Annual Report 2012

SME Leasing Limited

(A subsidiary of SME Bank Ltd.)

Mission Statement

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

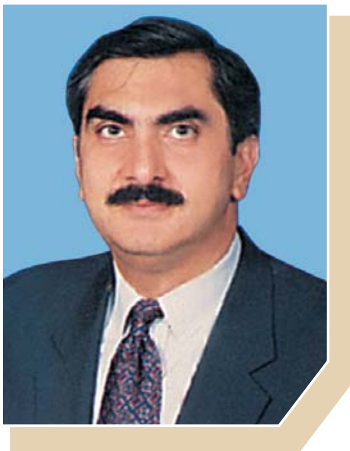
To have a client focused strategy and develop the approach and expertise in SME's that will set an example and lead the way for the financial industry to serve the SME's on a commercial basis.

Vision Statement

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

Contents

Board of Directors



- Mr. Nasser Durrani
  Chairman

- Ms. Mehnaz Kaludi
  Director

- Mr. Ali A. Rahim
  Chief Executive / Director

- Mian Tahir Bashir
  Director

- Mr. Junaid Mohmand
  Director

- Mr. Atiq ur Rehman
  Director

- Mr. Sajjad Ahmed Warrich
  Director

Corporate Information

BOARD OF DIRECTORS

Mr. Naseer Durrani	Chairman
Mr. Ali A. Rahim	Chief Executive Officer
Ms. Mehnaz Kaludi	
Mr. Junaid Mohmand	
Mian Tahir Bashir	
Mr. Ateeq Ur Rehman	
Mr. Sajjad Ahmed Warrich *	

* Subject to approval of the SECP.

AUDIT COMMITTEE

Mr. Ateeq Ur Rehman	Chairman
Mian Tahir Bashir	Member
Ms. Mehnaz Kaludi	Member
Ms. Shafque Akhter	Committee Secretary

HUMAN RESOURCE COMMITTEE

Ms. Mehnaz Kaludi	Chairperson
Mr. Nasser Durrani	Member
Mr. Junaid Mohmand	Member

Corporate Information

COMPANY SECRETARY & CFO
Mr. Tanveer Ul Bari

EXTERNAL AUDITORS
KPMG Taseer Hadi & Co.
Chartered Accountants

INTERNAL AUDITOR
Ms. Shafque Akhter

TAX CONSULTANT
Earnst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

LEGAL ADVISOR
Mohsin Tayebaly & Company,
Advocate & Legal Consultant

CREDIT RATING
Long-term: BBB – Short-term: A-2

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

MAIN OFFICE
Office # 304, 3rd Floor
Business Arcade,
Shahra-e-Faisal, Karachi.
Tel: (+92-21) 34322128-129-137
Fax: (+92-21) 34322082
E-mail: info@smelease.com

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

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

Branch Network

KARACHI

Main Branch:	Office # 304, 3rd Floor Business Arcade, Shahra-e-Faisal, Karachi.
F.B. Area Branch:	Office No. 9, Rahimabad, Block-14, F.B. Area, Shara-e-Pakistan. Phone: 021-99246458, 36807584 Fax: 021-36806940
HYDERABAD	M-06, Mezzanine Floor, Rabi Shopping Centre, Cantonment Area, Saddar. Phone: 022-9200747 Fax: 022-9201060

LAHORE

Gulberg Branch:	13-L, Mini Market, Gulberg-II. Phone: 042-35714499 Fax: 042-35295424
Allama Iqbal Town Branch:	Office No. 03, 2nd Floor, Sky Centre, Karim Block, Allama Iqbal Town Road. Phone: 042-35295423 Fax: 042-35295424
ISLAMABAD	Office No. 15, 2nd Floor, Rehmat Centre, I-8 Markaz. Phone: 051-9257524 Fax: 051-9257520
SIALKOT	Small Industrial Estate Uggoki Road, Shahabpura. Phone: 052-3257138 Fax: 052-3257138
PESHAWAR	34, Ground Floor, State Life Building, The Mall, Peshawar Cantt. Phone: 091-9211683 Fax: 091-9211683

Notice of the 11th Annual General Meeting

Notice is hereby given that the Eleventh Annual General Meeting of the shareholders of SME Leasing Limited (the Company) will be held at Hotel Crown Plaza, Islamabad on Tuesday, April 30, 2013 at 3:30 pm to transact the following business:

ORDINARY BUSINESS.

1. To confirm the minutes of the 10th Annual General Meeting of the Company held on April 30, 2012.

2. To receive, consider and adopt the audited Financial Statements of the Company for the year ended December 31, 2012 together with the Directors' and Auditors' Reports thereon.

3. To appoint auditors for the year ending December 31, 2013 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, 2013.

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

By Order of the Board

Tanveer-ul-Bari
Company Secretary

Karachi: April 5, 2013

Notes:

1. The Register of the members of the Company will remain closed from April 23, 2013 to April 30, 2013 (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 Office No: 304,3rd Floor, Business Arcade, Shahrah-e-Faisal, Karachi not less than 48 hours before the time of holding the meeting.

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

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

For attending the meeting.

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

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

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 Office No: 304, 3rd Floor, Business Arcade, Shahra-e-Faisal, Karachi.

Directors' Report

The Board of Directors of SME Leasing Limited (the Company) is pleased to present before you the annual report and audited financial statements for the year ended December 31, 2012.

Financial Highlights

An analysis of the key operating results for 2012 and their comparison with the results of the previous year is given below:

	2012 Rupees	2011 Rupees
Gross revenue	**45,826,639**	59,718,636
Operating Expenses	**(61,319,110)**	(78,018,992)
(Loss) before provisions	**(15,492,471)**	(18,300,356)
Provisions	**(13,366,053)**	(43,642,301)
(Loss) before taxation	**(28,858,524)**	(61,942,657)
Taxation:		
Current	**(229,133)**	(597,244)
(Loss) after taxation	**(29,087,657)**	(62,539,901)
Earnings per share - basic and diluted	**(0.91)**	(1.95)

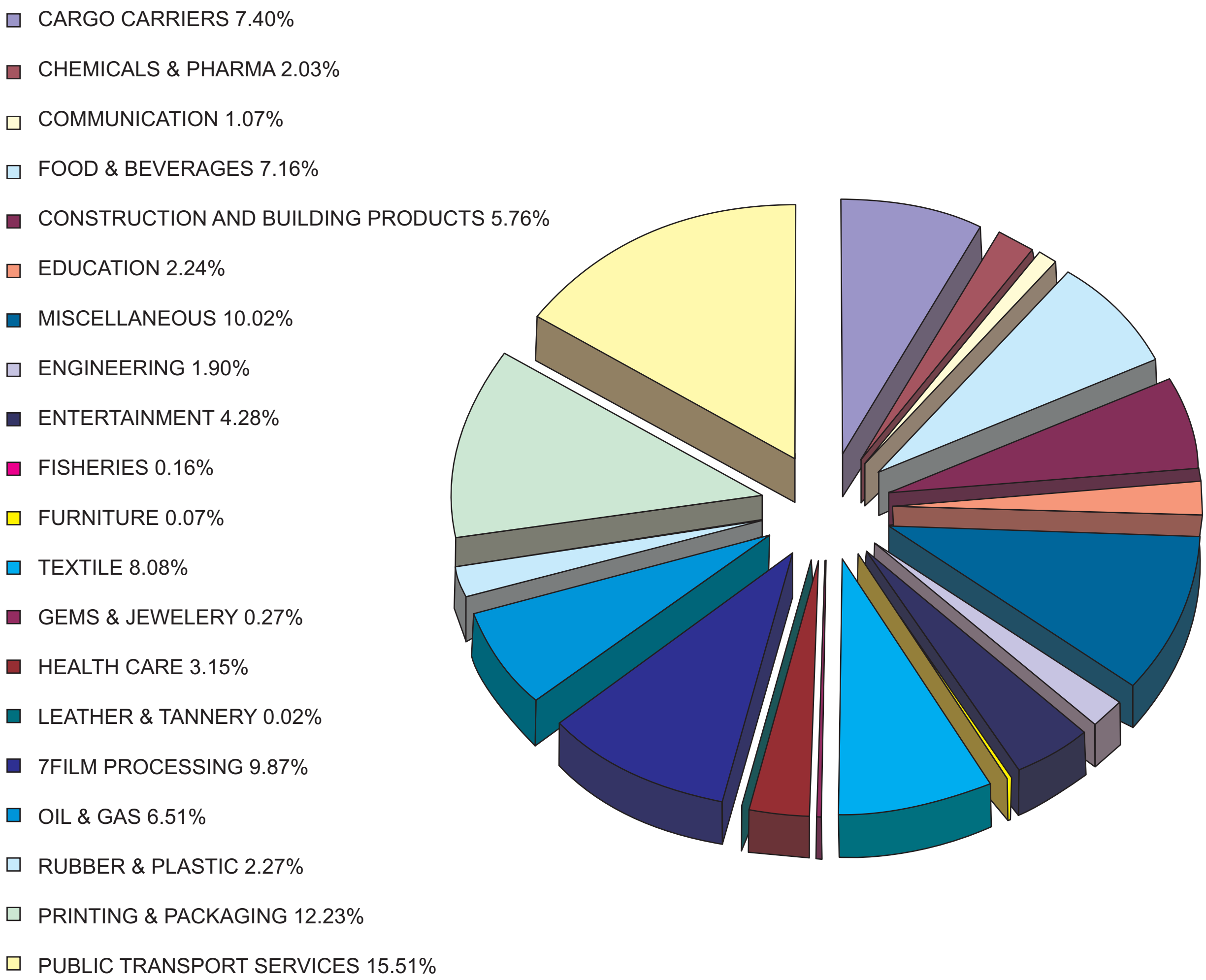
Dividend

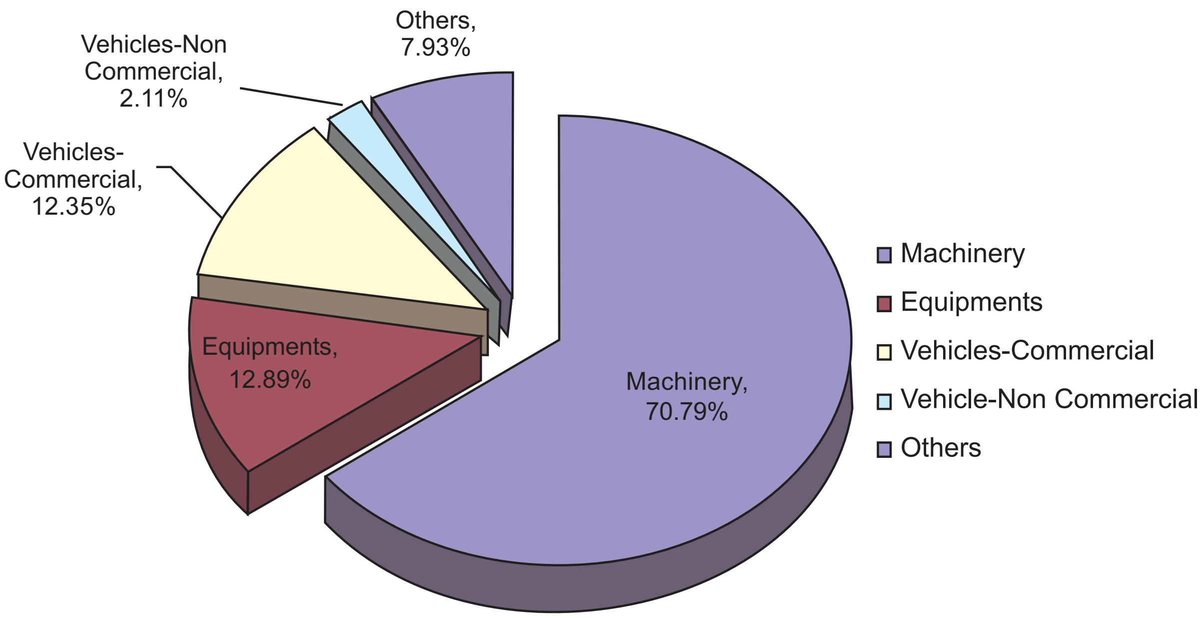
In view of loss during the year, the Board has not recommended any dividend for the year under review.

