,914,170	997,413	1,658,807	3,352,975	31,849,995	3,693,444	35,543,439
Accumulated depreciation	(1,955,952)	(1,789,625)	(1,706,098)	(698,126)	(1,643,870)	(2,868,969)	(10,662,640)	(1,478,465)	(12,141,105)
Net book value	20,108,238	72,815	208,072	299,287	14,937	484,006	21,187,355	2,214,979	23,402,334
Rate of depreciation (%)	5	33.33	20	15	33.33	20	33.33	20	

14.1 The following assets were disposed of during the year;

2010

Particulars	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (Loss) on disposal	Mode of disposal	Particulars of buyers
	Rupees						
Vehicle							
Alto	479,190	343,420	135,770	140,700	4,930	"As per company's policy"	Muhammad Younus, Employee, SME Leasing Limited, 2nd Floor, FTC Building, Shahra-e-Faisal, Karachi.

2009

Particulars	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (Loss) on disposal	Mode of disposal	Particulars of buyers
	Rupees						
Vehicle							
Cultus	560,000	336,000	224,000	168,000	(56,000)	"As per company's policy"	Tanveer Ul Bari, Employee, SME Leasing Limited, 2nd Floor, FTC Building, Shahra-e-Faisal, Karachi.

15 INTANGIBLES

The company's intangible assets comprise acquired software licenses and software. The carrying amount for the year ended December 31, 2010 is as follows:

	Note	2010 Rupees	2009 Rupees
Gross carrying amount		**711,930**	711,930
Less: Accumulated amortization and impairment		**666,914**	530,618
	15.1	**45,016**	181,312
15.1 Carrying amount at beginning of the year		**181,312**	317,607
Amortization		**(136,296)**	(136,295)
Carrying amount at end of the year		**45,016**	181,312
Rate of amortization		**33.33%**	33.33%

16 ACCRUED AND OTHER PAYABLES

	Note	2010 Rupees	2009 Rupees
Accrued liabilities	16.1	**1,486,394**	1,267,395
Rentals received in advance		**438,114**	2,713,849
Payable on termination / maturity of leases		**455,892**	1,612,439
Payable in respect of undisbursed leases		**-**	144,124
Insurance payable		**4,472,455**	4,777,044
Payable to SME Bank Limited - holding company		**36,897**	32,080
Unclaimed dividend		**20,629**	20,629
Others		**1,459,241**	991,737
		8,369,622	11,559,297

16.1 This includes an amount of Rs. Nil (2009: Rs. 24,124) payable to provident fund of the company.

17 INTEREST ACCRUED

	2010 Rupees	2009 Rupees
Interest accrued on:		
Long-term finance	**542,711**	2,390,748
Privately placed Term Finance Certificates	**2,674,054**	6,081,594
Short-term borrowings	**1,276,429**	4,024,565
Certificates of investment	**519,440**	32,429
	5,012,634	12,529,336

17.1 Accrued interest payable to SME Bank Limited (holding company), related party

	2010	2009
Long-term finance	**389,708**	494,980
Privately placed Term Finance Certificates	**764,199**	1,737,598
Short-term borrowings	**1,276,429**	912,500
	2,430,336	3,145,078

	Note	2010 Rupees	2009 Rupees
18 SHORT-TERM BORROWINGS			
From banking companies			
Other than related parties			
Running finance - secured	18.1	-	86,739,950
Related party			
Running finance - secured	18.2	108,032,762	-
Borrowing from SME Bank Limited	18.3	-	30,000,000
		108,032,762	116,739,950

18.1 The company had obtained running finance facility from a commercial bank with aggregate limit of Rs. 100 million. Mark-up was payable at the rate of 14.59% (2009: 14.56%) per annum. The finance is secured by way of hypothecation of company's specific leased assets and related receivables.

18.2 The company obtained running finance facility from SME Bank Limited with aggregate limit of Rs. 131 (2009: Nil) million. Mark-up is payable at the rate of 15.5% (2009: Nil) per annum. The finance is secured by way of hypothecation of company's specific leased assets and related receivables.

18.3 This represents clean borrowing from SME Bank Limited was repayable on January 17, 2010. Mark-up was payable at the rate of 15% (2009: 15%) per annum.

		2010 Rupees	2009 Rupees
19 CERTIFICATES OF INVESTMENT - Unsecured			
Certificates of investment	22	7,244,795	3,220,781

The company has issued certificates of investments under permission granted by the Securities and Exchange Commission of Pakistan through its letter no. SC/NBFC-1/JD/SME/2006/386. These certificates of investment are repayable between January 2011 to September 2011 and carries return at the rate ranging from 9% to 13% per annum (2009: 9% to 12.5%) per annum.

	Note	2010 Rupees	2009 Rupees
20 CURRENT MATURITY OF NON-CURRENT LIABILITIES			
Current maturity of:			
Long-term finance	21	5,349,856	124,203,814
Private placed Term Finance Certificate	23	87,072,506	116,666,666
Liabilities against assets subject to finance lease	24	667,142	1,162,884
Long-term deposits	25	152,820,173	311,703,563
		245,909,677	553,736,927
21 LONG-TERM FINANCES - Secured			
Long-term loans from:			
SME Bank Limited	21.1	10,343,953	13,561,137
Banking companies and other financial	21.1	1,664,442	122,660,483
		12,008,395	136,221,620
Less: Current maturity	20	5,349,856	124,203,814
		6,658,539	12,017,806