Economic & Operating review

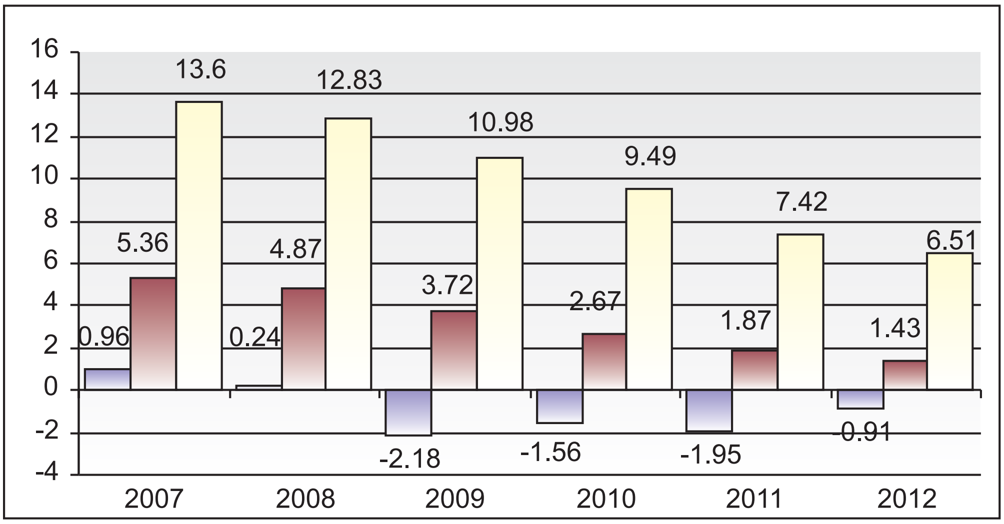
The economic situation of the country remained over burdened during the year 2012 by the internal and external factors that are causing constant decline in various economic growth factors since last few years. Excessive borrowing by the Government to finance its fiscal deficit, deprived law and order situation, war against terror, political instability and energy crises etc have continued to impact the economic activities.

Despite recent reduction in the bench mark discount rate, business sentiments remained negative for the NBFC sector impacting their business volumes and operating activities. Commercial banks are still reluctant in taking exposure with the sector; nevertheless, going forward any further reduction would induce the commercial banks to divert their funds towards sectors other than the Government, which will improve the overall business sentiments. NBFI & Modaraba Association of Pakistan is in constant negotiations with the Regulatory Authorities for working out solutions to overcome this challenging phase and to improve liquidity position of the sector.


CARGO CARRIERS 7.40%
CHEMICALS & PHARMA 2.03%
COMMUNICATION 1.07%
FOOD & BEVERAGES 7.16%
CONSTRUCTION AND BUILDING PRODUCTS 5.76%
EDUCATION 2.24%
MISCELLANEOUS 10.02%
ENGINEERING 1.90%
ENTERTAINMENT 4.28%
FISHERIES 0.16%
FURNITURE 0.07%
TEXTILE 8.08%
GEMS & JEWELERY 0.27%
HEALTH CARE 3.15%
LEATHER & TANNERY 0.02%
7FILM PROCESSING 9.87%
OIL & GAS 6.51%
RUBBER & PLASTIC 2.27%
PRINTING & PACKAGING 12.23%
PUBLIC TRANSPORT SERVICES 15.51%


Others, 7.93%
Vehicles-Non Commercial, 2.11%
Vehicles-Commercial, 12.35%
Equipments, 12.89%
Machinery, 70.79%
Machinery
Equipments
Vehicles-Commercial
Vehicle-Non Commercial
Others

Key Ratios



The operating activities of your company during 2012 remained low due to non-availability of fresh funding; the company remained focused on recoveries causing decline in financing portfolio and reduction in revenue. However, despite this decline the good financing portfolio and recovery efforts have kept the rentals recovery strong enough for prompt discharge of all debt obligations and booking of some new assets.

The gross revenue continues to decline in comparison to the prior year due to the shrinkage of financing portfolio caused by the factor mentioned earlier. This reduction of revenue has also impacted operating results for the year despite reduction in operating expenses. However, this reduction is mitigated by the management through strong recovery measures causing substantial reversal of suspended income and reduction in provisioning against non-performing loans in comparison to prior year.

During the year under review the company has relocated its Main Office and Islamabad Branch to other suitable locations offering notable cost reductions. Besides these the company is also working on other measures to rationalize operating expenditures for brining improvement in operating results.

Minimum equity requirements

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

The Company has been incurring losses since the year ended December 31, 2009 mainly on account of provision for non-performing loans and is observing decline in revenue due to liquidity constrain for fresh disbursements. As a result of which, the equity of the Company as at December 31, 2012 is Rs. 208.202 million which is Rs. 291.798 million short of the minimum capital requirement.

The Securities and Exchange Commission of Pakistan(SECP) has formed a Reform Committee to review the overall structure of the NBFI sector and for recommending changes necessary for the survival of the NBFI sector. The recommendations of the Committee are being reviewed by the Commission for the issuance of revised rules and it is expected that the minimum equity requirements would also be revised as most of the companies operating in the leasing sector are facing problems in complying with the applicable equity requirements.

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

Future Prospects

In the absence of any funding from commercial banks, the Company is utilizing funding available from the parent company and internal cash generation through recovery measures for its disbursements. The impact of these disbursements is not that significant on current year's financials, nevertheless, it is a step towards revival and the management is optimistic about bringing improvement in the next year's results. However, going forward, in view of the current overall economic trends, the company would remain cautious and diversified in maintaining its financing portfolio.

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

Human Resources

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

Board of Directors

On May 4, 2012 Mrs. Arjumand A. Qazi - Chief Executive officer has resigned from the office. Mr. Ali A. Rahim was appointed as Acting Chief Executive Officer and in July 2012 was replaced by Mr. M. Nadim Anwar Khan. However, Securities & Exchange Commission of Pakistan vide its letter dated August 28, 2012 has not approved the appointment of Mr.M.Nadim Anwar Khan as the Chief Executive Officer of the Company who thus resigned from the office and subsequent to year end Mr. Ali A. Rahim was appointed as Director and Acting Chief Executive Officer of the Company to fill the vacancy.

In July 2012 the previous Board completed its term and elections were held to reconstitute the Board. Mr. Dilshad Ali Ahmed, Mr. Junaid Mohmand, Mian Tahir Bashir, Mr. Ateeq Ur Rehman and Ms. Mehnaz Kaludi were elected on the Board replacing Mr. Ali A. Rahim, Mr. Nasser Durrani, Mr. Zubair Farid Tufail and, Mr. Masood Naqi. Mr. Ihsan ul Haq Khan was elected as the Chairman of the Board.

On October 22, 2012 Mr. Ihsan ul Haq Khan resigned from the Board and as Chairman of the Board. Mr. Nasser Durrani was appointed as Director and Chairman of the Board to fill the casual vacancy.

The Board wishes to place on record its appreciation for the valuable contributions made by the outgoing/retiring Directors and welcomes the new Directors.

During the year, four meetings of the Board of Directors and Board Audit Committee were held. Detail of the attendance by each member of the Board and Audit Committee are as follows:

Board of Directors Meetings

Director	Meetings attended	Director	Meetings attended
Mr. Ihsan ul Haq Khan	3	Mrs. Arjumand A. Qazi	2
Mr. Nasser Durrani	2	Mr. M. Nadim Anwar Khan	2
Mr. Mehboob Hussain	2	Mr. Zubair Farid Tufail	1
Mr. Ali A. Rahim	2	Mr. Dilshad Ali Ahmed	2
Mr. Junaid Mohmand	2	Mian Tahir Bashir	2
Mr. Masood Naqi	0	Mr. Ateeq Ur Rehman	2
Ms. Mehnaz Kaludi	2		

Audit Committee Meetings

Director	Meetings attended	Director	Meetings attended
Mr. Mehboob Hussain	2	Mr. Zubair Farid Tufail	1
Mr. Ali A. Rahim	2	Mr. Dilshad Ali Ahmed *	2
Mian Tahir Bashir	2	Mr. Ateeq Ur Rehman	2

*Subsequent to year end Mr. Dilshad Ali Ahmad has resigned from the Board. Vacancy occurred has been filled by Mr.Ali A. Rahim and Ms.Mehnaz Kaludi on the Board & Board Audit Committee respectively.

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

Corporate Governance

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

Business Ethics

The Code of conduct of the company sets out a framework for all the employees of the company to perform in the environment of integrity and honesty with complete dedication ensuring highest standards of ethical business conduct and compliance with the applicable laws.

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 in view of the mitigating factors as stated in note number 1.2 of the financial statements;
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, 2012 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, 2012 was Rs.4.34 million (un-audited) and as at December 31, 2011 was Rs. 5.31 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, 2011, the rating agency, JCR-VIS, has revised the long term entity rating to BBB- (Triple B minus) and short term of A-2 (A minus two) with negative outlook.

Parent Company

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

Auditors

The present auditors M/s. KPMG Taseer Hadi & Company, Chartered Accountants, retire and being eligible, offer themselves for re-appointment for the year ending December 31, 2013. 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 2013.

Pattern of Shareholding

The pattern of shareholding of the Company as on December 31, 2012 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,

Karachi: February 27, 2013

Nasser Durrani
Chairman

Financial Highlights

(Rupees in 000)

Balance Sheet	2012	2011	2010	2009	2008	2007
Paid-up Capital	320,000	320,000	320,000	320,000	320,000	200,000
Total Equity	208,331	237,473	303,664	351,263	410,580	435,240
Gross Lease Receivable	718,133	914,494	1,065,118	1,649,953	1,981,260	2,028,244
Net Investment in Lease	481,606	662,865	843,012	1,402,780	1,740,093	1,776,790
Long-Term Liabilities	63,568	98,820	297,074	529,821	895,906	921,757
Current Liabilities	315,155	453,190	388,898	709,693	673,422	560,362
Current Assets	472,700	582,321	519,151	633,000	757,954	656,419
Total Assets	587,054	789,483	989,636	1,590,777	1,979,908	1,917,359

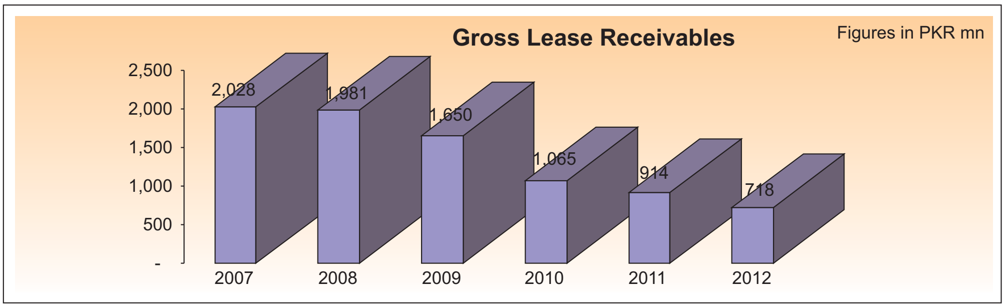
(Rupees in 000)

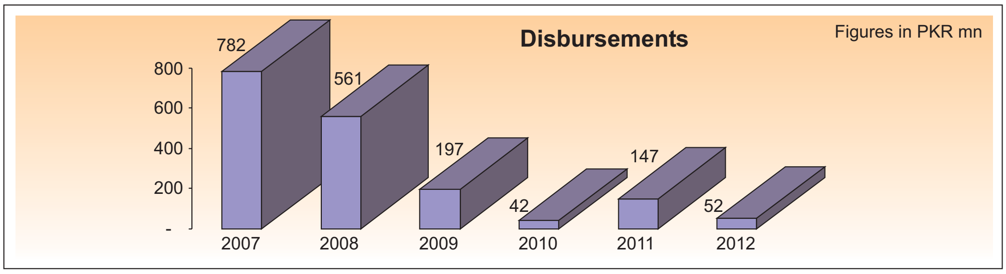
Income Statement	2012	2011	2010	2009	2008	2007
Lease Income	44,906	53,376	84,512	122,427	149,359	170,083
Total Revenue	45,827	59,718	85,591	119,197	155,855	171,486
Financial Charges	20,764	30,769	46,824	92,451	101,053	86,333
Administrative Expenses	40,555	47,249	44,709	47,631	43,630	47,081
Provisions	13,366	43,642	41,447	49,676	8,896	2,963
Total Expenses	74,685	126,661	132,979	189,758	153,579	136,376
Profit Before Taxation	(28,859)	(61,943)	(47,388)	(70,560)	2,275	35,109
Profit After Taxation	(29,088)	(62,540)	(49,786)	(69,748)	7,710	30,667