21.1 Long-term Finances - Secured

	Facility amount Rupees	Repayment period From	Repayment period To	Price	Note	2010 Rupees	2009 Rupees
From related party							
SME Bank Limited	15,000,000	Apr-09	Apr-13	3 months KIBOR+2.00% (payable quarterly)	21.2	**10,343,953**	13,561,137
						10,343,953	13,561,137
Total financing from related party							
From financial institutions							
Pak Oman Investment Company Limited (Facility No. IV - Tranche I)	25,000,000	Aug-07	Aug-10	6 months KIBOR+2.00% (payable quarterly)	21.2	-	6,250,000
Pak Oman Investment Company Limited (Facility No. IV - Tranche II)	25,000,000	Aug-07	Aug-10	6 months KIBOR+2.00% (payable quarterly)		-	6,250,000
						-	12,500,000
From banking companies							
National Bank of Pakistan	150,000,000	Mar-06	Mar-10	6 months KIBOR+1.85% (payable semi-annually)	21.2	-	18,750,000
United Bank Limited (Loan III)	50,000,000	Feb-07	Feb-10	3 months KIBOR+2.6% (payable quarterly)	21.2	-	4,166,666
United Bank Limited (Loan IV)	50,000,000	Dec-07	Dec-10	6 months KIBOR+1.65% (payable semi-annually)	21.2	-	16,666,667
Allied Bank Limited	150,000,000	Sep-07	Sep-10	6 months KIBOR+2% (payable quarterly)	21.3	-	39,204,544
Faysal Bank Limited	100,000,000	May-07	May-10	3 months KIBOR+1.75% (payable quarterly)	21.4	-	19,604,380
Emirates Global Islamic Bank Limited	100,000,000	Sep-07	May-11	6 months KIBOR+2.5% (payable quarterly)	21.5	**1,664,442**	11,768,226
						1,664,442	110,160,483
Total financing from financial institutions and banking companies						**1,664,442**	122,660,483
						12,008,395	136,221,620

21.2 These facilities include 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 charge on specific leased assets and associated lease rentals receivable.

21.3 This represents financing arrangements under a sale and repurchase agreement for lease operations of the company. These loans are secured by hypothecation charge on the company's specific leases assets and associated lease rental receivable.

21.4 This represents long-term Murahaba facility obtained from Faysal Bank Limited.

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

	2010 Rupees	2009 Rupees
22 CERTIFICATES OF INVESTMENT - Unsecured		
Certificates of investment	**6,000,000**	-

The company has issued certificates of investments under permission granted by the Securities and Exchange Commission of Pakistan through its letter no. SC/NBFC-1/JD/SME/2006/386. These certificates of investment are repayable between June 2013 to July 2013 and carries return at the rate ranging from 11.5% to 14% per annum (2009: Nil) per annum.

	Note	2010 Rupees	2009 Rupees
23 PRIVATELY PLACED TERM FINANCE CERTIFICATES - SECURED			
Privately placed term finance certificate		**87,072,506**	202,884,170
Less: Current maturity	20	**87,072,506**	116,666,666
Due after one year		**-**	86,217,504

23.1 Principal terms of Term Finance Certificates (TFCs)

Particulars	Period From	Period To	Profit rate per annum	Principal outstanding (Rupees) 2010	Principal outstanding (Rupees) 2009
Privately placed Term Finance Certificates	July 15, 2008	July 16, 2011	3 month KIBOR+150 bps (payable quarterly)	**87,072,506**	202,884,170

* KIBOR-Karachi Interbank Offer Rate

23.1.1 The facility is secured by way of hypothecation of the company specific leased assets and associated lease rental receivables.

23.2 The above TFCs include Rs. 25,000,000 (2009: Rs. 58,333,335) payable to SME Bank Limited, related party.

24. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2010 Minimum lease payments	2010 Finance charges not yet due	2010 Present value of minimum lease payments	2009 Minimum lease payments	2009 Finance charges not yet due	2009 Present value of minimum lease payments
	Rupees					
Payable not later than one year (refer note 22)	**833,557**	**166,415**	**667,142**	1,353,022	190,138	1,162,884
Payable later than one year but not later than five years	**798,443**	**99,500**	**698,943**	943,368	83,063	860,305
	1,632,000	**265,915**	**1,366,085**	2,296,390	273,201	2,023,189

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 14.23 percent to 16.70 percent (2009: 14.23 percent to 16.70 percent per) per annum with late payment surcharge of Rs. 100 (2009: 100) per day. These finance lease arrangements will mature in the year 2013.

	Note	2010 Rupees	2009 Rupees
25 LONG-TERM DEPOSITS			
Lease key money	25.1	**433,173,196**	740,021,229
Less: Current maturity	20	**152,820,173**	311,703,563
		280,353,023	428,317,666

25.1 These represent interest free security deposits received against lease contracts and are refundable/adjustable at the expiry/termination of the respective leases. Current year amount is net of security deposit held against matured leases amounting to Rs. 238.25 (2009: Nil) million.

	Note	2010 Rupees	2009 Rupees
26 DEFERRED LIABILITIES			
Provision for gratuity	39	**3,363,619**	2,407,266
26.1 Deferred tax liabilities/(assets) - net			
Deductible temporary differences			
Unabsorbed tax depreciation		**(59,044,413)**	(26,987,898)
Provisions against potential lease losses and long-term finances and loans		**(37,088,434)**	(22,582,047)
Liabilities against assets subject to finance lease		**(478,130)**	(708,116)
Minimum tax		**(839,222)**	(904,009)
Liability against gratuity expense		**(1,177,267)**	(842,543)
		(98,627,466)	(52,024,613)
Taxable temporary differences			
Net investment in leases		**12,123,536**	12,235,712
Liabilities against assets subject to finance lease		**775,243**	939,877
Accelerated tax depreciation on property and - own use		**742,255**	1,166,378
		13,641,034	14,341,967
		(84,986,432)	(37,682,646)

26.2 The company's deferred tax computation give rise to deferred tax asset amounting to Rs. 84,986,432 (2009: 37,682,646) which has not been recognized in these financial statements due to policy stated in note 4.9.