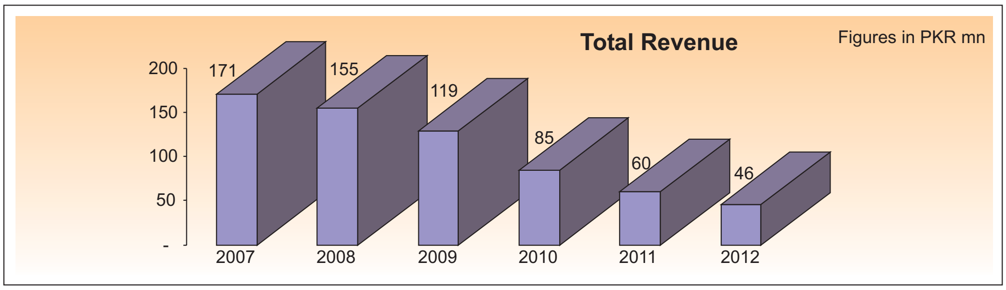
Financial Indicators	2012	2011	2010	2009	2008	2007
Breakup Value (Rs per share)	6.51	7.42	9.49	10.98	12.83	13.6
Current Ratio (X)	1.5	1.28	1.13	0.89	1.12	1.17
Debt-Equity Ratio (Times)	0.38	0.68	0.73	1.3	1.78	1.69
Earning Per Share (Rs.)	(0.91)	(1.95)	(1.56)	(2.18)	0.24	0.96
Financial Charges to Total Exps (%)	27.8	25.29	35.21	48.72	65.8	63.3
Financial Charges to Total Revenue (%)	45.31	51.52	54.71	77.56	64.84	50.34
Income Expense Ratio (Times)	0.6	0.49	0.64	0.65	0.97	1.25
Net Profit Margin (%)	(63.47)	(104.71)	(58.17)	(58.51)	4.95	17.88
Return on Average Equity (%)	(13.05)	(23.11)	(15.20)	(18.31)	1.82	7.3
Return to Shareholders (%)	0	0	0	0	7.5	0
Revenue Per Share (Rs.)	1.43	1.87	2.67	3.72	4.87	5.36

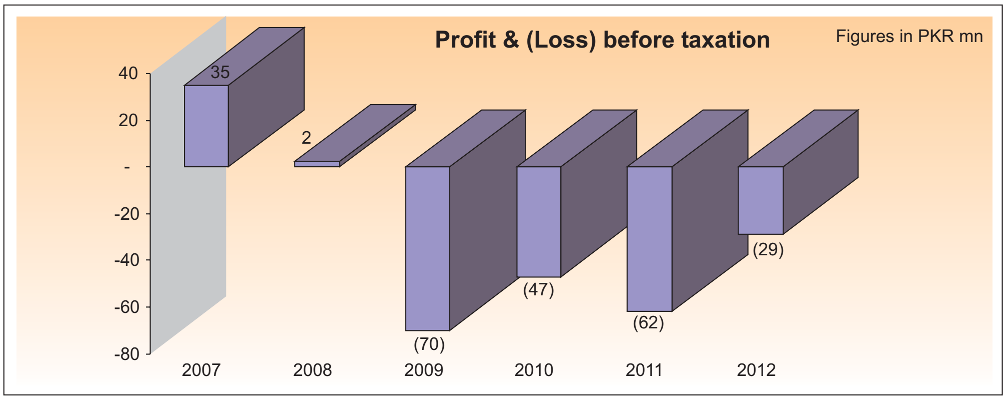
* bonus issue

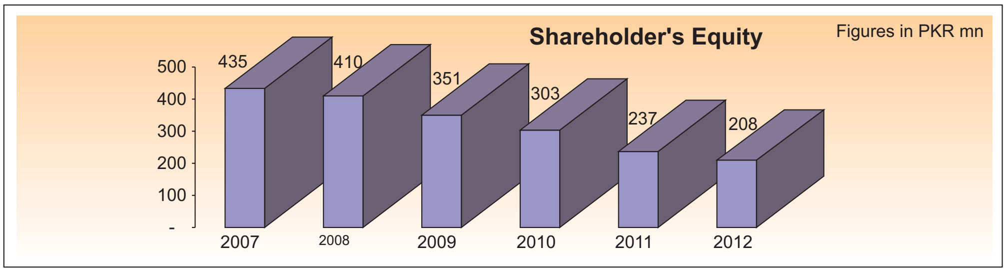
Financial Highlights and Charts











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

Code of Conduct

The Code of Conduct of SME Leasing Limited (SLL) has been prepared in accordance with the requirements of Code of Corporate Governance and other rules & policies formulated by the Company. The Code sets out fundamental policies/standards which intended to guide employees of the Company in the performance of their professional duties and responsibilities in a manner that maintains company's commitment to honesty, integrity and quality. The Code applies to all peoples related to SLL including its Directors, Officers and Employees whether permanent or contractual.

The Code of Conduct also serves as a model for the employees of the SME Leasing Limited, who are free to adopt additional measures as and when required and to integrate it into their existing codes.

The salient features of the Code are as follows;

1. **Business conduct.**

   SME Leasing Limited (SLL) is committed to conduct its business activities and to structure relationships with its customers, associates, business partners, employees and others with integrity, honesty, sincerity and professionalism.

2. **Compliance with laws and regulations.**

   All the Directors and employees must ensure to comply with all the applicable laws, guidelines and regulations of the country. This include understanding the laws and regulations relevant to their work and complying with the legal requirements effecting business activities, ignorance of the law does not excuse SLL or its employees from their obligation to comply. If in doubt advice should be taken.

3. **Competition and fair dealing.**

   SLL believes in fair competition and seeks to outperform its competitors fairly and honestly through superior performance. The company supports the appropriate competition laws. No company personnel should take unfair advantage of anyone through manipulation, concealment, or abuse of privileged information, misrepresentation of material facts, or any other intentional unfair-dealing practice.

4. **Conflict of interest.**

   Each Director and Employee shall maintain a high degree of integrity, engage in honest and ethical conduct and avoid any activity or personal interest that creates, or appears to create, a conflict between their interests and the interests of SLL. The company's assets and information should not be used for any personal advantage or gain .Where conflict of interest exists it should be disclosed and guidance sought. Conflict of interest may include followings:

   - Owing a meaningful financial interest in an organization that competes with SLL.
   - Making any transaction or dealing in which personal interests conflict, or may appear to conflict, with the interest of SLL.
   - Insider dealings, bribes, kickbacks or acceptance of compensation from any other person or entity as a result of business activity or prospective business activity affecting SLL.

5. **Gifts and favors**

   Nothing shall be given or received in any type of material gift, cash or in kind, token or favor that could reasonably be viewed as having the potential to influence engagement or conduct of business in relation to particular customer, community, vendor, supplier or competitor.

Code of Conduct

6. Political contributions and activities.

SLL does not support any political party and is prohibited from making any political contribution either directly or indirectly promoting party interests.

7. Human rights and dignity of the individuals.

SLL respect and promote the equality of opportunity regardless of gender, race, disability, color, and marital status, ethnic and national origin. Policies pertaining to recruitment and promotions are excellence and performance oriented and is free from any discrimination.

8. Guarding Corporate Assets.

Company's assets shall be used for company business only. Without specific approval no one is allowed to use company's property for any non- company purpose.

9. Communication & disclosure.

SLL encourages its employees to communicate with their seniors or any appropriate person in regard to doubt(s) about a course of action in any situation. Any suspected material violation of a law, regulation or ethical standard and internal policies must be reported to appropriate level without any fear of vengeance.

Statement of Compliance

With the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No.35 of 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 CCG 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:

Category	**Names**
Independent Directors	1. Mr. Ateeq ur Rehman 2. Ms. Mehnaz Kaludi
Non-Executive Directors	1. Mr. Nasser Durrani 2. Mr. Junaid Mohmand 3. Mian Tahir Bashir 4. Mr. Sajjad Ahmad Warraich*
Executive Director	1. Mr. Ali A Rahim*

The independent Directors meet the criteria of independence under clause i(b) of the CCG.

* These directors were appointed on the Board subsequent to 31 December 2012.

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

3. All the resident directors of the Company 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. Casual vacancy occurred on the Board on 22 October 2012 was filled on 20 December 2012. Further, casual vacancy which occurred in the Office of the Chief Executive on 6 June 2012 due to resignation of Mrs. Arjumand A. Qazi which was filled on the same date by the appointment of Mr. Ali A. Rahim as Acting CEO. Mr. Ali A. Rahim was replaced by Mr. M. Nadeem Anwar Khan on 23 July 2012 subject to the approval by the Securities and Exchange Commission of Pakistan (SECP). SECP vide its letter dated 28 August 2012 did not approve the appointment of Mr. M. Nadeem Anwar Khan however, the matter remained under discussion with SECP for some time and on 27 December 2012 Mr. M. Nadeem Anwar Khan tendered his resignation, which was accepted by the Board on 8 January 2013.

5. The Company has prepared a "Code of Conduct" as specified under CCG 2012 and has ensured that appropriate steps are being taken to disseminate it throughout the company along with its supporting policies and procedures.

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 and other executive directors, have been taken by the Board.

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

9. Directors are conversant of the relevant laws applicable to the Company, its policies and procedures and provisions of the Memorandum & Articles of Association and are aware of their duties and responsibilities. However, in order to apprise them of material changes if any, in relevant laws same were placed in Board Meetings. Moreover, in accordance with the requirement as specified in clause (XI) of the Code of Corporate Governance the directors' training programs will be arranged in the next year.

10. The existing Chief Financial Officer who is also the Company Secretary continues to serve as per his terms of appointment as approved by the Board. The Board has entrusted the additional task of Internal Audit function to Head of Compliance.

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

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

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 of Corporate Governance.

15. The Board has formed an Audit Committee. It comprises of three members, two of whom are non-executive Directors while Chairman of the Committee is an independent Director.

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

17. The Board has formed a Human Resource and Remuneration Committee. It comprises three members, of whom one is independent Director, two including Chairman of the Committee are non-executive Directors.

18. The Board has set up an effective internal audit function. The Head of Compliance, who is conversant with the policies and procedures of the Company, is entrusted with the additional task of Internal Audit function till the appointment of Head of Internal Audit.

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

20. 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.

21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of the company's securities, was determined and intimated to Directors, employees and stock exchange.

22. Material /price sensitive information has been disseminated among all market participants at once through stock exchanges.

23. We confirm that all other material principles contained in the CCG have been complied with.

For. SME Leasing Limited

Ali A. Rahim
Chief Executive Officer

Karachi : February 27, 2013

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

Review Report to the Members

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

KPMG

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

Telephone + 92 (21) 3568 5847
Fax + 92 (21) 3568 5095
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We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance ("Statement of Compliance") prepared by the Board of Directors of **SME Leasing Limited** ("the Company") to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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 (x) of Listing Regulations 35 notified by The Lahore Stock Exchange (Guarantee) Limited requires the Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevailed in arm's length transactions and transaction which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

We draw attention to paragraph 5 and 18 of the Statement of Compliance with the Code of Corporate Governance which more fully explains the non compliance and progress being made, in certain cases, to seek compliance with Code of Corporate Governance relating to dissemination of "Code of Conduct" throughout the Company and "appointment of a independent Head of internal audit", respectively.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 31 December 2012.

KPMG Taseer Hadi & Co.

Date: 27 February 2013
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Auditors' Report to the Members

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
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We have audited the annexed balance sheet of **SME Leasing Limited** ("the Company") as at 31 December 2012 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

b) in our opinion:

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

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

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of the loss, its cash flows and changes in equity for the year then ended; and

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

We draw attention to note 1.2 to the financial statements, which explains that the Company has not complied with the minimum equity requirements of the Non- Banking Finance Companies and Notified Entities Regulations, 2008 issued by the Securities and Exchange Commission of Pakistan. This condition, along with other matters as set forth in the above referred note; indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. However ,the financial statement have been prepared on the basis of going concern as the management, considering the mitigating factors mentioned in the above referred note including availability of financing from the parent company, is confident that the Company will be able to continue its business in the foreseeable future. Our opinion is not qualified in respect of this matter.