27 SHARE CAPITAL

	2010 Rupees	2009 Rupees
Authorized capital		
100,000,000 (2009: 100,000,000) ordinary shares of Rs. 10 each	**1,000,000,000**	1,000,000,000

Issued subscribed and paid-up share capital

Number of shares 2010	Number of shares 2009		2010 Rupees	2009 Rupees
10,100,000	10,100,000	Ordinary shares of Rs. 10 each issued as fully paid in cash	**101,000,000**	101,000,000
19,900,000	19,900,000	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	**199,000,000**	199,000,000
2,000,000	2,000,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	**20,000,000**	20,000,000
32,000,000	32,000,000		**320,000,000**	320,000,000

27.1 Movement in number of shares	Number of shares 2010	Number of shares 2009
Number of the shares at beginning of the year	**32,000,000**	32,000,000
Issued during the year	**-**	-
Number of the shares at end of the year	**32,000,000**	32,000,000

SME Bank Limited and its nominees hold 73.14% (2009: 73.14%) ordinary shares of Rs. 10 each of the company.

27.2 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 requirements applicable to the company are set and regulated by the Securities and Exchange Commission of Pakistan (SECP). The company manages its capital requirement by assessing its capital structure against the required capital level on a regular basis. SECP has introduced following minimum equity requirements through S.R.O. 764 dated September 02, 2009 as against existing requirement of Rs. 200 million, as follow:

To be complied by	Minimum equity Rupees
June 30, 2011	350,000,000
June 30, 2012	500,000,000
June 30, 2013	700,000,000

The company's goal in capital management is to maintain a balance between capital to overall financing.

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	2010 Rupees	2009 Rupees
The company's capital consist of:			
Issued, subscribed and paid-up share capital		**320,000,000**	320,000,000
Reserves		**(20,170,893)**	29,615,200
		299,829,107	349,615,200
Unrealized gain on available-for-sale investments		**3,834,427**	1,648,164
		303,663,534	351,263,364

28 RESERVES

	Note	2010 Rupees	2009 Rupees
Capital reserves			
Statutory reserve	28.1	**28,019,277**	28,019,277
Share premium	28.2	**10,000,000**	10,000,000
Revenue Reserves			
Reserve against future losses	4.6	**10,447,052**	10,447,052
Accumulated loss		**(68,637,222)**	(18,851,129)
		(20,170,893)	29,615,200

28.1 Statutory reserve represents profits after tax set aside in compliance with the Regulations.

28.2 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.

		Note	2010 Rupees	2009 Rupees
29	**CONTINGENCIES AND COMMITMENTS**			
	Contingencies			
	None		-	-
	Commitments			
	Lease disbursements		3,100,000	-
30	**INCOME FROM OPERATIONS**			
	Leases			
	Income from finance lease operations		73,323,836	104,603,418
	Gain on termination of leases		145,053	759,388
			73,468,889	105,362,806
	Finances and loans			
	Customers		11,043,299	17,064,057
			84,512,188	122,426,863
31	**OTHER OPERATING INCOME**			
	Income from financial assets	31.1	1,073,855	1,500,893
	Other than financial assets	31.2	4,930	(56,000)
			1,078,785	1,444,893
	31.1 Income from financial assets			
	Loans and receivables			
	Profit on bank accounts		119,989	515,985
	Mark-up on loans to employees		154,420	565,657
	Return on short-term placements		-	17,161
			274,409	1,098,803
	Available-for-sale investment			
	Mark-up on government securities		121,224	26,060
	Gain on disposal of available-for-sale investments		428,222	263,530
	Dividend income		250,000	112,500
			799,446	402,090
			1,073,855	1,500,893
	31.2 Other than financial assets			
	(Loss)/Gain on disposal of property and equipment	14.1	4,930	(56,000)
32	**ADMINISTRATIVE AND SELLING EXPENSES**			
	Salaries, allowances and other benefits	32.1	24,456,224	24,594,670
	Directors' fee	32.3	216,000	293,000
	Rent		5,023,094	4,696,372
	Electricity, gas and water		682,716	696,952
	Telephone and postage		1,095,921	1,250,598
	Repairs and maintenance		1,285,515	1,377,507
	Books and periodicals		34,826	43,392
	Fees and subscriptions		33,300	41,023
	Vehicle running		150,116	198,560
	Advertising		65,550	162,600
	Training and development		94,150	133,700
	Travelling, conveyance and entertainment		1,038,858	1,564,066
	Printing and stationery		775,165	993,907
	Auditors' remuneration	32.4	479,500	539,883
	Depreciation	14	2,476,352	2,267,638
	Amortization	15	136,296	136,296
	Legal and professional		4,793,589	6,779,781
	Insurance		1,115,175	1,073,397
	Miscellaneous		756,443	787,820
			44,708,790	47,631,162

32.1 Salaries, allowances and other benefits include Rs. 1,032,121 (2009: Rs. 80,997) in respect of staff gratuity scheme and Rs. 427,188 (2009: Rs. 533,539) in respect of staff provident fund. In addition, the amount charged to the profit and loss account in respect of compensated absences was Rs. 948,468 (2009: Rs. 925,937).

32.2 Remuneration of chief executive and executives

	Chief Executive	**Executives**	Chief Executive	Executives
	2010		2009	
	Rupees			
Managerial remuneration	**1,829,225**	**2,888,646**	1,764,708	2,619,828
Bonus	**-**	**-**	-	-
Housing and utilities	**1,006,069**	**1,588,728**	970,584	1,440,936
Provident fund	**-**	**202,800**	-	174,589
Medical and other perquisites	**274,383**	**433,266**	264,708	392,964
Leave fare assistance	**250,000**	**-**	250,000	-
Gratuity	**176,471**	**240,721**	147,059	218,318
Leave encashment	**125,000**	**208,475**	125,000	147,890
Others	**-**	**92,754**	-	90,696
	3,661,148	**5,655,390**	3,522,059	5,085,221
No. of persons	**1**	**6**	1	5