Kpmg Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

Date: 27 February 2013
Karachi

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

Balance Sheet

As at 31, December 2012

	Note	2012 Rupees	2011 Rupees
ASSETS			
Current assets			
Cash and bank balances	4	7,191,492	10,415,717
Advances	5	1,469,279	1,634,933
Deposits, prepayments and other receivables	6	1,716,969	2,937,423
Accrued interest on loans		557,555	326,166
Investments	7	3,809,433	3,863,500
Current maturity of non-current assets	8	457,954,941	563,601,645
		472,699,669	582,779,384
Non-current assets			
Long term finances and loans	9	9,669,087	24,472,848
Net investment in finance leases	10	82,582,479	158,288,976
Long term deposits and prepayments	11	1,299,022	1,382,511
Fixed assets	12	20,804,081	23,017,281
		114,354,669	207,161,616
Total assets		587,054,338	789,941,000
LIABILITIES			
Current liabilities			
Accrued and other liabilities	13	6,839,103	7,864,521
Accrued mark-up on borrowings	14	1,704,444	3,204,749
Short term borrowings	15	55,758,690	108,856,366
Short term certificates of investment	16	8,112,646	757,413
Current maturity of non-current liabilities	17	229,553,091	319,115,487
Provision for compensated absences		837,805	1,267,000
Advance tax net of provisions		12,349,697	12,582,608
		315,155,476	453,648,144
Non-current liabilities			
Long term finances	18	3,540,531	14,111,528
Long term certificates of investment	16	200,000	6,000,000
Liabilities against assets subject to finance lease	19	1,109,025	2,102,921
Long term deposits	10	55,798,107	72,496,595
Deferred liabilities	20	2,920,217	4,109,106
		63,567,880	98,820,150
Total liabilities		378,723,356	552,468,294
NET ASSETS		208,330,982	237,472,706
FINANCED BY			
Authorised share capital 100,000,000 (31 December 2011: 100,000,000) ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid-up capital	21	320,000,000	320,000,000
Reserves		48,466,329	48,466,329
Accumulated loss		(160,264,780)	(131,177,123)
		208,201,549	237,289,206
Surplus on revaluation of available-for-sale investments - net		129,433	183,500
Total shareholder's equity		208,330,982	237,472,706
COMMITMENTS	22		

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

Ali A. Rahim
Chief Executive Officer

Mehnaz Kaludi
Director

Profit and Loss Account

For the year ended 31, December 2012

	Note	2012 Rupees	2011 Rupees
INCOME			
Income from leasing operations	23	**44,906,045**	53,376,309
OTHER OPERATING INCOME			
Profit on bank accounts / return on investments	24	**467,304**	6,190,179
Other income	25	**453,290**	152,148
		920,594	6,342,327
		45,826,639	59,718,636
EXPENSES			
Administrative and operating expenses	26	**40,555,127**	47,249,654
Finance cost	27	**20,763,983**	30,769,338
		61,319,110	78,018,992
		(15,492,471)	(18,300,356)
PROVISIONS			
Provision for potential lease losses - net	10.1.2	**11,448,821**	42,541,419
Provision for doubtful finances and loans - net	9.3	**1,917,232**	1,100,882
		13,366,053	43,642,301
Loss before taxation		**(28,858,524)**	(61,942,657)
Taxation	28	**(229,133)**	(597,244)
Loss for the year		**(29,087,657)**	(62,539,901)
Loss per share - basic and diluted	29	**(0.91)**	(1.95)

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

Ali A. Rahim
Chief Executive Officer

Mehnaz Kaludi
Director

Statement of Comprehensive Income

For the year ended 31, December 2012

	2012 Rupees	2011 Rupees
Loss after tax	**(29,087,657)**	(62,539,901)
Other comprehensive income		
(Loss) / surplus on revaluation of available-for-sale investments	**(54,067)**	183,500
Surplus on revaluation of available-for-sale investments transferred to profit and loss account on disposal	**-**	(3,834,427)
	(54,067)	(3,650,927)
Total comprehensive loss for the year	**(29,141,724)**	(66,190,828)

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

Ali A. Rahim
Chief Executive Officer

Mehnaz Kaludi
Director

Cash Flow Statement

For the year ended 31, December 2012

	Note	2012 Rupees	2011 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		**(28,858,524)**	(61,942,657)
Adjustments for:			
- Depreciation and amortisation		**2,349,262**	2,806,501
- Gratuity		**1,226,569**	1,164,195
- Finance cost		**20,289,999**	30,399,385
- Profit on bank accounts / return on investments		**(556,618)**	(424,318)
- Gain on disposal of available-for-sale investment		**-**	(5,765,861)
- Lease finance charges		**473,984**	369,953
- (Gain) / loss on disposal of fixed assets		**(363,976)**	104,468
- Provision for potential lease losses		**11,448,821**	42,541,419
- Provision for doubtful finances and loans		**1,917,232**	1,100,882
		36,785,273	72,296,624
Operating profit before working capital changes		**7,926,749**	10,353,967
Movement in working capital			
(Increase) / decrease in operating assets			
- Accrued interest on loans		**(231,389)**	(98,952)
- Decrease in net investment in finance leases		**169,810,033**	137,605,647
- Deposits and prepayments		**1,220,454**	(606,603)
- Long term deposits and prepayments		**83,489**	(176,976)
- Advances		**165,654**	538,927
		171,048,241	137,262,043
(Decrease) / increase in operating liabilities			
- Provision for compensated absences		**(429,195)**	344,966
- Long term deposits received		**(85,135,550)**	(74,613,301)
- Accrued and other liabilities		**(1,025,418)**	(505,101)
		(86,590,163)	(74,773,436)
Cash generated from operations		**92,384,827**	72,842,574
- Decrease in long term finances and loans		**12,980,876**	(7,922,989)
- Financial charges paid		**(21,790,304)**	(32,207,270)
- Interest received		**556,618**	424,318
- Gratuity paid		**(2,415,458)**	(418,708)
- Taxes paid		**(462,045)**	(1,421,301)
		(11,130,313)	(41,545,950)
Net cash flows from operating activities		**81,254,514**	31,296,624
CASH FLOW FROM INVESTING ACTIVITIES			
- Capital expenditure		**(251,536)**	(9,500)
- Proceeds from disposal of fixed assets		**1,429,450**	357,000
- Investment made		**-**	(7,000,000)
- Proceeds from disposal of investments		**-**	33,911,411
Net cash flows from investing activities		**1,177,914**	27,258,911
CASH FLOW FROM FINANCING ACTIVITIES			
- Decrease in long-term finances		**(31,611,884)**	(52,947,961)
- Increase in certificates of investment		**1,555,233**	(6,487,382)
- Lease rentals paid		**(2,502,326)**	(1,430,742)
Net cash flows used in financing activities		**(32,558,977)**	(60,866,085)
Net increase in cash and cash equivalents		**49,873,451**	(2,310,550)
Cash and cash equivalents at beginning of the year		**(98,440,649)**	(96,130,099)
Cash and cash equivalents at end of the year	31	**(48,567,198)**	(98,440,649)

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

Ali A. Rahim
Chief Executive Officer

Mehnaz Kaludi
Director

Statement of Changes in Equity

For the year ended 31, December 2012

		Capital reserves		Revenue reserves			
	Issued, subscribed and paid-up capital	Share premium	Statutory reserve	Reserve against future losses	Accumulated loss	Surplus / (deficit) on revaluation of available-for-sale investments	Total shareholder equity
	-------------------(Refer note 3.17)-------------------						
	---------- (Rupees) ----------						
Balance as at 1 January 2011	320,000,000	10,000,000	28,019,277	10,447,052	(68,637,222)	3,834,427	303,663,534
Total comprehensive income for the year ended 31 December 2011							
Loss for the year	-	-	-	-	(62,539,901)	-	(62,539,901)
Other comprehensive income							
Surplus on revaluation of available-for-sale investments - net	-	-	-	-	-	(3,650,927)	(3,650,927)
Balance as at 31 December 2011	320,000,000	10,000,000	28,019,277	10,447,052	(131,177,123)	183,500	237,472,706
Total comprehensive income for the year ended 31 December 2012							
Loss for the year	-	-	-	-	(29,087,657)	-	(29,087,657)
Other comprehensive income							
Deficit on revaluation of available-for-sale investments - net	-	-	-	-	-	(54,067)	(54,067)
Balance as at 31 December 2012	**320,000,000**	**10,000,000**	**28,019,277**	**10,447,052**	**(160,264,780)**	**129,433**	**208,330,982**

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

Ali A. Rahim
Chief Executive Officer

Mehnaz Kaludi
Director

Notes to the Financial Statements

For the year ended 31, December 2012

1. STATUS AND NATURE OF BUSINESS

1.1 SME Leasing Limited (the Company) was incorporated in Pakistan on 12 July 2002 as an unlisted public company and acquired the status of a listed company on 13 December 2006. The Company is a subsidiary of SME Bank Limited (holding company), which holds 73.14% (31 December 2011: 73.14%) of the Company's shares. At the time of incorporation, the Company was a wholly owned subsidiary of SME Bank Limited, whereby under an arrangement the assets and liabilities of the leasing division of SME Bank Limited were transferred to the Company on 28 January 2003. The Company is listed on Lahore Stock Exchange and its registered office is situated at 40 Jang Building, A.K. Fazal-ul-Haq Road, Blue Area, Islamabad. The core objective of the Company is to extend lease and working capital financing facilities to small and medium enterprises of the country.

1.2 Regulation 4 of Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations 2008) requires a leasing company to maintain, at all times, minimum equity of Rs. 350 million by 30 June 2011, Rs. 500 million by 30 June 2012 and Rs. 700 million by 30 June 2013. The equity of the Company as at 31 December 2012 is Rs. 208.202 million which is Rs. 291.798 million short of the minimum capital requirement. The Company has been incurring losses since year ended 31 December 2009 which has resulted in erosion of equity. During the year ended 31 December 2012, the Company has incurred a loss of Rs. 29.088 million and the accumulated losses amounts to Rs. 160.265 million as at the year end. Further, the net assets of the Company amounting to Rs. 208.331 million includes non-performing loans, net of provision, amounting to Rs. 151.208 million.

The license to conduct leasing business granted to the Company by the Securities and Exchange Commission of Pakistan (SECP) dated 30 June 2010, expiring on 20 May 2013 specifically mentions that the license is subject to consistent compliance with all the requirements of NBFC Regulations 2008.

The above factors indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and the Company may not be able to realise its assets and discharge its liabilities in the normal course of business. However, these financial statements have been prepared on going concern basis considering the factors mentioned below:

- Securities and Exchange Commission of Pakistan on the recommendation of NBF Sector Reform Committee is currently reviewing the overall regulatory regime of NBFI sector which includes considering various options relating to minimum equity requirements;

- The parent company has granted a short term running finance facility to the Company amounting to Rs. 150 million out of which Rs. 55.759 million has been utilised as at 31 December 2012 The said facility can be extended to the extent of Rs. 300 million as per the stand-by agreement for finance facility as disclosed in note 15 to these financial statements;

- The management of the Company has prepared cash flow projections which reflect that based on financial support by the parent company the Company will be able to continue its business on going concern basis in the forseeable future;

- Rigorous recovery efforts are being made to ensure recovery from the non-performing loans of the Company; and

- Efforts are also being made by the management to reduce the overall cost of the Company.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

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

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

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

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

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

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

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

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

v) Staff retirement benefits (3.4 and 20).

2.5 The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2013:

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. In financial period beginning on 1 January 2013, the Company will be required to recognise unrecognised actuarial gain and loss in other comprehensive income. The unrecognised actuarial loss in aggregate amount to Rs. 0.445 million as at 31 December 2012 (2011: 0.301 million) as disclosed in note 20.4. In addition actuarial gain and loss which are currently being recognised in profit and loss account would be required to recognised in other comprehensive income.

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

Notes to the Financial Statements

For the year ended 31, December 2012

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

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

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

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

- Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following five standards, with consequential amendments to other standards and interpretations:

- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position. The amendments have no impact on the financial statements of the Company.

- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories. The amendments have no impact on the financial statements of the Company.

- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 - Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

- IAS 34 - Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the mount disclosed in the last annual financial statements for that reportable segment.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Notes to the Financial Statements

For the year ended 31, December 2012

3.1 Cash and cash equivalents

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

3.2 Fixed assets

3.2.1 Property and equipment

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

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

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

3.2.2 Intangible

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

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

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

3.3 Assets held under finance lease

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

3.4 Staff retirement benefits

Defined contribution plan

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

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

Employees' compensated absences

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

Notes to the Financial Statements

For the year ended 31, December 2012

Defined benefit plan

The Company operates an unapproved and unfunded gratuity scheme covering all of its permanent employees who have completed the qualifying period under the scheme. The scheme is administered by the trustees and contributions therein are made in accordance with the actuarial recommendations. The valuation in this regard is carried out at each year end, using the Projected Unit Credit Method for the valuation of the scheme. Actuarial gains and losses are recognised based on actuarial recommendations.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeds 10% of the higher of present value of defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

3.5 Net investment in lease finance

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

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

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

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

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

3.6 Provision for potential lease losses and doubtful loans and receivables

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

3.7 Financial assets and liabilities

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

Financial assets carried at balance sheet date includes cash and bank balances, investments, long term finances and loans, net investment in finance leases, deposits and other receivables.

Financial liabilities carried at balance sheet date includes certificates of investment, deposits, short term borrowing, long term finances, liabilities against assets subject to finance lease, accrued and other payables.

3.8 Investments

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

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

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

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

Available-for-sale

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

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

Held to maturity

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

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

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

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

3.9 Loans and receivables

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

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

3.10 Impairment

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

3.11 Derivative financial instruments

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

3.12 Offsetting of financial assets and financial liabilities

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

Notes to the Financial Statements

For the year ended 31, December 2012

3.13 Taxation

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

Current

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

Deferred

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

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

3.14 Provisions

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

3.15 Long term finances

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

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

3.16 Foreign currency translation

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

3.17 Revenue recognition

- The Company follows the finance lease method in accounting for the recognition of lease income. Under this method, the unearned lease income i.e. the excess of gross lease rentals and the estimated residual value over the cost of the leased assets is deferred and taken to income over the term of the lease contract, so as to produce a systematic return on the net investment in finance lease. Unrealised lease income is held in suspense account, where necessary, in accordance with the requirements of the NBFC Regulations.

- Front-end fees and documentation charges are taken to income when realised.

- Income on investments is accounted for on accrual basis.

- Dividend income is recognised when the right to receive the dividend is established.

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

Notes to the Financial Statements

For the year ended 31, December 2012

- Unrealised lease income and unrealised income on loans and finances is held in suspense account, where necessary, in accordance with requirements of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations).

- Profit on bank deposit and short term placements is accrued on a time proportion basis.

- Gain or loss arising on sale of investments are taken to income in the period in which they arise.

3.18 Earnings / (loss) per share

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

3.19 Dividend distribution and transfer between reserves

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

3.20 Capital and Revenue reserves

Share premium

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

Statutory reserves

In accordance with the requirements of the NBFC Regulations, an amount of not less than 20 percent of after tax profits shall be transferred to statutory reserve till such time when the reserve equals the amount of paid-up capital, and thereafter a sum of not less than 5 percent shall be transferred. Consequently, during the current year the Company has transferred an amount of Rs. Nil (2011: Rs. Nil) to its statutory reserve.

Reserve against future losses

This reserve represents amounts set aside in view of the risks associated with the economic cyclical nature of the business and is recognised as an appropriation of retained earnings. Any credits resulting from reduction of such amounts result in an increase in unappropriated profit and are not included in the determination of profit and loss for the period. The amount to be set aside against future losses is determined at the rate of 0.5 percent of the outstanding balance of the regular portfolio of leases and loans and receivables as at each year end. No such reserve has been created by the Company for the year ended 31 December 2012.

	Note	2012 Rupees	2011 Rupees
4. CASH AND BANK BALANCES			
Cash in hand		**53,709**	39,991
Balance with State Bank of Pakistan in current account		**17,755**	9,264
Balances with banks in:			
- current accounts	4.1	**3,705,284**	6,748,146
- saving accounts	4.2	**3,414,744**	3,618,316
		7,191,492	10,415,717

4.1 These include balance with a related party amounting to Rs. 2.458 million (2011: Rs. 5.865 million).

4.2 These carry profit rate of 6% per annum (2011: 6% per annum).

Notes to the Financial Statements

For the year ended 31, December 2012

	Note	2012 Rupees	2011 Rupees
5. ADVANCES - considered good			
Advances to:			
- executives	5.1	**190,000**	242,499
- employees	5.1	**269,609**	422,041
- others		**1,009,670**	970,393
		1,469,279	1,634,933

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

	Note	2012 Rupees	2011 Rupees
6. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Security deposits		**132,200**	95,200
Prepayments		**1,331,948**	2,310,730
Receivable from Staff Provident Fund		**-**	458,010
Other receivable		**252,821**	73,483
		1,716,969	2,937,423
7. INVESTMENTS - available-for-sale			
Government securities			
- Special saving certificates	7.1	**2,500,000**	2,500,000
Mutual Funds			
- Close end mutual fund	7.2	**1,309,433**	1,363,500
		3,809,433	3,863,500

7.1 This represents investment in government securities to comply with the requirement of Regulation 14(4)(i) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008, where by the Company is required to invest in government securities at least fifteen percent of funds raised through issue of certificates of investments, excluding those held by the financial institutions. The rate of return on this investment is 11.6% to 14.2% per annum (31 December 2011: 11.6% to 14.2% per annum).

7.2 Mutual Funds - Close end mutual funds

2012 (Number of certificates)	2011 (Number of certificates)	Face value (Rupees)	Name of the investee entity	2012	2011
275,670	270,000	10	Namco Balanced Fund	**1,309,433**	1,363,500

7.3 This represents investment in 275,670 certificates (2011: 270,000) of Namco Balanced Fund, a close end mutual fund. As at 31 December 2012, the cost of the above investments amounted to Rs. 1.18 million (2011: Rs. 1.18 million).

	Note	2012 Rupees	2011 Rupees
8. CURRENT MATURITY OF NON-CURRENT ASSETS			
Current portion of :			
- Long term finances and loans	9	**58,931,160**	59,025,507
- Net investment in leases	10	**399,023,781**	504,576,138
		457,954,941	563,601,645

Notes to the Financial Statements

For the year ended 31, December 2012

	Note	2012 Rupees	2011 Rupees
9. LONG TERM FINANCES AND LOANS - secured			
Related parties - considered good			
- Employees	9.1	**1,590,776**	1,812,616
Other than related parties			
Customers	9.2		
- considered good		**34,773,492**	39,692,133
- considered doubtful		**37,061,376**	44,901,771
		71,834,868	84,593,904
Provision for doubtful finances	9.3	**(4,825,397)**	(2,908,165)
		67,009,471	81,685,739
		68,600,247	83,498,355
Less: Current maturity	8		
Related parties			
- Employees		**88,509**	182,856
Other than related parties			
- Customers		**58,842,651**	58,842,651
		(58,931,160)	(59,025,507)
		9,669,087	24,472,848

9.1 These represent loans given to employees for purchase of motor vehicles and housing loans. These loans are recovered through deduction from salaries over varying periods up to a maximum period of 20 years. These loans are granted to the employees in accordance with their terms of employment. The motor vehicle loans are secured by way of title of the motor vehicles being held in the name of the Company, whereas the housing loans are secured by registered mortgage in favour of the Company. Motor vehicle loans carry mark-up at 7% (2011: 7%) per annum while the housing loans carry mark-up at 5% (2011: 5%) per annum.

9.2 These represent loans to customers for a period of three to five years on mark-up basis and are secured by way of hypothecation of stock and immovable property. The rate of mark-up ranges from 13.5% to 25.44% (2011: 13.5% to 25.44%) per annum.

	2012 Rupees	2011 Rupees
9.3 Provision for doubtful finances and loans		
Balance at beginning of the year	**2,908,165**	1,807,283
Provision for the year	**1,925,093**	1,236,956
Reversal for the year	**(7,861)**	(136,074)
	1,917,232	1,100,882
Balance at end of the year	**4,825,397**	2,908,165

Notes to the Financial Statements

For the year ended 31, December 2012

During the year, Securities and Exchange Commission of Pakistan revised the provisioning criteria of non-performing loans for leasing companies. The revised provisioning criteria is applicable from 1 July 2012, and requires non-performing loans to be classified as Substandard, Doubtful, and Loss after expiry of 180 days, 1 year and 2 years respectively, as compared to the previous requirement where non-performing loans were required to be classified as Other Assets Especially Mentioned (OAEM), Substandard, Doubtful, and Loss after expiry of 90 days, 1 year, 2 years and 3 years respectively. Further, the percentage of provision required for substandard loans has also been increased from 20% to 25%. The company has applied the provisioning criteria in line with the revised criteria. Had this change not been made the net provision against the non performing loans for the period would have been lower by Rs. 0.877 million, finance income and accrued interest on loans would have been lower by Rs. 0.338 million, and loss for the year would have been lower by Rs. 0.539 million; further the unrecognised deferred tax asset would have been lower by Rs. 0.306 million.

10. NET INVESTMENT IN FINANCE LEASES

	2012 Rupees	2011 Rupees
Net investment in finance leases	**481,606,260**	662,865,114
Current portion shown under current assets	**(399,023,781)**	(504,576,138)
	82,582,479	158,288,976

10.1 Net investment in finance leases

	Note	2012 Not later than one year	2012 Later than one year and less than five years	2012 Total	2011 Not later than one year	2011 Later than one year and less than five years	2011 Total
		----- (Rupees) -----					
Minimum lease payments		**404,827,591**	**39,881,232**	**444,708,823**	457,267,635	98,666,634	555,934,269
Add: Residual value of leased assets	10.1.1	**217,626,238**	**55,798,107**	**273,424,345**	286,063,300	72,496,595	358,559,895
Gross investment in leases		**622,453,829**	**95,679,339**	**718,133,168**	743,330,935	171,163,229	914,494,164
Unearned lease income		**(3,943,874)**	**(13,096,860)**	**(17,040,734)**	(23,432,146)	(12,874,253)	(36,306,399)
Mark-up held in suspense		**(61,336,264)**	**-**	**(61,336,264)**	(68,621,562)	-	(68,621,562)
		(65,280,138)	**(13,096,860)**	**(78,376,998)**	(92,053,708)	(12,874,253)	(104,927,961)
		557,173,691	**82,582,479**	**639,756,170**	651,277,227	158,288,976	809,566,203
Provision for potential lease losses	10.1.2	**(158,149,910)**	**-**	**(158,149,910)**	(146,701,089)	-	(146,701,089)
Net investment in finance leases		**399,023,781**	**82,582,479**	**481,606,260**	504,576,138	158,288,976	662,865,114

The Internal Rate of Return (IRR) on lease contract receivable ranges from 9.5% to 25.11% per annum (2011: 9.5% to 25.11% per annum).

10.1.1 These represent interest free security deposits received against lease contracts and are refundable / adjustable at the expiry / termination of the respective leases. The amount is net of security deposit held against matured leases amounting to Rs. 272.12 million (2011: Rs. 229.29 million).

Notes to the Financial Statements

For the year ended 31, December 2012

	Note	2012 Rupees	2011 Rupees
10.1.2 Provision for potential lease losses			
Balance at beginning of the year		**146,701,089**	104,159,670
Provision for the year		**19,539,824**	47,250,706
Reversals for the year		**(8,091,003)**	(4,709,287)
		11,448,821	42,541,419
Balance at end of the year		**158,149,910**	146,701,089

10.2 During the year, Securities and Exchange Commission of Pakistan revised the provisioning criteria of non-performing loans for leasing companies. The revised provisioning criteria is applicable from 1 July 2012, and requires non-performing lease to be classified as Substandard, Doubtful, and Loss after expiry of 180 days, 1 year and 2 years respectively, as compared to the previous requirement where non-performing leases were required to be classified as Other Assets Especially Mentioned (OAEM), Substandard, Doubtful, and Loss after expiry of 90 days, 1 year, 2 years and 3 years respectively. Further, the percentage of provision required for Substandard leases has also been increased from 20% to 25%. The Company has applied the provisioning criteria in line with the Revised Criteria. Had this change not been made the net provision against the non performing leases for the period would have been lower by Rs. 12.78 million, suspended income would have been higher by Rs. 0.71 million and loss for the year would have been lower by Rs. 12.07 million; further the unrecognised deferred tax asset would have been lower by Rs.4.47 million

11. LONG TERM DEPOSITS AND PREPAYMENTS

	Note	2012 Rupees	2011 Rupees
Security deposits against assets acquired under lease arrangements		**513,800**	912,500
Other deposits		**785,222**	357,022
Prepayments		**-**	112,989
		1,299,022	1,382,511

12. FIXED ASSETS

	Note	2012 Rupees	2011 Rupees
Property and equipment	12.1	**20,763,141**	23,017,281
Intangible assets	12.2	**40,940**	-
		20,804,081	23,017,281

Notes to the Financial Statements

For the year ended 31, December 2012

12.1 Property and Equipment

	2012							
	COST			ACCUMULATED DEPRECIATION			Net book value as at 31 December 2012	Depreciation rate % per annum
	As at 1 January 2012	Additions / (Disposals)	As at 31 December 2012	As at 1 January 2012	For the year/ (on disposals)	As at 31 December 2012		
	(Rupees)							
Owned								
Office premises	22,064,190	-	22,064,190	3,059,172	1,103,210	4,162,382	17,901,808	5
Building improvements	1,871,940	- (1,169,206)	702,734	1,864,009	3,166 (1,169,206)	697,969	4,765	33.33
Furniture and fixtures	1,914,170	98,666 (330,420)	1,682,416	1,813,597	59,313 (316,111)	1,556,799	125,617	20
Office equipment and others	981,519	65,900 (35,932)	1,011,487	892,484	47,854 (35,932)	904,406	107,081	15
Computers	1,617,210	36,270 (371,554)	1,281,926	1,617,210	2,014 (371,554)	1,247,670	34,256	33.33
Vehicles	4,374,100	- (1,080,210)	3,293,890	3,987,401	217,010 (912,710)	3,291,701	2,189	20
	32,823,129	200,836 (2,987,322)	30,036,643	13,233,873	1,432,567 (2,805,513)	11,860,927	18,175,716	
Leased								
Vehicles	4,281,755	950,000 (1,205,000)	4,026,755	853,730	906,935 (321,335)	1,439,330	2,587,425	20
	37,104,884	1,150,836 (4,192,322)	34,063,398	14,087,603	2,339,502 (3,126,848)	13,300,257	20,763,141	