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

32.3 Directors' fee

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

	2010 Rupees	2009 Rupees
32.4 Auditors' remuneration		
Annual audit	**300,000**	300,000
Half-yearly review	**100,000**	100,000
Out-of-pocket expenses	**79,500**	139,883
	479,500	539,883
33 FINANCE COST		
Mark-up on:		
Long-term finance	**9,124,637**	37,710,250
Privately placed Term Finance Certificates	**18,818,398**	38,435,127
Short-term borrowings	**16,253,608**	14,606,219
Certificates of investment	**952,542**	201,146
Lease finance charges	**189,400**	269,967
Bank charges	**1,485,095**	1,228,045
	46,823,680	92,450,754
33.1 Finance cost includes mark up expense related to SME Bank Limited, related party:		
Long-term finance	**1,638,242**	1,566,000
Privately placed Term Finance Certificates	**5,376,868**	10,736,308
Short-term borrowings	**11,210,430**	4,582,250
	18,225,540	16,884,558
34 INCOME TAX EXPENSE		
Current	**2,397,778**	2,587,144

The current charge for the period represents minimum tax at 0.1 percent of turnover in accordance with the requirements of the Income Tax Ordinance, 2001.

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 section 113 of the Income Tax Ordinance, 2001 related to minimum tax. The company's tax computation gives rise to a tax loss due to unabsorbed tax depreciation.

	2010	2009
35 (LOSS)/EARNINGS PER SHARE - basic and diluted		
Loss Profit for the year - Rupees	**(49,786,093)**	(69,748,274)
Number of ordinary shares issued and subscribed	**32,000,000**	32,000,000
Loss per share - basic and diluted - Rupees	**(1.56)**	(2.18)

Loss per share has been calculated by dividing loss for the year attributable to the ordinary shareholders outstanding at the period end by the weighted average number of shares outstanding during the year.

Diluted earnings per share

There is no dilution effect on the basic earning per share of the company as the company has no convertible dilutive potential ordinary shares outstanding on December 31, 2010.

	Note	**2010 Rupees**	2009 Rupees
36 CASH GENERATED FROM OPERATIONS AFTER WORKING CAPITAL CHANGES			
Loss before income tax expense		**(47,388,315)**	(70,560,305)
Adjustment for non-cash and other items			
Depreciation	14	**2,476,352**	2,267,638
Amortization	15	**136,296**	136,295
Gratuity		**1,032,121**	80,997
Finance cost	33	**46,634,280**	92,180,787
Financial charges on leased assets	33	**189,400**	269,967
(Gain) / Loss on disposal of property and equipment	31.2	**(4,930)**	56,000
Interest income	31.1	**(823,855)**	(1,124,863)
Dividend income		**(250,000)**	(112,500)
Provision for potential lease losses		**39,947,918**	49,678,407
Provision for finance and loans		**1,498,900**	2,711
Impairment on investments		**-**	4,674,450
		90,836,482	148,109,889
Operating profit before working capital changes		**43,448,167**	77,549,584
Working capital changes			
(Increase) / Decrease in current assets			
Trade deposits and short-term prepayments		**(416,337)**	(149,957)
Interest accrued		**177,226**	1,365,778
Loans and advances		**(246,901)**	(344,530)
		(486,012)	871,291
Increase / (Decrease) in current liabilities			
Accrued and other liabilities		**(3,189,675)**	(7,858,474)
Interest accrued		**-**	-
Provision for compensated absences		**136,803**	154,523
		(3,052,872)	(7,703,951)
Total working capital changes		**(3,538,884)**	(6,832,660)
Cash from operations after working capital changes		**39,909,283**	70,716,924

	Note	2010 Rupees	2009 Rupees
37 CASH AND CASH EQUIVALENTS			
Cash and bank balances	5	**11,902,663**	22,447,059
Short-term borrowings	18	**(108,032,762)**	(116,739,950)
		(96,130,099)	(94,292,891)

38 STAFF RETIREMENT BENEFIT SCHEMES

38.1 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, 2010 using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme:

	2010 % per annum	2009 % per annum
38.2 Principal actuarial assumption		
Discount rate	**14.50%**	12.75%
Expected long-term rate of increase in salary level	**14.50%**	12.75%
Expected long-term rate of interest	**14.50%**	-

	Note	2010 Rupees	2009 Rupees
38.3 Reconciliation of provision for gratuity scheme			
Present value of defined benefit obligation		**3,687,676**	3,098,353
Fair value of plan assets		**-**	-
		3,687,676	3,098,353
Unrecognised actuarial gain/(loss)		**(324,057)**	(691,087)
Unrecognised prior services cost		**-**	-
Deficit in scheme's assets		**3,363,619**	2,407,266
38.4 Movement in the balance sheet liability			
Balance at beginning of the year		**2,407,266**	2,519,211
Expense recognised during the year	38.5	**1,032,121**	80,997
Contribution made during the year		**(75,768)**	(192,942)
Balance at end of the year		**3,363,619**	2,407,266
38.5 Gratuity scheme expenses			
Current services cost		**582,546**	589,288
Interest cost		**422,343**	412,466
Actuarial gain recognized during the year		**27,232**	(920,757)
		1,032,121	80,997

38.6 Five years data

	2006	2007	2008	2009	2010
	Rupees				
Present value of defined benefit obligation	2,276,284	2,438,538	2,519,211	3,098,353	3,687,676
Fair value of plan assets	-	-	-	-	-
Deficit	2,276,284	2,438,538	2,519,211	3,098,353	3,687,676
Experience adjustments on obligation	(125,096)	(1,038,216)	125,430	229,670	339,798