Notes to the Financial Statements

For the year ended 31, December 2012

	2011							
	COST			ACCUMULATED DEPRECIATION			Net book value as at 31 December 2011	Depreciation rate % per annum
	As at 1 January 2011	Additions / (Disposals) Transfers	As at 31 December 2011	As at 1 January 2011	For the year/ (on disposals)/ on transfers	As at 31 December 2011		
	(Rupees)							
Owned								
Office premises	22,064,190	-	22,064,190	1,955,952	1,103,220	3,059,172	19,005,018	5
Building improvements	1,862,440	9,500	1,871,940	1,789,625	74,384	1,864,009	7,931	33.33
Furniture and fixtures	1,914,170	-	1,914,170	1,706,098	107,499	1,813,597	100,573	20
Office equipment & others	997,413	- (15,894)	981,519	698,126	199,289 (4,931)	892,484	89,035	15
Computers	1,658,807	(41,597)	1,617,210	1,643,870	14,937 (41,597)	1,617,210	-	33.33
Vehicles	3,352,975	- (556,214) 1,577,339 *	4,374,100	2,868,969	542,837 (370,809) 946,404	3,987,401	386,699	20
	31,849,995	9,500 (613,705) 1,577,339	32,823,129	10,662,640	2,042,166 (360,803) 946,404	13,233,873	19,589,256	
Leased								
Vehicles	3,693,444	2,828,400 (662,750) (1,577,339) *	4,281,755	1,478,465	719,319 (397,650) (946,404)	853,730	3,428,025	20
	35,543,439	2,837,900 (1,276,455) -	37,104,884	12,141,105	2,761,485 (758,453) -	14,087,603	23,017,281	

* Represents assets transferred from leased asset to owned assets

Notes to the Financial Statements

For the year ended 31, December 2012

12.1.2 Particulars of disposal of Fixed Assets

Particulars	Cost	WDV	Sale proceeds	Gain on disposal	Mode of	Particulars of buyers
	(Rupees)					
Building improvements	1,169,206	-	85,000	85,000	Tender Claim	Muhammad Ibrahim Soomro Merchant
Furniture and fixtures	330,420	14,309	167,500	153,191	Tender & Insurance Claim	NJI Co. Ltd. / Various employee
Office equipment	35,932	-	11,750	11,750	Tender	Various employees
Computers	371,554	-	18,700	18,700	Insurance claim	New Jubliee Insurance Company Ltd
Owned Vehicles						
Corolla	1,021,125	167,500	167,500	-	Terms of employment	Chief Executive Officer - Mrs. Arjumand A. Qazi
Motor cycle	59,085	-	15,000	15,000	Tender	Employee - Mr. Iftikhar Ahmed
Leased Vehicles						
Liana	1,205,000	883,665	964,000	80,335	Terms of employment	Employee - Mr. Shaheen Akhter
	4,192,322	1,065,474	1,429,450	363,976		

12.2 Intangible Assets

2012

	COST			ACCUMULATED AMORTISATION			Net book value as at 31 December 2012	Amortisation rate % per annum
	As at 1 January 2012	Additions / (Disposals)	As at 31 December 2012	As at 1 January 2012	For the year	As at 31 December 2012		
	(Rupees)							
Software Licenses and licenses	711,930	50,700	762,630	711,930	9,760	721,690	40,940	33.33
	711,930	50,700	762,630	711,930	9,760	721,690	40,940	

2011

	COST			ACCUMULATED AMORTISATION			Net book value as at 31 December 2011	Amortisation rate % per annum
	As at 1 January 2011	Additions / (Disposals)	As at 31 December 2011	As at 1 January 2011	For the year	As at 31 December 2011		
	(Rupees)							
Software Licenses and licenses	711,930	-	711,930	666,914	45,016	711,930	-	33.33
	711,930	-	711,930	666,914	45,016	711,930	-	

Notes to the Financial Statements

For the year ended 31, December 2012

	Note	2012 Rupees	2011 Rupees
13. ACCRUED AND OTHER LIABILITIES			
Accrued liabilities		**966,336**	585,249
Rentals received in advance		**242,998**	797,565
Payable on maturity of leases		**412,040**	662,682
Insurance payable		**4,252,371**	4,571,522
Payable to SME Bank Limited - holding company	13.1	**20,872**	20,872
Unclaimed dividend		**20,629**	20,629
Payable to Staff Provident Fund		**7,650**	-
Others		**916,207**	1,206,002
		6,839,103	7,864,521

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

	Note	2012 Rupees	2011 Rupees
14. ACCRUED MARK-UP ON BORROWINGS			
Interest accrued on :			
- Long term finances		**314,301**	1,158,561
- Short term borrowings		**941,025**	1,665,116
- Certificates of investment		**449,118**	381,072
		1,704,444	3,204,749

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

	Note	2012 Rupees	2011 Rupees
- Long term finance		**89,118**	252,889
- Short term borrowings		**941,025**	1,665,116
		1,030,143	1,918,005

15. SHORT TERM BORROWING

The Company has a running finance facility available from the holding company amounting to Rs. 150 million (2011: Rs. 150 million) at mark-up rates ranging between 16.46% to 17.38% (2011: 16.46% to 16.54%) per annum. Above arrangements are secured by way of hypothecation of the Company's specific leased assets and related receivables of the Company. Further, the said facility can be extended to the extent of Rs. 300 million as per the stand-by agreement for finance facility.

	Note	2012 Rupees	2011 Rupees
16. CERTIFICATES OF INVESTMENT			
Certificates of Investment		**8,312,646**	6,757,413
Short term Certificates of Investment		**(8,112,646)**	(757,413)
		200,000	6,000,000

16.1 The Company has issued certificates of investments under permission granted by the Securities and Exchange Commission of Pakistan. These certificates of investment are repayable between January 2013 to December 2014 and carries return at the rate ranging from 11.5% to 14% (2011: 11.5% to 14%) per annum.

	Note	2012 Rupees	2011 Rupees
17. CURRENT MATURITY OF NON-CURRENT LIABILITES			
Long term finances	18	**10,980,525**	32,021,412
Liabilities against assets subject to finance lease	19	**946,328**	1,030,775
Long term deposits	10.1	**217,626,238**	286,063,300
		229,553,091	319,115,487

Notes to the Financial Statements

For the year ended 31, December 2012

	Note	2012 Rupees	2011 Rupees
18. LONG TERM FINANCES - secured			
- SME Bank Limited	18.1	**2,379,780**	6,668,073
- Other financial institutions	18.2	**12,141,276**	39,464,867
		14,521,056	46,132,940
Current maturity			
- SME Bank Limited		**(2,379,780)**	(4,288,293)
- Other financial institutions	18.2	**(8,600,745)**	(27,733,119)
		(10,980,525)	(32,021,412)
		3,540,531	14,111,528

18.1 The facility for long term loan from the holding company has been extended at a mark-up rate of 3 Months KIBOR plus 2% at the date of disbursement with floor of 12 % and no cap. The loan is repriced at the start of each quarter and the facility is secured by way of hypothecation of the Company's specific leased assets and related receivables. The tenure of the loan is 3 years and is repayable in quarterly installments.

18.2 Long term loans - other financial institutions (secured)

Name of lending institution	Rate	Note	2012 Rupees	2011 Rupees
United Bank Limited	3 months KIBOR plus 1.5%	18.2.1	**6,250,000**	31,250,000
Energy Conservative Fund (Enercon)	5%	18.2.2	**5,891,276**	8,214,867
			12,141,276	39,464,867
Current maturity			**(8,600,745)**	(27,733,119)
			3,540,531	11,731,748

18.2.1 This represents balance due to United Bank Limited against a financing facility amounting to Rs. 50 million. The facility is secured against first charge by way of hypothecation over an un-encumbered lease assets and related receivables. The tenure of the loan is 2 years and is repayable in quarterly installments.

18.2.2 This represents balance due against financing facilities amounting to Rs. 7.3 million from Enercon. The facilities from Enercon have been obtained under an agreement whereby they have agreed to provide funds to the Company for granting lease / finance facility to its customers for procuring and using energy efficient equipments. The facility carries mark-up at the rate of 5% per annum payable on quarterly basis subject to the condition that the Company will provide lease / finance facility to its customers at a preferential mark-up rate.

Notes to the Financial Statements

For the year ended 31, December 2012

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2012			2011		
	Minimum lease payments	**Financial charges for future period**	**Principal outstanding**	Minimum lease payments	Financial charges for future period	Principal outstanding
	(Rupees)			(Rupees)		
Payable not later than one year	**1,184,595**	**238,267**	**946,328**	1,406,178	375,403	1,030,775
Payable later than one year but not later than five years	**1,186,473**	**77,448**	**1,109,025**	2,304,928	202,007	2,102,921
	2,371,068	**315,715**	**2,055,353**	3,711,106	577,410	3,133,696

19.1 The finance lease arrangements have been entered into with Commercial Banks & Leasing Companies for vehicles. Lease rentals are payable in monthly installments at mark-up rates ranging from 21.57% to 23% per annum (2011: 21.57% to 23% per annum). These finance lease arrangements will mature in the year 2013 to 2015. At the end of lease term, the Company has the option to acquire the assets subject to the adjustment of security deposit which it intends to exercise.

20. DEFFERED LIABILITIES

The Company operates an unapproved and unfunded gratuity scheme for all of its permanent employees. The latest actuarial valuation of the gratuity scheme was carried out on 31 December 2012 by Akhtar & Hasan (Private) Limited using the Projected Unit Credit Method. The following significant assumptions were used for valuation of the scheme :

	2012 Rupees	2011 Rupees
Discount rate	**12.00%**	13.00%
Expected long term rate of increase in salary level	**12.00%**	13.00%
Expected long term rate of interest	**12.00%**	13.00%

	2012 Rupees	2011 Rupees
20.1 Liability in balance sheet		
Present value of defined benefit obligation	**3,365,393**	4,409,285
Unrecognised actuarial loss	**(445,176)**	(300,179)
	2,920,217	4,109,106
20.2 Movement in liability during the year		
Opening balance	**4,109,106**	3,363,619
Charged to profit and loss account	**1,226,569**	1,164,195
Benefits paid during the year	**(2,415,458)**	(418,708)
Closing balance	**2,920,217**	4,109,106
20.3 Reconciliation of the present value of defined benefit obligations		
Present value of obligations as at 1 January	**4,409,285**	3,687,676
Current service cost	**642,037**	598,814
Interest cost	**584,532**	565,381
Benefits paid during the year	**(2,415,458)**	(418,708)
Actuarial loss / (gain)	**144,997**	(23,878)
Present value of obligations as at 31 December	**3,365,393**	4,409,285

Notes to the Financial Statements

For the year ended 31, December 2012

		2012 Rupees	2011 Rupees
20.4	**Movement in the unrecognised (loss)**		
	Unrecognised loss as at 1 January	**(300,179)**	(324,057)
	Actuarial (loss) / gain on obligation during the year	**(144,997)**	23,878
	Unrecognised loss as at 31 December	**(445,176)**	(300,179)
20.5	**Charge for the year**		
	Current services cost	**642,037**	598,814
	Interest cost	**584,532**	565,381
		1,226,569	1,164,195

20.6 Historical data of the fund

	2012	2011	2010	2009	2008
	(Rupees)				
Present value of defined benefit obligation	3,365,393	4,409,285	3,687,676	3,098,353	2,519,211
Fair value of plan assets	-	-	-	-	-
Deficit	**3,365,393**	4,409,285	3,687,676	3,098,353	2,519,211
Experience adjustments					
- Actuarial (loss) / gain on obligation	**(144,997)**	23,878	339,798	229,670	125,430

20.7 Expected accrual of expenses in respect of defined benefit scheme in the next financial year on the advice of the actuary is Rs. 0.91 million.

21 ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2012 (Number of shares)	2011 (Number of shares)		2012 Rupees	2011 Rupees
10,100,000	10,100,000	Ordinary shares of Rs. 10 each issued as fully paid in cash	**101,000,000**	101,000,000
19,900,000	19,900,000	Ordinary shares of Rs. 10 each issued as fully paid for consideration other than cash	**199,000,000**	199,000,000
2,000,000	2,000,000	Ordinary shares of Rs 10 each issued as fully paid bonus shares	**20,000,000**	20,000,000
32,000,000	32,000,000		**320,000,000**	320,000,000

21.1 At 31 December 2012 SME Bank Limited (holding company) and its nominees hold 73.14% (2011: 73.14%) number of ordinary shares of Rs. 10 each.