39 MATURITIES OF ASSETS AND LIABILITIES

2010

	Total	Up to 3 months	Over 3 months	Over 1 year	Over 5 years
	Rupees				
Assets					
Cash and bank balances	11,902,663	11,902,663	-	-	-
Loans and advances	2,173,860	1,991,028	182,832	-	-
Trade deposits and short-term prepayments	2,330,820	2,330,820	-	-	-
Interest accrued	227,214	227,214	-	-	-
Investments - available-for-sale	28,659,977	28,659,977	-	-	-
Long-term finances and loans	76,676,248	43,431,848	19,955,772	13,288,628	-
Net investment in leases	843,012,180	313,719,467	94,872,592	434,420,121	-
Long-term deposits and prepayments	1,205,535	-	-	1,205,535	-
Property and equipment	23,402,334	-	-	3,294,096	20,108,238
Intangibles	45,016	-	45,016	-	-
	989,635,847	402,263,017	115,056,212	452,208,380	20,108,238
Liabilities					
Accrued and other liabilities	8,369,622	8,369,622	-	-	-
Interest accrued	5,012,634	5,012,634	-	-	-
Short-term borrowings	108,032,762	-	108,032,762	-	-
Certificates of investment	13,244,784	600,000	6,644,784	6,000,000	-
Provision for compensated absences	922,034	-	808,725	113,309	-
Provision for income tax	13,406,665	13,406,665	-	-	-
Long-term finances	12,008,395	1,703,111	3,646,745	6,658,539	-
Privately placed Term Finance Certificates	87,072,506	29,166,667	57,905,839	-	-
Liabilities against assets subject to finance lease	1,366,085	166,786	500,357	698,943	-
Long-term deposits	433,173,196	32,671,720	120,148,453	280,353,023	-
Deferred liabilities	3,363,619	-	-	-	3,363,619
	685,972,302	91,097,205	297,687,665	293,823,814	3,363,619
Net assets	303,663,545	311,165,813	(182,631,453)	158,384,566	16,744,619
Represented by:					
Share capital	320,000,000				
Reserves	(20,170,893)				
Unrealized gain on revaluation of available-for-sale investment	3,834,427				
	303,663,534				

2009

	Total	Up to 3 months	Over 3 months	Over 1 year	Over 5 years
	Rupees				
Assets					
Cash and bank balances	22,447,059	22,447,059	-	-	-
Loans and advances	1,926,959	1,926,959	-	-	-
Trade deposits and short-term prepayments	1,914,483	1,784,734	129,749	-	-
Interest accrued	404,440	404,440	-	-	-
Investments - available-for-sale	36,473,714	36,473,714	-	-	-
Long-term finances and loans	109,848,788	43,939,515	27,462,197	38,447,076	-
Net investment in leases	1,402,779,914	466,985,569	340,047,018	595,747,327	-
Long-term deposits and prepayments	939,250	-	-	939,250	-
Property and equipment	13,860,748	2,200,119	7,700,416	3,960,214	-
Intangibles	181,312	-	120,875	60,437	-
	1,590,776,667	576,162,109	375,460,255	639,154,304	-
Liabilities					
Accrued and other liabilities	11,559,297	11,559,297	-	-	-
Interest accrued	12,529,336	12,529,336	-	-	-
Short-term borrowings	116,739,950	30,000,000	86,739,950	-	-
Certificates of investment	3,220,781	1,069,298	2,151,483	-	-
Provision for compensated absences	785,231	-	785,231	-	-
Provision for income tax	11,121,234	11,121,234	-	-	-
Long-term finances	136,221,620	54,144,408	70,935,842	11,141,370	-
Privately placed Term Finance Certificates	202,884,170	27,884,167	87,500,001	87,500,002	-
Liabilities against assets subject to finance lease	2,023,189	307,452	855,435	860,302	-
Long-term deposits	740,021,229	149,293,231	162,410,332	428,317,666	-
Deferred liabilities	2,407,266	-	-	-	2,407,266
	1,239,513,303	297,908,423	411,378,274	527,819,340	2,407,266
Net assets	351,263,364	278,253,687	(35,918,019)	111,334,964	(2,407,266)
Represented by:					
Share capital	320,000,000				
Reserves	29,615,200				
Unrealized gain on revaluation of available-for-sale investment	1,648,164				
	351,263,364				

40 FINANCIAL INSTRUMENTS

2010

	Effective yield / Interest rate %	Total	Exposed to Yield / Interest risk: Up to 3 months	Over 3 months	Over 1 year	Over 5 years	Not exposed to yield / Interest risk
		Rupees					
Assets							
Cash and bank balances	5	11,902,663	1,100,248	-	-	-	10,802,415
Loans and advances		2,173,860	-	-	-	-	2,173,860
Trade deposits		214,700	-	-	-	-	214,700
Interest accrued		227,214	-			-	227,214
Investments - available-for-sale	11.6	28,659,977	250,000	-	-	-	28,409,977
Long-term finances and loans	5-7 & 11.5-24.5	76,676,248	43,431,848	19,955,772	13,288,628	-	-
Net investment in leases	9.5-25.11	843,012,180	313,719,467	94,872,592	434,420,121	-	-
Long-term deposits		773,822	-	-	-	-	773,822
Total financial assets as on December 31, 2010		963,640,664	358,501,563	114,828,364	447,708,749	-	42,601,988
Liabilities							
Accrued and other liabilities		8,369,622	-	-	-	-	8,369,622
Interest accrued		5,012,634	-	-	-	-	5,012,634
Short-term borrowings	15.5	108,032,762		108,032,762	-	-	-
Certificates of investment	9-14	13,244,784	600,000	6,644,784	6,000,000	-	-
Provision for compensated absences		922,034	-	-	-	-	922,034
Long-term finances		12,008,395	1,703,111	3,646,745	6,658,539	-	-
Privately placed Term Finance Certificates	14.12-14.49	87,072,506	29,166,667	57,905,839	-	-	-
Liabilities against assets subject to finance lease	14.23-16.70	1,366,085	166,786	500,357	698,943	-	-
Long-term deposits		433,173,196	32,671,720	120,148,453	280,353,023	-	-
Deferred liabilities - gratuity		3,363,619	-	-	-	-	3,363,619
Total financial liabilities as on December 31, 2010		672,565,637	64,308,284	296,878,940	293,710,505	-	17,667,909
On balance sheet gap		291,075,027	294,193,280	(182,050,576)	153,998,244	-	24,934,079
Off balance sheet items							
Commitments		3,100,000	3,100,000	-	-	-	3,100,000