22. COMMITMENTS

		2012 Rupees	2011 Rupees
Lease disbursements	22.1	-	19,418,000

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

Notes to the Financial Statements

For the year ended 31, December 2012

23. INCOME FROM LEASING OPERATIONS

	Note	2012 Rupees	2011 Rupees
Leases			
Income from finance lease operations		**34,333,890**	44,259,540
Gain on termination of leases		**164,954**	185,136
		34,498,844	44,444,676
Income on finances and loans to customers		**10,407,201**	8,931,633
		44,906,045	53,376,309

24. PROFIT ON BANK ACCOUNTS / RETURN ON INVESTMENTS

	Note	2012 Rupees	2011 Rupees
Gain on disposal of available-for-sale investment		-	5,765,861
Mark-up on government securities		**272,939**	297,200
Profit on bank accounts		**194,365**	127,118
		467,304	6,190,179

25. OTHER INCOME

	Note	2012 Rupees	2011 Rupees
Income from financial assets			
Mark-up on loans to employees		**88,888**	116,695
Other Income		**426**	139,921
		89,314	256,616
Income from non-financial assets			
Gain / (loss) on disposal of fixed assets		**363,976**	(104,468)
		453,290	152,148

26. ADMINISTRATIVE & OPERATING EXPENSES

	Note	2012 Rupees	2011 Rupees
Salaries, allowances and other benefits	26.1 & 26.2	**21,010,354**	25,323,444
Directors' fee	26.3	**260,000**	226,000
Rent		**4,678,056**	5,377,168
Electricity, gas and water		**621,777**	744,687
Telephone and postage		**1,007,284**	1,033,755
Repairs and maintenance		**1,439,008**	1,390,465
Books and periodicals		**27,013**	32,966
Fees and subscriptions		**35,291**	35,760
Vehicle running		**219,852**	311,623
Advertising		**41,520**	90,897
Training and development		**8,300**	72,950
Travelling, conveyance and entertainment		**1,792,390**	1,130,212
Printing and stationery		**760,787**	790,993
Auditors' remuneration	26.4	**478,902**	544,625
Depreciation and amortisation	12	**2,349,262**	2,806,501
Legal and professional		**4,175,940**	5,649,345
Insurance		**908,919**	963,359
Miscellaneous		**740,472**	724,904
		40,555,127	47,249,654

26.1 Salaries allowances and other benefits include Rs. 1.226 million (2011: Rs.1.164 million) in respect of staff gratuity scheme and Rs. 0.399 million (2011: Rs. 0.458 million) in respect of staff provident fund. In addition the amount charged to the profit and loss account in respect of compensated absences was Rs. 0.461 million (2011: Rs. 1.205 million) based on valuation carried out by Akhtar & Hasan Actuaries (Private) Limited on 31 December 2012.

Notes to the Financial Statements

For the year ended 31, December 2012

26.2 Remuneration of Chief Executives and Executives

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

	2012		2011	
	Chief Executive	**Executives**	Chief Executive	Executives
	---------- (Rupees) ----------			
Managerial remuneration	**1,472,911**	**2,523,903**	2,117,642	2,611,202
Housing and utilities	**762,647**	**1,390,182**	1,164,708	1,436,366
Provident fund	**-**	**193,817**	-	213,389
Medical and other perquisites	**279,119**	**379,146**	317,650	397,540
Leave fare assistance	**-**	**-**	300,000	-
Gratuity	**794,120**	**276,548**	176,471	217,092
Leave encashment	**87,500**	**175,350**	150,000	178,600
Others	**-**	**91,302**	-	105,292
	3,396,297	**5,030,248**	4,226,471	5,159,481
Number of persons	**2**	**5**	1	5

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

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

26.4 Auditors' remuneration

	2012 Rupees	2011 Rupees
Annual audit	**250,000**	250,000
Half yearly review	**100,000**	100,000
Other certifications	**50,000**	50,000
Out of pocket expenses	**78,902**	144,625
	478,902	544,625

27. FINANCE COST

Mark-up on:		
- Long term finance	**3,078,161**	6,564,487
- Privately placed term finance certificates	**-**	3,806,306
- Short term borrowings	**15,883,087**	17,430,693
- Certificates of investment	**968,961**	1,720,920
	19,930,209	29,522,406
Lease finance charges	**473,984**	369,953
Bank charges	**359,790**	876,979
	20,763,983	30,769,338

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

Long term finance	**585,064**	1,248,412
Privately placed Term Finance Certificates	**-**	1,077,408
Short term borrowings	**15,883,087**	17,430,693
	16,468,151	19,756,513

Notes to the Financial Statements

For the year ended 31, December 2012

28. TAXATION

28.1 Current tax liability

Provision for the current year income tax has been made under the provisions of minimum tax under Section 113 of the Income Tax Ordinance, 2001 (Ordinance).

28.2 Current status of tax assessments

The income tax assessments of the Company have deemed to be finalised up to and including Tax year 2012, except for Tax year 2011, which has been selected for audit. The Company has submitted in this respect all the requisite documents / information with the tax authority. However, audit proceedings in under process and no further notices have yet been issued by the tax authority intending to amend tax return for such tax year.

	2012 Rupees	2011 Rupees
28.3 Deferred tax liabilities / (assets) - net		
Deductible temporary differences		
Carried forward losses	**(95,520,568)**	(75,265,490)
Provisions against potential lease losses & long term finances and loans	**(57,041,357)**	(52,363,239)
Liabilities against gratuity expense	**(1,022,076)**	(1,438,187)
	(153,584,001)	(129,066,916)
Taxable temporary differences		
Net investment in lease	**32,665,695**	22,517,168
Liabilities against assets subject to finance lease	**186,224**	103,014
Accelerated tax depreciation on fixed assets	**3,536,179**	3,527,263
	36,388,098	26,147,445
	(117,195,903)	(102,919,471)

28.3.1 The Company has recognised deferred tax asset on deductible temporary difference only to the extent of deferred tax liability on taxable temporary difference. Deferred tax asset of Rs. 117.196 million (2011: Rs. 102.919 million) has not been recognised as the Company does not foresee future taxable profits against which unused tax losses will be utilised.

29. LOSS PER SHARE - BASIC AND DILUTED

	2012 Rupees	2011 Rupees
Loss after taxation attributable to ordinary shareholders	**(29,087,657)**	(62,539,901)
	(Number of shares)	
Weighted average number of outstanding ordinary shares	**32,000,000**	32,000,000
	(Rupees)	
Loss per share - basic and diluted	**(0.91)**	(1.95)

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

30. TRANSACTIONS WITH RELATED PARTIES

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

Notes to the Financial Statements

For the year ended 31, December 2012

	2012		2011	
	Key management personnel	SME Bank Limited (Holding Company)	Key management personnel	SME Bank Limited (Holding Company)
Borrowings				
Balance as at 1 January	-	115,524,439	-	143,376,715
Borrowings during the year	-	-	-	-
Repayments during the year	-	(57,385,969)	-	(27,852,276)
Balance as at year end	-	58,138,470	-	115,524,439
Loans and advances				
Balance as at 1 January	242,499	-	182,832	-
Advances given during the year	568,287	-	390,000	-
Repayments during the year	(620,786)	-	(330,333)	-
Balance as at year end	190,000	-	242,499	-

	2012 Rupees	2011 Rupees
Balances		
Lease facilities to holding company	-	3,224,866
Deposit margin by holding company for the lease facility	-	1,612,433
(Payable) / receivable from Staff Provident Fund	(7,650)	458,010
Total rentals receivables (for the entire lease period)	-	2,137,008
Transactions during the year		
Mark-up expense against borrowings from holding company	16,468,151	19,756,513
Disposal of Motor Vehicle to the Chief Executive Officer- Sales proceeds	167,500	-
Total rentals received during the year	28,490	386,286
Rent expense	460,464	460,464
Key management remuneration	5,150,810	7,670,711
Post retirement benefits	936,406	1,515,602
Staff Provident Fund - Company's contribution	120,687	128,364

31. CASH AND CASH EQUIVALENTS

	2012 Rupees	2011 Rupees
Cash and bank balances	7,191,492	10,415,717
Short term borrowings	(55,758,690)	(108,856,366)
	(48,567,198)	(98,440,649)

32. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

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

32.1 Risk management framework

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

Notes to the Financial Statements

For the year ended 31, December 2012

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

32.2 Credit risk

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

32.2.1 Management of credit risk

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

32.2.2 Exposure to credit risk

In summary, compared to the maximum amount included in the balance sheet, the maximum exposure to credit risk as at 31 December 2012 is as follows:

	2012		2011	
	Balance sheet	**Maximum exposure**	Balance sheet	Maximum exposure
	-----------	------(Rupees)------	-----------	-----------
Bank balances	**7,191,492**	**7,137,783**	10,415,717	10,375,726
Investments	**3,809,433**	**1,309,433**	3,863,500	1,363,500
Advances	**1,469,279**	**1,469,279**	1,634,933	1,634,933
Accrued interest on working capital loans	**557,555**	**557,555**	326,166	326,166
Net investment in finance lease	**481,606,260**	**481,606,260**	662,865,114	662,865,114
Long term finances and loans	**68,600,247**	**68,600,247**	83,498,355	83,498,355
Short term and long term deposits	**3,015,991**	**1,431,222**	4,319,934	1,822,732
	566,250,257	**562,111,779**	766,923,719	761,886,526

32.2.3 Credit ratings and Collaterals

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

Ratings	**2012**	2011
A1+	**17.24%**	-
AA+	**-**	8.50%
AA	**48.07%**	34.80%
BBB	**-**	56.50%
A-3	**34.44%**	-
Others	**0.25%**	0.09%
	100%	100%

Notes to the Financial Statements

For the year ended 31, December 2012

32.2.4 Description of Collateral held

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

Details of exposures and the collateral as at 31 December 2012 against them are as follows:

	Net Exposure	Lower of collateral and gross exposure
Lease Finance		
- Regular	**149,816,781**	149,816,781
- Non Performing net of provision	**331,789,479**	331,789,479
	481,606,260	481,606,260
Working Capital Finance		
- Regular	**34,773,492**	34,773,492
- Non Performing net of provision	**32,235,979**	32,235,979
	67,009,471	67,009,471

Settlement risk

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

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

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

32.2.5 Impairment losses and past due balances

	2012			
	Total	**Loans and receivables**	**Net investment in finance lease**	**Impairment recognised**
	(Rupees)			
Not past due	**139,542,490**	**24,116,586**	**115,425,904**	**-**
1 - 89 days	**23,594,537**	**7,522,236**	**16,072,301**	**-**
90 days-1 year	**47,063,772**	**4,902,365**	**42,161,407**	**-**
More than 1 year	**340,005,708**	**36,884,457**	**466,096,558**	**(162,975,307)**
	550,206,507	**73,425,644**	**639,756,170**	**(162,975,307)**

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

Notes to the Financial Statements

For the year ended 31, December 2012

32.2.6 Concentration of credit risk - gross investment in finance lease

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

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

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

	2012		2011	
	Rupees	Percentage	Rupees	Percentage
Cargo carriers	59,733,974	7.40	61,660,709	6.04
Chemicals	16,370,248	2.03	17,629,960	1.73
Communication	8,614,842	1.07	14,267,400	1.40
Construction and building products	46,464,618	5.76	83,837,256	8.21
Education	18,041,337	2.24	19,344,777	1.89
Engineering	15,333,745	1.90	25,373,925	2.48
Entertainment	34,538,263	4.28	35,688,574	3.49
Film processing	79,658,060	9.87	91,484,773	8.96
Fisheries	1,285,857	0.16	1,344,482	0.13
Food and beverages	57,758,823	7.16	65,281,627	6.39
Furniture	551,872	0.07	576,727	0.06
Gems and jewellery	2,202,865	0.27	2,202,865	0.22
Health care	25,410,226	3.15	28,496,347	2.79
Leather and tannery	134,425	0.02	2,307,337	0.23
Miscellaneous	80,902,559	10.03	111,072,979	10.88
Oil and gas	52,504,213	6.51	103,636,178	10.15
Printing and packaging	98,691,952	12.23	128,357,285	12.57
Public transport services	125,187,196	15.51	130,447,557	12.77
Rubber and plastic	18,304,758	2.27	19,184,601	1.88
Textile and garment	65,192,158	8.08	79,007,457	7.74
	806,881,991	100	1,021,202,816	100

32.3 Liquidity risk

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

32.3.1 Management of liquidity risk

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

Notes to the Financial Statements

For the year ended 31, December 2012

32.3.2 Maturity analysis for financial liabilities

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

	2012			
	Total	**Contractual cash flow**	**Upto one year**	**More than one year**
	----------	----------	(Rupees) ----------	----------
Liabilities				
Accrued and other liabilities	**6,839,103**	**6,839,103**	**6,839,103**	**-**
Short term borrowings	**55,758,690**	**56,699,715**	**56,699,715**	**-**
Certificates of investment - unsecured	**8,312,646**	**8,761,764**	**8,561,764**	**200,000**
Long term finances - secured	**16,576,409**	**16,890,710**	**11,294,826**	**5,595,884**
Long term deposits	**273,424,345**	**273,424,345**	**217,626,238**	**55,798,107**
Liabilities against asset subject to finance lease	**2,055,353**	**2,371,068**	**1,184,595**	**1,186,473**
	362,966,546	**364,986,705**	**302,206,241**	**62,780,464**