2009

	Effective yield / Interest rate %	Total	Exposed to Yield / Interest risk: Up to 3 months	Over 3 months	Over 1 year	Over 5 years	Not exposed to yield / Interest risk
		Rupees					
Assets							
Cash and bank balances	0.60-11	22,447,059	6,149,121	-	-	-	16,297,938
Loans and advances		1,926,959	-	-	-	-	1,926,959
Trade deposits		85,901	-	-	-	-	85,901
Interest accrued		404,440	-	-	-	-	404,440
Investments - available-for-sale	12.5	36,473,714	500,000	-	-	-	35,973,714
Long-term finances and loans	5-7 & 11.5-24.5	109,848,788	43,939,515	27,462,197	38,447,076	-	-
Net investment in leases	8.42-25.11	1,402,779,914	466,985,569	340,047,018	595,747,327	-	-
Long-term deposits		914,322	-	-	-	-	914,322
Total financial assets as on December 31, 2009		1,574,881,097	517,574,205	367,509,215	634,194,403	-	55,603,274
Liabilities						-	
Accrued and other liabilities		11,559,297	-	-	-		11,559,297
Interest accrued		12,529,336	-	-	-		12,529,336
Short-term borrowings	14.56	116,739,950	30,000,000	86,739,950	-	-	-
Certificate of investment	9-12.50	3,220,781	1,069,298	2,151,483		-	-
Provision for compensated absences		785,231	-	-	-	-	785,231
Long-term finances		136,221,620	54,144,408	70,059,406	12,017,806	-	-
Privately placed Term Finance Certificates	14.12-16.51	202,884,170	27,884,167	88,782,499	86,217,504	-	-
Liabilities against assets subject to finance lease	14.23-16.70	2,023,189	307,452	855,435	860,302	-	-
Long-term deposits		740,021,229	-	-	-	-	740,021,229
Deferred liabilities - gratuity		2,407,266	-	-	-	-	2,407,266
Total financial liabilities as on December 31, 2009		1,228,392,069	113,405,325	248,588,773	99,095,612	-	767,302,359
On balance sheet gap		346,489,028	404,168,880	118,920,442	535,098,791	-	(711,699,085)
Off balance sheet items							
Commitments		-	-	-	-	-	-

41 SEGMENT INFORMATION

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

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

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

	December 31, 2010				
	Finance lease	Loans and receivable	Investment	Others	Total
	Rupees				
Segment revenue	73,468,889	11,197,719	799,446	124,919	85,590,973
Segment profit	33,520,971	9,544,399	799,446	279,339	44,144,155
Segment result					44,144,155
Unallocated cost					
Finance cost	-	-	-	-	46,823,680
Administrative and selling expenses	-	-	-	-	44,708,790
					91,532,470
Loss before income tax					
Income tax expense	-	-	-	-	(47,388,315)
Loss for the year					2,397,778
					(49,786,093)
Other information					
Segment assets	843,012,180	74,154,121	28,659,977	-	945,826,278
Unallocated assets	-	-	-	43,809,569	43,809,569
Total assets					989,635,847
Segment liabilities	438,539,657	-	-	-	438,539,657
Unallocated liabilities	-	-	-	247,432,656	247,432,656
Total liabilities					685,972,313
Net assets					303,663,534
Capital expenditure	-	-	-	13,243,116	13,243,116

41.1 Revenue reported above represents revenue generated from external customers. There are no inter-segment sales.

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

	December 31, 2009				
	Finance lease	Loans and receivable	Investment	Others	Total
	Rupees				
Segment revenue	105,362,806	17,646,875	402,090	459,985	123,871,756
Segment results	55,684,399	17,061,346	(4,272,360)	1,048,225	69,521,610
Segment result					69,521,610
Unallocated cost					
Finance cost	-	-	-	-	92,450,754
Administrative and selling expenses	-	-	-	-	47,631,161
					140,081,915
Loss before income tax					(70,560,305)
Income tax expense	-	-	-	-	(812,032)
Loss for the year					(69,748,273)
Other information					
Segment assets	1,402,779,914	107,704,409	36,473,714	-	1,546,958,037
Unallocated assets	-	-	-	43,818,631	43,818,631
Total assets					1,590,776,668
Segment liabilities	749,268,685	-	-	-	749,268,685
Unallocated liabilities	-	-	-	490,244,618	490,244,618
Total liabilities					1,239,513,303
Net assets					351,263,365
Capital expenditure	-	-	-	6,699,741	6,699,741

42 RISK MANAGEMENT

The company is primarily exposed to credit risk, liquidity risk and market risk. The company has designed and implemented a framework of controls to identify, monitor and manage these risks as follows:

42.1 Credit risk

Credit risk is the risk that one party to financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly effected by changes in economics, political and other conditions. Concentration of credit risk indicate the relative sensitivity of the company's performance to developments affecting a particular industry.

The company manages its credit risk by monitoring credit exposure, limiting transaction with specific counter party and continually assessing the credit worthiness of counter parties. Management considers that all the financial assets that are neither past due nor impaired are of good credit quality. The maximum exposure of the company to credit risk at reporting date without taking account any collateral held or other credit enhancements is as follows:

	Note	2010 Rupees	2009 Rupees
Classes of financial assets - carrying value			
Cash and cash equivalent			
Cash and bank balances	5	**11,902,663**	22,447,059
Loans and receivables			
Loans and advances	6	**2,173,860**	1,926,959
Trade deposits	7	**214,700**	85,900
Interest accrued	8	**227,214**	404,440
Long-term finances and loans	11	**76,676,248**	109,848,788
Long-term deposits	13	**773,822**	914,322
Net investment in finance leases	12	**843,012,180**	1,402,779,914
Available-for-sale financial assets			
Investments - available-for-sale	9	**28,659,977**	36,473,714
		963,640,664	1,574,881,096

42.2 The credit risk to cash and cash equivalent is negligible, since the counter parties are reputable banks with high quality external credit rating.

42.3 Loans and receivables of the company are secured by collaterals that are disclosed in their relevant notes.

42.4 The company manages concentration of credit risk exposure through diversification of activities to avoid undue concentrations of risks with individuals, groups of specific industry segment. An analysis by class of business of the company's net investments in finance leases and long-term loans and finances is given below:

Sector	2010 Rupees	2010 %	2009 Rupees	2009 %
Cargo Carriers	**71,990,194**	**6.21**	92,596,904	5.71
Chemicals & Pharma	**27,863,815**	**2.40**	42,919,280	2.65
Communication	**17,388,019**	**1.50**	45,908,674	2.83
Construction and Building Products	**84,941,745**	**7.33**	100,047,836	6.17
Education	**18,533,602**	**1.60**	22,223,026	1.37
Engineering	**45,257,654**	**3.91**	67,464,286	4.16
Entertainment	**33,092,434**	**2.86**	41,853,459	2.58
Film Processing	**96,576,028**	**8.33**	135,944,063	8.38
Fisheries	**1,543,732**	**0.13**	2,017,022	0.12
Food and Beverages	**76,124,507**	**6.57**	97,785,412	6.03
Furniture	**705,102**	**0.06**	1,016,247	0.06
Gems & Jewelry	**2,202,865**	**0.19**	2,202,865	0.14
Healthcare	**32,736,091**	**2.82**	69,366,685	4.28
Leather & Tannery	**2,307,337**	**0.20**	3,197,201	0.20
Miscellaneous	**155,813,974**	**13.45**	217,465,181	13.40
Oil & Gas	**148,110,784**	**12.78**	246,238,474	15.18
Printing & Packaging	**99,237,253**	**8.56**	131,269,586	8.09
Public Transport Services	**134,571,250**	**11.61**	142,183,665	8.76
Rubber & Plastic	**18,255,289**	**1.58**	31,069,817	1.91
Textile & Garment	**91,564,033**	**7.90**	129,824,667	8.00
	1,158,815,708	**100**	1,622,594,350	100

42.5 Analysis of financial assets that are past due:

	2010		
	Total	**Loans and receivables**	**Net investment in finance lease**
Gross carrying amount	Rupees		
Not past due	629,505,975	34,387,971	595,118,004
Past due by more than 180 days	27,034,697	3,352,213	23,682,484
Past due by more than 180 days but not more than 360 days	28,842,465	4,240,240	24,602,225
Past due by more than 360	340,272,244	36,503,107	303,769,137
	1,025,655,381	78,483,531	947,171,850
Impairment loss on			
Past due by more than 180 days	-	-	-
Past due by more than 180 days but not more than 360 days	-	-	-
Past due by more than 360 days	105,966,953	1,807,283	104,159,670
Total impairment loss	105,966,953	1,807,283	104,159,670
Net carrying amount	919,688,428	76,676,248	843,012,180

42.6 Analysis of financial assets that are past due:

	2009		
	Total	**Loans and receivables**	**Net investment in finance lease**
Gross carrying amount	Rupees		
Not past due	951,245,575	59,598,261	891,647,314
Past due by more than 180 days	101,663,908	5,703,894	95,960,014
Past due by more than 180 days but not more than 360 days	110,634,537	16,530,531	94,104,006
Past due by more than 360	411,337,076	26,056,744	385,280,332
	1,574,881,096	107,889,430	1,466,991,666
Impairment loss on			
Past due by more than 180 days	-	-	-
Past due by more than 180 days but not more than 360 days	-	-	-
Past due by more than 360 days	64,520,135	308,383	64,211,752
Total impairment loss	64,520,135	308,383	64,211,752
Net carrying amount	1,510,360,961	107,581,047	1,402,779,914

42.7 Financial assets that are past due and impaired are disclosed in notes . Impairment is determined after considering the forced sale value of the collateral held.

42.8 Carrying values of financial assets that would otherwise be past due or impaired whose terms have been renegotiated are:

	2010 Rupees	2009 Rupees
Net investment in finance leases	**843,012,180**	1,402,779,914

42.9 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the company could be required to pay its liabilities earlier than expected or difficulties in raising funds to meet commitments associated with financial liabilities as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding impact of netting agreements:

	2010				
Financial liabilities	Within 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
	Rupees				
Accrued and other liabilities	**8,369,622**	**-**	**-**	**-**	**8,369,622**
Interest accrued	**5,012,634**	**-**	**-**	**-**	**5,012,634**
Short-term borrowings	**108,032,762**	**-**	**-**	**-**	**108,032,762**
Provision for compensated absences	**-**	**808,725**	**113,309**	**-**	**922,034**
Certificates of investment	**550,000**	**6,694,795**	**6,000,000**	**-**	**13,244,795**
Long-term finances	**3,581,999**	**2,060,065**	**6,366,331**	**-**	**12,008,395**
Privately placed Term Finance Certificates	**58,333,334**	**28,739,172**	**-**	**-**	**87,072,506**
Liabilities against assets subject to finance lease	**683,043**	**683,043**	**-**	**-**	**1,366,085**
Long-term deposits	**81,092,093**	**71,728,080**	**280,353,023**	**-**	**433,173,196**
Deferred liability - gratuity	**-**	**-**	**-**	**3,363,619**	**3,363,619**
	265,655,487	**110,713,880**	**292,832,663**	**3,363,619**	**672,565,648**

	2009				
Financial liabilities	Within 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
	Rupees				
Accrued and other liabilities	11,559,297	-	-	-	11,559,297
Interest accrued	12,529,336	-	-	-	12,529,336
Short-term borrowings	116,739,950	-	-	-	116,739,950
Provision for compensated absences	-	588,923	196,308	-	785,231
Certificates of investment	2,660,259	560,522	-	-	3,220,781
Long-term finances	68,110,810	63,519,909	4,590,901	-	136,221,620
Privately placed Term Finance Certificates	57,050,832	58,333,332	87,500,006	-	202,884,170
Liabilities against assets subject to finance lease	581,442	581,442	860,305	-	2,023,189
Long-term deposits	225,330,270	86,373,000	428,317,959	-	740,021,229
Deferred liability - gratuity	-	-	-	2,407,266	2,407,266
	494,562,196	209,957,128	521,465,479	2,407,266	1,228,392,069

43 MARKET RISK

Market risk is the risk that the value of a financial instruments will fluctuate as a result of changes in interest rates or market prices due to a change in credit rating of the issuer of the instrument, change in market sentiments, speculative activities, activities, supply and demand of securities and liquidity in the market. The company is not exposed to currency risk as it is not involved in foreign currency transactions. However, it is exposed to interest rate risk and market price risk.