	2011			
	Total	Contractual cash flow	Upto one year	More than one year
	----------	----------	(Rupees) ----------	----------
Liabilities				
Trade and other payables	7,406,511	7,406,511	7,406,511	-
Short term borrowings	108,856,366	110,521,482	110,521,482	-
Certificates of investment - unsecured	6,757,413	7,138,485	1,138,485	6,000,000
Long term finances - secured	49,266,636	50,425,197	34,342,949	16,082,248
Long term deposits	358,559,895	358,559,895	286,063,300	72,496,595
Liabilities against asset subject to finance lease	3,133,696	3,711,106	1,406,178	2,304,928
	533,980,517	537,762,676	440,878,905	96,883,771

32.4 Market risk

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

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

32.4.1 Management of market risk

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

32.4.2 Interest rate risk

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

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

	Carrying amount	
	2012	2011
Fixed rate instruments	**(Rupees)**	(Rupees)
Financial assets		
Investments	**2,500,000**	2,500,000
Financial liabilities		
Certificates of investments	**8,312,646**	6,757,413
Long term finance	**5,891,376**	8,214,867
	14,204,022	14,972,280
Variable rate instruments		
Financial assets		
Bank balances	**3,414,744**	3,618,316
Net investments in finance lease	**481,606,260**	662,865,114
Long term finance and loans	**68,600,247**	83,498,355
	553,621,251	749,981,785
Financial liabilities		
Short term borrowings	**55,758,690**	108,856,366
Long term finance	**8,629,680**	37,918,073
Liabilities against assets subject to finance lease	**2,055,353**	3,133,696
	66,443,723	149,908,135

32.4.3 Fair value sensitivity analysis for fixed rate instruments

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

32.4.4 Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by Rs. 4.872 million (2011: Rs.6.001 million). This analysis assumes that all other variables, remain constant. The analysis is performed on the same basis which were used for the year ended 31 December 2011.

The sensitivity analysis prepared as of 31 December 2012 is not necessarily indicative of the impact on the Company's net assets of future movements in interest rates and profit for the year and assets / liabilities of the Company.

32.4.5 Interest rate gap position

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

Notes to the Financial Statements

For the year ended 31, December 2012

	2012				
	Effective mark-up / interest / profit rate	Total	Exposed to mark-up / interest / profit rate risk		
			Upto three months	More than three months and upto one year	More than one year
Financial assets	%	-----(Rupees)-----			
Cash and bank balances	6	**3,414,744**	**3,414,744**	**-**	**-**
Investments	11.60 -14.2	**2,500,000**	**2,500,000**	**-**	
Long term finances and loans	5 - 25.44	**68,600,247**	**41,995,925**	**16,935,235**	**9,669,087**
Net investment in finance lease	9.5 - 25.11	**481,606,260**	**348,764,114**	**50,259,667**	**82,582,479**
Total financial assets as on 31 December 2012		**556,121,251**	**396,674,783**	**67,194,902**	**92,251,566**
Financial liabilities					
Short term borrowings	16.57 - 17.38	**55,758,690**	**-**	**55,758,690**	**-**
Certificates of investment	10.5 - 14	**8,312,646**	**1,400,000**	**6,712,646**	**200,000**
Long term finances	5 - 12.18	**14,521,056**	**9,195,693**	**1,784,832**	**3,540,531**
Liabilities against asset subject to finance lease	21.53 - 23	**2,055,353**	**191,174**	**755,154**	**1,109,025**
Total financial liabilities as on 31 December 2012		**80,647,745**	**10,786,867**	**65,011,322**	**4,849,556**
On balance sheet gap		**475,473,506**	**385,887,916**	**2,183,580**	**87,402,010**
Total interest rate sensitivity gap		**475,473,506**	**385,887,916**	**388,071,496**	**475,473,506**

	2011				
	Effective yield / interest / rate %	Total	Exposed to yield / interest risk		
			Upto three months	More than three months and upto one year	More than one year
Financial assets	%	-----(Rupees)-----			
Cash and bank balances	6	3,618,316	3,618,316	-	-
Investments	11.6 - 14.2	2,500,000	2,500,000	-	-
Long term finances and loans	5 - 25.44	83,498,355	44,205,158	14,820,349	24,472,848
Net investment in finance lease	9.5 - 25.11	662,865,114	387,633,147	116,942,991	158,288,976
Total financial assets as on 31 December 2011		752,481,785	437,956,621	131,763,340	182,761,824
Financial liabilities					
Short term borrowings	15.50 - 16.57	108,856,366	-	108,856,366	-
Certificate of investment	11.5 - 14	6,757,413	100,000	657,413	6,000,000
Long term finances	5 - 14.98	46,132,940	8,005,353	24,016,059	14,111,528
Liabilities against asset subject to finance lease	21 - 23	3,133,696	581,488	581,488	1,970,720
Total financial liabilities as on 31 December 2011		164,880,415	8,686,841	134,111,326	22,082,248
On balance sheet gap		587,601,370	429,269,780	(2,347,986)	160,679,576
Total interest rate sensitivity gap		587,601,370	429,269,780	426,921,794	587,601,370
Off balance sheet items commitments		3,100,000	3,100,000	-	-

Notes to the Financial Statements

For the year ended 31, December 2012

32.5 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Presently, the Company is not exposed to equity securities price risk as the Company does not hold any equity securities as at 31 December 2012.

A change in one percent increase / decrease in the price of such certificates as on 31 December 2012, with all other variables held constant, the equity of the Company for the year would have been higher / lower by Rs. 13,094 (2011: Rs. 13,635).

33. CAPITAL RISK MANAGEMENT

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

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

	2012 Rupees	2011 Rupees
Total debt	**22,833,702**	52,890,353
Total equity	**208,201,549**	237,289,206
Total capital employed	**231,035,251**	290,179,559
Gearing ratio	**9.88%**	18.23%

33.3 Financial risk management objectives and policies

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

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31, December 2012

31 December 2012	Level 1	Level 2	Level 3	Total
Available-for-sale investments				
Government Securities - Special saving certificates	-	2,500,000	-	2,500,000
Units of Close end Mutual Fund	1,309,433	-	-	1,309,433
	1,309,433	2,500,000	-	3,809,433

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

35. SEGMENT INFORMATION

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

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

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

	2012				
	Finance lease	Loans and receivables	Investment	Others	Total
	(Rupees)				
Segment revenue	34,498,844	10,407,201	272,939	647,655	45,826,639
Segment profit	23,050,023	8,489,969	272,939	647,655	32,460,586
Segment result					32,460,586
Unallocated cost					
Finance cost					20,763,983
Administrative and operating expenses					40,555,127
					61,319,110
Loss before tax					(28,858,524)
Taxation					(229,133)
Loss after tax					(29,087,657)
Other information					
Segment assets	481,606,260	67,009,471	4,062,254	-	552,677,985
Unallocated assets				34,376,353	34,376,353
Total assets					587,054,338
Segment liabilities	278,331,754	-	-	-	278,331,754
Unallocated liabilities				100,391,602	100,391,602
Total liabilities					378,723,356
Net assets					208,330,982
Capital expenditure	-	-	-	1,150,836	1,150,836

Notes to the Financial Statements

For the year ended 31, December 2012

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

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

	2011				
	Finance lease	Loans and receivables	Investment	Others	Total
	(Rupees)				
Segment revenue	44,444,676	8,931,633	6,063,061	279,266	59,718,636
Segment profit	1,903,257	7,830,751	6,063,061	279,266	16,076,335
Segment result					16,076,335
Unallocated cost					
Finance cost					30,769,338
Administrative and operating expenses					47,249,654
					78,018,992
Loss before tax					(61,942,657)
Taxation					(597,244)
Loss after tax					(62,539,901)
Other information					
Segment assets	662,865,114	81,685,739	3,936,983	-	748,487,836
Unallocated assets					41,068,637
Total assets					789,556,473
Segment liabilities	364,591,664	-	-	-	364,591,664
Unallocated liabilities					187,418,620
Total liabilities					552,010,284
Net assets					237,546,189
Capital expenditure	-	-	-	2,837,900	2,837,900

36. RE-CLASSIFICATION

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

	From	**To**	**Amount (Rupees)**
Accrued profit on Special Saving Certificates	Advances	Deposits, prepayments and other receivable	73,483
Receivable from Staff Provident Fund	Accrued and other liabilities	Deposits, prepayments and other receivable	458,010

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 27, 2013 by the Board of Directors of the Company.

Ali A. Rahim
Chief Executive Officer

Mehnaz Kaludi
Director

Pattern of Shareholding

As at December 31, 2012

No of Shareholders	Shareholding From	Shareholding To	Total Shares Held	Percentage %
13	1	100	131	0.00
197	101	500	98,279	0.31
38	501	1000	37,045	0.12
40	1001	5000	115,992	0.36
3	5001	10000	26,999	0.08
2	10001	15000	25,500	0.08
2	15001	20000	40,000	0.13
1	20001	25000	22,500	0.07
1	25001	30000	30,000	0.09
3	45001	50000	146,000	0.46
1	50001	55000	51,000	0.16
1	150001	155000	155,000	0.48
1	220001	225000	225,000	0.70
2	410001	415000	820,318	2.56
1	455001	460000	457,261	1.43
1	600001	605000	604,575	1.89
2	900001	905000	1,802,700	5.63
1	1230001	1235000	1,230,477	3.85
2	1350001	1355000	2,706,025	8.46
1	23405001	23410000	23,405,198	73.14
313			**32,000,000**	**100**

Categories of Shareholders

As at December 31, 2012

Category No.	Categories of	Numbers of Share Held	Category wise No.of Shareholders	Category wise Share Held	Percentage %
1	Individuals		284	847,073	2.65
2	Joint Stock Companies		11	2,718,060	8.49
3	Banks		3	25,538,025	79.81
4	Modarabas and Mutual Funds		2	1,061,836	3.32
5	Pakistan Kuwait Investment Co. (Pvt) Ltd.		1	225,000	0.70
6	Insurance Companuies		1	155,000	0.48
7	Others		2	1,403,000	4.39
8	Executives		3	52,000	0.16
9	Directors, CEO and their spouses and Minor children.		6	6	0.00
	Mr. Ali A. Rahim	1			
	Mr. Nasser Durrani	1			
	Mian Tahir Bashir	1			
	Ms. Mehnaz Kaludi	1			
	Mr. Junaid Mohmand	1			
	Mr. Ateeq ur Rehman	1			
	Mr. Sajjad Ahmed Warraich	0			
			313	**32,000,000**	**100**

Proxy Form

I/We ____

of ______________________________________ (full address)

being a member of SME Leasing Limited hereby appoint ____________________________

of ____

______________________________________ (full address)

or failing him/her ____

of ______________________________________ (full address)

as my / our Proxy to attend and vote for me / us and on my / our behalf at the 11th Annual General Meeting of the Company to be held on April 30, 2013 and at any adjournment thereof.

Signed this ____________ (day) of ____________ (date, month) 2013.

Signature of Member: ____________________

Folio Number: ____________________

Number of shares held : ____________________

Witnesses:

1. ____________________

2. ____________________

Please affix Revenue Stamp

Signature and Company Seal

1. A member entitled to attend and vote at a General meeting is entitled to appoint a Proxy to attend and vote instead of him / her.
2. The instrument appointing a Proxy shall be in writing under the hand of the appointer or of his / her attorney duly authorized in writing, if the appointer is a corporation, under its common seal or the hand of an officer or attorney duly authorized. A Proxy need to be a Member of the Company.
3. The instrument appointing a Proxy, together with the Power of attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited at the Main Office of the Company at least 48 hours before the time of the meeting.
4. Any individual Beneficial Owner of the Central Depository Company, entitled to vote at this meeting must bring his / her National Identity Card with him / her as proof of his / her identity, and in case of Proxy, must enclose an attested copy of his / her National Identity Card. Representative of corporate entity, shall submit Board of Directors resolutions / power of attorney with specimen signature (unless it has been provided earlier) along with proxy form of the Company.

Affix
Correct
Postage

To:
SME Leasing Limited
Office # 304, 3rd Floor
Business Arcade,
Shahra-e-Faisal, Karachi.

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

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

Office No. 304, 3rd Floor, Business Arcade, Shahra-e-Faisal, Karachi
Phone No. +92-21-34322128-9 Fax No. +92-21-34322082

CORPORATE