43.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to changes in market interest rates through most of its short and long finances, borrowings and net investment in lease.

43.2 Cash flow sensitivity analysis for variable rate instruments

As on December 31, 2010 the short and long-term finances, borrowings and net investment in lease finance have been entered into at KIBOR plus base rate. In case of 1 percent increase/decrease in KIBOR on December 31, 2010 with all other variables held constant, the net assets of the company would have been higher/lower by Rs. 3.4 million and net loss for the year would have been lower/higher by the same amount.

44 FAIR VALUE OF FINANCIAL ASSETS

The fair value of all other financial assets and financial liabilities is estimated to approximate their carrying value.

45 TRANSACTIONS WITH RELATED PARTIES

The related parties of the company include SME Bank Limited (holding company), staff provident fund, directors, key management personnel and companies in which directors are common or a director hold office. Transactions with SME Bank Limited, directors and key management personnel are disclosed in their relevant notes. Transactions with other related parties and the balances outstanding at the year end are given below:

			2010	
Name of related party	**Nature of relationship**	**Description of transaction**	**Total value of transaction**	**Closing balance**
Provident fund	Other related party	Contribution paid	427,188	-
SME Bank Limited	Holding company	Lease facility provided	8,164,143	1,247,060
		Deposit margin	8,436,723	8,436,723
		Rentals receivable	8,531,623	1,247,054
		Rentals received during the year	1,830,868	-
		Rent expense	460,464	-
Friends of Burns Centre (N.G.O.)	Common Directorship	Received placement in Certificate of Investment	5,000,000	-

			2009	
Name of related party	**Nature of relationship**	**Description of transaction**	**Total value of transaction**	**Closing balance**
Provident fund	Other related party	Contribution paid	533,539	24,124
SME Bank Limited	Holding company	Lease facility provided	8,533,146	3,323,906
		Deposit margin	9,882,723	9,882,723
		Rentals receivable	11,298,721	3,756,060
		Rentals received during the year	3,259,817	-
		Rent expense	402,660	-
Friends of Burns Centre (N.G.O.)	Common Directorship	Received placement in Certificate of Investment	1,000,000	-

46 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 23, 2011 by the Board of Directors of the company.

Arjumand A. Qazi
Chief Executive Officer

Ali A. Rahim
Director

Pattern of Shareholding

As at December 31, 2010

Shareholding From		To	Number of Shareholders	Total Shares Held	Percentage %
1	-	100	12	125	0.00%
101	-	500	193	96,301	0.30%
501	-	1,000	38	37,525	0.12%
1,001	-	5,000	40	116,991	0.37%
5,001	-	10,000	3	26,999	0.08%
10,001	-	15,000	2	25,500	0.08%
15,001	-	20,000	2	40,000	0.13%
20,001	-	25,000	1	22,500	0.07%
25,001	-	30,000	1	30,000	0.09%
45,001	-	50,000	3	146,000	0.46%
50,001	-	55,000	1	51,000	0.16%
150,001	-	155,000	1	155,000	0.48%
220,001	-	225,000	1	225,000	0.70%
410,001	-	415,000	2	820,318	2.56%
455,001	-	460,000	1	457,766	1.43%
600,001	-	1,100,000	3	2,407,275	7.52%
1,100,001	-	1,600,000	3	3,936,502	12.30%
23,100,001	-	23,600,000	1	23,405,198	73.14%
			308	**32,000,000**	**100%**

Categories of Shareholders

As at December 31, 2010

Category No.	Categories of	Numbers of Share Held	Category wise No. of Shareholders	Category wise Share Held	Percentage %
1	Individuals		281	847,068	2.65%
2	Joint Stock Companies		10	4,295,534	13.42%
3	Banks		2	24,307,548	75.96%
4	Public Sector Companies and Corporations		1	525	0.00%
5	Leasing Companies		1	604,575	1.89%
6	National Investment Trust		1	1,230,477	3.85%
7	Insurance Companies		1	155,000	0.48%
8	Others		2	507,766	1.59%
9	Executives		2	51,500	0.16%
10	Directors, CEO, their spouses and minor Children		7	7	0.00%
	Mr. Rashid Akhtar Chughtai	1			0%
	Mrs. Arjumand Qazi	1			0%
	Mr. Nasser Durrani	1			0%
	Mr. Mehboob Hussain	1			0%
	Mr. Zubair Fareed Tufail	1			0%
	Mr. Masood A Naqi	1			0%
	Mr. Ali A. Rahim	1			0%
	Total		**308**	**32,000,000**	**100%**

Notes

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 9th Annual General Meeting of the Company to be held on ______________, 2011 and at any adjournment thereof.

Signed this ______________________ of ______________________ 2011.
(day) (date, month)

Signature of Member: ______________________

Folio Number: ______________________

Number of shares held : ______________________

Please affix Revenue Stamp of Rs. 5/-

Witnesses:

1. ______________________________

2. ______________________________

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, Shahra-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, Shahra-e-Faisal, Karachi.
Tel: (021) 99204751-53

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) 99204751-53 Fax: (021) 99204754 Website: www.smelease.com

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